



**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



2020

INTERIM REPORT

Contents

Corporate Information	2
Management Discussion and Analysis	4
Other Information	17
Interim Condensed Consolidated Statement of Profit or Loss	22
Interim Condensed Consolidated Statement of Comprehensive Income	23
Interim Condensed Consolidated Statement of Financial Position	24
Interim Condensed Consolidated Statement of Changes in Equity	26
Interim Condensed Consolidated Statement of Cash Flows	28
Notes to the Interim Condensed Consolidated Financial Statements	29

Corporate Information

Directors

Executive Directors

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

Independent Non Executive Directors

Mr. AU YEUNG Kwong Wah
Mr. CHEN Ping
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. AU YEUNG Kwong 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

2-5/F., 3-5 Golden Dragon City
Yayun Avenue
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

For the six months ended 30 June 2020 (the “Period”), we recorded a revenue of approximately RMB367.7 million (1H2019: RMB491.9 million), representing a decrease of approximately 25.2% as compared with the corresponding period in 2019. Loss attributable to ordinary equity holders of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the “Company”, together with its subsidiaries, the “Group”) was RMB223.9 million (1H2019: loss of RMB212.8 million). Loss per share was RMB0.22 (1H2019: loss per share of RMB0.21). The board of directors of the Company (the “Board”) did not recommend the payment of interim dividend for the Period (1H2019: Nil).

Revenue

During the Period, we recorded a revenue of approximately RMB367.7 million (1H2019: RMB491.9 million), representing a decrease of approximately 25.2% as compared with the corresponding period in 2019. The revenue decrease was due to the outbreak of the Corona Virus Disease 2019 (“COVID-19”) that affected production and delivery of steel pipes.

During the Period, the revenue from domestic sales and overseas sales represented approximately 95.4% (1H2019: 78.8%) and approximately 4.6% (1H2019: 21.2%) respectively of our total revenue. Decrease in overseas sales was due to the outbreak of COVID-19 around the world that affected production and delivery of steel pipes.

Sales by geography

	Six months ended 30 June			
	2020		2019	
	RMB'000 (Unaudited)	% of revenue	RMB'000 (Unaudited)	% of revenue
Domestic sales	350,836	95.4%	387,792	78.8%
Overseas sales	16,907	4.6%	104,088	21.2%
Total	367,743	100.0%	491,880	100.0%

Management Discussion and Analysis

Sales by products

	Six months ended 30 June			
	2020		2019	
	RMB'000 (Unaudited)	% of revenue	RMB'000 (Unaudited)	% of revenue
Manufacture and sale of steel pipes				
<i>LSAW steel pipes</i>	228,612	62.2%	360,321	73.2%
<i>ERW steel pipes</i>	5,619	1.5%	87	–%
<i>SSAW steel pipes</i>	31,045	8.4%	30,326	6.2%
Sub-total	265,276	72.1%	390,734	79.4%
Steel pipes manufacturing services				
<i>LSAW steel pipes</i>	37,501	10.2%	57,392	11.7%
<i>ERW steel pipes</i>	10,682	2.9%	62	–%
<i>SSAW steel pipes</i>	38,790	10.6%	14,204	2.9%
Sub-total	86,973	23.7%	71,658	14.6%
Others	15,494	4.2%	29,488	6.0%
Total	367,743	100%	491,880	100.0%

Gross Profit and Gross Profit Margin

During the Period, our gross profit was approximately RMB85.6 million (1H2019: RMB103.4 million), representing a decrease of approximately 17.2% as compared with the corresponding period in 2019. The overall gross profit margin was approximately 23.3%, which was higher than that for the same period in 2019 which was approximately 21.0%. The decrease in gross profit was due to the decrease in sales during the Period. Increase in gross profit margin was due to increase in steel pipes manufacturing services, the gross profit margin of which was high.

Management Discussion and Analysis

Other income and gains for the Period were approximately RMB11.0 million (1H2019: RMB58.3 million), representing a decrease of approximately 81.1% as compared with the corresponding period in 2019. Such decrease was mainly due to a decrease in subsidy income and compensation income from the PRC government.

Selling and distribution expenses for the Period were approximately RMB24.5 million (1H2019: RMB35.4 million), representing a decrease of approximately 30.7% as compared with the corresponding period in 2019. The decrease in selling and distribution expenses was due to a decrease in sales during the Period.

Administrative expenses for the Period were approximately RMB120.6 million (1H2019: RMB162.7 million), representing a decrease of approximately 25.9% as compared with the corresponding period in 2019. The decrease in administrative expenses was mainly due to the closure of the 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 15 June 2020 and the announcements referred to therein) and closure of certain non-core operations.

Finance costs for the Period were approximately RMB173.4 million (1H2019: RMB233.4 million), representing a decrease of approximately 25.7% as compared with the corresponding period in 2019. The decrease in finance costs was mainly due to a decrease in average loan balance during the Period.

The Group recorded other expenses of approximately RMB54.9 million for the six months ended 30 June 2020 (1H2019: RMB10.6 million), representing an increase of approximately 419.2% as compared with the corresponding period in 2019. The increase was due to a provision of claim arising from litigation during the Period.

Income tax credit of approximately RMB138,000 was recorded for the six months ended 30 June 2020 (1H2019: tax expenses: RMB11.5 million).

As a result of the above, the net loss attributable to ordinary equity holders of the Company was approximately RMB223.9 million (1H2019: loss of RMB212.8 million). Loss per share was RMB0.22 (1H2019: loss per share of RMB0.21).

Management Discussion and Analysis

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 12 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, we received new orders of approximately 366,000 tonnes of steel pipes. We delivered approximately 112,000 tonnes of welded steel pipes during the Period.

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 m².

* *unofficial transliteration from Chinese name for identification purposes only*

Management Discussion and Analysis

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 RMB991 million. The third phase of GDC has been 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 ("Previous Agreement") with Guangdong Yuecai Trust Co Limited* (廣東粵財信託有限公司) ("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 Previous 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).

Management Discussion and Analysis

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 Previous 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.

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.

On 15 June 2020, the Group has entered into a first disposal supplemental agreement and a second disposal supplemental agreement (collectively the “Supplemental Agreements”) to provide a framework for the unwinding of the Previous Agreement and the Disposal Agreement to pave way for the negotiation and implementation of direct land resumption by the Guangzhou government. Under the first disposal supplemental agreement, the Group has to repay the shareholder’s loan of RMB1.68 billion and the accrued interests and a compensation of RMB108.1 million to Guangdong Yuecai. Upon repayment of the shareholder’s loan and payment of the compensation, Guangdong Yuecai will procure the discharge of the existing mortgage over the Land. CKSPG shall purchase Guangdong Yuecai’s 20% equity interest in PCKSP. Under the second disposal supplemental agreement, PCKSP has to repay the outstanding loan of approximately RMB400 million and accrued interest owed to Xingchen on or before 31 October 2020.

Management Discussion and Analysis

As at 30 June 2020, 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 PCK Steel (Middle East) FZE to an independent third party.

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) ("GPDLC"), pursuant to which GPDLC would resume, and the Group would sell the land of Phase III GDC at the final compensation of RMB1,524,628,500. The land resumption contemplated under the Land Resumption Compensation Agreement were approved by the Shareholders at an extraordinary general meeting held on 28 November 2019. As at 30 June 2020, the Group has received the full compensation. The land transfer procedures were completed in 2019.

Future Plan and Prospects

Looking forward, the PRC government officially established China Oil & Gas Pipeline Network Corporation* (國家石油天然氣管網集團有限公司) (the "Pipe China"), marking a milestone in the market-oriented reform of the operation mechanism on oil and gas pipeline network. The establishment of the Pipe China will help straighten out the gas industry chain and systematically plan and accelerate the construction of pipelines and other infrastructure, which in turn will drive demand for related equipment. It is expected that the development of natural gas network will generate market demand for related equipment worth over RMB300 billion.

The PRC government is expected to strengthen policy regulation after the end of the COVID-19 epidemic, in order to achieve the economic and social development goals for this year. As an important force to maintain the stable growth, more efforts will focus on infrastructure investment. Various ministries and commissions including National Development and Reform Commission, Ministry of Transport and National Energy Administration will take efforts to expand effective investment, speed up approvals and bidding, orderly promote project resumption and start-up and continue to optimize the rolling pipeline project.

* unofficial transliteration from Chinese name for identification purposes only

Management Discussion and Analysis

Under the 13th Five-Year Plan, China ushered in a stage of vigorous development in construction of natural gas pipeline networks. 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, northeast, 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. Next year will be the kick off year of the 14th Five-Year Plan. It is believed that 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 9.40%, 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 extensive.

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 RMB370.4 billion and RMB780.6 billion, respectively (in aggregate of RMB1,151 billion).

The PRC government also plans to promote the integrated development of natural gas and renewable energy with implementing natural gas integrated development demonstration projects in Sichuan, Jiangsu, Guangdong and other regions; promote gasification projects in key areas for air pollution prevention and treatment in Beijing-Tianjin-Hebei Region; accelerate oil and gas pipeline construction in key areas and regions with low gasification rates; advance the construction of auxiliary transmission pipelines of shale gas and other unconventional natural gas. The main natural gas pipelines currently planned and under construction in China include the Xinjiang-Guangdong-Zhejiang Pipeline, the Shaanxi-Beijing Pipeline (Line IV), the Sino-Russian Natural Gas Pipeline and the West-East Gas Pipeline (Line IV), which is expected to generate a total demand for steel pipes of approximately 8 million tons in the next 2-3 years. Since steel pipes account for a major part of pipes, it is estimated that the increase in steel pipe demand driven by the construction of the four pipelines will be approximately RMB30 to 40 billion.

Management Discussion and Analysis

In the future, we will proactively develop and expand our customer bases both domestically and internationally. For domestic market, in view of the state's promotion of natural gas utilization and acceleration of infrastructure projects, a rebound in demand for steel pipes is expected. According to the plan of the state, the lengths of crude oil pipelines, refined oil pipelines and natural gas pipelines 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 plan period, 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 pipelines.

The Group believes that the above-mentioned projects and policies are major opportunities for the steel pipe manufacturing industry, and the Company will grab the opportunities to improve sales performance. In view of our long-term strategic target to become a global leading steel pipe manufacturer, the Group will seize possible opportunities of oil and gas development projects to expand our customer base and market share through engaging in more global oil and gas projects and will also continue to leverage its strengths in the steel pipe industry to obtain more orders.

Employees

As at 30 June 2020, we had 807 full time employees in total (as at 31 December 2019: 1,162). 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, most of our operating transactions were settled in RMB except for export sales which were mostly denominated in USD. Apart from the 5.6% 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.

Interim Dividend

The Board did not recommend payment of any interim dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: nil) to the shareholders of the Company.

Management Discussion and Analysis

Financial Guarantee

As at 30 June 2020, the Group guaranteed RMB111.6 million (as at 31 December 2019: RMB94.3 million) to certain purchasers of the Group's properties for mortgage facilities.

As at 30 June 2020, the Group guaranteed RMB556.2 million (as at 31 December 2019: RMB548.1 million) for banking facilities in Saudi Arabia of which RMB556.2 million (as at 31 December 2019: RMB511.5 million) was utilized by our joint venture company in Saudi Arabia.

Pledge of Assets

As at 30 June 2020, we pledged certain property, plant and equipment, leasehold land, time deposits, certain properties under development, completed properties held for sale and trade receivable with an aggregate net book value of RMB1,154.7 million (as at 31 December 2019: RMB1,201.1 million), RMB810.2 million (as at 31 December 2019: RMB792.5 million), RMB2,000 (as at 31 December 2019: RMB2,000), RMB1,202.1 million (as at 31 December 2019: RMB1,267.3 million), RMB108.1 million (as at 31 December 2019: RMB109.4 million) and RMB15.3 million (as at 31 December 2019: nil) respectively, to secure bank loans and other borrowings granted to the Group.

Liquidity and Financial Resources

As at 30 June 2020, our cash and bank balances and current ratio, as a ratio of current assets to current liabilities, were approximately RMB13.7 million (as at 31 December 2019: RMB58.6 million) and 0.65 (as at 31 December 2019: 1.04) respectively.

Management Discussion and Analysis

On 27 April 2020, the Company entered into a subscription agreement (the "Subscription Agreement") with an independent third party, pursuant to which the Company agreed to issue, and the subscriber agreed to subscribe for 12% bonds due in April 2022 in an aggregate principal amount of HK\$140,000,000 (the "Bonds"). Pursuant to the Subscription Agreement, certain specific performance obligations (the "Specific Performance Obligations") are imposed on Mr. Chen, an executive director and controlling shareholder of the Company, during the term of the Subscription Agreement, including Mr. Chen shall remain (i) the single largest direct or indirect shareholder of the Company; and (ii) the chairman of the board of directors and executive director of the Company. Any breach of the Specific Performance Obligations may constitute a breach under the Subscription Agreement, pursuant to which the bondholder is entitled to redeem the Bonds immediately upon the occurrence of the breach in accordance with the terms and conditions of the Bonds.

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 2020, our aggregate borrowings were approximately RMB4,804.3 million (as at 31 December 2019: approximately RMB5,048.9 million), of which approximately RMB4,638.6 million (as at 31 December 2019: RMB4,862.9 million) were bank loans, other borrowings and government loans, approximately RMB158.9 million (as at 31 December 2019: RMB178.04 million) were USD and HKD bonds and approximately RMB6.8 million (as at 31 December 2019: RMB7.9 million) were lease liabilities.

Management Discussion and Analysis

Included in the aggregate borrowings as at 30 June 2020, there were property development loan of around RMB1,227.4 million and shareholder's loan from Guangdong Yuecai and loan from Xingchen of around RMB1.96 billion. Excluding the above loans, the loans for our steel pipe business as at 30 June 2020 were around RMB1,614.4 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 58.3% as at 30 June 2020 (as at 31 December 2019: 59.5%).

The maturity profile of our total borrowings as at 30 June 2020 was approximately 64% (as at 31 December 2019: 25%) of the total borrowings repayable within one year, and approximately 36% (as at 31 December 2019: 75%) of the total borrowings repayable over one year.

We had net current liabilities of approximately RMB2,104.7 million as at 30 June 2020 as the shareholder's loan from Guangdong Yuecai and loan from Xingchen of approximately RMB1.96 billion was reclassified as short term. The Group will repay the shareholder's loan immediately after the receipt of proceeds from direct resumption of the Land. In addition, the Group has received around RMB991.3 million from pre sale of Phase II of GDC as at 30 June 2020. The Group has sufficient cashflow to meet its short term obligations.

As at 30 June 2020, approximately 49% (as at 31 December 2019: 51%) 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 45% (as at 31 December 2019: 43%) of our total borrowings were denominated in RMB which carried fixed interest rate and approximately 6% (as at 31 December 2019: 6%) 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

Save as disclosed herein, the Group had no other significant investments, material acquisitions or disposals of subsidiaries, associates and joint ventures during the Period.

Litigation

Jiangsu Binxin Iron and Steel Group Co. Ltd* (江蘇省賓鑫鋼鐵集團有限公司) claimed against Nanjing Rongyu Group Company* (南京鎔裕集團有限公司) (“Nanjing Rongyu”) for breaching a purchase contract in the amount of RMB37.7 million. The purchase contract was arranged by the ex-beneficial owners of Nanjing Rongyu Group prior to the Group’s acquisition of Nanjing Rongyu in May 2013. The Group was not informed of such purchase contract at the time of acquisition. According to the second instance judgement made by the Jiangsu Province Lianyungang Intermediate People’s Court, Nanjing Rongyu has to pay compensatory amount of RMB34.4 million plus interest.

Event after the Reporting Period

As at the date of this report, there is no significant event subsequent to 30 June 2020 which would materially affect the Group’s operating and financial performance.

Other Information

Directors' Interests in Competing Business

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

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

As at 30 June 2020, 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%
	Beneficial owner	Long	4,350,000	0.43%

Note:

1. These shares are held by Bournam Profits Limited, 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 Profits Limited.

Other Information

Shares of Associated Corporation

Mr. Chen Chang beneficially owns the entire issued share capital of Bournam Profits Limited. Bournam Profits Limited 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 2020, 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 Profits Limited	Beneficial owner (note 1)	Long	701,911,000	69.42%
Hammer Capital Private Investments Limited ("Hammer Capital")	Beneficial owner (note 2)	Long	373,000,000	36.89%
Cheung Siu Fai	Interest of controlled corporation (note 2)	Long	373,000,000	36.89%
Tsang Ling Kay Rodney	Interest of controlled corporation (note 2)	Long	373,000,000	36.89%

Notes:

1. The entire share capital of Bournam Profits Limited 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 Profits Limited.

Other Information

2. 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. 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.

Share Option and Share Award Schemes

We adopted a share option scheme on 23 January 2010 which expired on 22 January 2020, we subsequently adopted a new share option scheme on 18 June 2020. We also adopted a share award scheme on 22 March 2012. The purpose of the aforementioned schemes is to provide incentives and rewards to eligible participants who contribute to the growth of the Group. Eligible participants of the aforementioned schemes include, without limitation, employees, Directors and any other eligible persons as defined in the schemes. As at 30 June 2020, 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 2020.

Other Information

CG Code A.2.1

The Company is aware of the requirement under paragraph A.2.1 of the CG Code that the roles of chairman and chief executive should be separated and should not be performed by the same individual. The Company does not have any officer with the title of “chief executive”. The role is currently performed by Mr. Chen Chang, 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 2020.

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 2020.

Audit Committee

The Company's Audit Committee comprises Mr. Au Yeung Kwong 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 2020.

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 2020

		Six months ended 30 June	
		2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
	Notes		
REVENUE	5	367,743	491,880
Cost of sales		(282,125)	(388,530)
Gross profit		85,618	103,350
Other income and gains	5	11,049	58,341
Selling and distribution expenses		(24,527)	(35,391)
Administrative expenses		(120,599)	(162,650)
Other expenses, net		(54,882)	(10,571)
Exchange gain, net		58,329	19,331
Finance costs	6	(173,449)	(233,424)
Fair value gain on investment properties		–	74,008
Fair value loss on a derivative financial instrument		(59)	(2,573)
Share of loss of a joint venture		(5,503)	(12,756)
LOSS BEFORE TAX	7	(224,023)	(202,335)
Income tax credit/(expenses)	8	138	(11,460)
LOSS FOR THE PERIOD		(223,885)	(213,795)
Attributable to:			
Owners of the parent		(223,885)	(212,800)
Non-controlling interests		–	(995)
		(223,885)	(213,795)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	9	RMB(0.22)	RMB(0.21)

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
LOSS FOR THE PERIOD	(223,885)	(213,795)
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(52,936)	(2,669)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	(52,936)	(2,669)
OTHER COMPREHENSIVE LOSS	(52,936)	(2,669)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	(276,821)	(216,464)
Total comprehensive loss attributable to:		
Owners of the parent	(276,821)	(215,469)
Non-controlling interests	–	(995)
	(276,821)	(216,464)

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2020

	Notes	As at 30 June 2020 (Unaudited) RMB'000	As at 31 December 2019 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	2,567,940	2,604,239
Investment properties	11	407,000	407,000
Right-of-use assets		1,099,250	1,114,551
Long term prepayments and deposits		91,228	85,975
Investment in a joint venture		7,674	13,177
Deferred tax assets		210,943	210,943
Total non-current assets		4,384,035	4,435,885
CURRENT ASSETS			
Properties under development		1,945,908	1,822,964
Completed properties held for sale		384,004	383,977
Inventories	12	249,620	219,102
Trade and bills receivables	13	486,374	403,775
Prepayments, deposits and other receivables		664,548	916,170
Due from a related party		84,522	84,522
Pledged and restricted bank balances		29,100	164,826
Cash and bank balances		13,712	58,585
Total current assets		3,857,788	4,053,921

Interim Condensed Consolidated Statement of Financial Position (continued)

As at 30 June 2020

	Notes	As at 30 June 2020 (Unaudited) RMB'000	As at 31 December 2019 (Audited) RMB'000
CURRENT LIABILITIES			
Trade and bills payables	14	424,831	379,935
Interest-bearing bank and other borrowings	15	3,034,429	1,116,889
Contract liabilities		1,265,070	1,159,070
Other payables and accruals		712,282	628,847
Fixed rate bonds and notes	16	25,557	170,404
Derivative financial instrument		3,783	3,724
Due to a director		85,675	88,857
Provision		45,922	–
Tax payable		364,967	365,567
Total current liabilities		5,962,516	3,913,293
NET CURRENT ASSETS/(LIABILITIES)		(2,104,728)	140,628
TOTAL ASSETS LESS CURRENT LIABILITIES		2,279,307	4,576,513
NON-CURRENT LIABILITIES			
Due to a director		50,000	50,000
Interest-bearing bank and other borrowings	15	1,610,935	3,753,975
Fixed rate bonds and notes	16	133,377	7,631
Government grants		338,963	341,915
Deferred tax liabilities		367,884	368,023
Total non-current liabilities		2,501,159	4,521,544
Net assets/(liabilities)		(221,852)	54,969
EQUITY			
Equity attributable to owners of the parent			
Issued capital	17	88,856	88,856
Reserves		(310,708)	(33,887)
Total equity		(221,852)	54,969

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2020

	Attributable to owners of the parent										
	Issued capital	Share premium*	Asset revaluation reserve*	Contributed surplus*	Capital reserve*	Statutory reserve fund*	Accumulated losses*	Exchange fluctuation reserve*	Total	Non-controlling interests	Total Equity
	RMB'000 (note 17)	RMB'000	RMB'000	RMB'000	RMB'000 (note (a))	RMB'000 (note (b))	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020	88,856	767,097	616,740	224,589	53,934	165,276	(1,664,502)	(197,021)	54,969	-	54,969
Loss for the period	-	-	-	-	-	-	(223,885)	-	(223,885)	-	(223,885)
Other comprehensive loss for the period	-	-	-	-	-	-	-	-	-	-	-
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(52,936)	(52,936)	-	(52,936)
Total comprehensive loss for the period	-	-	-	-	-	-	(223,885)	(52,936)	(276,821)	-	(276,821)
At 30 June 2020 (unaudited)	88,856	767,097	616,740	224,589	53,934	165,276	(1,888,387)	(249,957)	(221,852)	-	(221,852)

* These reserve accounts comprise the consolidated reserves of RMB(310,708,000) (30 June 2019: RMB(85,472,000)) in the interim condensed consolidated statement of financial position as at 30 June 2020.

For the six months ended 30 June 2019

	Attributable to owners of the parent										
	Issued capital	Share premium*	Asset revaluation reserve*	Contributed surplus*	Capital reserve*	Statutory reserve fund*	Accumulated losses*	Exchange fluctuation reserve*	Total	Non-controlling interests	Total Equity
	RMB'000 (note 17)	RMB'000	RMB'000	RMB'000	RMB'000 (note (a))	RMB'000 (note (b))	RMB'000	RMB'000	RMB'000	RMB'000	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

Interim Condensed Consolidated Statement of Changes in Equity (continued)

For the six months ended 30 June 2020

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 2020

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Net cash flows from operating activities	100,377	547,874
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of financial assets at fair value through profit or loss	–	(200)
Purchases of items of property, plant and equipment	(12,195)	(38)
Receipt of government grants	5,424	–
Proceeds from disposal of items of property, plant and equipment	–	39
Disposal of a subsidiary	–	9,130
Decrease in amounts due from related parties	–	113
Receipt of compensation for land resumption	294,629	–
Net cash flows from investing activities	287,858	9,044
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans and other borrowings	427,461	636,193
Repayment of bank loans and other borrowings	(653,919)	(960,126)
Proceeds from issue of bonds	3,868	–
Repayment of bonds	(27,986)	–
Interest paid	(158,470)	(227,852)
Increase/(decrease) in amounts due to a director	(3,182)	4,554
Principal portion of capital element of lease payments	(1,584)	–
Net cash flows used in financing activities	(413,812)	(547,231)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	(25,577)	9,687
Effect of foreign exchange rate changes, net	(19,296)	7,309
Cash and cash equivalents at 1 January	58,585	66,907
CASH AND CASH EQUIVALENTS AT 30 JUNE	13,712	83,903

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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 2020 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 2019.

Going concern basis

The Group recorded a consolidated loss of RMB223,885,000 for the six months ended 30 June 2020 (30 June 2019: loss of RMB213,795,000). As at 30 June 2020, the Group recorded net current liabilities of RMB2,104,728,000 (31 December 2019: net current assets of RMB140,628,000), included therein were the bank and other borrowings of RMB3,034,429,000 (31 December 2019: RMB1,116,889,000) which were due for repayment or renewal within the next twelve months after 30 June 2020.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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 15 June 2020, the Group has entered into a first disposal supplemental agreement and a second disposal supplemental agreement (collectively the "Supplemental Agreements") to provide a framework for the unwinding of the agreement dated 12 February 2018 entered into with Guangdong Yuecai Trust Co Limited* (廣東粵財信託有限公司) ("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") and the disposal agreement dated 27 February 2019 entered into with Guangzhou Xingchen Consultation Company Limited (廣州星宸諮詢有限公司) ("Xingchen"), Guangdong Yuecai and Guangzhou Asset Management to pave way for the negotiation and implementation of direct land resumption by the Guangzhou government. The Group will enter into a land resumption compensation agreement with Guangzhou government to sell the land of Panyu to fully repay the loan from Guangdong Yuecai and Xingchen of approximately RMB2,080 million.

The Directors have prepared a cash flow forecast for the Group which covers a period of twelve months from the end of the Period. Taking into account the land of Panyu 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.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

2. Basis of Preparation (Continued)

Going concern basis (Continued)

However, the sale of the land of Panyu is subject to the fulfilment of certain conditions, among which some of these conditions cannot be controlled by the Group. The validity of the going concern assumption on which the interim condensed consolidated financial statements are prepared is dependent on 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 2019, except for the adoption of new standards effective as of 1 January 2020. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. In the current interim period, the Group has applied, for the first time, the new and revised 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:

Amendments to IFRS 3	<i>Definition of a Business</i>
Amendments to IFRS 9, IFRS 7 and IAS 39	<i>Interest Rate Benchmark Reform</i>
Amendments to IAS 1 and IAS 8 Conceptual Framework for Financial Reporting issued on 29 March 2018	<i>Definition of Material</i>

Several amendments and interpretations apply for the first time in 2020, but do not have any impact on the interim condensed consolidated financial statements of the Group.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

4. Operating Segment Information

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

- (a) the steel pipes segment engages in the manufacture and sale of welded steel pipes and the provision of related manufacturing services; and
- (b) the property development and investment segment engages in property development for sale of properties and property investment for its rental income potential.

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

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

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

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

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

4. Operating Segment Information (Continued)

Six months ended 30 June 2020 (unaudited)	Steel pipes RMB'000	Property development and investment RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	367,194	549	367,743
Segment results :	(175,953)	(23,763)	(199,716)
<i>Reconciliation:</i>			
Corporate and other unallocated expenses			(24,307)
Loss before tax			(224,023)
Segment assets :	4,281,446	5,669,377	9,950,823
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(2,465,674)
Corporate and other unallocated assets			756,674
Total assets			8,241,823
Segment liabilities :	7,099,239	3,341,512	10,440,751
<i>Reconciliation:</i>			
Elimination of intersegment payables			(2,465,674)
Corporate and other unallocated liabilities			488,598
Total liabilities			8,463,675
Other segment information:			
Share of loss of a joint venture	(5,503)	–	(5,503)
Impairment losses recognised			
in the statement of profit or loss	(6,875)	–	(6,875)
Depreciation	(63,047)	(103)	(63,150)
Capital expenditure*	(12,960)	(20)	(12,980)

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

4. 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)
<i>Reconciliation:</i>			
Corporate and other unallocated expenses			(32,024)
Loss before tax			(202,335)
Segment assets :			
	4,322,488	6,432,062	10,754,550
<i>Reconciliation:</i>			
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
<i>Reconciliation:</i>			
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)

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

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

4. Operating Segment Information (Continued)

Information about products and services

The revenue of the major products is analysed as follows:

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Manufacture and sale of steel pipes:		
LSAW steel pipes	228,612	360,321
ERW steel pipes	5,619	87
SSAW steel pipes	31,045	30,326
Steel pipe manufacturing services:		
LSAW steel pipes	37,501	57,392
ERW steel pipes	10,682	62
SSAW steel pipes	38,790	14,204
Others*	15,494	29,488
	367,743	491,880

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

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

4. Operating Segment Information (Continued)

Geographical information

- (a) The revenue information based on the locations of the customers is as follows:

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Geographical markets		
Mainland China	350,836	387,792
Other Asian countries	16,415	53,082
Middle East	492	42,727
European Union	–	8,279
	367,743	491,880

- (b) 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 2020, revenue from one customer of the Group amounting to RMB41,493,000, which had accounted for 11% of the Group's total revenue.

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.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Revenue from contracts with customers		
Manufacture and sale of welded steel pipes and the provision of related manufacturing services	367,194	488,550
Revenue from other sources		
Gross rental income	549	3,330
	367,743	491,880
Other income and gains		
Bank interest income	587	13,228
Subsidy income from the PRC government*	8,376	22,618
Gain on resumption of land use rights to the local authority**	–	15,795
Others	2,086	6,700
	11,049	58,341

* 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.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

5. Revenue, Other Income and Gains (Continued)

Revenue from contracts with customers:

(i) Disaggregated revenue information:

Six months ended 30 June 2020 (unaudited)	Steel pipes RMB' 000	Property development and investment RMB' 000	Total RMB' 000
Sales of goods/properties	280,221	–	280,221
Rendering of services	86,973	–	86,973
Total revenue from contracts with customers	367,194	–	367,194
Geographical markets			
Mainland China	350,287	–	350,287
Other Asian contries	16,415	–	16,415
Middle East	492	–	492
Total revenue from contracts with customers	367,194	–	367,194
Timing of revenue recognition			
Goods/properties transferred at a point of time	280,221	–	280,221
Services transferred over time	86,973	–	86,973
Total revenue from contracts with customers	367,194	–	367,194

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

5. Revenue, Other Income and Gains (Continued)

(i) Disaggregated revenue information: (Continued)

Six months ended 30 June 2019 (unaudited)	Steel pipes RMB'000	Property development and investment RMB'000	Total RMB'000
Sales of goods/properties	416,892	–	416,892
Rendering of services	71,658	–	71,658
Total revenue from contracts with customers	488,550	–	488,550
Geographical markets			
Mainland China	384,462	–	384,462
Other Asian contries	53,082	–	53,082
Middle East	42,727	–	42,727
European Union	8,279	–	8,279
Total revenue from contracts with customers	488,550	–	488,550
Timing of revenue recognition			
Goods/properties transferred at a point of time	416,892	–	416,892
Services transferred over time	71,658	–	71,658
Total revenue from contracts with customers	488,550	–	488,550

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

5. Revenue, Other Income and Gains (Continued)

(ii) Performance obligations:

Information about the Group's performance obligations is summarised below:

Sale of steel pipes

The performance obligation is satisfied upon delivery of the goods and payment is generally due within one year from the invoice date, except for new customers, where payment in advance is normally required.

Sale of properties

The performance obligation is satisfied upon the physical possession or when the legal title of the completed property is obtained by the purchasers.

Manufacturing services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 50 days from the date of delivery or customer acceptance of the product processed.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

6. Finance Costs

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Interest on bank loans and government loans	62,823	132,521
Interest on other loans (including bonds and short term notes)	145,846	143,182
Interest on discounted bills	588	1,542
Interest on lease liabilities	360	373
Total interest expenses	209,617	277,618
Less: Interest capitalised	(36,168)	(44,194)
	173,449	233,424

7. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Cost of inventories sold	282,077	385,207
Depreciation of property, plant and equipment	48,086	40,267
Depreciation of right-of-use assets	15,064	13,894
Impairment of trade receivables*	–	2,451
Impairment of deposits and other receivables*	6,875	1,505
Provision of claim for a litigation*	45,922	–
Loss on disposal of a subsidiary*	–	20,107
Gain on disposal of property, plant and equipment, net	(226)	(5,206)

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

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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, 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 expenses/(credit) in the interim condensed consolidated statement of comprehensive income are as follows:

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Current – Mainland China charge for the Period	1	577
Deferred	(139)	10,883
Total tax expenses/(credit) for the Period	(138)	11,460

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 RMB223,885,000 (six months ended 30 June 2019: RMB212,800,000), and the weighted average number of ordinary shares of 1,011,142,000 (at 30 June 2019: 1,011,142,000) in issue during the Period.

No diluted loss per share is calculated because the exercise price of the warrant instrument was greater than the average market price of the Company's share for the Period and the six months ended 30 June 2019.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

10. Property, Plant and Equipment

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
At beginning of the period/year	2,604,239	2,805,810
Additions	12,980	36,479
Disposals	(1,197)	(107,850)
Disposals of subsidiaries	–	(31,296)
Depreciation	(48,086)	(98,973)
Exchange realignment	4	69
At end of the period/year	2,567,940	2,604,239

The Group's property, plant and equipment with a net carrying amount of approximately RMB1,154,673,000 (31 December 2019: RMB1,201,053,000) were pledged to secure the Group's bank borrowings, as further detailed in note 15 to the interim condensed consolidated financial statements.

11. INVESTMENT PROPERTIES

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Commercial properties in Mainland China, PRC		
Carrying amount at 1 January	407,000	1,160,000
Redemption of land use right	–	(1,160,000)
Net gain from a fair value adjustment	–	78,008
Transfer from completed properties held for sale	–	328,992
Carrying amount at end of the period/year	407,000	407,000

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

12. Inventories

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Raw materials	96,856	76,788
Work in progress	57,357	36,968
Finished goods	97,793	107,732
	252,006	221,488
Less: Provision against slow-moving and obsolete	(2,386)	(2,386)
	249,620	219,102

13. Trade and Bills Receivables

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Trade receivables	501,308	422,936
Impairment	(19,434)	(19,434)
Trade receivables, net	481,874	403,502
Bills receivable	4,500	273
	486,374	403,775

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

13. Trade and Bills Receivables (Continued)

An aged analysis of the trade receivables as at the end of the Period, based on the invoice date, is as follows:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Within 60 days	297,382	242,323
61 to 90 days	5,554	5,680
91 to 180 days	20,710	27,057
181 to 365 days	35,498	11,052
1 to 2 years	32,290	30,563
2 to 3 years	8,324	24,450
Over 3 years	82,116	62,377
	481,874	403,502

14. Trade and Bills Payables

An aged analysis of the trade and bills payables as at the end of the Period, based on the invoice date, is as follows:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Within 90 days	217,410	135,417
91 to 180 days	25,688	89,557
181 to 365 days	52,602	32,017
1 to 2 years	37,234	51,977
2 to 3 years	36,075	19,876
Over 3 years	50,619	45,188
	419,628	374,032
Bills payable	5,203	5,903
	424,831	379,935

The trade payables are non-interest-bearing and are normally settled within a year.

All the bills payable bear maturity dates within 360 days.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

15. Interest-Bearing Bank and Other Borrowings

	Effective interest rate	Maturity	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
	%			
Current				
Lease liabilities	9.51%	2020-2021	2,411	2,444
Bank loans				
– secured	4.35%-6.09%	2020-2021	489,620	502,400
– unsecured			–	59,000
Other borrowing				
– secured	7.50%-11.25%	2020-2021	1,973,869	–
– unsecured	5.60%-24.00%	2020-2021	344,129	421,645
Government loans				
– secured	4.90%	2020-2021	128,000	88,000
Current portion of long term loans				
– secured	4.90%-5.88%	2020-2021	96,400	43,400
			3,034,429	1,116,889
Non-current				
Lease liabilities	9.51%	2021-2036	4,430	5,487
Bank loans				
– secured	4.75%-5.88%	2021-2028	1,294,505	1,430,005
Other borrowing				
– secured	10.00%	2021	136,000	2,098,483
Government loans				
– secured	4.90%	2021-2023	176,000	220,000
			1,610,935	3,753,975
			4,645,364	4,870,864

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	586,020	604,800
In the second year	169,200	149,400
In the third to fifth years, inclusive	1,001,305	1,154,605
Beyond five years	124,000	126,000
	1,880,525	2,034,805
Government loans repayable:		
Within one year	128,000	88,000
In the second year	88,000	88,000
In the third to fifth years, inclusive	88,000	132,000
	304,000	308,000
Other borrowings payables:		
Within one year	2,317,998	421,645
In the second year	136,000	2,098,483
	2,453,998	2,520,128
Lease liabilities repayable:		
Within one year	2,411	2,444
In the second year	1,725	2,255
In the third to fifth years, inclusive	1,064	1,563
Beyond five years	1,641	1,669
	6,841	7,931
	4,645,364	4,870,864

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

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

The Group's bank and other borrowings are secured by:

- (a) a charge over certain property, plant and equipment of the Group with a net carrying amount of approximately RMB1,154,673,000 (31 December 2019: RMB1,201,053,000) as at the end of the Period;
- (b) a charge over certain leasehold land of the Group with a net carrying amount of approximately RMB810,151,000 (31 December 2019: RMB792,454,000) as at the end of the Period;
- (c) certain of the Group's time deposits with an aggregate carrying amount of RMB2,000 (31 December 2019: RMB2,000) as at the end of the Period;
- (d) mortgages over certain of the Group's properties under development with an aggregate carrying amount of RMB1,202,071,000 (31 December 2019: RMB1,267,321,000) as at the end of the Period;
- (e) mortgages over certain of the Group's completed properties held for sale with an aggregate carrying amount of RMB108,050,000 (31 December 2019: RMB109,434,000) as at the end of the Period;
- (f) mortgages over trade receivable of the Group with an aggregate carrying amount of RMB15,310,000 (31 December 2019: nil) as at the end of the Period; and

Except for the bank loans and other borrowings of RMB110,877,000 (31 December 2019: RMB108,829,000) as at 30 June 2020, which are denominated in United State dollars, all borrowings are in RMB.

The Group had the following undrawn banking facilities:

	30 June 2020 RMB'000	31 December 2019 RMB'000
Floating rate – expiring within one year	103,789	290,331

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

16. Fixed Rate Bonds and Notes

	30 June 2020 (Unaudited)			31 December 2019 (Audited)				
	Principal at original currency 'million	Contractual interest rate (%) per annum	Maturity	RMB'000	Principal at original currency 'million	Contractual interest rate (%) per annum	Maturity	RMB'000
Current								
2013 Bonds	US\$72	5.6	2020	-	US\$72	5.6	2020	-
2017 Notes	HK\$155	8.0	2020	-	HK\$155	8.0	2020	135,593
2017 Bonds A	US\$3	7.0	2020	13,907	US\$3	7.0	2020	20,360
2017 Bonds C	HK\$10	6.0	2020	8,910	HK\$10	6.0	2020	8,293
2019 Bonds A	HK\$3	5.0	2020	2,740	HK\$3	5.0	2020	2,687
2019 Bonds B	US\$0.5	6.0	2020	-	US\$0.5	6.0	2020	3,471
				25,557				170,404
Non-Current								
2017 Bonds B	HK\$10	7.0	2021	8,153	HK\$10	7.0	2021	7,631
2020 Notes	HK\$140	12.0	2022	125,224				-
				133,377				7,631
				158,934				178,035

US\$72,000,000 5.6% bonds should be due 2018 but rescheduled to 2020 (2013 Bonds)

On 30 April 2013, the Group issued bonds with a principal amount of US\$72,000,000 and the bonds were to 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 2020, the remaining balance of the 2013 Bonds were rescheduled to be repayable on 30 September 2020 and the remaining balance was reclassified to other borrowings.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

16. 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. The 2017 Notes was fully repaid during the Period.

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 and be extended to September 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.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

16. Fixed Rate Bonds and Notes (Continued)

HK\$3,000,000 5% bonds due 2020 (2019 Bonds A)

On 30 August 2019, the Company issued a bond with a principal amount of HK\$3 million to an individual investor (the "2019 Bonds A"). The bond will be repayable in full by October 2020. The bond bears interest at a fixed coupon interest rate at 5% per annum for half year payable semi-annually, and the interest should be repaid on 28 February 2020. The bond is unsecured.

US\$500,000 6% bonds due 2020 (2019 Bonds B)

On 28 October 2019, the Company issued a bond with a principal amount of US\$0.5 million to an individual investor (the "2019 Bonds B"). The bond has been paid in full during the period under review. The bond bears interest at a fixed coupon interest rate at 6% per annum for half year payable semi-annually, and the interest should be repaid on 28 April 2020. The bond is unsecured.

HK\$140,000,000 12% notes due 2022 (2020 Notes)

On 27 April 2020, 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\$140,000,000 12% notes due in April 2022 (the "2020 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 2020 Notes immediately in accordance with the terms and conditions.

17. Issued Capital

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Authorised:		
10,000,000,000 (31 December 2019: 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 2019: 1,011,142,000) ordinary shares of HK\$0.10 each	88,856	88,856

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

18. Commitments

The Group had the following capital commitments:

	30 June 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Contracted, but not provided for:		
Buildings	290,926	290,926
Plant and machinery	69,626	69,626
Capital contributions payable to joint venture	122,827	120,145
	483,379	480,697

19. 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 2020 (Unaudited) RMB'000	31 December 2019 (Audited) RMB'000
Due from a related party GZMT	84,522	84,522
Due to a director Mr. Chen Chang	135,675	138,857

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

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

19. Related Party Transactions (Continued)

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

	Six months ended 30 June	
	2020 (Unaudited) RMB'000	2019 (Unaudited) RMB'000
Salaries, allowances and benefits in kind	2,543	2,818
Retirement benefit scheme contributions	57	64
Total compensation paid to key management personnel	2,600	2,882

20. Fair Value and Fair Value Hierarchy of Financial Instruments

Management has assessed that the fair values of cash and cash equivalents, pledged and restricted bank balances, 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, 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 2020 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 2020 and 31 December 2019.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2020

20. 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 liabilities measured at fair value:

As at 30 June 2020

Quoted prices in active markets (Level 1) RMB'000 (Unaudited)	Fair value measurement using			Total RMB'000 (Unaudited)
	Significant observable inputs (Level 2) RMB'000 (Unaudited)	Significant unobservable input (Level 3) RMB'000 (Unaudited)		
Derivative financial instrument	-	3,783	-	3,783

As at 31 December 2019

Quoted prices in active markets (Level 1) RMB'000 (Audited)	Fair value measurement using			Total RMB'000 (Audited)
	Significant observable inputs (Level 2) RMB'000 (Audited)	Significant unobservable input (Level 3) RMB'000 (Audited)		
Derivative financial instrument	-	3,724	-	3,724

For the six months ended 30 June 2020 and for the year ended 31 December 2019, 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.

21. Approval of Interim Condensed Consolidated Financial Statements

These interim condensed consolidated financial statements were approved and authorised for issue by the Board on 28 August 2020.