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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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

AUDITED CONSOLIDATED FINANCIAL RESULTS

The board (the "Board") of directors (the "Directors") of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "Company") announces the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017 (the "Consolidated Financial Statements") together with the comparative figures of the previous financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	**2017** *RMB'000*	2016 *RMB'000*
REVENUE	*5*	**873,293**	1,443,487
Cost of sales		**(815,182)**	(1,361,900)
Gross profit		**58,111**	81,587
Other income and gains	*5*	**140,553**	37,564
Selling and distribution expenses		**(107,330)**	(144,423)
Administrative expenses		**(475,632)**	(470,977)
Exchange loss, net		**(44,121)**	(86,417)
Finance costs	*7*	**(426,286)**	(237,142)
Impairment of property, plant and equipment and goodwill		**(18,006)**	(516,250)
Other expenses		**(12,873)**	(105,283)
Share of loss of a joint venture		**(2,779)**	(1,460)
LOSS BEFORE TAX	*6*	**(888,363)**	(1,442,801)
Income tax credit/(expense)	*8*	**14,608**	(56,197)
LOSS FOR THE YEAR		**(873,755)**	(1,498,998)

	2017	2016
	RMB'000	*RMB'000*
Loss attributable to:		
Owners of the parent	**(872,219)**	(1,495,804)
Non-controlling interests	**(1,536)**	(3,194)
	(873,755)	(1,498,998)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		
Basic and diluted	**RMB(0.86)**	RMB(1.48)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2017 *RMB'000*	2016 *RMB'000*
LOSS FOR THE YEAR	**(873,755)**	(1,498,998)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**153,862**	(133,018)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**153,862**	(133,018)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**153,862**	(133,018)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(719,893)**	(1,632,016)
Attributable to:		
Owners of the parent	**(718,357)**	(1,628,822)
Non-controlling interests	**(1,536)**	(3,194)
	(719,893)	(1,632,016)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**3,082,754**	3,315,315
Properties under development		**–**	1,196,775
Investment property		**1,138,221**	1,138,221
Long term prepayments and deposits		**123,710**	144,582
Prepaid land lease payments		**1,123,673**	1,211,764
Investment in a joint venture		**34,556**	37,335
Available-for-sale investment		**800**	800
Pledged deposits		**482,723**	95,570
Total non-current assets		**5,986,437**	7,140,362
CURRENT ASSETS			
Properties under development		**2,601,118**	1,036,362
Inventories		**288,705**	411,001
Trade and bills receivables	*10*	**371,120**	618,421
Prepayments, deposits and other receivables		**601,470**	657,497
Pledged and restricted bank balances		**183,286**	562,390
Cash and bank balances		**36,392**	439,067
Due from a related party		**84,568**	90,726
Total current assets		**4,166,659**	3,815,464
CURRENT LIABILITIES			
Trade and bills payables	*11*	**670,349**	790,348
Interest-bearing bank and other borrowings	*12*	**3,332,194**	4,374,936
Other payables and accruals		**1,695,458**	1,185,524
Provision		**–**	29,268
Fixed rate bonds and notes	*13*	**467,821**	87,911
Due to a director		**106,994**	5,563
Due to a related party		**–**	3,927
Tax payable		**60,800**	62,042
Total current liabilities		**6,333,616**	6,539,519

	Notes	**2017** *RMB'000*	2016 *RMB'000*
NET CURRENT LIABILITIES		**(2,166,957)**	(2,724,055)
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,819,480**	4,416,307
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**577,019**	592,201
Interest-bearing bank and other borrowings	*12*	**1,880,686**	1,389,904
Fixed rate bonds and notes	*13*	**140,597**	496,609
Government grants		**375,113**	369,707
Total non-current liabilities		**2,973,415**	2,848,421
Net assets		**846,065**	1,567,886
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**88,856**	88,856
Reserves		**745,667**	1,464,024
		834,523	1,552,880
Non-controlling interests		**11,542**	15,006
Total equity		**846,065**	1,567,886

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

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

The Company and its subsidiaries (together, the "Group") are involved in the following principal activities:

- manufacture and sale of welded steel pipes and the provision of related manufacturing services

- property development and investment

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

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"), International Accounting Standards and Standing Interpretations Committee Interpretations approved by the International Accounting Standards Committee that remain in effect, and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for an investment property which has been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 Going concern basis

The Group recorded a consolidated loss of RMB873,755,000 for the year ended 31 December 2017 (2016: loss of RMB1,498,998,000). Excluding the impairment of RMB26,735,000, the Group recorded a consolidated net loss of RMB847,020,000 for the year, which included (i) a provision for impairment of trade and other receivables amounting to RMB1,709,000 (2016: RMB72,124,000); (ii) a provision for inventories in respect of the write-down to net realisable value amounting to RMB7,020,000 (2016: RMB27,131,000); and (iii) impairment of property, plant and equipment amounting to RMB18,006,000 (2016: RMB516,250,000). These non-cash items had not affected the Group's operating cash flows. The Group had net cash inflows from operating activities of approximately RMB557,662,000 (2016: RMB963,118,000).

As at 31 December 2017, the Group recorded net current liabilities of RMB2,166,957,000 (2016: RMB2,724,055,000), included therein were the bank and other borrowings and fixed rate bonds of RMB3,800,015,000 (2016: RMB4,462,847,000) which were due for repayment or renewal within the next twelve months after 31 December 2017.

In view of these circumstances, the directors of the Company have given consideration to 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.

In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group implemented or is in the process of implementing the following measures:

(1) Active seeking new source of finance

On 2 February 2018, the Group entered into a long term loan agreement of RMB1,680,000,000 with a third party, Guangdong Yuecai Trust Co., Limited, a finance trust company established in the PRC with limited liability by Guangdong Yuecai Investment and Guangdong Science and Technology Venture Capital Co., Limited. The loan received subsequently on 9 March 2018 and 12 March 2018 is for a period of three years, bearing interest rate of 11.25% per annum for the first two years and 10.25% per annum for the third year.

(2) Active negotiations with banks to obtain adequate bank borrowings to finance the Group's operations

Subsequent to 31 December 2017, the Group repaid short term bank loans of RMB968,063,000, obtained new long term bank loans of RMB200,000,000 and renewed the existing loans of RMB72,500,000 with related banks.

The Group will continue to actively negotiate with the banks for the renewal of the Group's borrowings when they fall due or obtain additional source of finance to meet the Group's working capital and financial requirements in the near future. The directors of the Company have evaluated all the relevant facts available to them and are of the opinion that they have a good track record or relationship with the banks which will enhance the Group's ability to renew the Group's loans upon expiry.

(3) Active negotiations with debtors on outstanding receivables

Management is actively following up with its debtors on outstanding receivables with the aim of agreeing a repayment schedule with each of them.

(4) Exploring alternative source of capital

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

(5) Improvement of the Group's operating cash flows

The Group is taking measures to tighten cost control over various production costs and expenses with the aim of attaining profitable and positive cash flow operations.

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. They are of the opinion that, taking into account the above-mentioned plans and measures, coupled with the rebound of the market demand of the Group's major products and the pre-sale of the second phase of Golden Dragon City Fortune Plaza ("GDC") commenced in November 2017, the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due. Accordingly, the consolidated financial statements of the Group have been prepared on a going concern basis.

The validity of the going concern assumption on which the consolidated financial statements are prepared is dependent on the successful and favourable outcomes of the steps being taken by the directors 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 whose they are currently recorded in the 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 consolidated financial statements.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised standards for the first time for the current year's consolidated financial statements.

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

Other than as explained below regarding the impact of Amendments to IAS 7, the adoption of the above revised standards has had no significant financial effect on these financial statements.

Amendments to IAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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 development of properties for sale and property investment for its rental income potential.

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

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

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

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

Year ended 31 December 2017

	Steel pipes *RMB'000*	Property development and investment *RMB'000*	Total *RMB'000*
Segment revenue:			
Sales to external customers	**873,293**	**–**	**873,293**
Segment results:	**(696,862)**	**(66,273)**	**(763,135)**
Reconciliation:			
Corporate and other unallocated expenses			**(48,227)**
Finance costs			**(77,001)**
Loss before tax			**(888,363)**
Segment assets:	**2,280,918**	**3,967,474**	**6,248,392**
Reconciliation:			
Elimination of intersegment receivables			**1,508,800**
Corporate and other unallocated assets			**2,395,904**
Total assets			**10,153,096**
Segment liabilities:	**3,483,172**	**3,308,419**	**6,791,591**
Reconciliation:			
Elimination of intersegment payables			**1,508,800**
Corporate and other unallocated liabilities			**1,006,640**
Total liabilities			**9,307,031**
Other segment information:			
Share of loss of a joint venture	**(2,779)**	**–**	**(2,779)**
Impairment losses recognised in the statement of profit or loss	**(31,265)**	**–**	**(31,265)**
Impairment losses reversed in the statement of profit or loss	**4,530**	**–**	**4,530**
Depreciation and amortisation	**(169,093)**	**(408)**	**(169,501)**
Investment in a joint venture	**34,556**	**–**	**34,556**
Capital expenditure*	**62,232**	**140**	**62,372**

Year ended 31 December 2016

	Steel pipes *RMB'000*	Property development and investment *RMB'000*	Total *RMB'000*
Segment revenue:			
Sales to external customers	1,443,487	–	1,443,487
Segment results:	(1,234,235)	(162,772)	(1,397,007)
Reconciliation:			
Corporate and other unallocated expenses			(10,773)
Finance costs			(35,021)
Loss before tax			(1,442,801)
Segment assets:	5,044,720	3,913,325	8,958,045
Reconciliation:			
Elimination of intersegment receivables			(145,114)
Corporate and other unallocated assets			2,142,895
Total assets			10,955,826
Segment liabilities:	7,197,724	1,745,315	8,943,039
Reconciliation:			
Elimination of intersegment payables			(145,114)
Corporate and other unallocated liabilities			590,015
Total liabilities			9,387,940
Other segment information:			
Share of loss of a joint venture	(1,460)	–	(1,460)
Impairment losses recognised in the statement of profit or loss	(547,126)	(70,510)	(617,636)
Impairment losses reversed in the statement of profit or loss	2,131	–	2,131
Depreciation and amortisation	(202,268)	(424)	(202,692)
Investment in a joint venture	37,335	–	37,335
Capital expenditure*	442,893	28,833	471,726

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

Information about steel pipe products and services

The revenue from the major products and services is analysed as follows:

	2017 *RMB'000*	2016 *RMB'000*
Manufacture and sale of steel pipes:		
LSAW steel pipes	**512,343**	949,426
SSAW steel pipes	**37,370**	108,259
ERW steel pipes	**129,924**	148,376
Steel pipe manufacturing services:		
LSAW steel pipes	**47,165**	43,149
SSAW steel pipes	**24,190**	13,170
ERW steel pipes	**1,286**	2,306
Others*	**121,015**	178,801
	873,293	1,443,487

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

Geographical information

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

	2017 *RMB'000*	2016 *RMB'000*
Sales to external customers:		
Mainland China	**467,733**	622,453
Other Asian countries	**160,652**	100,484
Africa	**114,951**	–
Oceania	**77,093**	105,133
America	**44,932**	327,045
Middle East	**7,396**	274,307
European Union	**536**	14,065
	873,293	1,443,487

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

Information about major customers

Revenue from each major customer which accounted for 10% or more of the Group's revenue for the year is set out below:

	2017	2016
	RMB'000	*RMB'000*
Customer A	*	235,670
Customer B	*	169,750
Customer C	**97,986**	*
Customer D	**90,866**	–

* *Less than 10%*

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the invoiced value of goods sold and services rendered, net of value-added tax ("VAT") and other sales taxes, after allowances for returns and discounts during the year.

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

	2017	2016
	RMB'000	*RMB'000*
Revenue		
Manufacture and sale of welded steel pipes and the provision of related manufacturing services	**873,293**	1,443,487
Other income and gains		
Bank interest income	**38,792**	16,116
Subsidy income from the PRC government	**26,914**	20,691
Compensation	**67,077**	332
Gain on disposal of items of property, plant and equipment and prepaid land lease payments	**5,879**	–
Others	**1,891**	425
	140,553	37,564

The subsidy income represents subsidies granted by the local finance bureaus to Panyu Chu Kong Steel Pipe (Lianyungang) Co., Ltd., Panyu Chu Kong Steel Pipe Co., Ltd., Panyu Chu Kong Steel Pipe (Zhuhai) Co., Ltd. and Lianyungang Kaidi Heavy Equipment Technology Co., Ltd. as awards for their products. There are no unfulfilled conditions or contingencies relating to such subsidies.

6. LOSS BEFORE TAX

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

	Notes	**2017** *RMB'000*	2016 *RMB'000*
Cost of inventories sold		**542,921**	1,096,000
Depreciation		**143,045**	176,661
Share of loss of a joint venture		**2,779**	1,460
Amortisation of prepaid land lease payments		**26,456**	26,031
Minimum lease payments under operating leases		**9,613**	7,278
Auditor's remuneration		**3,489**	3,420
Exchange loss, net		**44,121**	86,417
Finance costs	7	**426,286**	237,142
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		**156,789**	188,996
Retirement benefit scheme contributions		**21,219**	23,160
Impairment of trade receivables		**1,721**	1,614
(Reversal of impairment)/impairment of deposits and other receivables*		**(12)**	70,510
Write-down of inventories to net realisable value*		**7,020**	27,131
Impairment of property, plant and equipment		**18,006**	512,175
Impairment of goodwill		**–**	4,075
Bank interest income	5	**(38,792)**	(16,116)
Research and development costs		**72,363**	84,717

* Included in "Other expenses" in the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2017	2016
	RMB'000	*RMB'000*
Interest on bank and other borrowings (including bonds and notes)	**470,153**	271,891
Interest on finance leases	**11,754**	14,959
Interest on discounted bills	**8,717**	1,918
Total interest expense on financial liabilities not at fair value through profit or loss	**490,624**	288,768
Less: Interest capitalised	**(64,338)**	(51,626)
	426,286	237,142

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 operate.

The major components of the income tax expense for the year are as follows:

	2017	2016
	RMB'000	*RMB'000*
Current – Mainland China		
Charged for the year	**574**	469
Deferred	**(15,182)**	55,728
Total tax (credit)/charge for the year	**(14,608)**	56,197

9. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of the basic loss per share is based on the loss for the year attributable to ordinary equity holders of the parent and the weighted average number of ordinary shares of 1,011,142,000 (2016: 1,011,142,000) in issue during the year.

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2017 and 2016 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2017 and 2016.

10. TRADE AND BILLS RECEIVABLES

	2017	2016
	RMB'000	*RMB'000*
Trade receivables	**350,024**	608,491
Impairment	**(14,433)**	(12,712)
Trade receivables, net	**335,591**	595,779
Bills receivables	**35,529**	22,642
	371,120	618,421

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

	2017	2016
	RMB'000	*RMB'000*
Within 60 days	**64,914**	206,449
61 to 90 days	**5,046**	20,122
91 to 180 days	**36,544**	88,491
181 to 365 days	**42,305**	52,332
1 to 2 years	**111,636**	135,429
2 to 3 years	**58,143**	78,347
Over 3 years	**17,003**	14,609
	335,591	595,779

The movements in the provision for impairment of trade receivables are as follows:

	2017	2016
	RMB'000	*RMB'000*
At 1 January	**12,712**	11,098
Impairment losses recognised	**2,974**	3,745
Impairment losses reversed	**(1,253)**	(2,131)
At 31 December	**14,433**	12,712

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB14,433,000 (2016: RMB12,712,000) with a carrying amount before provision of RMB14,433,000 (2016: RMB12,712,000).

An aged analysis of trade receivables that are not considered to be impaired is as follows:

	2017	2016
	RMB'000	*RMB'000*
Neither past due nor impaired	**161,646**	428,396
Past due but not impaired		
1 to 180 days	**44,840**	75,895
181 to 365 days	**66,681**	25,634
Over 365 days	**62,424**	65,854
	335,591	595,779

The Group's neither past due nor impaired trade receivables mainly represent sales made to recognised and creditworthy customers for whom there was no recent history of default. These customers who trade on credit terms are subject to credit verification procedures.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

11. 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:

	2017	2016
	RMB'000	*RMB'000*
Trade payables		
Within 90 days	**51,306**	309,447
91 to 180 days	**318,893**	52,683
181 to 365 days	**16,775**	149,595
1 to 2 years	**79,394**	88,756
2 to 3 years	**56,664**	20,748
Over 3 years	**24,240**	17,562
	547,272	638,791
Bills payables	**123,077**	151,557
	670,349	790,348

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

All the bills payables have maturity dates within 365 days.

12. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2017			2016		
	Effective interest rate *(%)*	**Maturity**	***RMB'000***	Effective interest rate *(%)*	Maturity	*RMB'000*
Current						
Finance lease payables	**4.61-8.43**	**2018**	**100,476**	4.61-8.43	2017	96,076
Bank loans						
– secured	**2.75-6.16**	**2018**	**825,833**	1.00-6.16	2017	707,682
– unsecured	**4.35-6.09**	**2018**	**404,230**	2.85-6.09	2017	1,023,033
Other borrowings						
– secured	**16**	**2018**	**324,824**			–
– unsecured	**4.35-24**	**2018**	**729,465**	2.94-18.00	2017	368,578
Government loans						
– secured	**4.75-4.90**	**2018**	**143,500**	4.90	2017	17,600
– unsecured	**2.65-4.75**	**2018**	**194,000**	3.15-5.50	2017	200,000
Current portion of long term loans						
– secured	**4.75-7.35**	**2018**	**609,866**	2.30-5.96	2017	1,818,847
– unsecured			**–**	2.50	2017	143,120
			3,332,194			4,374,936
Non-current						
Finance lease payables	**5.68-8.43**	**2019-2020**	**52,678**	4.61-8.43	2018-2020	149,998
Bank loans						
– secured	**2.95-7.21**	**2019-2028**	**1,449,608**	2.30-5.96	2018-2028	718,006
Government loans						
– secured	**4.90**	**2019-2023**	**378,400**	4.75-4.90	2018-2023	521,900
			1,880,686			1,389,904
			5,212,880			5,764,840

	2017	2016
	RMB'000	*RMB'000*
Analysed into:		
Bank loans repayable:		
Within one year	**2,168,753**	3,692,682
In the second year	**49,708**	140,556
In the third to fifth years, inclusive	**345,300**	439,450
Beyond five years	**1,050,600**	138,000
	3,614,361	4,410,688
Government loans repayable:		
Within one year	**337,500**	217,600
In the second year	**70,400**	143,500
In the third to fifth years, inclusive	**264,000**	246,400
Beyond five years	**44,000**	132,000
	715,900	739,500
Other borrowings repayable:		
Within one year	**829,942**	464,654
In the second year	**37,677**	97,319
In the third to fifth years, inclusive	**15,000**	52,679
	882,619	614,652
	5,212,880	5,764,840

Certain of the Group's bank loans are secured by:

(a) the pledge of certain property, plant and equipment of the Group with a net carrying amount of approximately RMB1,477,453,000 (2016: RMB1,512,480,000) as at the end of the reporting period;

(b) the pledge of certain leasehold lands of the Group with a net carrying amount of approximately RMB1,003,365,000 (2016: RMB1,061,802,000) as at the end of the reporting period;

(c) the pledge of certain of the Group's deposits amounting to RMB413,741,000 (2016: RMB410,160,000) as at the end of the reporting period; and

(d) the pledge of certain of the Group's properties under development amounting to RMB1,355,945,000 (2016: RMB442,742,000) as at the end of the reporting period.

Except for the bank loans of RMB324,824,000 (2016: RMB161,566,000) and RMB8,908,000 (2016: RMB1,986,000,000) as at 31 December 2017, which are denominated in Hong Kong dollars and United States dollars, respectively, all borrowings are in RMB.

The Group had the following undrawn banking facilities:

	2017	2016
	RMB'000	*RMB'000*
Floating rate		
– expiring within one year*	**515,500**	1,944,563

* Pursuant to the relevant contract, certain of the Group's undrawn banking facilities of RMB200,000,000 (2016: RMB1,200,000,000) can only be used for property development projects and are repayable based on the pre-sale progress of such properties.

13. FIXED RATE BONDS AND NOTES

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

On 30 April 2013, the Group issued bonds with a principal amount of US$72,000,000 and the bonds will be repayable in full by 30 April 2018 (the "2013 Bonds"). The bonds may be redeemed at the option of the Group in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the holders of the bonds, at their principal amount, together with 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.

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

On 2 May 2014, the Group issued bonds with a principal amount of HK$100,000,000, which were subscribed at a price equal to HK$86,500,000 (the "2014 Bonds"). The bonds bear interest at a fixed coupon interest rate of 5% per annum for three years payable semi-annually, commencing on 2 November 2014. On 27 April 2017, the Group redeemed in full the 2014 Bonds before maturity at a redemption price of 102.48% of the principal amount plus accrued and unpaid interest.

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

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

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

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

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

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

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

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

	2017				2016			
	Principal at original currency 'million	**Contractual interest rate (%) per annum**	**Maturity**	***RMB'000***	Principal at original currency 'million	Contractual interest rate (%) per annum	Maturity	*RMB'000*
Current								
2013 Bonds	US$72	5.6	2018	467,821	US$72	5.6	2018	–
2014 Bonds	HK$100	5.0	2017	–	HK$100	5.0	2017	87,911
Subtotal				467,821				87,911
Non-current								
2013 Bonds	US$72	5.6	2018	–	US$72	5.6	2018	496,609
2017 Notes	HK$155	8.0	2020	112,057				–
2017 Bonds_A	US$3	7.0	2020	16,194				–
2017 Bonds_B	HK$10	7.0	2021	5,991				–
2017 Bonds_C	HK$10	6.0	2020	6,355				–
Subtotal				140,597				496,609
				608,418				584,520

The effective interest rates of the 2013 Bonds, 2017 Notes, 2017 Bonds_A, 2017 Bonds_B and 2017 Bonds_C are 6.05%, 15.51%, 16.75%, 18.59% and 17.98% per annum, respectively.

EXTRACT OF INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the consolidated financial statements of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Material uncertainty related to going concern

We draw attention to note 2.1 in the consolidated financial statements, which indicates that the Group incurred a net loss of RMB873,755,000 during the year ended 31 December 2017 and, as of that date, the Group's current liabilities exceeded its current assets by RMB2,166,957,000. As stated in note 2.1, these events or conditions, along with other matters as set forth in note 2.1, indicate that a material uncertainty exists that may cast significant doubt on the Group's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Chu Kong Petroleum and Gas Steel Pipe Holdings Limited (the "Company", together with its subsidiaries, the "Group"), I would like to present to you the audited consolidated annual results of the Group for the year ended 31 December 2017. In the difficult and challenging year of 2017, the Group recorded a turnover of approximately RMB873.3 million (2016: RMB1,443.5 million), decreased by approximately 39.5% compared with that of 2016. Loss for the year was approximately RMB873.8 million. Loss per share attributable to ordinary equity holders of the Company was approximately RMB0.86 (2016: loss per share of RMB1.48). The Board did not recommend the payment of a final dividend for the year ended 31 December 2017.

In light of low oil price and political instability across the globe, 2017 was also a year of difficult operation for the steel pipe industry. These factors had a material impact on the oil and gas industry and even the global economy. The Group's poor results were attributable to the fact that major oil and gas projects were launched at a slow pace in both domestic and international markets, and that the recovery of demand for steel pipes fell below market expectation. This resulted in a fall of domestic and international sales.

Fortunately, the whole oilfield services industry has been recovering since 2018, with new projects launched continuously by three large oil companies. We had obtained two new projects from China Petroleum and Chemical Corporation in early 2018, namely the Natural Gas Pipeline Project from Qianjian to Shaoguan (the end of the whole artery of the Xinjiang coal-to-gas transmission pipeline) and Luyu Oil Pipeline Project in Shandong. In addition, we will also provide steel pipes for the Yacheng 13-1 Pipelines Project, Gaolan Branch of South China Gas Field Development Project of China National Offshore Oil Corporation.

During the year under review, the Group accomplished three major milestones, including:

1. Commencement of sales of the serviced apartments at Phase II of Golden Dragon City Fortune Plaza;

2. The obtaining of relevant international certificates for the production plant in Saudi Arabia; and entering into the list of suppliers of Saudi Aramco as well as starting trial orders.

3. Participation in the largescale international project, UK offshore wind power project.

Besides, in early 2018, the Group announced a plan (the "Plan") for the future development of the land (the "Land") where its Panyu production plant was located. A subsidiary of the Group and the project partner will change the use of the Land from "industrial" to "residential and commercial" (the "Change of Land Use"). The Group expects that the Plan will provide the Group with financial resources and help implement the Change of Land Use, and that the project partner's well-established reputation in the real estate sector will unleash and raise the potential economic value of the Land. The Land, located in Qinghe Road, Shiji Town, Panyu District, Guangzhou City, Guangdong Province of the PRC, covers an area of approximately 287,000 square meters, which accounted for roughly three fourths of the total land area of the Panyu factory site. Originally, the Land was occupied by the Group's Panyu factory which housed key facilities for manufacturing welded steel pipes. The Group has already relocated one of the production lines in the Panyu factory to Lianyungang, whilst the remaining two will be relocated to other production bases by the end of 2018. Currently, most of the Group's production activities take place at the production bases in Lianyungang and Zhuhai.

As an ongoing project of the Group, Golden Dragon City Fortune Plaza ("GDC") is a largescale integrated commercial complex, occupying roughly a fourth of the total land area of the Panyu factory site. Phase one covers a permitted construction area (including underground construction area) of approximately 135,000 square meters. On the other hand, presale has begun for some of the units at phase two, which covers an area of approximately 191,000 square meters. The total permitted construction area of GDC (including underground construction area) is approximately 550,000 square meters. We believe that GDC will become one of our stable income sources in the long run, providing solid financial support for the steel pipe business and offer stable cash flow to help improve our financial position.

The Group will relocate its production facilities from Panyu to Lianyungang and Zhuhai, the Group's key production bases in China in the future. Currently, the production bases in both Lianyungang and Zhuhai have obtained relevant qualification, certification and awards for the manufacturing of various steel pipes. In 2017, the Zhuhai base earned national and provincial titles, such as "Guangdong Engineering Technology Research Center for Oceaneering Pipe Material and Equipment*"（廣東省海洋工程管材及裝備工程技術研究中心）, "National Standard: LSAW for High-temperature and High-pressure Pipelines*"（國家標準《高溫高壓管道用直縫埋弧焊接鋼管》), "Guangdong Enterprise Technical Center of Provincial Level*"（廣東省省級企業技術中心）and "Guangdong Postdoctoral Innovation and Practice Base*"（廣東省博士後創新實踐基地）.

Leveraging on our brand, outstanding performance and track record, we have participated in a number of overseas largescale projects that require high-quality steel pipes. Such projects include new orders from a British windfarm and the refinery and petrochemical integrated development (RAPID) project of Petroliam Nasional Berhad ("PETRONAS"), a Malaysian oil and gas company. The supply of steel pipes to such major projects will elevate our position in the global energy market and the oceaneering equipment industry. In the meantime, development is being carried out as scheduled at our production plant in Saudi Arabia. With ISO 9001 and API certification obtained, the plant has started commercial production in small batches. The plant has one LSAW production line with a capacity of 300,000 tonnes, capable of meeting the demand from the Middle East. We believe that following our establishment of a new plant in the Middle East, business relationships with major oil and gas industry players in that region and our footprints in overseas markets, our brand will be more extensively recognized in the region and we can capture more business opportunities.

PROSPECT AND GOING FORWARD

There were positive signs of industry recovery, for example: the National Development and Reform Commission of the PRC announced the "13th Five-Year Plan for Oil Development" and the "13th Five-Year Plan for Natural Gas Development", pursuant to which a total of 17,000 km of crude and refined oil pipelines as well as 40,000 km of natural gas pipelines are targeted to be constructed by 2020; the National Energy Administration issued the "13th Five-Year Plan for Wind Power Development", setting out promotions on construction projects of offshore wind power facilities in four provinces and a number of first-tier cities; the "One Belt One Road Strategy" ("OBOR strategy") was initiated; and the development of offshore engineering equipment manufacturing industry, plus those pipeline construction projects of offshore platforms, offshore windmills, offshore structure pipes and bridges in China were accelerated. With large oil and gas projects coming our way, we expect to have left the darkest days behind us.

Following an increase in bidding activities for pipeline projects in early 2018, we expect the demand for steel pipes will rebound. In fact, the "13th Five-Year Plan" for oil and gas pipeline networks has been launched, in which it is expected that the oil and gas pipeline would reach 165,000 km by 2020, representing an extension of 47%. And there are 6 crude oil pipelines and 8 new refined oil pipelines to be constructed under the plan. Therefore, it would be another golden era for the development of oil and gas pipelines during the "13th Five-Year Plan".

The PRC government intends to promote clean energy as one of the major sources of energy supply at a faster pace in the future. The gas consumption of cities in China is expected to increase by 33% each year and the number of gas pipelines is expected to grow by 10.20% annually, with the construction of 14 new pipelines for natural gas, which will boost the demand for steel pipes.

China's OBOR strategy and the establishment of the Asian Infrastructure Investment Bank ("AIIB") are expected to fuel the constructions of infrastructure and hardware developments in Asia and boost the economic growth in the region. As a world-recognised pipe manufacturer, the Company is poised to capture the precious opportunities created by the implementation of the OBOR and the establishment of AIIB. The demand for pipes to be used in infrastructure projects and oil and gas pipeline installations is expected to increase substantially.

Moreover, it is expected that through the Change of Land Use, the price of the Panyu Land will be significantly increased, which will bring considerable income to us in the foreseeable future that will vigorously enhance the level of cash flows and provide strong support to the long-term development and sustainability of the Group.

APPRECIATION

On behalf of the Group, I would like to thank all our staff members for performing their tasks diligently in such a challenging year. I am also grateful to our shareholders for their great support to the Group during a consolidation stage where it is accumulating strength for a prosperous future. The Board is full of confidence in the management team and its ability. As we grow a stronger foundation, our future will be even brighter.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group mainly (i) manufactures and sells longitudinal welded steel pipes, as well as providing manufacturing service for processing raw materials into steel pipes; and (ii) engages in property development and investment.

Our welded steel pipe products can be broadly categorised into LSAW steel pipes, SSAW steel pipes and ERW steel pipes. We are the largest LSAW steel pipe manufacturer and exporter in the PRC, and are capable of producing LSAW steel pipes that meet the X100 standard. We are also accredited with 11 international quality certifications such as Det Norske Veritas ("DNV") and American Petroleum Institute ("API"). In addition, we are the first and the sole PRC manufacturer that has successfully produced deep sea welded pipes for use at 1,500m under water. Our products are widely applicable to major oil and gas pipeline projects (both onshore and offshore) and infrastructure projects domestically and internationally.

Our Group is capable of manufacturing subsea pipes and drilling platforms for offshore projects, and is being classified as a member of the Offshore Engineering Equipment Industry*（海洋工程裝備製造業）. We have benefited from and supported by the PRC's strategic policies and received supports from policy banks and insurance institutions in the PRC. We have maintained good relationships with and have obtained medium-term loans and credit facilities from the Export-Import Bank of China, and the China Export & Credit Insurance Corporation.

Panyu Land Development

In 2013, the Group has converted a piece of land in Panyu into commercial use. The total land area of such piece of land is 125,000m^2 which accounted for 25% of the total area of the parcels of land owned by the Group in Panyu (the "Panyu Land"). The total construction area of the Panyu Land is 550,000m^2. The Panyu Land will be divided into three phases for development.

Project name:	**Golden Dragon City Fortune Plaza* ("GDC")**	
Address: Qinghe Road, Shiji Town, Panyu District, Guangzhou City, Guangdong, PRC		
Usage: large scale of integrated commercial complex of offices, shops, serviced apartments and villas		
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 had pre-sold the first phase and second phase of GDC and the total contracted sales were approximately RMB 1,079.6 million as at 31 December 2017. The Group will record the sale of properties in 2018.

GDC is part of the Group's strategy to widen its income sources. The Directors believe that GDC will maximise the potential economic return of the Panyu Land to the Group. Furthermore, upon the completion of GDC, stable rental income and the proceeds from the sale of properties will support the further development of the Group's steel pipe business. The steel pipe business will remain as the Group's core business.

On 12 February 2018, the Group has entered into an agreement ("Agreement") with, amongst other, Guangdong Yuecai Trust Co. Limited*（廣東粵財信托有限公司）("Guangdong Yuecai") and Guangzhou Asset Management Company Limited*（廣州資產管理有限公司）("Guangzhou Asset Management") in relation to the cooperation to facilitate the change of use of Land held by Panyu Chu Kong Steel Pipe Co. Ltd（番禺珠江鋼管有限公司）("PCKSP"). Such Land is next to GDC with land area of approximately 287,000 square meters. Pursuant to the Agreement, PCKSP shall apply to the relevant government authorities for the change of use of the Land from "industrial" to "commercial and residential". Therefore, the Group will relocate the production lines in Panyu to the Lianyungang and Zhuhai production sites by the end of 2018. The Lianyungang and Zhuhai production bases will be the major production bases of the Group in the PRC, as both production bases are in proximity to the self-operated ports where the Group can minimise its transportation cost.

Order Status

In 2017, the Group received new orders of approximately 127,000 tonnes and approximately 33% were received from overseas customers. During the year, the Group has entered into a global frame agreement with Petroliam Nasional Berhad ("Petronas"). The Group will become a qualified supplier of Petronas to supply steel pipes of LSAW, HFW and bends up to December 2019 with two years extension option. PCKSP will be entitled to receive orders from projects of Petronas' approved contractors. The Group has received some sizeable overseas orders like offshore windfarm project in the United Kingdom. The Group delivered approximately 214,000 tonnes of welded steel pipes during 2017.

LSAW Steel Pipes

The Group is the largest LSAW steel pipe manufacturer and exporter in the PRC. LSAW steel pipe was the largest source of revenue of the Group and accounted for approximately 64.0% of our total revenue for the year ended 31 December 2017. For the year ended 31 December 2017, revenue from the sales and manufacturing service of LSAW steel pipes amounted to approximately RMB512.3 million and RMB47.2 million, respectively, representing a decrease of approximately 46% and an increase of 9%, respectively, as compared to that for the year ended 31 December 2016. The decrease in sales of LSAW steel pipes was mainly due to the decrease in both overseas and domestic orders the Group has received. This was due to the slowdown in the rolling out of major oil and gas projects.

SSAW Steel Pipes

Our SSAW steel pipes produced in our plant in Lianyungang use the pre-welding and precision welding SSAW technique, which is the most advanced standard among all SSAW technologies. Revenue from the sales and manufacturing service of SSAW steel pipes amounted to approximately RMB37.4 million and RMB24.2 million respectively. The total revenue from SSAW steel pipes accounted for approximately 7.1% of the total revenue for the year ended 31 December 2017.

ERW Steel Pipes

Competition in the market of ERW steel pipes has been very keen due to its relatively low technical and standardised entry requirements. For the year ended 31 December 2017, revenue from the sales and manufacturing service of ERW steel pipes amounted to approximately RMB130.0 million and RMB1.3 million, respectively. The total revenue from ERW steel pipes accounted for approximately 15.0% of the total revenue for the year ended 31 December 2017.

FINANCIAL REVIEW

Revenue and gross profit

For the year ended 31 December 2017, our revenue was approximately RMB873.3 million, representing a decrease of approximately RMB570.2 million or 39.5% as compared with that of 2016. The decrease in revenue was mainly due to the decrease in both overseas and domestic orders received by the Group. This was due to the slowdown in the rolling out of major oil and gas projects.

The following table sets forth the revenue, gross profit, sales volume and average gross profit per tonne by business segments for each of the periods indicated:

	2017		2016	
	Revenue		Revenue	
	RMB'000	***% to total***	*RMB'000*	*% to total*
Sales of steel pipes				
LSAW steel pipes	**512,343**	**58.6**	949,426	65.8
SSAW steel pipes	**37,370**	**4.3**	108,259	7.5
ERW steel pipes	**129,924**	**14.9**	148,376	10.3
Subtotal	**679,637**	**77.8**	1,206,061	83.6
Manufacturing services				
LSAW steel pipes	**47,165**	**5.4**	43,149	2.9
SSAW steel pipes	**24,190**	**2.8**	13,170	0.9
ERW steel pipes	**1,286**	**0.1**	2,306	0.2
Subtotal	**72,641**	**8.3**	58,625	4.0
Others	**121,015**	**13.9**	178,801	12.4
Grand total	**873,293**	**100.0**	1,443,487	100.0

		2017			2016	
	Gross profit	**Sales volume**	**Average gross profit**	Gross profit	Sales volume	Average gross profit
	RMB'000	***tonnes***	***RMB/tonne***	*RMB'000*	*tonnes*	*RMB/tonne*
Sales of steel pipes						
LSAW steel pipes	**41,574**	**101,401**	**410**	71,963	214,000	336
SSAW steel pipes	**2,584**	**8,235**	**314**	4,093	32,404	126
ERW steel pipes	**371**	**25,232**	**15**	3,268	28,302	115
Subtotal	**44,529**	**134,868**		79,324	274,706	
Manufacturing services						
LSAW steel pipes	**17,893**	**31,143**	**575**	1,814	26,023	70
SSAW Steel pipes	**276**	**47,601**	**6**	28	30,703	1
ERW steel pipes	**5**	**707**	**7**	75	2,254	33
Subtotal	**18,174**	**79,451**		1,917	58,980	
Others	**(4,592)**	**N/A**	**N/A**	346	N/A	N/A
Grand total	**58,111**	**214,319**		81,587	333,686	

The revenue generated from the sales of steel pipes accounted for approximately 77.8% of our total revenue in 2017 as compared with approximately 83.6% in 2016. Steel pipe manufacturing services accounted for approximately 8.3% of our total revenue in 2017 as compared with approximately 4.0% in 2016. The revenue classified as "Others" mainly represented the trading of steel plates, sales of steel fittings, trading of equipment and sales of scrap materials which accounted for approximately 13.9% of our total revenue in 2017 as compared with approximately 12.4% in 2016.

Gross profit for 2017 was approximately RMB58.1 million as compared with approximately RMB81.6 million in 2016, representing a decrease of approximately 28.8% or RMB23.5 million. Gross profit margin for 2017 was approximately 6.7% which was at similar with that of last year.

Our overseas sales accounted for approximately 46.4% of our total revenue in 2017, as compared to approximately 56.9% in 2016.

SALES BY GEOGRAPHICAL AREAS

	2017		2016	
	Revenue		Revenue	
	RMB'000	***% to total***	*RMB'000*	*% to total*
Overseas sales	**405,560**	**46.4**	821,034	56.9
Domestic sales	**467,733**	**53.6**	622,453	43.1
Total	**873,293**	**100**	1,443,487	100.0

CHANGE IN FAIR VALUES OF INVESTMENT PROPERTY

The Group has adopted the accounting policy of measuring investment property by using fair values. Accordingly, gains or losses arising from the changes in the fair values of investment property are reflected as profit or loss for the reporting period. The Group has transferred part of the investment property – phase I and phase II of properties under development in prior years. The Group has engaged RHL Appraisal Limited, an independent valuer, to value the investment property. According to the valuation report as at 31 December 2017 issued by RHL Appraisal Limited, the market value of the investment property – phase III as at 31 December 2017 was RMB1.14 billion. No gain was resulted from the fair values of the investment property in 2017 (2016: nil).

OTHER INCOME AND GAINS

Other income and gains in 2017 mainly represented bank interest income, subsidy income from government and forfeiture of customer deposit. Other income and gains increased by approximately 274.2% or RMB103.0 million from approximately RMB37.6 million in 2016 to approximately RMB140.6 million in 2017. Increase in other income and gains was mainly due to increase in bank interest income and forfeiture of customer deposit during 2017.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses decreased by approximately 25.7% or RMB37.1 million from approximately RMB144.4 million in 2016 to approximately RMB107.3 million in 2017. The decrease was mainly due to the decrease in sales as discussed above.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by approximately 1.0% or RMB4.7 million from approximately RMB471.0 million in 2016 to approximately RMB475.6 million in 2017. Administrative expenses in 2017 was at similar level with that of last year.

FINANCE COSTS

The finance costs for 2017 was approximately RMB426.3 million which were higher than that of 2016 which was approximately RMB237.1 million. The effective interest rate in 2017 was approximately 7.3% (2016: 3.7%). Increase in finance cost was due to increase in average interest rate.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

The Group recorded an impairment on property, plant and equipment of approximately RMB18.0 million for the year ended 2017 (2016: RMB516.3 million).

OTHER EXPENSES

Other expenses decreased by approximately 87.8% or RMB92.4 million from approximately RMB105.3 million in 2016 to approximately RMB12.9 million in 2017. The decrease was mainly due to provision for inventories and trade and other receivables of approximately RMB97.6 million in last year.

EXCHANGE LOSS, NET

The Group recorded exchange loss of approximately RMB44.1 million in 2017 as compared to exchange loss of approximately RMB86.4 million in 2016. The decrease in exchange loss was mainly due to depreciation of RMB against USD to a lesser extent this year.

INCOME TAX EXPENSES

Income tax expenses decreased from RMB56.2 million in 2016 to income tax credit of RMB14.6 million in 2017. Income tax expense in last year was mainly related to the reversal of deferred tax assets in last year. Income tax credit in 2017 was related to deferred tax liability of property business sector decreased. PCKSP, and Panyu Chu Kong Steel Pipe (Zhuhai) Co., Ltd. ("PCKSP (Zhuhai)"), wholly-owned subsidiaries of the Company, were qualified as High and New Technology Enterprises and thus entitled to a reduced tax rate of 15% in 2017 (2016: 15%).

LOSS FOR THE YEAR

As a result of the reasons discussed above, the Group recorded a loss of approximately RMB873.8 million in 2017 (2016: RMB1,499.0 million).

LIQUIDITY AND FINANCIAL RESOURCES

The following table sets out certain information regarding the Group's consolidated statement of cash flows for the years ended 31 December 2016 and 2017:

	Year ended 31 December	
	2017	2016
	RMB'000	*RMB'000*
Net cash flows from operating activities	**557,662**	963,118
Net cash flows used in investing activities	**(211,064)**	(428,244)
Net cash flows used in financing activities	**(911,558)**	(459,385)
Net increase/(decrease) in cash and cash equivalents	**(564,960)**	75,489

NET CASH FLOWS FROM OPERATING ACTIVITIES

The Group's net cash inflows from operating activities decreased from approximately RMB963.1 million in 2016 to approximately RMB557.7 million in 2017. The decreased net cash inflows from operating activities were primarily due to the combined effect of (i) loss before taxation; (ii) decrease in inventories, trade receivables, prepayment and other receivables, pledged bank deposit and trade payables, and (iii) increase in other payables and government grants.

NET CASH FLOWS USED IN INVESTING ACTIVITIES

The Group's net cash flows used in investing activities decreased from approximately RMB428.2 million in 2016 to approximately RMB211.1 million in 2017. The decreased net cash outflows were mainly due to the combined effect of (i) disposal of property, plant and equipment and land, and receipt of government grant; and (ii) purchase of time deposit and purchase of property, plant and equipment during the year.

NET CASH FLOWS USED IN FINANCING ACTIVITIES

The Group's net cash used in financing activities of approximately RMB459.4 million in 2016 increased to approximately RMB911.6 million in 2017. The net cash outflows were mainly resulted from the combined effect of (i) the borrowing of new interest-bearing loans and other borrowings and amounts due to a director of approximately RMB6,026.4 million and (ii) the repayment of bank loans, government loans, short term note and finance lease rental payment and its associated interest and payment of interest of approximately RMB6,938.0 million.

EXCHANGE RISK EXPOSURE

The Group mainly operates in the PRC and most of its operating transactions are settled in Renminbi except for export sales and overseas borrowings which are mostly denominated in US dollar. Most of its assets and liabilities are denominated in Renminbi. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect that future currency fluctuations would materially impact the Group's operations. The Group did not adopt formal hedging policies nor instruments of foreign currency for managing the exchange risk exposure during the year ended 31 December 2017.

CAPITAL EXPENDITURE

For the year ended 31 December 2017, the Group invested approximately RMB62.4 million for the upgrading of property, plant and equipment. These capital expenditures were fully financed by internal resources and bank borrowings.

CONTINGENT LIABILITIES

As at 31 December 2017, the Group guaranteed RMB174.1 million (2016: RMB136.6 million) to certain purchasers of the Group's properties for mortgage facilities.

As at 31 December 2017, the Group guaranteed RMB217.8 million (2016: RMB231.8 million) to joint venture for banking facilities in Saudi Arabia of which RMB200.5 million (2016: RMB185.4 million) was utilized by the joint venture.

PLEDGE OF ASSETS

The Group pledged certain property, plant and equipment, land use rights, time deposits and certain properties under development with an aggregate net book value of approximately RMB1,477.5 million (2016: RMB1,512.5 million), RMB1,003.4 million (2016: RMB1,061.8 million), RMB413.7 million (2016: RMB410.2 million) and RMB1,355.9 million (2016: RMB442.7 million) respectively as at 31 December 2017 to secure bank loans granted to the Group.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group's gearing ratio is calculated based on the sum of bank loans, other borrowings and short term notes divided by total assets. The gearing ratio of the Group as at 31 December 2017 and 2016 were approximately 57.3% and 58.0%, 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 Chang, the controlling shareholder of the Company, during the term of the Note Purchase Agreement including (i) Mr. Chen Chang, directly or indirectly, holds or owns more than 50% of the voting rights of the Company; or (ii) the controlling shareholder of the Company has management control of the Company. Any breach of the Specific Performance Obligations may constitute a breach under the Note Purchase Agreement, pursuant to which the investment fund is entitled to redeem the Notes immediately upon the occurrence of the breach in accordance with the terms and conditions of the Notes.

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

On 24 August 2017, the Company issued a bond with a principal amount of HKD10 million to an investor, Mr. Ye Hong Xiang（葉弘翔）. 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.

On 26 September 2017, the Company issued a bond with a principal amount of HKD10 million to an investor, Mr. Hu Gan Ming (胡淦銘). 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.

As at 31 December 2017, the Group's total borrowings amounted to approximately RMB5,821.3 million, of which approximately 35% (2016: 30%) were long term borrowings and approximately 65% (2016: 70%) were short term borrowings. Approximately 60% of total borrowings of the Group were for financing working capital of the Group, and approximately 40% of total borrowings of the Group were financing capital expenditure of the Group. The Group had to finance its working capital by short term borrowings as around 90% of the cost of sales was incurred on the procurement of steel plates and steel coils. Once the Group received sales proceeds from its customers, it would then repay the short term borrowings. Taking into account the Group's cash in hand and the available banking facilities of RMB515.5 million, the Group had sufficient liquidity and was in a strong financial position to repay its short term borrowings.

As at 31 December 2017, the current liabilities of the Group exceeded its current assets by approximately RMB2,167.0 million. Phase I and phase II of GDC has been pre-sold in order to increase the cashflow of the Group. Furthermore, subsequent to 31 December 2017, the Group has received a 3-year shareholders loan of RMB1.68 billion from Guangdong Yuecai. The Group has sufficient cashflow to meet its short term obligations.

As at 31 December 2017, approximately 61% (2016: 43%) of the total borrowings were denominated in Renminbi, which carried interest rates linked to the benchmark lending rate published by the People's Bank of China; approximately 15% (2016: 15%) of the total borrowings were denominated in Renminbi which carried fixed interest rate; approximately 0% (2016: 9%) of the total borrowings were denominated in US dollar and HK dollar with interest rates linked to the London interbank offered rates for US dollar loans and Hong Kong interbank offered rates for HK dollar loans; and approximately 24% (2016: 33%) of the total borrowings were denominated in US dollar which carried fixed interest rate.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

On 30 December 2016, the Group entered into a purchase agreement with Guangzhou City Pearl River Machine Tool Works Co., Ltd.*（廣州市珠江機床廠有限公司）(“GZMT”) for the purchase of spare parts and production line (“Purchase Transaction”) from the latter for the maintenance of machines, installation of rolling line electrical drive system equipment and transformation of steel transportation system of bimetal composite plate processing plant in Lianyungang, the PRC. The consideration for the Purchase Transaction is approximately RMB173.6 million. The purchase of the spare parts and production line is mainly for the construction of the bimetal composite plate processing plant in Lianyungang, the PRC as per the Company’s announcement dated 18 November 2016 and the circular dated 9 January 2017. GZMT is ultimately, wholly and beneficially, owned by Mr. Chen Chang, the controlling shareholder and chairman of the Company, and is therefore an associate of Mr. Chen Chang and a connected person of the Company. The Purchase Transaction was duly passed by the independent shareholders of the Company at the extraordinary general meeting on 19 June 2017. As at 31 December 2017, the amount due from a related party of approximately RMB84.6 million was the advance payment to GZMT for the Purchase Transaction.

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

On 11 September 2017, the Group and Jiangyin City ChangPeng Recycled Resources Company Limited*（江陰市長鵬再生資源有限公司）(“Jiangyin ChangPeng”) entered into an asset transfer agreement, pursuant to which the Group agreed to sell, and Jiangyin ChangPeng agreed to purchase, the right of use of land parcel and production plant of Jiangsu production plant at a total consideration of RMB42.4 millon. The total net book value of the disposed assets of Jiangyin production plant as at 31 July 2017 was approximately RMB42.4 million. The Jiangyin production plant was acquired by the Group before listing of the Company’s shares on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Since there is only one production line in the Jiangyin production base and the space for its expansion is limited, the Group has developed the production bases in Lianyungang and Zhuhai. Now that the production bases in Lianyungang and Zhuhai are in operation, the Group can centralize its administration in the two major production bases. The disposal is to enhance the effectiveness of the Group’s management. The net proceeds from the disposal will be used as repayment of bank loan by the Group. The disposal will not have material effect on the business and operation of the Group.

On 25 October 2017, the Group and Guangzhou Ningjin Decoration Works Company Limited*（廣州寧進裝飾工程有限公司）("Guangzhou Ningjin") entered into a transfer agreement, pursuant to which, the Group agreed to sell, and Guangzhou Ningjin agreed to purchase, the property in Panyu at a total consideration of RMB55 million. The property is located at No. 9, 11, Dalong Street, Limin Street, Shiji Town, Panyu District, Guangzhou, the PRC*（中國廣州番禺區石基鎮大龍街利民街 9 號 11 號）with construction area of approximately 14,000 square meters. The book value of the property as at 30 September 2017 was approximately RMB42.89 million. The property is a non-core asset of the Group. The disposal has no impacts on the business operation of the Group. The disposal of property is to enhance the cashflow position of the Group.

Except the above, the Group had no other material acquisitions or disposals during the year.

LITIGATION

As at 31 December 2017, the Group had four settled lawsuits as follows:

(i) Nanjing Rongyu Group Company Limited*（南京鎔裕集團有限公司）("Nanjing Rongyu") and Nanjing City Qixia Hill Roll Steeling Company Limited*（南京市棲霞山軋鋼有限公司）("Qixia Hill")

Nanjing Yuanchang Investment Guarantee Development Co., Ltd.* ("Yuanchang Investment")（南京源昌投資擔保發展有限公司）claimed against Nanjing Rongyu and Qixia Hill for breaching and repudiating counter guarantee contract in the amount of RMB5.6 million. The concerned counter guarantee contract was signed by the ex-beneficial owners of Nanjing Rongyu Group (collectively, Nanjing Rongyu, Qixia Hill and Nanjing Rongyu Group Market Management Company Limited*（南京鎔裕集團市場管理有限公司）) prior to the Group's acquisition of Nanjing Rongyu in May 2013. The Group was not informed of such counter guarantee contract at the time of acquisition. According to the second instance judgement made by the Nanjing Intermediate People's Court, Nanjing Rongyu and Qixia Hill have to pay compensatory amount of RMB5.6 million and damages to Yuancheng Investment. On 29 May 2015, Nanjing Rongyu and Qixia Hill applied for a retrial to the Jiangsu Province Higher People's Court in respect of the above judgement. In July 2015, the Group was served with a notice of action from Jiangsu Province Higher People's Court informing it the case was under file transfer and pre-filing review procedures. As of the date of this announcement, the case was closed.

(ii) Nanjing Rongyu

Yuancheng Investment claimed against Nanjing Rongyu for breaching and repudiating a counter guarantee contract in the amount of RMB7.6 million. The concerned counter guarantee contract was signed 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 counter guarantee contract at the time of acquisition. According to the second instance judgement made by the Nanjing Intermediate People's Court, Nanjing Rongyu has to pay compensatory amount of RMB7.6 million and damages to Yuancheng Investment. On 29 May 2015, Nanjing Rongyu applied for a retrial to the Jiangsu Higher People's Court against the above judgement. In July 2015, the Group was served with a notice of action from Jiangsu Province Higher People's Court informing it the case was under file transfer and pre-filing review procedures. As of the date of this announcement, the case was settled.

(iii) Nanjing Rongyu

Yuancheng Investment claimed against Nanjing Rongyu for breaching and repudiating a counter guarantee contract in the amount of RMB4.0 million. Such counter guarantee contract was signed 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 counter guarantee contract at the time of acquisition. According to the second instance judgement made by the Nanjing Intermediate People's Court, Nanjing Rongyu has to pay compensatory amount of RMB4.0 million and damages to Yuancheng Investment. On 29 May 2015, Nanjing Rongyu applied for a retrial to the Jiangsu Higher People's Court against the above judgement. In July 2015, the Group was served with a notice of action from Jiangsu Province Higher People's Court informing it the case was under file transfer and pre-filing review procedures. As of the date of this announcement, the case was settled.

(iv) Nanjing Rongyu and Qixia Hill

Yuancheng Investment claimed against Nanjing Rongyu and Qixia Hill for breaching and repudiating a counter guarantee contract in the amount of RMB4.2 million. Such counter guarantee contract was signed 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 counter guarantee contract at the time of acquisition. According to the second instance judgement made by the Nanjing Intermediate People's Court, Nanjing Rongyu Group has to pay compensatory amount of RMB4.2 million and damages to Yuancheng Investment. On 29 May 2015, Nanjing Rongyu and Qixia Hill applied for a retrial to the Jiangsu Province Higher People's Court against the above judgement.

In July 2015, the Group was served with a notice of action from Jiangsu Province Higher People's Court informing it the case was under file transfer and pre-filing review procedures. As of the date of this announcement, the case was settled.

As at 31 December 2017, the Group had paid a total of RMB29 million to Yuancheng Investment. Such payment can be fully covered by the full provision in prior years.

EVENT AFTER THE REPORTING PERIOD

As disclosed in management discussion and analysis section – Business Review – Panyu land development section, on 12 February 2018, the Group has entered into the agreement ("Agreement") with Guangdong Yuecai Trust Co. Limited*（廣東粵財信托有限公司）("Guangdong Yuecai") and Guangzhou Asset Management Company Limited*（廣州資產管理有限公司）("Guangzhou Asset Management") (collectively the "Investor") 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. The Vendor and the Target Company shall complete the Asset Reorganisation. After the Asset Reorganisation, the only asset held by the Target Company 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 Land Use; and (iv) acquire 40% of the equity interest in PCKSP from the Chu Kong Steel Pipe Group Co. Ltd for a consideration equivalent to 40% of the fair value of the Land (after the Change of Land Use).

Apart from the above, there were no significant events subsequent to 31 December 2017 which would materially affect the Group's operating and financial performance as of the date of this announcement.

EMPLOYEE AND REMUNERATION POLICY

For the year ended 31 December 2017, staff costs (including Directors' remuneration in the form of salaries and other benefits) were approximately RMB178.0 million (2016: RMB212.2 million).

The Group remunerates its employees based on their performance, experience and prevailing industry practice. Competitive remuneration package is offered to retain elite employees. Our package includes salaries, medical insurance, discretionary bonuses, on-job training, other benefits as well as mandatory provident funds schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC. Pursuant to the Company's share option scheme and share award scheme, options to subscribe respectively for shares in the Company or share awards of the Company may be granted to eligible employees. No share option or share award was granted under the share option scheme or share award scheme during the year ended 31 December 2017.

As at 31 December 2017, the Group had a total of 1,600 full time employees (2016: 2,100 employees). The following set forth the total number of our staff by functions:

	2017	2016
Management	**170**	205
Production and logistics	**721**	1,086
Sales and marketing	**38**	54
Finance	**34**	42
Quality control	**66**	127
R&D	**67**	67
Procurement	**22**	32
General administration and others	**482**	487
Total	**1,600**	2,100

FUTURE PLANS AND PROSPECTS

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

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

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

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

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

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

Moreover, the OBOR strategy and the establishment of Asia Infrastructure Investment Bank ("AIIB") are expected to inject fresh vitality into the infrastructure and hardware development in Asia, and propel economic growth in the region. As a world-famous steel pipe manufacturer, the Company is poised to capture the rare opportunities brought by the OBOR strategy and AIIB. Demand is expected to increase substantially in respect of the pipes to be used in infrastructure projects and oil and gas pipeline installations.

CODE OF CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, the Company has complied with all the code provisions set out in the Corporate Governance Code Practices (the "CG Code") set out in the former Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the financial year ended 31 December 2017.

CG CODE A.2.1

The Company is aware of the requirement under paragraph A.2.1 of the CG Code that the roles of chairman and chief executive should be separated and should not be performed by the same individual. The Company does not separately have any officer with the title of "chief executive". Mr. Chen Chang, the chairman and founder of the Group, is also responsible for the leadership and effective running of the Board, 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 complement the role of the chairman and chief executive. 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 shall nevertheless review the structure from time to time to ensure appropriate measures would be taken should suitable circumstance arise.

NON-COMPETITION UNDERTAKINGS

The independent non-executive Directors have also reviewed the confirmations given by Mr. Chen Chang and Bournam, controlling shareholders of the Company, in respect of each of their compliance with the non-competition undertakings as disclosed in the prospectus of the Company dated 28 January 2010.

AUDIT COMMITTEE

The audit committee of the Board (the "Audit Committee") consists of three independent non-executive Directors, namely Mr. Chen Ping, Mr. See Tak Wah and Mr. Tian Xiao Ren. Mr. See Tak Wah is the chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise the financial reporting process and the internal control and risk management procedures and systems of the Group. The Audit Committee has reviewed the Company's audited consolidated financial statements for the year ended 31 December 2017 and the condensed unaudited consolidated interim financial statements for the six months ended 30 June 2017, including the accounting principles and practices adopted by the Company and the Group.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the Company's listed securities.

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 a specific enquiry, all the Directors have confirmed that they have complied with the Model Code throughout the year ended 31 December 2017.

FINAL DIVIDEND

The Board did not recommend the payment of final dividend for the year ended 31 December 2017.

ANNUAL GENERAL MEETING

The annual general meeting ("AGM") of the Company will be held at 7th Floor, W Hong Kong Hotel, 1 Austin Road West, Kowloon Station, Kowloon, Hong Kong on Friday, 8 June 2018 at 10:30 a.m.

CLOSURE OF REGISTER OF MEMBERS FOR AGM

The register of members of the Company will be closed from Tuesday, 5 June 2018 to Friday, 8 June 2018, both days inclusive, during which no transfer of shares of the Company (the "Shares") will be registered. In order to qualify for attending and voting at the AGM, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Monday, 4 June 2018.

PUBLICATION OF INFORMATION ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This results announcement is required to be published on the websites of the Stock Exchange at www.hkexnews.hk under "Listed Company Information" and the designated website of the Company at http://www.pck.com.cn or http://www.pck.todayir.com, respectively. The annual report of the Company for the year ended 31 December 2017 will be despatched to the shareholders and published on the Stock Exchange's and the Company's websites in due course.

By order of the Board
Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited
Chen Chang
Chairman

Hong Kong, 28 March 2018

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Chen Chang, Ms. Chen Zhao Nian and Ms. Chen Zhao Hua; and three independent non-executive Directors, namely Mr. Chen Ping, Mr. See Tak Wah and Mr. Tian Xiao Ren.

* *The English translation of the Chinese names or words in this announcement, where indicated, is included for identification purpose only, and should not be regarded as the official English translation of such Chinese names or words.*