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

2018 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
pck.todayir.com

Legal Advisers as to Hong Kong Law

Loeb & Loeb LLP

Corporate Information

Principal Bankers

Bank of China Limited
Bank of Communications
Bank of Jiangsu
China Construction Bank
Guangzhou Rural Commercial Bank
Industrial and Commercial Bank of China
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 RMB475.7 million (1H2017: RMB418.0 million), representing an increase of approximately 13.8% as compared with the corresponding period in 2017. Loss attributable to the owners of our Company was RMB313.2 million (1H2017: loss RMB361.3 million). Loss per share was RMB0.31 (1H2017: loss per share RMB0.36). The Board did not recommend the payment of interim dividend for the six months ended 30 June 2018 (1H2017: Nil).

Revenue

During the period under review, we recorded a revenue of approximately RMB475.7 million (1H2017: RMB418.0 million), representing an increase of approximately 13.8% as compared with the corresponding period in 2017. The increase in revenue was due to rebound of steel pipes demand in the People's Republic of China (the "PRC").

During the period under review, the revenue from domestic sales and overseas sales represented approximately 72.4% (1H2017: 46.7%) and approximately 27.6% (1H2017: 53.3%) respectively of our total revenue. Domestic sales increased as compared with the corresponding period in 2017 due to rebound of steel pipes demand in the PRC.

Sales by geography

	Six months ended 30 June			
	2018		2017	
	RMB'000 (Unaudited)	**% of revenue**	RMB'000 (Unaudited)	% of revenue
Domestic sales	**344,310**	**72.4%**	195,146	46.7%
Overseas sales	**131,420**	**27.6%**	222,885	53.3%
Total	**475,730**	**100.0%**	418,031	100.0%

Sales by products

	Six months ended 30 June			
	2018		2017	
	RMB'000 (Unaudited)	% of revenue	RMB'000 (Unaudited)	% of revenue
Manufacture and sale of steel pipes				
LSAW steel pipes	247,939	52.1%	209,715	50.2%
ERW steel pipes	30,297	6.4%	129,492	31.0%
SSAW steel pipes	97,285	20.4%	17,077	4.0%
Sub-total	375,521	78.9%	356,284	85.2%
Steel pipes manufacturing services				
LSAW steel pipes	44,628	9.4%	20,175	4.8%
ERW steel pipes	798	0.2%	357	0.1%
SSAW steel pipes	31,159	6.5%	12,480	3.0%
Sub-total	76,585	16.1%	33,012	7.9%
Others	23,624	5.0%	28,735	6.9%
Total	475,730	100.0%	418,031	100.0%

Gross Profit and Gross Profit Margin

During the period under review, our gross profit was approximately RMB43.2 million (1H2017: RMB33.6 million), representing an increase of approximately 28.6% as compared with the corresponding period in 2017. The overall gross profit margin was approximately 9.1%, which was higher than that for the same period in 2017 which was approximately 8.0%. The increase in gross profit and gross profit margin was because the sales of steel pipes manufacturing services increased where its gross profit margin was generally high.

Management Discussion and Analysis

	Six months ended 30 June			
	2018		2017	
	RMB'000 (Unaudited)	**GP margin %**	RMB'000 (Unaudited)	GP margin %
Manufacture and sale of steel pipes				
LSAW steel pipes	**26,688**	**10.8%**	39,827	19.0%
ERW steel pipes	**559**	**1.8%**	235	0.2%
SSAW steel pipes	**3,857**	**4.0%**	1,371	8.0%
Sub total	**31,104**	**8.3%**	41,433	11.6%
Steel pipes manufacturing services				
LSAW steel pipes	**7,468**	**16.7%**	1,677	8.3%
ERW steel pipes	**113**	**14.2%**	43	12.0%
SSAW steel pipes	**4,827**	**15.5%**	1,349	10.8%
Sub total	**12,408**	**16.2%**	3,069	9.3%
Others	**(318)**	**-1.3%**	(10,902)	-37.9%
Total	**43,194**	**9.1%**	33,600	8.0%

Other income and gains for the six months ended 30 June 2018 were approximately RMB44.9 million (1H2017: RMB103.1 million), representing a decrease of approximately 56.5% as compared with the corresponding period in 2017. Such decrease was due to a forfeiture of customer deposit in the first half of 2017 but nil in the first half of 2018.

Selling and distribution expenses for the six months ended 30 June 2018 were approximately RMB32.8 million (1H2017: RMB53.1 million), representing a decrease of approximately 38.2% as compared with the corresponding period in 2017. Such decrease was mainly due to a decrease in selling expenses for property sector.

Administrative expenses for the six months ended 30 June 2018 were approximately RMB231.1 million (1H2017: RMB228.2 million), representing an increase of approximately 1.3% as compared with the corresponding period in 2017. The increase in administrative expenses was mainly due to expenses of around RMB41 million incurred for asset reorganisation which was one-off in nature (as disclosed in the Company's announcement dated on 12 February 2018) during the period under review.

Finance costs for the six months ended 30 June 2018 were approximately RMB187.0 million (1H2017: RMB199.5 million), representing a decrease of 6.3% as compared with the corresponding period in 2017. The decrease was due to a decrease in average borrowing balance during the period under review.

The Group recorded other expenses of approximately RMB44.3 million for the six months ended 30 June 2018, representing an increase of approximately 855.8% as compared with the corresponding period in 2017. The increase was due to loss of disposal of a subsidiary and property, plant and equipment during the period under review.

Income tax expenses of approximately RMB2.1 million was recorded for the six months ended 30 June 2017 while tax credit of approximately RMB109.9 million was recorded for the six months ended 30 June 2018. Deferred tax credit was recorded as the Group expects there was gain on disposal of land in Panyu. For more details please refer to the paragraph headed "Proposed change of land use in Panyu from "industrial" to "residential and commercial"" on page 9.

As a result of the above, the net loss attributable to the owners of the Company was approximately RMB313.2 million (1H2017: RMB361.3 million). Loss per share was RMB0.31 (1H2017: loss per share RMB0.36).

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 the PRC 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 developed deep sea welded pipes for use at a water depth of 3,500m. 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 the PRC's strategic policies and are supported by policy banks and insurance institutions in the PRC.

Management Discussion and Analysis

During the period under review, we received new orders of approximately 180,000 tonnes of steel pipes. Orders received during the period under review including orders from Sinopec for supplying approximately 10,000 tons of steel pipes for its New Gas Pipeline Project in Qianjiang-Shaoguan（潛江–韶關新輸氣管道工程）and 8,000 tons of steel pipes for its oil pipeline in Shandong（魯豫原油管道）; and 25,000 tons of longitudinal submerged arc welded steel pipes for the construction projects in Hong Kong. We delivered approximately 159,000 tonnes of welded steel pipes during the period under review.

Our joint venture company-AHQ (the "JV Company") in Saudi Arabia also entered into a local delivery procurement agreement with Saudi Arabian Oil Company ("Saudi Aramco"), an independent third party, for supplying longitudinal submerged arc welded steel pipes for a period of one year (with the option to extend by mutual agreement) to its gas and oil project in Saudi Arabia. The JV Company enabled the Group to expand its market shares in Saudi Arabia and other neighboring countries.

Property development

Apart from the steel pipe manufacturing, the Group also engaged in property development and investment. Following the conversion of a land in Panyu, PRC 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 our factory in Panyu. The total permitted construction area of the land (including underground construction area) is approximately 550,000m^2.

Below is the summary information of GDC:

Address:	Qinghe Road, Shiji Town, Panyu District, Guangzhou City, Guangdong, PRC
Usage:	large scale integrated commercial complex of offices, shops, apartments and villas
The total permitted construction area (including underground construction area)	Phase I: 135,000m^2 Phase II: 191,000m^2 Phase III: 224,000m^2

The Group has pre-sold the first phase and second phase of GDC and the total contracted sales were approximately RMB1,487.5 million. The Group will recognise such property sales in 2018.

GDC is part of the Group's strategy to widen its income sources. The Directors believe that GDC will maximise the potential economic return of the Panyu land to the Group. Furthermore, upon the completion of GDC, stable rental income and the proceeds from the sale of properties will support the further development of the Group's steel pipe business. On the other hand, the Company is working on a possible disposal of part of the Group's interest in Guangdong Pearl Steel Investment Management Co. Ltd with a view to achieving the effective sale of the Group's interest in Phase III of GDC. The potential disposal, if proceeds, can strengthen the cash flow position of the Group. The steel pipe business will remain as the Group's core business.

Proposed change of land use in Panyu from "industrial" to "residential and commercial"

On 12 February 2018, the Group has entered into an agreement (the "Agreement") with Guangdong Yuecai Trust Co. Limited*(廣東粵財信托有限公司)("Guangdong Yuecai" together with its nominee, the "Investors") and Guangzhou Asset Management Company Limited*(廣州資產管理有限公司)("Guangzhou Asset Management") in relation to the cooperation to facilitate the change of use of land (the "Land") held by Panyu Chu Kong Steel Pipe Co. Ltd(番禺珠江鋼管有限公司)("PCKSP") from "industrial" to "residential and commercial" and the disposal of (actual and deemed) an aggregate of 59% of the equity interest in PCKSP to the Investor. Chu Kong Steel Pipe Group Co. Limited ("CKSPG"), a wholly-owned subsidiary of the Company, which owned 99% of PCKSP and CKSPG shall reorganise the assets and liabilities of PCKSP (the "Asset Reorganisation"). After the Asset Reorganisation, the only asset held by PCKSP shall be the Land. Pursuant to the Agreement, the Investors shall, by stages, (i) inject capital into PCKSP and acquire 19% of the equity interest in the PCKSP for RMB240 million; (ii) implement the Asset Reorganisation; (iii) apply for the change of Land use; and (iv) acquire 40% of the equity interest in PCKSP from CKSPG for a consideration equivalent to 40% of the fair value of the Land (after the change of Land use).

The very substantial disposal in relation to disposal of 59% equity interest of PCKSP has been approved by the shareholders of the Company in an extraordinary general meeting of the Company on 19 April 2018.

The Group is in the progress to complete the Asset Reorganisation. The major production bases of the Group will be in Lianyungang and Zhuhai. There will be no effect on the business of the Group after the completion of the Asset Reorganisation.

Management Discussion and Analysis

Future Plan and Prospects

There were positive signs of industry recovery in 2017, as the National Development and Reform Commission of the PRC announced the "13th Five-Year Plan for Oil Development" and the "13th Five-Year Plan for Natural Gas Development" recently. Pursuant to the plans, the PRC will build a total of 17,000 km of crude and refined oil pipelines as well as 40,000 km of natural gas pipelines by 2020. Apart from that, the National Energy Administration of the PRC issued the "13th Five-Year Plan for Wind Power Development", setting out projects to build offshore wind power facilities in four provinces and a number of first-tier cities. Other positive signs include the development of oceaneering equipment manufacturing industry under the One Belt One Road ("OBOR") strategy of the PRC, as well as the pipeline projects for the construction of offshore platforms, offshore wind power, offshore jackets and offshore bridges in the PRC. With large oil and gas projects coming our way, we expect to have left the darkest days behind us.

Following the increased number of bidding for pipeline projects in early 2018, we expect a rebound in steel pipe demand. In fact, we have already seen the launch of the "13th Five-Year Plan" of the PRC for oil and gas pipeline networks. As pointed out in the plan, such networks are expected to grow by 47% to reach 165,000 km by 2020. Hence, the "13th Five-Year Plan" will usher in a golden era for the development of oil and gas pipelines.

Included in the "13th Five-year Plan" is the construction of six crude oil pipelines, including Phase II of Sino-Russian Crude Oil Pipeline, Yizheng-Changling Dual Pipelines, as well as Lianyungang-Yizheng, Rizhao-Luoyang, Rizhao-Zhanhua and Dongjiakou-Dongying crude oil pipelines.

Also included in the "13th Five-year Plan" is the construction of eight new pipelines for refined oil, including Zhangshu-Zhuzhou, Zhanjiang-Beihai, Luoyang-Linfen, Sanmenxia-Xi'an, Yongping-Jinzhong and Hubei-Chongqing refined oil pipelines, as well as coal oil transportation pipelines in western and eastern Inner Mongolia. Meanwhile, the Qinghai-Tibet refined oil pipeline will be extended and upgraded.

In addition, the "13th Five-year Plan" includes the construction of 14 new pipelines for natural gas, including Central Asia-China Gas Pipeline Line D, Sino-Russian East Pipeline, the middle section of West-East Gas Pipeline (Phase III), Phases IV and V of West-East Gas Pipeline, Phase IV of Shaanxi-Beijing Pipeline, Phase II of Sichuan-East Gas Pipeline, the coal gas transportation line in Xinjiang, as well as Erdos-Anping-Cangzhou, Qingdao-Nanjing, Chongqing-Guizhou-Guangxi, Qinghai-Tibet, Fujian-Guangdong and Haikou-Xuwen natural gas pipelines. Construction of regional pipeline networks will be fast-tracked, whilst the construction of gas storages and the transportation pipelines for coalbed methane, shale gas and coal gas will take place as appropriate.

The PRC government intends to promote clean energy as a major source of energy supply at a faster pace in the future. The gas consumption of Chinese cities is expected to increase by 33% each year and the number of gas pipelines is expected to grow by 10.20% annually, which will boost the demand for steel pipes.

Moreover, the OBOR strategy and the establishment of Asia Infrastructure Investment Bank are expected to inject fresh vitality into the infrastructure and hardware development in Asia, and propel economic growth in the region.

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, GDC 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 our factory in Panyu. The total permitted construction area of the land (including underground construction area) is approximately 550,000m^2. The Group is considering on a possible disposal of part of the Group's interest in Guangdong Pearl Steel Investment Management Co. Ltd with a view to achieving the effective sale of the Group's interest in Phase III of GDC. This potential disposal, if proceed, can strengthen the cashflow position of the Group.

Employees

As at 30 June 2018, we had 1,200 full time employees in total (as at 31 December 2017: 1,600). 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 16% of borrowings and bonds denominated in USD/HKD, most of 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 2018 (six months ended 30 June 2017: nil) to the shareholders of the Company.

Management Discussion and Analysis

Contingent Liabilities

As at 30 June 2018, the Group guaranteed RMB221.2 million (as at 31 December 2017: RMB174.1 million) to certain purchases of the Group's properties for mortgage facilities.

As at 30 June 2018, the Group guaranteed RMB520.1 million (as at 31 December 2017: RMB217.8 million) to joint venture for banking facilities in Saudi Arabia of which RMB306.0 million (as at 31 December 2017: RMB200.5 million) was utilized by the joint venture.

Pledge of Assets

As at 30 June 2018, we pledged certain property, plant and equipment, land use rights, time deposits and certain properties under development with an aggregate net book value of RMB1,274.8 million (as at 31 December 2017: RMB1,477.5 million), RMB582.1 million (as at 31 December 2017: RMB1,003.4 million), RMB420.1 million (as at 31 December 2017: RMB413.7 million) and RMB1,451.9 million (as at 31 December 2017: RMB1,355.9 million) respectively, to secure bank loans granted to the Group.

Liquidity and Financial Resources

As at 30 June 2018, our cash and bank balances and current ratio, as a ratio of current assets to current liabilities, were approximately RMB56.8 million (as at 31 December 2017: RMB36.4 million) and 0.87 (as at 31 December 2017: 0.66) 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 1 June 2017, the Company entered into a facility agreement with an investment company (the "Investment Company"), in respect of a one-year loan in an aggregate amount of HKD350 million (the "Loan"). Under the terms of the Loan, Mr. Chen Chang and Bournam shall remain as shareholders of the Company interested in an aggregate of no less than 69.42% of the shareholding in the Company. On 22 June 2018, the Company entered into a loan amendment deed with the Investment Company, pursuant to which the Investment Company agreed to provide a further advance of HKD250 million (together with the Loan, "the Loans"). In return for the further advance, the Company agreed to provide further security for the Loans and to issue unlisted warrants to the Investment Company. The issue of the warrants is pending, and subject to, the approvals of the shareholders of the Company and the Stock Exchange. Upon the issue of the warrants, the Loans will be converted into a three-year term loan.

On 30 April 2018, the Company failed to redeem the bonds (the "Bonds") with a principal amount of US$72 million. On 22 June 2018, the Company entered into a rescheduling agreement with all holders of the Bonds (the "Bondholders"), pursuant to which, the Company shall make partial payments to the Bondholders in accordance with a new repayment schedule, with the last payment being due on 30 April 2019. The Company is to pay interest on the Bonds at the rate of 7.6% per annum during the standstill period.

As at 30 June 2018, our aggregate borrowings were approximately RMB6,137.3 million (as at 31 December 2017: approximately RMB5,821.3 million), of which approximately RMB5,981.4 million (as at 31 December 2017: RMB5,059.7 million) were bank loans, other borrowings and government loans, approximately RMB8.9 million (as at 31 December 2017: RMB153.2 million) were for obligations under finance leases, and approximately RMB147.0 million (as at 31 December 2017: RMB608.4 million) were USD and HKD bonds.

Included in the aggregate borrowings as at 30 June 2018, there were onshore guarantees for offshore loan (內保外貸) of around RMB471 million, property development loan of around RMB1,481 million and shareholder loan from Guangdong YueCai of around RMB1.68 billion. Excluding the above loans, the loans for steel pipe business as at 30 June 2018 were around RMB2,505 million. 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.

The gearing ratio, expressed as a percentage of the summation of interest-bearing borrowings, finance lease and bonds over total assets of approximately RMB10,598.3 million (as at 31 December 2017: RMB10,153.1 million) was approximately 57.9% (as at 31 December 2017: 57.3%) as at 30 June 2018.

The maturity profile of our total borrowings as at 30 June 2018 was spread over a period of over five years, with approximately 38% (as at 31 December 2017: 65%) of the total borrowings repayable within one year, approximately 43% (as at 31 December 2017: 16%) repayable between two to five years and the remaining 19% (as at 31 December 2017: 19%) repayable after five years. We have net current liabilities of approximately RMB671.7 million as at 30 June 2018 as some long term interest-bearing loans will be repayable within one year and is classified as current portion of the borrowings and the Group has received around RMB1,184.2 million from pre-sale of Phase I and Phase II of GDC as at 30 June 2018. Net current liabilities of the Group as at 30 June 2018 decreased as compared with that of 31 December 2017 as the Group has received a 3-year shareholder loan of RMB1.68 billion from Guangdong YueCai to repay all of the short-team borrowings of PCKSP. The Group is also actively seeking other funding opportunities to meet the short term obligations, e.g. considering a possible disposal of part of the Group's interest in Guangdong Pearl Steel Investment Management Co. Ltd with a view to achieving the effective sale of the Group's interest in Phase III of GDC.

As at 30 June 2018, approximately 44% (as at 31 December 2017: 62%) 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 40% (as at 31 December 2017: 22%) of our total borrowings were denominated in RMB which carried fixed interest rate, approximately 1% (as at 31 December 2017: nil) of our total borrowings were denominated in HKD with interest rate linked to Hong Kong Interbank Offered Rate and approximately 15% (as at 31 December 2017: 16%) of our total borrowings were denominated in USD and HKD which carried fixed interest rate.

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

On 12 February 2018, the Group has entered into an agreement pursuant to which an aggregate of 59% of the equity interest in PCKSP would be disposed of. For details of such disposal, please refer to the paragraph headed "Proposed change of land use in Panyu from "industrial" to "residential and commercial" above at page 9.

Except for 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 2018, 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 2018, 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	69.42%
		Short	525,742,000 (note 2)	52.0%
	Beneficial owner	Long	4,350,000	0.43%

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 2018, 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
Bournam	Beneficial owner (note 1)	Long	701,911,000	69.42%
		Short	525,742,000 (note 2)	52.0%

Notes:

1. 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.

2. 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 2018, 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 2018.

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 of all Directors, all the Directors confirmed that they have complied with the Model Code throughout the six months ended 30 June 2018.

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 2018.

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 2018.

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 2018

	Notes	Six months ended 30 June **2018 (Unaudited) RMB'000**	2017 (Unaudited) RMB'000
REVENUE	5	**475,730**	418,031
Cost of sales		**(432,536)**	(384,431)
Gross profit		**43,194**	33,600
Other income and gains	5	**44,852**	103,080
Selling and distribution expenses		**(32,838)**	(53,137)
Administrative expenses		**(231,072)**	(228,216)
Other expenses		**(44,254)**	(4,630)
Exchange loss, net		**(2,041)**	(10,518)
Finance costs	6	**(187,045)**	(199,521)
Share of loss of a joint venture		**(13,166)**	(670)
LOSS BEFORE TAX	7	**(422,370)**	(360,012)
Income tax credit/(expense)	8	**109,859**	(2,064)
LOSS FOR THE PERIOD		**(312,511)**	(362,076)
Loss attributable to:			
Owners of the parent		**(313,152)**	(361,344)
Non-controlling interests		**641**	(732)
		(312,511)	(362,076)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	9	**RMB(0.31)**	RMB(0.36)

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2018

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
LOSS FOR THE PERIOD	**(312,511)**	(362,076)
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	**(31,901)**	63,972
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**(31,901)**	63,972
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	**(31,901)**	63,972
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(344,412)**	(298,104)
Total comprehensive loss attributable to:		
Owners of the parent	**(345,053)**	(297,372)
Non-controlling interests	**641**	(732)
	(344,412)	(298,104)

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	As at 30 June 2018 (Unaudited) RMB'000	As at 31 December 2017 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	**2,946,617**	3,082,754
Investment properties	11	**1,138,221**	1,138,221
Long term prepayments and deposits		**95,490**	123,710
Prepaid land lease payments		**1,100,049**	1,123,673
Investment in a joint venture		**21,389**	34,556
Available-for-sale investment		**–**	800
Deferred tax assets		**106,175**	–
Pledged deposits		**500,027**	482,723
Total non-current assets		**5,907,968**	5,986,437
CURRENT ASSETS			
Inventories	12	**222,174**	288,705
Properties under development		**2,682,720**	2,601,118
Trade and bills receivables	13	**587,539**	371,120
Prepayments, deposits and other receivables		**621,075**	601,470
Due from a related party		**84,706**	84,568
Financial assets at fair value through profit or loss		**297,308**	–
Pledged and restricted bank balances		**137,977**	183,286
Cash and bank balances		**56,834**	36,392
Total current assets		**4,690,333**	4,166,659
CURRENT LIABILITIES			
Trade and bills payables	14	**839,412**	670,349
Contract liabilities		**1,399,460**	–
Other payables and accruals		**680,507**	1,695,458
Interest-bearing bank and other borrowings	15	**2,345,993**	3,332,194
Fixed rate bonds and notes	16	**–**	467,821
Due to a director		**35,949**	106,994
Tax payable		**60,759**	60,800
Total current liabilities		**5,362,080**	6,333,616
NET CURRENT LIABILITIES		**(671,747)**	(2,166,957)
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,236,221**	3,819,480

Interim Condensed Consolidated Statement of Financial Position (continued)

As at 30 June 2018

	Notes	As at 30 June 2018 (Unaudited) RMB'000	As at 31 December 2017 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	15	**3,644,300**	1,880,686
Fixed rate bonds and notes	16	**146,998**	140,597
Government grants		**369,940**	375,113
Deferred tax liabilities		**573,330**	577,019
Total non-current liabilities		**4,734,568**	2,973,415
Net assets		**501,653**	846,065
EQUITY			
Equity attributable to owners of the parent			
Issued capital	17	**88,856**	88,856
Reserves		**400,614**	745,667
		489,470	834,523
Non-controlling interests		**12,183**	11,542
Total equity		**501,653**	846,065

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2018

	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 2018		88,856	767,097	1,153,715	224,589	57,607	165,276	(1,563,776)	(58,841)	834,523	11,542	846,065
Loss for the period		–	–	–	–	–	–	(313,152)	–	(313,152)	641	(312,511)
Other comprehensive loss for the period												
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	(31,901)	(31,901)	–	(31,901)
Total comprehensive loss for the period		–	–	–	–	–	–	(313,152)	(31,901)	(345,053)	641	(344,412)
At 30 June 2018 (unaudited)		88,856	767,097*	1,153,715*	224,589*	57,607*	165,276*	(1,876,928)*	(90,742)*	489,470	12,183	501,653

* These reserve accounts comprise the consolidated reserves of RMB400,614,000 (30 June 2017: RMB1,166,652,000) in the interim condensed consolidated statement of financial position as at 30 June 2018.

For the six months ended 30 June 2017

	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 period		–	–	–	–	–	–	(361,344)	–	(361,344)	(732)	(362,076)
Other comprehensive loss for the period												
Exchange differences on translation of foreign operations		–	–	–	–	–	–	–	63,972	63,972	–	63,972
Total comprehensive loss for the period		–	–	–	–	–	–	(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

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 2018

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net cash flows from operating activities	**183,026**	324,482
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	**(16,007)**	(22,079)
Receipt of government grants	**12,524**	16,385
Proceeds from disposal of prepaid land lease payments	**–**	34,272
(Increase)/decrease in due from related parties	**(138)**	2,264
Investment income received	**2,695**	–
Redemption of financial assets at fair value through profit or loss	**205,600**	–
Purchases of financial assets at fair value through profit or loss	**(500,000)**	–
Net cash flows from/(used) in investing activities	**(295,326)**	30,842
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans and other borrowings	**2,547,325**	3,823,205
Repayment of bank loans and other borrowings	**(1,974,981)**	(3,547,897)
Proceeds from issue of bonds	**–**	135,087
Repayment of bonds	**(103,806)**	(86,879)
Interest paid	**(144,785)**	(187,276)
Interest element of finance lease rental payments	**(2,815)**	(6,287)
Capital element of finance lease rental payments	**(109,412)**	(47,845)
Increase in pledged bank deposit	**–**	(835,446)
Increase/(decrease) in due to a director	**(71,045)**	1,917
Net cash flows from/(used in) financing activities	**140,481**	(751,421)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**28,181**	(396,097)
Effect of foreign exchange rate changes, net	**(7,739)**	2,796
Cash and cash equivalents at 1 January	**36,392**	439,067
CASH AND CASH EQUIVALENTS AT 30 JUNE	**56,834**	45,766

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 is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principle place of business in Hong Kong is located at suites nos. 1, 2 and 19, 15th Floor, Tower 3, China Hong Kong City, 33 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong. 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 2018 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 2017.

2. Basis of Preparation (Continued)

Going concern basis

Notwithstanding that the Group had consolidated net current liabilities of approximately RMB671,747,000 as at 30 June 2018, the interim condensed consolidated financial statements have been prepared by the Directors on a going concern basis, because:

(i) As at 30 June 2018, the Group had unutilised credit facilities from banks of approximately RMB290,903,000; and

(ii) Management is actively following up with its debtors on outstanding receivables with the aim of agreeing a repayment schedule with each of them; and

(iii) Management is considering co-operation with business partners to further develop and promote derivative products or services which have high gross margins, and thus generate stronger positive cash flows; and

(iv) 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, 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 2018.

3. 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 2017, except for the adoption of new standards effective as of 1 January 2018. In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards ("IFRSs", which also include IASs and interpretations) that are relevant to the Group's operation for the preparation of the Group's interim condensed consolidated financial statements:

IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*
Amendments to IFRS 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to IFRS 4	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
Amendments to IFRS 15	*Clarifications to IFRS 15 Revenue from Contracts with Customers*
Amendments to IAS 40	*Transfers of Investment Property*
Annual Improvements 2014-2016 Cycle	Amendments to IFRS 1 and IAS 28

The Group applies, for the first time, IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments that require restatement of previous financial statements. The nature and effect of these changes are disclosed below.

Several other amendments and interpretations apply for the first time in 2018, but do not have significant impact on the unaudited interim condensed consolidated financial statements of the Group.

IFRS 15

IFRS 15 supersedes IAS 11 *Construction Contracts*, IAS 18 *Revenue* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

3. Changes in Accounting Policies and Disclosures (Continued)

IFRS 15 (Continued)

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the modified retrospective method which allows the Group to recognise the cumulative effects of initially applying IFRS 15 as an adjustment to the opening balance of retained profits at 1 January 2018. The Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 January 2018, thus the comparative figures have not been restated.

The Group is engaged in manufacturing and sale of welded steel pipes and the provision of related manufacturing services and property development and investment. These products are sold on their own in separately identified contracts with customers.

(a) Accounting for revenue from sales of goods

The Group has concluded that revenue from sale of its products and the related manufacturing services should be recognised at the point in time when control of the assets is transferred to the customer, generally on delivery of these products. Prior to the adoption of IFRS 15, the Group recognised revenue from the sale of goods upon goods receipt and acceptance. The adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

(b) Accounting for manufacturing services

The manufacturing service represented a single performance obligation and the transaction price is stated in the contract with no variable consideration. Prior to the adoption of IFRS 15, the Group recognised revenue from the manufacturing service upon goods receipt and acception. Under IFRS 15, the Group has assessed that there is an enforceable right to payment from the customers for performance completed to date for few contracts. Thus, majority of revenue from manufacturing service will continue to be recognised at a point in time, when the finished goods are delivered to the customer and the Group has present right to payment and the collection of the consideration is probable. The adoption of IFRS 15 has had no significant impact on the timing of revenue recognition.

3. Changes in Accounting Policies and Disclosures (Continued)

IFRS 15 (Continued)

(c) Accounting for revenue from property development activities

Prior to the adoption of IFRS 15, the Group accounted for revenue from sales of properties when significant risk and rewards of ownership has been transferred to the customers on delivery in its entirety at a single time upon vacant possession.

Under IFRS 15, for properties that have no alternative use to the Group due to contractual reasons and when the Group has an enforceable right to payment from the customers for performance completed to date, the Group recognises revenue as the performance obligation is satisfied over time in accordance with the input method for measuring progress. The excess of cumulative revenue recognised in profit or loss over the cumulative billings to purchasers of properties is recognised as contract assets. The excess of cumulative billings to purchasers of properties over the cumulative revenue recognised in profit or loss is recognised as contract liabilities.

The Group has assessed that there is an enforceable right to payment from the customers for performance completed to date for few properties. Thus, majority of revenue from sale of properties will continue to be recognised at a point in time, when the purchasers obtain the physical possession or the legal title of the completed property and the Group has present right to payment and the collection of the consideration is probable. The adoption of IFRS 15 has had no significant impact on the timing of revenue recognition.

(d) Accounting for significant financing component for sales of properties

Prior to the adoption of IFRS 15, the Group presented sales proceeds received from customer in connection with the Group's pre-sales of properties as receipts in advance under other payables and accruals in the consolidated statement of financial position. No interest was accrued on the long-term advances received under the previous accounting policy.

3. Changes in Accounting Policies and Disclosures (Continued)

IFRS 15 (Continued)

(d) Accounting for significant financing component for sales of properties (Continued)

Upon adoption of IFRS 15, the Group recognised contract liabilities for the interest on the sales proceeds received from customers with a significant financing component. The Group elected to apply the practical expedient and did not recognise the effects of a significant financing component with a customer if the time period is one year or less. In addition, reclassifications have been made from other payables and accruals to contract liabilities for the outstanding balance of sales proceeds from customers. The adoption of IFRS 15 has had no significant impact on the opening retained profits and receipts in advance as at 1 January 2018.

(e) Accounting for sales commission

Prior to the adoption of IFRS 15, the Group expenses off the sales commission associated with obtaining agreement for sale and purchase with property buyer. Upon adoption of IFRS 15, sales commissions incurred directly attributable to obtaining a contract, if recoverable, are capitalised and recorded in contract assets. Capitalised sales commissions are charged to profit or loss when the revenue from the related property sale is recognised and are included as cost of sales at that time. The Group has assessed that the sales commission effect is insignificant.

(f) Presentation and disclosure requirements

As required for the condensed interim financial statements, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. Refer to note 4 for the disclosure on disaggregated revenue.

3. Changes in Accounting Policies and Disclosures (Continued)

IFRS 9

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. With the exception of hedge accounting, which the Group applied prospectively, the group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39. The impacts relating to the classification and measurement and the impairment requirements are summarised as follows:

(i) Classification and measurement

Except for certain trade receivables, under IFRS 9, the Group initially measures a financial assets at its fair value plus, in the case of a financial asset not at fair value through profit or loss transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss ("FVPL"), amortised cost or fair value through other comprehensive income ("FVOCI"). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instrument's contractual cash flows represent solely payments of principal and interest on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's debt instruments are as follows:

– Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade and bills receivables, financial assets included in prepayments, deposits and other receivables and amounts due from a related party.

3. Changes in Accounting Policies and Disclosures (Continued)

IFRS 9 (Continued)

(i) Classification and measurement *(Continued)*

Other financial assets are classified and subsequently measured, as follows:

– Financial assets at FVPL comprise derivative instruments and unquoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under IAS 39, the Group's unquoted equity instruments were classified as available-for-sale ("AFS") financial assets.

The assessment of the Group's business model was made as of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under IAS 39. Similar to the requirements of IAS 39, IFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

The main effects resulting from the application of IFRS 9 are as follows:

Investments in unlisted equity investments of RMB800,000 that were previously classified as AFS investments and measured at fair value at each reporting date under IAS 39 have been designated as financial assets at FVPL. As no fair value change has been recognized for the unlisted equity investments, no fair value gain/loss was reclassified from the AFS investments revaluation reserve to retained profits on 1 January 2018. The unlisted equity investments have been derecognised during the six months ended 30 June 2018.

3. Changes in Accounting Policies and Disclosures (Continued)

IFRS 9 (Continued)

(ii) Impairment

IFRS 9 requires an impairment on all loans and other debt financial assets that are not accounted for at FVPL under IFRS 9, to be recorded based on an expected credit loss ("ECL") model either on a twelve-month basis or a lifetime basis. Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

As at 30 June 2018, the Group has applied the simplified approach and recorded lifetime ECLs on trade and bills receivables, and general approach and recorded 12-month ECLs on financial assets included in prepayments, deposits and other receivables and amounts due from related parties. The adoption of IFRS 9 has had no significant impact on the impairment of the financial assets of the Group.

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

4A. Disaggregation of Revenue

Set out below is the disaggregation of the Group's revenue from contracts with customers:

Six months ended 30 June 2018 (unaudited)	Steel pipes RMB'000	Property RMB'000	Total RMB'000
Segments			
Type of goods or service:			
Manufacture and sale of steel pipes	375,521	–	375,521
Steel pipe manufacturing services	76,585	–	76,585
Sales of other steel products	23,624	–	23,624
Total revenue from contracts with customers	475,730	–	475,730
Geographical markets			
Mainland China	344,310	–	344,310
Other Asian countries	80,826	–	80,826
Middle East	29,983	–	29,983
Oceania	18,661	–	18,661
European Union	1,950	–	1,950
Total revenue from contracts with customers	475,730	–	475,730
Timing of revenue recognition			
At a point in time	475,730	–	475,730
Total revenue from contracts with customers	475,730	–	475,730

4B. 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.

4B. Operating Segment Information (Continued)

Six months ended 30 June 2018 (Unaudited)	Steel pipes RMB'000	Property development and investment RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	475,730	–	475,730
Segment results:	(328,014)	(18,986)	(347,000)
Reconciliation:			
Corporate and other unallocated expenses			(75,370)
Loss before tax			(422,370)
Segment assets:	2,333,290	4,113,652	6,446,942
Reconciliation:			
Elimination of intersegment receivables			1,823,429
Corporate and other unallocated assets			2,327,930
Total assets			10,598,301
Segment liabilities:	3,477,775	3,784,917	7,262,692
Reconciliation:			
Elimination of intersegment payables			1,823,429
Corporate and other unallocated liabilities			1,010,527
Total liabilities			10,096,648
Other segment information:			
Share of loss of a joint venture	(13,166)	–	(13,166)
Impairment losses recognised in the statement of profit or loss	(1,437)	–	(1,437)
Impairment losses reversed in the statement of profit or loss	1,562	–	1,562
Depreciation and amortisation	(88,054)	(186)	(88,240)
Capital expenditure*	12,201	26	12,227

4B. 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

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

4B. Operating Segment Information (Continued)

Information about products

The revenue of the major products is analysed as follows:

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Manufacture and sale of steel pipes:		
LSAW steel pipes	**247,939**	209,715
ERW steel pipes	**30,297**	129,492
SSAW steel pipes	**97,285**	17,077
Steel pipe manufacturing services:		
LSAW steel pipes	**44,628**	20,175
ERW steel pipes	**798**	357
SSAW steel pipes	**31,159**	12,480
Others*	**23,624**	28,735
	475,730	418,031

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

4B. Operating Segment Information (Continued)

Geographical information

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sales to external customers:		
Mainland China	**344,310**	195,146
America	**–**	27,367
European Union	**1,950**	7,391
Middle East	**29,983**	40,371
Other Asian countries	**80,826**	36,537
Oceania	**18,661**	110,674
Other	**–**	545
	475,730	418,031

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 2018, revenue from two customers of the Group amounting to RMB67,021,000 and RMB47,921,000, which had accounted for 14% and 10% of the Group's total revenue respectively.

5. Revenue, Other Income and Gains

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

	Six months ended 30 June	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Revenue from contracts with customers		
Manufacture and sale of seam welded steel pipes and the provision of related manufacturing services	**475,730**	418,031
Other income and gains		
Fair value gains on financial assets at fair value through profit or loss	**5,603**	–
Bank interest income	**19,531**	35,045
Subsidy income from the PRC government*	**17,697**	4,718
Others	**2,021**	63,317
	44,852	103,080

* The subsidy income represented subsidies granted by the local finance bureaus to Panyu Chu Kong Steel Pipe Co Ltd.（番禺珠江鋼管有限公司）, Panyu Chu Kong Steel Pipe (Lianyungang) Co Ltd.（番禺珠江鋼管（連雲港）有限公司）and Panyu Chu Kong Steel Pipe (Zhuhai) Co., Ltd.（番禺珠江鋼管（珠海）有限公司）, mainly as compensation for certain projects and tax refunds. 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	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank loans and government loans	**110,959**	122,969
Interest on other loans (including bonds and short term notes)	**135,374**	108,363
Interest on finance lease	**2,815**	6,287
Interest on discounted bills	**7,219**	4,247
Total interest expense on financial liabilities not at fair value through profit or loss	**256,367**	241,866
Less: Interest capitalised	**(69,322)**	(42,345)
	187,045	199,521

7. Loss Before Tax

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

	Six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of inventories sold	**356,275**	281,455
Depreciation	**75,488**	77,837
Impairment of trade receivables reversed	**(958)**	(139)

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	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Current – Mainland China		
charge for the period	**–**	1,611
Deferred	**(109,859)**	453
Total tax expense/(credit) for the period	**(109,859)**	2,064

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 RMB313,152,000 (six months ended 30 June 2017: RMB361,344,000), and the weighted average number of ordinary shares of 1,011,142,000 (30 June 2017: 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 2018 and 2017 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 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
At beginning of the period/year	**3,082,754**	3,315,315
Additions	**12,227**	34,256
Disposals	**(73,301)**	(103,561)
Depreciation	**(75,488)**	(143,045)
Impairment	**–**	(18,006)
Exchange realignment	**425**	(2,205)
At end of the period/year	**2,946,617**	3,082,754

11. Investment Property

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Commercial properties in Mainland China, PRC Land	**1,138,221**	1,138,221

12. Inventories

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Raw materials	**157,922**	67,228
Work in progress	**64,278**	71,465
Finished goods	**20,130**	168,831
	242,330	307,524
Less: Provision against slow-moving and obsolete	**(20,156)**	(18,819)
	222,174	288,705

13. Trade and Bills Receivables

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Trade receivables	**570,092**	350,024
Impairment	**(13,473)**	(14,433)
Trade receivables, net	**556,619**	335,591
Bills receivable	**30,920**	35,529
	587,539	371,120

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 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within 60 days	**230,044**	64,914
61 to 90 days	**12,090**	5,046
91 to 180 days	**53,173**	36,544
181 to 365 days	**73,275**	42,305
1 to 2 years	**153,802**	111,636
2 to 3 years	**2,092**	58,143
Over 3 years	**32,143**	17,003
	556,619	335,591

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 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within 90 days	**335,616**	51,306
91 to 180 days	**31,068**	318,893
181 to 365 days	**145,661**	16,775
1 to 2 years	**90,693**	79,394
2 to 3 years	**49,469**	56,664
Over 3 years	**34,704**	24,240
	687,211	547,272
Bills payable	**152,201**	123,077
	839,412	670,349

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

All the bills payable bear maturity dates within 360 days.

15. Interest-Bearing Bank and Other Borrowings

	Effective interest rate %	Maturity	**30 June 2018 (Unaudited) RMB'000**	31 December 2017 (Audited) RMB'000
Current				
Finance lease payables	6.16%	2018	**8,927**	100,476
Bank loans				
– secured	3.99%-5.27%	2018	**228,500**	825,833
– unsecured	4.35%-6.09%	2018-2019	**279,716**	404,230
Other borrowing				
– secured	16%	2018	**399,994**	324,824
– unsecured	3.00%-19.44%	2018-2019	**832,653**	729,465
Government loans				
– secured	4.90%	2018-2019	**57,200**	143,500
– unsecured	–	–	**–**	194,000
Current portion of long term loans				
– secured	4.75%-7.35%	2018-2019	**539,003**	609,866
			2,345,993	3,332,194
Non-current				
Finance lease payables	–	–	**–**	52,678
Bank loans				
– secured	5.39%-7.21%	2019-2028	**1,621,100**	1,449,608
Other borrowing				
– secured	11.25%	2021	**1,680,000**	–
Government loans				
– secured	4.90%	2019-2023	**343,200**	378,400
			3,644,300	1,880,686
			5,990,293	5,212,880

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

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**1,047,219**	2,168,753
In the second year	**46,900**	49,708
In the third to fifth years, inclusive	**414,100**	345,300
Beyond five years	**1,160,100**	1,050,600
	2,668,319	3,614,361
Government loans repayable:		
Within one year	**57,200**	337,500
In the second year	**79,200**	70,400
In the third to fifth years, inclusive	**264,000**	264,000
Beyond five years	**–**	44,000
	400,400	715,900
Other borrowings and finance lease payables:		
Within one year	**1,241,574**	829,942
In the second year	**–**	37,677
In the third to fifth years, inclusive	**1,680,000**	15,000
	2,921,574	882,619
	5,990,293	5,212,880

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 RMB1,274,791,000 (31 December 2017: RMB1,477,453,000) 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 RMB582,101,000 (31 December 2017: RMB1,003,365,000) as at the end of the reporting period;

(c) certain of the Group's time deposits amounting to RMB420,051,000 (31 December 2017: RMB413,741,000) as at the end of the reporting period; and

(d) certain of the Group's properties under development amounting to RMB1,451,894,000 (31 December 2017: RMB1,355,945,000) 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 RMB443,710,000 (31 December 2017: RMB324,824,000), and RMB373,187,000 (31 December 2017: RMB8,908,000) as at 30 June 2018, 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 2018 RMB'000	31 December 2017 RMB'000
Floating rate		
– expiring within one year	**290,903**	515,500

16. Fixed Rate Bonds and Notes

	30 June 2018 (Unaudited)				31 December 2017 (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
Current								
2013 Bonds	US$72	5.6	2018	–	US$72	5.6	2018	467,821
Non-Current								
2017 Notes	HK$155	8.0	2020	116,826	HK$155	8.0	2020	112,057
2017 Bonds_ A	US$3	7.0	2020	17,114	US$3	7.0	2020	16,194
2017 Bonds_ B	HK$10	7.0	2021	6,316	HK$10	7.0	2021	5,991
2017 Bonds_ C	HK$10	6.0	2020	6,742	HK$10	6.0	2020	6,355
				146,998				140,597
				146,998				608,418

16. Fixed Rate Bonds and Notes (Continued)

US$72,000,000 5.6% bonds due 2018

On 30 April 2013, the Group issued bonds with a principal amount of US$72,000,000 and the bonds will be repayable in full by 30 April 2018 (the "2013 Bonds").

On 22 June 2018, the Group entered into a rescheduling agreement with the bondholders of the 2013 Bonds. Pursuant to which, the Group shall make the repayment of the principal and unpaid interest of the 2013 Bonds in three installments due in April 2019 at a rate of 7.6% per annum.

HK$155,000,000 8% notes due 2020

On 27 April 2017, the Company entered into a note purchase agreement with an investment fund. The Group agreed to issue, and the investment fund agreed to purchase from the Group, HK$155,000,000 8% notes due in April 2020 (the "2017 Notes"). Pursuant to the purchase agreement, specific performance obligations are imposed on the controlling shareholder of the Group. 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 2017 Notes immediately in accordance with the terms and conditions.

US$3,000,000 7% bonds due 2020

On 28 April 2017, the Company issued a bond with a principal amount of US dollar 3,000,000 to an individual investor (the "2017 Bonds_A"). 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.

16. Fixed Rate Bonds and Notes (Continued)

HK$10,000,000 7% bonds due 2021

On 24 August 2017, the Company issued a bond with a principal amount of HKD10 million to an individual investor (the "2017 Bonds_B"). The bond will be repayable in full by August 2021. The bond bears a fixed coupon interest rate at 7% per annum for four years payable semi-annually, commencing on 24 February 2018. The bond is unsecured.

HK$10,000,000 6% bonds due 2020

On 26 September 2017, the Company issued a bond with a principal amount of HKD10 million to an individual investor (the "2017 Bonds_C"). The bond will be repayable in full by September 2020. The bond bears a fixed coupon interest rate at 6% per annum for three years payable semi-annually, commencing on 26 March 2018. The bond is unsecured.

17. Issued Capital

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Authorised:		
10,000,000,000 (31 December 2017: 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 2017: 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 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within one year	**2,722**	3,398
In the second to fifth years, inclusive	**3,812**	4,200
After five years	**4,702**	5,193
	11,236	12,791

19. Commitments

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

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Contracted, but not provided for:		
Purchase of land and buildings	**284,048**	289,235
Purchase of plant and machinery	**78,964**	94,700
Construction and development cost	**200,189**	187,338
	563,201	571,273
Contracted, but not provided for:		
Capital contributions payable for establishment of a joint venture	**125,484**	120,676
Authorised, but not contracted for:		
Plant and machinery	**2,500,000**	2,500,000
	3,188,685	3,191,949

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.

(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 2018 (Unaudited) RMB'000**	2017 (Unaudited) RMB'000
GZMT	Purchases of spare parts	(i)	–	3,737

Notes:

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

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	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**3,931**	2,744
Retirement benefit scheme contributions	**92**	76
Total compensation paid to key management personnel	**4,023**	2,820

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 30 August 2018.