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

2019
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

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 54, 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 RMB491.9 million (1H2018: RMB475.7 million), representing an increase of approximately 3.4% as compared with the corresponding period in 2018. Loss attributable to ordinary equity holders of the Company was RMB212.8 million (1H2018: loss of RMB313.2 million). Loss per share was RMB0.21 (1H2018: loss per share of RMB0.31). The board of directors of the Company (the "Board") did not recommend the payment of interim dividend for the six months ended 30 June 2019 (1H2018: Nil).

Revenue

During the period under review, we recorded a revenue of approximately RMB491.9 million (1H2018: RMB475.7 million), representing an increase of approximately 3.4% as compared with the corresponding period in 2018. The revenue increase was due to a rebound of steel pipe 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 78.8% (1H2018: 72.4%) and approximately 21.2% (1H2018: 27.6%) respectively of our total revenue. Increase in domestic sales was due to a rebound of steel pipes demand in the PRC.

Sales by geography

	Six months ended 30 June			
	2019		2018	
	RMB'000 (Unaudited)	**% of revenue**	RMB'000 (Unaudited)	% of revenue
Domestic sales	**387,792**	**78.8%**	344,310	72.4%
Overseas sales	**104,088**	**21.2%**	131,420	27.6%
Total	**491,880**	**100.0%**	475,730	100.0%

Sales by products

	Six months ended 30 June			
	2019		2018	
	RMB'000 (Unaudited)	% of revenue	RMB'000 (Unaudited)	% of revenue
Manufacture and sale of steel pipes				
LSAW steel pipes	**360,321**	**73.2%**	247,939	52.1%
ERW steel pipes	**87**	**–%**	30,297	6.4%
SSAW steel pipes	**30,326**	**6.2%**	97,285	20.4%
Sub-total	**390,734**	**79.4%**	375,521	78.9%
Steel pipes manufacturing services				
LSAW steel pipes	**57,392**	**11.7%**	44,628	9.4%
ERW steel pipes	**62**	**–%**	798	0.2%
SSAW steel pipes	**14,204**	**2.9%**	31,159	6.5%
Sub-total	**71,658**	**14.6%**	76,585	16.1%
Others	**29,488**	**6.0%**	23,624	5.0%
Total	**491,880**	**100%**	475,730	100.0%

Gross Profit and Gross Profit Margin

During the period under review, our gross profit was approximately RMB103.4 million (1H2018: RMB43.2 million), representing an increase of approximately 139.3% as compared with the corresponding period in 2018. The overall gross profit margin was approximately 21.0%, which was higher than that for the same period in 2018 which was approximately 9.1%. The increase in gross profit and gross profit margin was partly because there was an increase in the sales of steel pipes manufacturing services, the gross profit margin of which was generally high. In addition, the average selling price increased as compared with last corresponding period.

Management Discussion and Analysis

	Six months ended 30 June			
	2019		2018	
	RMB'000 (Unaudited)	**Gross profit margin %**	RMB'000 (Unaudited)	Gross profit margin %
Manufacture and sale of steel pipes				
LSAW steel pipes	**62,737**	**17.4%**	26,688	10.8%
ERW steel pipes	**13**	**14.9%**	559	1.8%
SSAW steel pipes	**6,943**	**22.9%**	3,857	4.0%
Sub total	**69,693**	**17.8%**	31,104	8.3%
Steel pipes manufacturing services				
LSAW steel pipes	**25,323**	**44.1%**	7,468	16.7%
ERW steel pipes	**28**	**45.2%**	113	14.2%
SSAW steel pipes	**6,278**	**44.2%**	4,827	15.5%
Sub total	**31,629**	**44.1%**	12,408	16.2%
Others	**2,028**	**6.9%**	(318)	-1.3%
Total	**103,350**	**21.0%**	43,194	9.1%

Other income and gains for the six months ended 30 June 2019 were approximately RMB58.3 million (1H2018: RMB44.9 million), representing an increase of approximately 30.1% as compared with the corresponding period in 2018. Such increase was mainly due to an increase in subsidy income and gain on resumption of land-use-rights from local authority.

Selling and distribution expenses for the six months ended 30 June 2019 were approximately RMB35.4 million (1H2018: RMB32.8 million), representing a slight increase of approximately 7.8% as compared with the corresponding period in 2018. The increase in selling and distribution expenses was due to an increase in sales during the period under review.

Administrative expenses for the six months ended 30 June 2019 were approximately RMB162.7 million (1H2018: RMB231.1 million), representing a decrease of approximately 29.6% as compared with the corresponding period in 2018. The decrease in administrative expenses was mainly due to closure of manufacturing operation of Panyu Chu Kong Steel Pipe Co. Ltd ("PCKSP") (an indirect subsidiary of the Company which will be disposed of) (as disclosed in the Company's announcement dated on 27 February 2019) during the period under review.

Finance costs for the six months ended 30 June 2019 were approximately RMB233.4 million (1H2018: RMB187.0 million), representing an increase of 24.8% as compared with the corresponding period in 2018. The increase in finance costs was mainly due to an increase in average interest rate and the average loan balance during the period under review.

The Group recorded other expenses of approximately RMB10.6 million for the six months ended 30 June 2019 (1H2018: RMB44.3 million), representing a decrease of approximately 76.1% as compared with the corresponding period in 2018. The decrease was due to a loss on disposal of a subsidiary and property, plant and equipment in the corresponding period in 2018.

Income tax expenses of approximately RMB11.5 million was recorded for the six months ended 30 June 2019 (1H2018: tax credit: RMB109.9 million).

As a result of the above, the net loss attributable to ordinary equity holders of the Company was approximately RMB212.8 million (1H2018: loss of RMB313.2 million). Loss per share was RMB0.21 (1H2018: loss per share of RMB0.31).

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 being classified as part of the Offshore Engineering Equipment Industry*（海洋工程裝備製造業）. We have benefited from the PRC's strategic policies and are supported by policy banks and insurance institutions in the PRC.

During the period under review, we received new orders of approximately 189,000 tonnes of steel pipes. Orders received during the period under review include orders from China Petroleum & Chemical Corporation (中國石油化工股份有限公司) (Sinopec) for supplying approximately 35,600 tons of steel pipes for its gas and oil pipeline projects in the PRC, including projects of Rizhao Port-Jingbo Oil Pipeline, Yuexi Pipe Network and Qingning Gas Pipeline Project. We delivered approximately 142,000 tonnes of welded steel pipes during the period under review.

Our joint venture company AHQ (the "JV Company") in Saudi Arabia has also been awarded a new order of steel pipes from Saudi Arabian Oil Company ("Saudi Aramco") for supplying approximately 26,248 tons of steel pipes for its Saudi Aramco Marjan Project. The JV Company enabled the Group to expand its market shares in Saudi Arabia and neighboring countries.

Property development

Apart from the steel pipe manufacturing business, 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"), 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 550,000 m^2.

Below is a 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 recorded most of the sales of first phase of GDC in 2018. The Group has pre-sold the second phase of GDC and the total contracted sales were approximately RMB951.2 million. The third phase of GDC will be sold to Guangzhou City Panyu District Land Development Centre*（廣州市番禺區土地開發中心）as disclosed in the Company's announcement dated 20 June 2019. For details of the disposal, please refer to the paragraph titled "Land Resumption of GDC Phase III" below at page 10.

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 ("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*（廣東資產管理有限公司）("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. Ltd ("CKSPG") and PCKSP shall complete an asset reorganisation, after which, the only asset held by the PCKSP shall be the Land. Pursuant to the Agreement, the Investor 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 use of the Land; 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 use of the Land).

The disposal of 59% equity interest of PCKSP was approved by the shareholders of the Company (the "Shareholders") at the extraordinary general meeting held on 19 April 2018.

The capital injection under the Agreement has been completed on 12 October 2018. Guangdong Yuecai has made capital injection into PCKSP in the amount of RMB240 million and acquired 19% of the registered capital of PCKSP (on enlarged basis). Following the completion of the capital injection, PCKSP was held as to 20% by Guangdong Yuecai and 80% by CKSPG.

Management Discussion and Analysis

On 27 February 2019, the Group entered into the disposal agreement (the "Disposal Agreement") with Guangzhou Xingchen Consultation Company Limited（廣州星宸諮詢有限公司）("Xingchen"), Guangdong Yuecai and Guangzhou Asset Management in relation to (i) the nomination of Xingchen by the Guangzhou Asset Management under the terms of the Agreement as its nominee to acquire 40% equity interest of PCKSP; and (ii) the disposal of the remaining 40% equity interest of PCKSP to Xingchen, for a total consideration of RMB2,448 million with a possible payment of the premium of RMB272 million.

The transactions contemplated under the Disposal Agreement were approved by the Shareholders at the extraordinary general meeting held on 16 April 2019.

As at 30 June 2019, the Company has performed the following asset reorganization: (i) PCKSP's liabilities was reduced to below RMB159 million; (ii) most of the bank guarantees by PCKSP have been released; (iii) most of the outstanding sales contracts and engineering contracts of PCKSP were either terminated or discharged; and (iv) PCKSP has transferred the equity interest in Al-Oahtani PCK Pipe Co and PCK Steel (Middle East) FZE to the Group and an independent third party respectively.

Land Resumption of GDC Phase III

On 20 June 2019, the Group has entered into a land resumption compensation agreement ("Land Resumption Compensation Agreement") with Guangzhou City Panyu District Land Development Centre*（廣州市番禺區土地開發中心）("GPDLDC"), pursuant to which GPDLDC will resume, and the Group will sell the land of Phase III GDC at the initial compensation of RMB1.16 billion. The land resumption is conditional upon, among others, the approval of the Shareholders at an extraordinary general meeting in accordance with the requirements under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

Future Plan and Prospects

Looking forward, as it is stated in the Medium to Long Term Oil and Gas Pipeline Networks Planning (《中長期油氣管網規劃》) published by the National Development and Reform Commission of the People's Republic of China, China will strive to strengthen the land and sea linkage as well as onshore and offshore interaction, consolidate and improve the northwest, southwest and offshore channels for oil and gas import, and promote energy cooperation with countries and regions along the "Belt and Road Initiative", thereby forming a preliminary layout with balanced distribution of onshore and offshore channels by 2025. Besides, China will strengthen the infrastructure construction of natural gas pipeline networks by following the principle of transmitting gas from the west to the east and from the north to the south, and bringing gas from offshore, so as to establish natural gas infrastructure networks featured by "interconnection of backbone networks with regional networks" by 2025.

During the 13th Five-Year Plan, the compound annual growth rate ("CAGR") of the oil and gas pipeline networks construction in China is approximately 8%. Specifically, the CAGR of networks construction for refined petroleum and natural gas is about 10%, while growth of crude oil networks remained at a slightly low rate. It is expected that during the 14th Five-Year Plan, development and deployment of pipeline networks will be intensified, and natural gas sector is projected to become the fastest growing energy sector by reaching a growth rate of 9%, completely outmatches those of other energy sectors. It is expected that investment scale of trunk pipelines for the period from 2019 to 2025 will be over trillion. According to the 13th Five-Year Plan and the 14th Five-Year Plan, during the period from 2019 to 2020 and the period from 2021 to 2025, the planned construction length of natural gas pipelines in China will amount to 28,000 kilometers and 59,000 kilometers, respectively, and construction investment for newly constructed trunk pipelines will amount to over RMB370 billion and RMB780 billion, respectively (in aggregate over RMB1,150 billion).

We had seen turnaround in 2016, significant improvement in 2017, and steady and positive growth in 2018, which were in line with the overall trend of steel pipes industry. We expected that in 2019, downstream sectors of steel pipes industry such as crude processing, natural gas, shale gas, power generation, pipeline construction, real estate, mechanical engineering, coal and coal-bed methane will maintain overall sound development. As the coal-to-gas conversion projects continue to promote the increasing demand for natural gas and the construction of oil and gas pipelines and networks is in a period of rapid development, market demand for steel pipes will be strong.

In 2019, a new round of infrastructure construction has commenced. Against the backdrop of continuous pressures in macro-economy and increasing pressure in respect of product export, the State Council of the PRC issued Guiding Opinions on Maintaining Efforts to Remedy Shortcomings in Infrastructure Field, setting forth requirements on accelerating the implementation of key projects in nine major sectors including railway, highway and water carriage to remedy the respective shortcomings in these sectors and to promote domestic demands. In the year 2019, new railway, highway, airport and affordable housing construction projects will be launched with an expected investment amount over RMB3.4 trillion, which will boost the demand of steel pipe industry. In the first half of 2019, the demand for steel pipe has been increasing continuously.

We will develop relationships with more domestic and overseas oil enterprise customers in the future. For domestic market, in view of the state's promotion of natural gas utilization and acceleration of infrastructure projects, it is expected the demand for steel pipe may rebound robustly. According to the plan of the state, the lengths of crude oil pipeline, refined oil pipeline and natural gas pipeline will reach 32,000 kilometers, 33,000 kilometers and 104,000 kilometers respectively by 2020. And the total length of oil and gas pipeline network will reach 240,000 kilometers, the network coverage will be further expanded, the network structure will be further optimized and the storage and transmission capability will be significantly improved by 2025. During the period of the "13th Five-year", six new crude oil pipelines and eight new refined oil pipelines are planned to be constructed, which will be a golden era for the development of oil and gas pipeline.

In light of the benefits brought by the development of Guangdong-Hong Kong-Macau Greater Bay Area, the on-going recovery of global oil, and gas industries and the continuous development of clean energy resources, the Group will grasp opportunities arising from such developments to expand our customer base and market share through bidding for global oil and gas and infrastructure projects, and will continue to leverage on our advantages in the steel pipe industry to obtain more project orders, taking developing into a global leading steel pipe manufacturer as its long-term strategic goal.

Employees

As at 30 June 2019, we had 991 full time employees in total (as at 31 December 2018: 1,110). 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 were settled in RMB except for export sales which were mostly denominated in USD. Apart from the 11% of borrowings and bonds denominated in USD/HKD, most of our assets and liabilities were 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 2019 (six months ended 30 June 2018: nil) to the shareholders of the Company.

Financial Guarantee

As at 30 June 2019, the Group guaranteed RMB122.5 million (as at 31 December 2018: RMB128.2 million) to certain purchasers of the Group's properties for mortgage facilities.

As at 30 June 2019, the Group guaranteed RMB540.2 million (as at 31 December 2018: RMB538.9 million) for banking facilities in Saudi Arabia of which RMB411.0 million (as at 31 December 2018: RMB333.5 million) was utilized by the joint venture.

Pledge of Assets

As at 30 June 2019, we pledged certain property, plant and equipment, leasehold land, time deposits, certain properties under development and completed properties held for sale with an aggregate net book value of RMB324.9 million (as at 31 December 2018: RMB833.4 million), RMB626.7 million (as at 31 December 2018: RMB618.6 million), RMB433.0 million (as at 31 December 2018: RMB426.6 million), RMB1,094.4 million (as at 31 December 2018: RMB1,105.9 million) and RMB354.7 million (as at 31 December 2018: RMB373.9 million) respectively, to secure bank loans granted to the Group.

Liquidity and Financial Resources

As at 30 June 2019, our cash and bank balances and current ratio, as a ratio of current assets to current liabilities, were approximately RMB83.9 million (as at 31 December 2018: RMB66.9 million) and 1.05 (as at 31 December 2018: 0.99) 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 Profits Limited 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 unlisted warrants in the amount of HKD313,320,000 were issued pursuant to a specific mandate granted to the Board at the extraordinary meeting held on 9 October 2018.

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. The Company has to pay interest on the Bonds at the rate of 7.6% per annum during the standstill period.

As at 30 June 2019, our aggregate borrowings were approximately RMB5,950.2 million (as at 31 December 2018: approximately RMB6,255.1 million), of which approximately RMB5,777.9 million (as at 31 December 2018: RMB6,097.7 million) were bank loans, other borrowings and government loans, approximately RMB163.3 million (as at 31 December 2018: RMB157.4 million) were USD and HKD bonds and approximately RMB9.0 million (as at 31 December 2018: nil) were lease liabilities.

Included in the aggregate borrowings as at 30 June 2019, there were onshore guarantees for offshore loan (內保外貸) of around RMB492 million, property development loan of around RMB1,376 million and shareholder's loan from Guangdong Yuecai of around RMB1.68 billion. Excluding the above loans, the loans for steel pipe business as at 30 June 2019 were around RMB2,402 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 and bonds over total assets was approximately 56.9% as at 30 June 2019 (as at 31 December 2018: 62.5%).

The maturity profile of our total borrowings as at 30 June 2019 was approximately 30% (as at 31 December 2018: 32%) of the total borrowings repayable within one year, and approximately 70% (as at 31 December 2018: 68%) of the total borrowings repayable over one year.

We had net current assets of approximately RMB275.4 million as at 30 June 2019. The Group has received around RMB716 million from pre-sale of Phase II of GDC as at 30 June 2019. The Group has sufficient cashflow to meet its short term obligations.

As at 30 June 2019, approximately 43% (as at 31 December 2018: 46%) 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 46% (as at 31 December 2018: 41%) of our total borrowings were denominated in RMB which carried fixed interest rate and approximately 11% (as at 31 December 2018: 13%) of our total borrowings were denominated in USD and HKD which carried fixed interest rate.

Management Discussion and Analysis

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

On 27 February 2019, the Group entered into an agreement pursuant to which an aggregate of 80% 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.

Event after the Reporting Period

As at the date of this report, there is no significant event subsequent to 30 June 2019 which would materially affect the Group's operating and financial performance.

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 2019, 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 2019, 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 2019, 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%
Hammer Capital Private Investments Limited ("Hammer Capital")	Beneficial owner (Note 3)	Long	422,600,000	41.79%
Cheung Siu Fai	Interest of controlled corporation (Note 3)	Long	422,600,000	41.79%
Tsang Ling Kay Rodney	Interest of controlled corporation (Note 3)	Long	422,600,000	41.79%

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.

3. On 18 October 2018, the Company issued unlisted warrants in the aggregate amount of HK$313,320,000 to Hammer Capital, which confer the holder the right to subscribe for up to 373,000,000 Shares.

   On 22 June 2018, the Company entered into the loan amendment deed with Hammer Capital for a further advance of HK$250 million to the Company. In return for the further advance, the Company agreed to issue the unlisted warrants to Hammer Capital. Each unlisted warrant will give the holder the right to subscribe for an ordinary share of HK$0.1 each in the share capital of the Company. The warrants confer upon the holder the right to subscribe for up to HK$313,320,000 for new shares at the initial subscription price of HK$0.84. Accordingly, a maximum number of 373,000,000 warrant shares (the aggregate nominal value of such shares being HK$37,300,000) can be issued upon exercise in full of the subscription rights. The issue price of the unlisted warrants was HK$0.168 per warrant. The proceeds from the issue price of unlisted warrants was used to settle expenses incurred in connection with the loan amendment deed. As at the date of this report, no warrant has been exercised. In addition, Hammer Capital also held security interest in 49,600,000 Shares. Each of Mr. Cheung Siu Fai and Mr. Tsang Ling Kay Rodney had 50% control of Hammer Capital and deemed to be interested in the Shares which Hammer Capital was interested in by virtue of the SFO. Please refer to the Company's announcements dated 22 June 2018 and 25 June 2018 and the Company's circular dated 17 September 2018 for further details regarding the issue of unlisted warrants.

Other Information

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 2019, 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 2019.

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, an executive Director, the chairman and founder of the Group, who is 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 management and Board structure from time to time to ensure appropriate measures would be taken should suitable circumstances arise.

Compliance with Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules. Following specific enquiries having been made of all Directors, all the Directors confirmed that they have complied with the Model Code throughout the six months ended 30 June 2019.

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 2019.

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 2019.

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 2019

		Six months ended 30 June	
	Notes	**2019** **(Unaudited)** **RMB'000**	2018 (Unaudited) RMB'000
REVENUE	5	**491,880**	475,730
Cost of sales		**(388,530)**	(432,536)
Gross profit		**103,350**	43,194
Other income and gains	5	**58,341**	44,852
Selling and distribution expenses		**(35,391)**	(32,838)
Administrative expenses		**(162,650)**	(231,072)
Other expenses, net		**(10,571)**	(44,254)
Exchange gain/(loss), net		**19,331**	(2,041)
Finance costs	6	**(233,424)**	(187,045)
Fair value gain on investment properties		**74,008**	–
Fair value loss on a derivative financial instrument		**(2,573)**	–
Share of loss of a joint venture		**(12,756)**	(13,166)
LOSS BEFORE TAX	7	**(202,335)**	(422,370)
Income tax (expenses)/credit	8	**(11,460)**	109,859
LOSS FOR THE PERIOD		**(213,795)**	(312,511)
Attributable to:			
Owners of the parent		**(212,800)**	(313,152)
Non-controlling interests		**(995)**	641
		(213,795)	(312,511)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	9	**RMB(0.21)**	RMB(0.31)

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
LOSS FOR THE PERIOD	**(213,795)**	(312,511)
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(2,669)**	(31,901)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(2,669)**	(31,901)
OTHER COMPREHENSIVE LOSS	**(2,669)**	(31,901)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(216,464)**	(344,412)
Total comprehensive loss attributable to:		
Owners of the parent	**(215,469)**	(345,053)
Non-controlling interests	**(995)**	641
	(216,464)	(344,412)

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2019

	Notes	**As at 30 June 2019 (Unaudited) RMB'000**	As at 31 December 2018 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	**2,755,617**	2,805,810
Investment properties	11	**403,000**	1,160,000
Right-of-use assets		**1,107,874**	–
Long term prepayments and deposits		**115,931**	111,320
Prepaid land lease payments		**–**	1,087,394
Investment in a joint venture		**19,075**	31,832
Deferred tax assets		**161,600**	161,600
Pledged deposits		**–**	80,000
Total non-current assets		**4,563,097**	5,437,956
CURRENT ASSETS			
Inventories	12	**334,302**	223,057
Properties under development		**1,799,192**	1,691,699
Completed properties held for sale		**420,831**	749,869
Trade and bills receivables	13	**497,646**	540,225
Prepayments, deposits and other receivables		**933,197**	674,844
Due from a related party		**84,563**	84,676
Financial assets at fair value through profit or loss		**200**	–
Pledged and restricted bank balances		**583,775**	539,060
Cash and bank balances		**83,903**	66,907
		4,737,609	4,570,337
Non-current assets classified as held for sale	14	**1,160,000**	–
Total current assets		**5,897,609**	4,570,337

Interim Condensed Consolidated Statement of Financial Position (continued)

As at 30 June 2019

	Notes	As at 30 June 2019 (Unaudited) RMB'000	As at 31 December 2018 (Audited) RMB'000
CURRENT LIABILITIES			
Trade and bills payables	15	**758,434**	688,464
Interest-bearing bank and other borrowings	16	**1,663,757**	2,012,848
Contract liabilities		**1,013,997**	896,765
Other payables and accruals		**1,529,868**	762,458
Fixed rate bonds and notes	17	**148,397**	–
Derivative financial instrument		**25,557**	22,984
Due to a director		**123,498**	118,944
Tax payable		**109,829**	107,583
		5,373,337	4,610,046
Liabilities directly associated with the assets classified as held for sale	14	**248,843**	–
Total current liabilities		**5,622,180**	4,610,046
NET CURRENT ASSETS/(LIABILITIES)		**275,429**	(39,709)
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,838,526**	5,398,247
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	16	**4,123,114**	4,084,871
Fixed rate bonds and notes	17	**14,898**	157,406
Government grants		**349,867**	350,899
Deferred tax liabilities		**336,838**	574,798
Total non-current liabilities		**4,824,717**	5,167,974
Net assets		**13,809**	230,273
EQUITY			
Equity attributable to owners of the parent			
Issued capital	18	**88,856**	88,856
Reserves		**(85,472)**	129,997
		3,384	218,853
Non-controlling interests		**10,425**	11,420
Total equity		**13,809**	230,273

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2019

	Attributable to owners of the parent										
	Issued capital RMB'000 (note 18)	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))	Accumulated losses RMB'000	Exchange fluctuation reserve* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total Equity RMB'000
At 1 January 2019	88,856	767,097	1,073,940	224,589	57,607	165,276	(1,982,814)	(175,698)	218,853	11,420	230,273
Loss for the period	–	–	–	–	–	–	(212,800)	–	(212,800)	(995)	(213,795)
Other comprehensive loss for the period											
Exchange differences on translation of foreign operations	–	–	–	–	–	–	–	(2,669)	(2,669)	–	(2,669)
Total comprehensive loss for the period	–	–	–	–	–	–	(212,800)	(2,669)	(215,469)	(995)	(216,464)
At 30 June 2019 (unaudited)	88,856	767,097	1,073,940	224,589	57,607	165,276	(2,195,614)	(178,367)	3,384	10,425	13,809

* These reserve accounts comprise the consolidated reserves of RMB(85,472,000) (30 June 2018: RMB400,614,000) in the interim condensed consolidated statement of financial position as at 30 June 2019.

For the six months ended 30 June 2018

	Attributable to owners of the parent										
	Issued capital RMB'000 (note 18)	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))	Accumulated losses 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

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 2019

	Note	Six months ended 30 June 2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net cash flows from operating activities		**547,874**	183,026
CASH FLOWS FROM INVESTING ACTIVITIES			
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		**(200)**	(500,000)
Purchases of items of property, plant and equipment		**(38)**	(16,007)
Receipt of government grants		**–**	12,524
Proceeds from disposal of items of property, plant and equipment		**39**	–
Disposal of a subsidiary	19	**9,130**	–
Decrease/(increase) in amounts due from related parties		**113**	(138)
Net cash flows from/(used in) investing activities		**9,044**	(295,326)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans and other borrowings		**636,193**	2,547,325
Repayment of bank loans and other borrowings		**(960,126)**	(1,974,981)
Repayment of bonds		**–**	(103,806)
Interest paid		**(227,852)**	(144,785)
Interest element of finance lease rental payments		**–**	(2,815)
Capital element of finance lease rental payments		**–**	(109,412)
Increase/(decrease) in amounts due to a director		**4,554**	(71,045)
Net cash flows (used in)/from financing activities		**(547,231)**	140,481
NET INCREASE IN CASH AND CASH EQUIVALENTS		**9,687**	28,181
Effect of foreign exchange rate changes, net		**7,309**	(7,739)
Cash and cash equivalents at 1 January		**66,907**	36,392
CASH AND CASH EQUIVALENTS AT 30 JUNE		**83,903**	56,834

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 welded steel pipes and the provision of related manufacturing services and property development and investment. There were no significant changes in the nature of the Group's principal activities during the period.

In the opinion of the directors 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 2019 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 2018.

Going concern basis

The Group recorded a consolidated loss of RMB213,795,000 for the six months ended 30 June 2019 (30 June 2018: loss of RMB312,511,000). As at 30 June 2019, the Group recorded net current assets of RMB275,429,000 (31 December 2018: net current liabilities of RMB39,709,000), included therein were the bank and other borrowings of RMB1,663,757,000 (31 December 2018: RMB2,012,848,000) which were due for repayment or renewal within the next twelve months after 30 June 2019.

2. Basis of Preparation (Continued)

Going concern basis (Continued)

In view of these circumstances, the directors of the Company have considered the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

On 20 June 2019, the Group has entered into a land resumption compensation agreement ("Land Resumption Compensation Agreement") with Guangzhou City Panyu District Land Development Centre（廣州市番禺區土地開發中心）("GPDLDC"), pursuant to which GPDLDC will resume, and the Group will sell the land of Phase III of Golden Dragon City Fortune Plaza（金龍城財富廣場）("GDC") at the initial compensation of RMB1.16 billion.

The directors of the Company have prepared a cash flow forecast for the Group which covers a period of twelve months from the end of the reporting period. Taking into account the possible disposal of Panyu Chu Kong Steel Pipe Co. Ltd ("PCKSP") as detailed in the Company's announcement dated 27 February 2019 and the land of Phase III of GDC which could provide additional funds for the Group, coupled with the rebound of the market demand of the Group's steel pipes and related products and the continued sale of the Group's existing real estate projects, the directors considered that the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due. Accordingly, the interim condensed consolidated financial statements of the Group have been prepared on a going concern basis.

However, the sale of Panyu Chu Kong Steel Pipe Co. Ltd ("PCKSP") and the land of phase III GDC is subject to the fulfilment of certain conditions, among which some of these conditions cannot be controlled by the Group, such as the successful change of land use on the land owned by PCKSP. The validity of the going concern assumption on which the interim condensed consolidated financial statements are prepared is dependent on the successful sale of PCKSP and favourable outcomes of the events as described above.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at amounts other than those they are currently recorded in the interim condensed consolidated statement of financial position. In addition, the Group may have to provide for any further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the interim condensed consolidated financial statements.

3. Changes in Accounting Policies and Disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. 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 16	*Leases*
IFRIC – Int 23	*Uncertainty over Income Tax Treatments*
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Other than as explained below regarding the impact of IFRS 16 Leases, the new and revised standards do not have significant impact on the unaudited interim condensed consolidated financial statements of the Group. The nature and impact of the IFRS 16 are described as below:

IFRS 16

IFRS 16 replaces IAS 17 Leases, IFRIC-Int 4 Determining whether an Arrangement contains a Lease, SIC-Int 15 Operating Leases – Incentives and SIC-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

3. Changes in Accounting Policies and Disclosures (Continued)

IFRS 16 (Continued)

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under IAS 17.

New definition of a lease

Under IFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC-Int 4 at the date of initial application. Contracts that were not identified as leases under IAS 17 and IFRIC-Int 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

3. Changes in Accounting Policies and Disclosures (Continued)

IFRS 16 (Continued)

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

The Group has lease contracts for various items of land and buildings. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under IFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low value assets (elected on a lease by lease basis) and short-term leases (elected by class of underlying asset). The Group has elected not to recognise right-of-use assets and lease liabilities for (i) leases of low-value assets and (ii) leases, that at the commencement date, have a lease term of 12 months or less. Instead, the Group recognises the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

Impacts on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019. All these assets were assessed for any impairment based on IAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

3. Changes in Accounting Policies and Disclosures (Continued)

IFRS 16 (Continued)

As a lessee – Leases previously classified as operating leases *(Continued)*

Impacts on transition (Continued)

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

The impacts arising from the adoption of IFRS 16 as at 1 January 2019 are as follows:

	Increase/ (decrease) RMB'000 (Unaudited)
Assets	
Increase in right-of-use assets	1,093,029
Decrease in prepaid land lease payments	(1,087,394)
Increase in total assets	5,635
Liabilities	
Increase in interest-bearing bank and other borrowings	5,635
Increase in total liabilities	5,635
Decrease in retained earnings	–

3. Changes in Accounting Policies and Disclosures (Continued)

IFRS 16 (Continued)

As a lessee – Leases previously classified as operating leases *(Continued)*

Impacts on transition (Continued)

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 is as follows:

	RMB'000 (Unaudited)
Operating lease commitments as at 31 December 2018	9,342
Weighted average incremental borrowing rate as at 1 January 2019	9.51%
Discounted operating lease commitments at 1 January 2019	5,944
Less:	
Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(309)
Lease liabilities as at 1 January 2019	5,635

3. Changes in Accounting Policies and Disclosures (Continued)

IFRS 16 (Continued)

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

3. Changes in Accounting Policies and Disclosures (Continued)

IFRS 16 (Continued)

Summary of new accounting policies *(Continued)*

Lease liabilities (Continued)

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

3. Changes in Accounting Policies and Disclosures (Continued)

IFRS 16 (Continued)

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the Period:

	Right-of-use assets		
	Buildings RMB'000 (unaudited)	**Land-use-rights** RMB'000 (unaudited)	**Lease liabilities** RMB'000 (unaudited)
As at 1 January 2019	5,635	1,112,993	5,635
Additions	6,042	–	6,042
Early termination	(1,774)	–	(1,774)
Disposal	–	(1,128)	–
Depreciation	(998)	(12,896)	–
Interest expense	–	–	373
Payments	–	–	(1,293)
As at 30 June 2019	8,905	1,098,969	8,983

The Group recognised rental expense from short-term leases of RMB309,000 for the six months ended 30 June 2019.

IFRIC-Int 23

IFRIC-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of IAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any significant impact on the Group's interim condensed consolidated financial information.

4A. Disaggregation of Revenue

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

Six months ended 30 June 2019 (unaudited)	Steel pipes RMB'000	Property development and investment RMB'000	Total RMB'000
Segments			
Type of goods or service:			
Manufacture and sale of steel pipes	**390,734**	–	**390,734**
Steel pipe manufacturing services	**71,658**	–	**71,658**
Sales of other steel products	**26,158**	–	**26,158**
Total revenue from contracts with customers	**488,550**	–	**488,550**
Revenue from other sources – rental income	–	3,330	3,330
Total revenue	**488,550**	**3,330**	**491,880**
Geographical markets			
Mainland China	**384,462**	**3,330**	**387,792**
Other Asian countries	**53,082**	–	**53,082**
Middle East	**42,727**	–	**42,727**
European Union	**8,279**	–	**8,279**
Total revenue	**488,550**	**3,330**	**491,880**
Timing of revenue recognition			
At a point in time	**488,550**	**3,330**	**491,880**

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 2019 (unaudited)	Steel pipes RMB'000	Property development and investment RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	488,550	3,330	491,880
Segment results :	(215,875)	45,564	(170,311)
Reconciliation:			
Corporate and other unallocated expenses			(32,024)
Loss before tax			(202,335)
Segment assets :	4,322,488	6,432,062	10,754,550
Reconciliation:			
Elimination of intersegment receivables			(2,160,942)
Corporate and other unallocated assets			1,867,098
Total assets			10,460,706
Segment liabilities :	7,670,316	4,241,430	11,911,746
Reconciliation:			
Elimination of intersegment payables			(2,160,942)
Corporate and other unallocated liabilities			696,093
Total liabilities			10,446,897
Other segment information:			
Share of loss of a joint venture	(12,756)	–	(12,756)
Impairment losses recognised in the statement of profit or loss	(3,956)	–	(3,956)
Depreciation	(54,143)	(18)	(54,161)
Capital expenditure*	(22,928)	(41)	(22,969)

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)

* Capital expenditure consists of additions to property, plant and equipment.

4B. Operating Segment Information (Continued)

Information about products

The revenue of the major products is analysed as follows:

	Six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Manufacture and sale of steel pipes:		
LSAW steel pipes	**360,321**	247,939
ERW steel pipes	**87**	30,297
SSAW steel pipes	**30,326**	97,285
Steel pipe manufacturing services:		
LSAW steel pipes	**57,392**	44,628
ERW steel pipes	**62**	798
SSAW steel pipes	**14,204**	31,159
Others*	**29,488**	23,624
	491,880	475,730

* Others mainly included the sales of other steel products and rental income.

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 2019, revenue from one customer of the Group amounting to RMB95,764,000, which had accounted for 19% of the Group's total revenue.

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	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Revenue from contracts with customers		
Manufacture and sale of welded steel pipes and the provision of related manufacturing services	**488,550**	475,730
Revenue from other sources		
Gross rental income	**3,330**	–
	491,880	475,730
Other income and gains		
Fair value gains on financial assets at fair value through profit or loss	**–**	5,603
Bank interest income	**13,228**	19,531
Subsidy income from the PRC government*	**22,618**	17,697
Gain on resumption of land use rights to the local authority**	**15,795**	–
Others	**6,700**	2,021
	58,341	44,852

* 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.

** During the six months ended 30 June 2019, a land of PCKSP with a carrying amount of RMB1,128,000 located at Qinghe East Road, Shiji Town in Panyu District of Guangzhou, the PRC, was resumed by the local authority, with a consideration of RMB16,923,000 received.

6. Finance Costs

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Interest on bank loans and government loans	**132,521**	110,959
Interest on other loans (including bonds and short term notes)	**143,182**	135,374
Interest on finance lease	**–**	2,815
Interest on discounted bills	**1,542**	7,219
Interest on lease liabilities	**373**	–
Total interest expenses	**277,618**	256,367
Less: Interest capitalised	**(44,194)**	(69,322)
	233,424	187,045

7. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Cost of inventories sold	**385,207**	356,275
Depreciation of property, plant and equipment	**40,267**	75,488
Depreciation of right-of-use assets**	**13,894**	–
Amortisation of prepaid land lease payments**	**–**	12,752
Impairment/(reversal of impairment) of trade receivables*	**2,451**	(958)
Impairment/(reversal of impairment) of deposits and other receivables*	**1,505**	(504)
Write-down of inventories to net realisable value*	**–**	1,337
Loss on disposal of a subsidiary*(note 19)	**20,107**	26,855
(Gain)/loss on disposal of property, plant and equipment, net*	**(5,206)**	19,533

* These items are included in "Other expenses, net" on the face of interim condensed consolidated statement of profit or loss.

** Upon the adoption of IFRS 16, the balance of prepaid land lease payments is reclassified from "prepaid land lease payments" to "right-of-use assets".

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	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current – Mainland China		
charge for the period	**577**	–
Deferred	**10,883**	(109,859)
Total tax expenses/(credit) for the period	**11,460**	(109,859)

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 RMB212,800,000 (six months ended 30 June 2018: RMB313,152,000), and the weighted average number of ordinary shares of 1,011,142,000 (at 30 June 2018: 1,011,142,000) in issue during the period.

The calculation of the diluted loss per share is based on the loss for the period attributable to ordinary equity holders of the parent. Because the exercise price of the warrant instrument was greater than the share price as at 30 June 2019 and the diluted loss per share amount is increased when taking the warrant instrument into account, the warrant instrument had an anti-dilutive effect on the basic loss per share for the period and was ignored in the calculation of diluted loss per share.

10. Property, Plant and Equipment

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
At beginning of the period/year	**2,805,810**	3,082,754
Additions	**22,969**	22,471
Disposals	**(1,658)**	(80,759)
Disposals of subsidiaries	**(31,296)**	(72,087)
Deregister of subsidiaries	**–**	(7,840)
Depreciation	**(40,267)**	(140,406)
Exchange realignment	**59**	1,677
At end of the period/year	**2,755,617**	2,805,810

The Group's property, plant and equipment with a net carrying amount of approximately RMB324,931,000 (31 December 2018: RMB833,371,000) were pledged to secure the Group's bank borrowings, as further detailed in note 16 to the interim condensed consolidated financial statements.

11. INVESTMENT PROPERTIES

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Commercial properties in Mainland China, PRC		
Carrying amount at 1 January	**1,160,000**	1,138,221
Net gain from a fair value adjustment	**74,008**	21,779
Transfer from completed properties held for sale	**328,992**	–
Transfer to non-current assets classified as held for sale (note 14)	**(1,160,000)**	–
Carrying amount at end of the period/year	**403,000**	1,160,000

12. Inventories

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Raw materials	**103,396**	99,946
Work in progress	**44,709**	59,497
Finished goods	**198,887**	76,304
	346,992	235,747
Less: Provision against slow-moving and obsolete	**(12,690)**	(12,690)
	334,302	223,057

13. Trade and Bills Receivables

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Trade receivables	**511,174**	459,112
Impairment	**(19,334)**	(16,883)
Trade receivables, net	**491,840**	442,229
Bills receivable	**5,806**	97,996
	497,646	540,225

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 to 60 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

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 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Within 60 days	**98,866**	234,319
61 to 90 days	**106,589**	3,882
91 to 180 days	**44,566**	10,005
181 to 365 days	**113,550**	41,986
1 to 2 years	**58,564**	60,762
2 to 3 years	**23,539**	91,275
Over 3 years	**46,166**	–
	491,840	442,229

14. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

As mentioned in note 2 to the interim condensed consolidated financial statements, on 20 June 2019, the Group has entered into the Land Resumption Compensation Agreement with GPDLDC, pursuant to which GPDLDC will resume, and the Group will sell the land of Phase III of GDC at the initial compensation of RMB1.16 billion (the "Transaction"). The completion of the Transaction is subject to, among others, the approval of the shareholders of the Company. As at 30 June 2019, the land of Phase III of GDC was reclassified from investment properties to non-current assets classified as held for sale and measured at fair value. The deferred tax liabilities directly related to the land of Phase III of GDC were reclassified to liabilities directly associated with the assets classified as held for sale. Further details of the Transaction are set out in the Company's announcement dated 20 June 2019.

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Non-current asset classified as held for sale – Investment properties	**1,160,000**	–
Liabilities directly associated with the assets classified as held for sale – deferred tax liabilities	**248,843**	–

No fair value gain or loss was recognized in respect of the non-current asset classified as held for sale for the six months ended 30 June 2019.

15. 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 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Within 90 days	**212,352**	48,033
91 to 180 days	**130,298**	253,033
181 to 365 days	**238,234**	157,306
1 to 2 years	**86,180**	129,086
2 to 3 years	**43,356**	31,056
Over 3 years	**31,723**	41,796
	742,143	660,310
Bills payable	**16,291**	28,154
	758,434	688,464

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.

16. Interest-Bearing Bank and Other Borrowings

	Effective interest rate %	Maturity	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Current				
Lease liabilities	9.15%-9.51%	2019-2020	**2,381**	–
Bank loans				
– secured	4.35%-6.31%	2019-2020	**434,600**	450,100
– unsecured	6.09%-6.13%	2020	**65,000**	103,861
Other borrowing				
– unsecured	5.6%-16.71%	2019-2020	**547,387**	857,335
Government loans				
– secured	4.90%	2020	**79,200**	70,400
Current portion of long term loans				
– secured	5.39%-7.35%	2019-2020	**535,189**	531,152
			1,663,757	2,012,848
Non-current				
Lease liabilities	9.15%-9.51%	2020-2036	**6,602**	–
Bank loans				
– secured	5.39%-10.00%	2020-2028	**1,481,000**	1,577,100
Other borrowing				
– secured	10.00%-16.00%	2021	**2,371,512**	2,199,771
Government loans				
– secured	4.90%	2020-2023	**264,000**	308,000
			4,123,114	4,084,871
			5,786,871	6,097,719

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

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**1,034,789**	1,085,113
In the second year	**43,400**	42,900
In the third to fifth years, inclusive	**482,900**	414,100
Beyond five years	**954,700**	1,120,100
	2,515,789	2,662,213
Government loans repayable:		
Within one year	**79,200**	70,400
In the second year	**88,000**	88,000
In the third to fifth years, inclusive	**176,000**	220,000
	343,200	378,400
Other borrowings and finance lease payables:		
Within one year	**547,387**	857,335
In the second year	**2,235,512**	–
In the third to fifth years, inclusive	**136,000**	2,199,771
	2,918,899	3,057,106
Lease liabilities repayable:		
Within one year	**2,381**	–
In the second year	**1,515**	–
In the third to fifth years, inclusive	**2,470**	–
Beyond five years	**2,617**	–
	8,983	–
	5,786,871	6,097,719

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

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 RMB324,931,000 (31 December 2018: RMB833,371,000) 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 RMB626,669,000 (31 December 2018: RMB618,639,000) as at the end of the reporting period;

(c) certain of the Group's time deposits with an aggregate carrying amount of RMB432,977,000 (31 December 2018: RMB426,600,000) as at the end of the reporting period;

(d) mortgages over certain of the Group's properties under development with an aggregate carrying amount of RMB1,094,366,000 (31 December 2018: RMB1,105,871,000) as at the end of the reporting period;

(e) mortgages over certain of the Group's completed properties held for sale with an aggregate carrying amount of RMB354,668,000 (31 December 2018: RMB373,919,000) as at the end of the reporting period; and

(f) a charge over 525,742,000 ordinary shares of the Company, representing 52.0% of the total number of issued shares.

Except for the bank loans and other borrowings of RMB273,029,000 (31 December 2018: RMB407,632,000), and RMB179,265,000 (31 December 2018: RMB296,490,000) as at 30 June 2019, 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 2019 RMB'000	31 December 2018 RMB'000
Floating rate		
– expiring within one year	**92,991**	86,415

17. Fixed Rate Bonds and Notes

	30 June 2019 (Unaudited)				31 December 2018 (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								
2017 Notes	HK$155	8.0	2020	129,166	–	–	–	–
2017 Bonds_ A	US$3	7.0	2020	19,231	–	–	–	–
				148,397				–
Non-Current								
2017 Notes	HK$155	8.0	2020	–	HK$155	8.0	2020	124,790
2017 Bonds_ A	US$3	7.0	2020	–	US$3	7.0	2020	18,442
2017 Bonds_ B	HK$10	7.0	2021	7,161	HK$10	7.0	2021	6,834
2017 Bonds_ C	HK$10	6.0	2020	7,737	HK$10	6.0	2020	7,340
				14,898				157,406
				163,295				157,406

US$72,000,000 5.6% bonds should be due 2018 but rescheduled to 2019 (2013 Bonds)

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"). The bonds may be redeemed at the option of the Group in whole, but not in part, at any time, by giving not less than 30 nor more than 60 days' notice to the holders of the bonds, at their principal amount, together with the interest accrued to the date fixed for redemption. The bonds bear interest at a fixed coupon interest rate of 5.6% per annum for five years payable semi-annually, commencing on 30 October 2013. The bonds are unsecured. During the six months ended 30 June 2019, the remaining balance of the 2013 Bonds were rescheduled to be repayable on 30 September 2019 and the remaining balance was reclassified to other borrowings.

17. Fixed Rate Bonds and Notes (Continued)

HK$155,000,000 8% notes due 2020 (2017 Notes)

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 (2017 Bonds_A)

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.

HK$10,000,000 7% bonds due 2021 (2017 Bonds_B)

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 (2017 Bonds_C)

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.

18. Issued Capital

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Authorised:		
10,000,000,000 (31 December 2018: 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 2018: 1,011,142,000) ordinary shares of HK$0.10 each	**88,856**	88,856

19. Disposal of a subsidiary

On 28 March 2019, the Group disposed of its entire equity interest in PCK Steel Middle East FZE at a cash consideration of approximately RMB9,130,000 to an independent third party.

	28 March 2019 (Unaudited) RMB'000
Net assets disposed of:	
Property, plant and equipment	31,296
Long term prepayments and deposits	1,183
Prepayments and other receivables	23
Accruals and other payables	(3,265)
	29,237
Loss on disposal of a subsidiary	(20,107)
Satisfied by:	
Cash	9,130

19. Disposal of a subsidiary (Continued)

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	Six months ended 30 June 2019 (Unaudited) RMB'000
Cash consideration	9,130
Cash and bank balances disposed of	–
Net inflow of cash and cash equivalents in respect of the disposal of a subsidiary	9,130

For the six months ended 30 June 2018, the Group recognised a net loss of RMB26,855,000 from disposal of a subsidiary, details of which was disclosed in the Group's financial statements for the year ended 31 December 2018.

20. Commitments

The Group had the following capital commitments:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Contracted, but not provided for:		
Land and buildings	**282,532**	283,340
Plant and machinery	**70,829**	74,895
Construction and development cost	**218,724**	222,897
	572,085	581,132
Contracted, but not provided for:		
Capital contributions payable for establishment of a joint venture	**119,287**	119,331
Authorised, but not contracted for:		
Plant and machinery	**2,500,000**	2,500,000
	3,191,372	3,200,463

21. 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) Outstanding balances with a related party and a director:

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Due from a related party		
GZMT	**84,563**	84,676
Due to a director		
Mr. Chen Chang	**123,498**	118,944

The outstanding balances with related parties are unsecured, interest-free and have no fixed terms of repayment.

(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 of the Company, in favour of a bank and an investment company as securities for two loan agreements entered into by the Group and the bank and the investment company, respectively.

21. Related Party Transactions (Continued)

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

	Six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**2,818**	3,931
Retirement benefit scheme contributions	**64**	92
Total compensation paid to key management personnel	**2,882**	4,023

22. Fair Value and Fair Value Hierarchy of Financial Instruments

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amount due from a related party and amount due to director approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the financial assets and liabilities included in long term prepayments and deposits, the non-current portion of pledged deposits, interest-bearing bank and other borrowings and fixed rate bonds and notes have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings, and fixed rate bonds and notes as at 30 June 2019 was assessed to be insignificant. The carrying amounts of these financial instruments carried at amortised cost are not materially different from their fair values as at 30 June 2019 and 31 December 2018.

22. Fair Value and Fair Value Hierarchy of Financial Instruments
(Continued)

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

Financial assets measured at fair value:

As at 30 June 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000 (Unaudited)	Significant observable inputs (Level 2) RMB'000 (Unaudited)	Significant unobservable input (Level 3) RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Financial assets at fair value through profit or loss	–	200	–	200

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000 (Audited)	Significant observable inputs (Level 2) RMB'000 (Audited)	Significant unobservable input (Level 3) RMB'000 (Audited)	Total RMB'000 (Audited)
Financial assets at fair value through profit or loss	–	–	–	–

22. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

Fair value hierarchy (Continued)

Financial liabilities measured at fair value:

As at 30 June 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000 (Unaudited)	Significant observable inputs (Level 2) RMB'000 (Unaudited)	Significant unobservable input (Level 3) RMB'000 (Unaudited)	Total RMB'000 (Unaudited)
Derivative financial instrument	**–**	**25,557**	**–**	**25,557**

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000 (Audited)	Significant observable inputs (Level 2) RMB'000 (Audited)	Significant unobservable input (Level 3) RMB'000 (Audited)	Total RMB'000 (Audited)
Derivative financial instrument	–	22,984	–	22,984

For the six months ended 30 June 2019 and for the year ended 31 December 2018, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

23. Approval of Interim Condensed Consolidated Financial Statements

These interim condensed consolidated financial statements were approved and authorised for issue by the Board on 29 August 2019.