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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 2018

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 2018 (the "Consolidated Financial Statements") together with the comparative figures of the previous financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	**2018** *RMB'000*	2017 *RMB'000*
REVENUE	*5*	**1,620,456**	873,293
Cost of sales		**(1,358,041)**	(815,182)
Gross profit		**262,415**	58,111
Other income and gains	*5*	**81,579**	140,553
Selling and distribution expenses		**(63,744)**	(107,330)
Administrative expenses		**(437,020)**	(475,632)
Exchange gain/(loss), net		**16,241**	(44,121)
Finance costs	*7*	**(374,468)**	(426,286)
Fair value loss on a derivative financial instrument		**(22,984)**	–
Impairment of property, plant and equipment		**–**	(18,006)
Other expenses		**(93,432)**	(12,873)
Fair value gain on an investment property		**21,779**	–
Share of loss of a joint venture		**(2,724)**	(2,779)
LOSS BEFORE TAX	*6*	**(612,358)**	(888,363)
Income tax credit	*8*	**113,423**	14,608
LOSS FOR THE YEAR		**(498,935)**	(873,755)

	2018	2017
	RMB'000	*RMB'000*
Loss attributable to:		
Owners of the parent	**(498,813)**	(872,219)
Non-controlling interests	**(122)**	(1,536)
	(498,935)	(873,755)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		
Basic and diluted	**RMB(0.49)**	RMB(0.86)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2018 *RMB'000*	2017 *RMB'000*
LOSS FOR THE YEAR	**(498,935)**	(873,755)
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(116,857)**	153,862
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	**(116,857)**	153,862
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	**(116,857)**	153,862
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(615,792)**	(719,893)
Total comprehensive loss attributable to:		
Owners of the parent	**(615,670)**	(718,357)
Non-controlling interests	**(122)**	(1,536)
	(615,792)	(719,893)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2018 *RMB'000*	2017 *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**2,805,810**	3,082,754
Investment property		**1,160,000**	1,138,221
Long term prepayments and deposits		**111,320**	123,710
Prepaid land lease payments		**1,087,394**	1,123,673
Investment in a joint venture		**31,832**	34,556
Available-for-sale investment		**–**	800
Deferred tax asset		**161,600**	–
Pledged deposits		**80,000**	482,723
Total non-current assets		**5,437,956**	5,986,437
CURRENT ASSETS			
Properties under development		**1,691,699**	2,601,118
Completed properties for sale		**749,869**	–
Inventories		**223,057**	288,705
Trade and bills receivables	*10*	**540,225**	371,120
Prepayments, other receivables and other assets		**674,844**	601,470
Pledged and restricted bank balances		**539,060**	183,286
Cash and bank balances		**66,907**	36,392
Due from a related party		**84,676**	84,568
Total current assets		**4,570,337**	4,166,659
CURRENT LIABILITIES			
Trade and bills payables	*11*	**688,464**	670,349
Interest-bearing bank and other borrowings	*12*	**2,012,848**	3,332,194
Contract liabilities		**896,765**	–
Other payables and accruals		**762,458**	1,695,458
Fixed rate bonds and notes	*13*	**–**	467,821
Derivative financial instrument		**22,984**	–
Due to a director		**118,944**	106,994
Tax payable		**107,583**	60,800
Total current liabilities		**4,610,046**	6,333,616

	Notes	**2018** **RMB'000**	2017 RMB'000
NET CURRENT LIABILITIES		**(39,709)**	(2,166,957)
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,398,247**	3,819,480
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**574,798**	577,019
Interest-bearing bank and other borrowings	*12*	**4,084,871**	1,880,686
Fixed rate bonds and notes	*13*	**157,406**	140,597
Government grants		**350,899**	375,113
Total non-current liabilities		**5,167,974**	2,973,415
Net assets		**230,273**	846,065
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**88,856**	88,856
Reserves		**129,997**	745,667
		218,853	834,523
Non-controlling interests		**11,420**	11,542
Total equity		**230,273**	846,065

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 IFRSs issued by 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 and a derivative financial instrument which have 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 RMB498,935,000 for the year ended 31 December 2018 (2017: loss of RMB873,755,000), which included (i) a provision for impairment of trade and other receivables amounting to RMB7,053,000 (2017: RMB1,709,000), (ii) nil provision for inventories in respect of the write-down to net realisable value (2017: RMB7,020,000); and (iii) nil impairment of property, plant and equipment (2017: RMB18,006,000). These non-cash items had not affected the Group's operating cash flows. The Group had net cash inflows from operating activities of approximately RMB43,614,000 (2017: RMB557,662,000).

As at 31 December 2018, the Group recorded net current liabilities of RMB39,709,000 (2017: RMB2,166,957,000), included therein were the bank and other borrowings of RMB2,012,848,000 (2017: RMB3,800,015,000) which were due for repayment or renewal within the next twelve months after 31 December 2018.

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) On 2 February 2018, the Group entered into a capital injection agreement and a loan agreement with an independent third party. Pursuant to the capital injection agreement, the independent third party acquired 1% of the equity interest in a subsidiary (Panyu Chu Kong Steel Pipe Co., Ltd. ("PCKSP") of the Group at the consideration of approximately HK$15.65 million. Pursuant to the loan agreement, the independent third party agreed to provide a loan to the Group in the amount of RMB1.68 billion 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. The loan was received on 9 March 2018 and 12 March 2018.

(2) On 12 February 2018, the Group entered into an agreement with the independent third party in relation to the cooperation to facilitate the change of the use of the land held by PCKSP from "industrial" to "residential and commercial", and the disposal of an aggregate of 59% of the equity interest in the subsidiary. The land of PCKSP will be restored and resold to the government after the change of land use.

(3) On 27 February 2019, the Group entered into the sale and purchase agreement with the independent third party for the sale of the remaining 80% equity interest of PCKSP, for a total consideration of RMB2,448 million. The execution of this agreement is subject to approval of the shareholders upon the extraordinary general meeting to be held on 16 April 2019.

(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 continues to take action to tighten cost controls over various operating expenses, and is actively seeking new investment and business opportunities with an aim to 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:

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

Other than as explained below, the adoption of the above revised standards has had no significant financial effect on these financial statements.

(a) IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The adoption of hedge accounting requirements of IFRS 9 has had no impact on the Group's financial statements, as the Group did not have any hedging relationship. The Group has recognised the transition adjustments for classification and measurement and impairment against the applicable opening balances at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under IAS 39.

Classification and measurement

The following information sets out the impacts of adopting IFRS 9 on the statement of financial position, including the effect of replacing IAS 39's incurred credit loss calculations with IFRS 9's expected credit losses ("**ECLs**").

A reconciliation between the carrying amounts under IAS 39 and the balances reported under IFRS 9 as at 1 January 2018 is as follows:

		IAS 39 Measurement				IFRS 9 Measurement	
	Note	**Category**	**Amount** *RMB'000*	**Re-classification** *RMB'000*	**ECL** *RMB'000*	**Amount** *RMB'000*	**Category**
Financial assets							
Available-for-sale investment		AFS[1]	800	(800)	–	–	N/A
To: Financial assets at fair value through profit or loss	*(i)*			(800)	–		
Financial assets at fair value through profit or loss		N/A		800	–	800	FVPL[2] (mandatory)
From: Available-for-sale investment	*(i)*			800	–		
Trade receivables		L&R[3]	335,591	–	–	335,591	AC[4]
Bills receivable		L&R	35,529	–	–	35,529	AC
Financial assets included in prepayments, other receivables and other assets		L&R	153,155	–	–	153,155	AC
Financial assets included in long term prepayments and deposits		L&R	38,825	–	–	38,825	AC
Pledged and restricted bank balances		L&R	252,292	–	–	252,292	AC
Time deposit		L&R	413,717	–	–	413,717	
Cash and cash equivalents		L&R	36,392	–	–	36,392	AC
Total assets			1,266,301			1,266,301	
Financial liabilities							
Trade and bills payables		AC	670,349	–	–	670,349	AC
Financial liabilities included in other payables and accruals		AC	452,883	–	–	452,883	AC
Interest bearing bank and other borrowings		AC	5,212,880	–	–	5,212,880	AC
Fixed rate bonds and notes		AC	608,418	–	–	608,418	AC
Total liabilities			6,944,530			6,944,530	

1 AFS: Available-for-sale investments

2 FVPL: Financial assets at fair value through profit or loss

3 L&R: Loans and receivables

4 AC: Financial assets or financial liabilities at amortised cost

Note:

(i) The Group has classified its equity investment in an unlisted company previously classified as available-for-sale investment as a financial asset at fair value through profit or loss upon adoption of IFRS 9 on 1 January 2018, as management planned to dispose of this investment during the year ended 31 December 2018 since the investments no longer coincided with the Group's investment strategy.

Impairment

The adoption of IFRS 9 has had no material impact on the impairment provisions of the Group's financial assets.

(b) IFRS 15 and its amendments replace IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. As a result of the application of IFRS 15, the Group has changed the accounting policy with respect to revenue recognition.

The Group has adopted IFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of IFRS 15 was not significant on the opening balance of retained profits as at 1 January 2018. Besides, the comparative information was not restated and continues to be reported under IAS 11, IAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of IFRS 15:

	Notes	**Increase/ (decrease)** *RMB'000*
Assets		
Properties under development	*(ii)*	45,870
Liabilities		
Receipts in advance	*(i)*	(920,087)
Contract liabilities	*(i) (ii)*	965,957
		45,870
Equity		–

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of IFRS 15. The adoption of IFRS 15 has had no impact on profit or loss and other comprehensive income or on the Group's operating, investing and financing cash flows.

Consolidated statement of profit of loss as at 31 December 2018:

		Amounts prepared under		
			Previous	
		IFRS 15	**IFRS**	**Increase**
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Revenue	*(ii)*	1,620,456	1,602,227	18,229
Cost of sales	*(ii)*	(1,358,041)	(1,339,812)	18,229
		262,415	262,415	–

Consolidated statement of financial position as at 31 December 2018:

		Amounts prepared under		
			Previous	**Increase/**
		IFRS 15	**IFRS**	**(decrease)**
	Notes	*RMB'000*	*RMB'000*	*RMB'000*
Properties under development	*(ii)*	2,851,699	2,834,370	17,329
Completed properties held for sale	*(ii)*	749,869	723,556	26,313
Total assets		3,601,568	3,557,926	43,642
Receipts in advance	*(i)*	–	853,123	(853,123)
Contract liabilities	*(i) (ii)*	896,765	–	896,765
Total liabilities		896,765	853,123	43,642
Total equity		2,704,803	2,704,803	–

The nature of the adjustments as at 1 January 2018 and the reasons for the changes in the statement of financial position as at 31 December 2018 and the statement of profit or loss for the year ended 31 December 2018 are described below:

(i) Consideration received from customers in advance

Before the adoption of IFRS 15, the Group recognised consideration received from customers in advance as other payables. Under IFRS 15, the amount is classified as contract liabilities.

Therefore, upon adoption of IFRS 15, the Group reclassified RMB920,087,000 from receipt in advance recorded in other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under IFRS 15, RMB853,123,000 was reclassified from receipt in advance recorded in other payables to contract liabilities in relation to the consideration received from customers in advance for the sale of goods.

(ii) Significant financing component for sales of properties

In addition to the reclassification aforementioned, IFRS 15 required the Group to recognise contract liabilities for the interest on the sales proceeds with a significant financing component based on the incremental borrowing cost of the relevant project company. The Group elected to apply the practical expedient and did not recognise the effects of a significant financing component with a customer where the period between the payment and delivery of properties is one year or less. As the financing component is related to the construction of properties, the interest is capitalised into properties under development.

Therefore, upon adoption of IFRS 15, the Group recognised RMB45,870,000 as interest capitalised into properties under development and contract liabilities as at 1 January 2018 in relation to the significant financing component for long-term advance from sales of properties.

As at 31 December 2018, under IFRS 15, RMB17,329,000 was recognised into properties under development, while RMB44,542,000 into completed properties held for sales and totally RMB61,871,000 into contract liabilities, among which due to the sales recognition occurred in current year, contract liabilities and completed properties held for sales derived from financing component with the same amount of RMB18,229,000 were recognised into revenue and cost of sales.

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 resource 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 2018

	Steel pipes *RMB'000*	**Property development and investment** *RMB'000*	**Total** *RMB'000*
Segment revenue:			
Sales to external customers	**1,071,126**	**549,330**	**1,620,456**
Segment results:	**(450,924)**	**13,489**	**(437,435)**
Reconciliation:			
Corporate and other unallocated expenses			**(77,717)**
Finance costs			**(97,206)**
Loss before tax			**(612,358)**
Segment assets:	**2,130,145**	**3,907,034**	**6,037,179**
Reconciliation:			
Elimination of intersegment receivables			**1,808,722**
Corporate and other unallocated assets			**2,162,392**
Total assets			**10,008,293**
Segment liabilities:	**3,556,466**	**3,482,512**	**7,038,978**
Reconciliation:			
Elimination of intersegment payables			**1,808,722**
Corporate and other unallocated liabilities			**930,320**
Total liabilities			**9,778,020**
Other segment information:			
Share of loss of a joint venture	**(2,724)**	**–**	**(2,724)**
Impairment losses recognised in the statement of profit or loss	**(7,053)**	**–**	**(7,053)**
Depreciation and amortisation	**(165,464)**	**(349)**	**(165,813)**
Investment in a joint venture	**31,832**	**–**	**31,832**
Capital expenditure*	**22,430**	**41**	**22,471**

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*	34,116	140	34,256

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

Information about steel pipe products and services and property development

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

	2018 *RMB'000*	2017 *RMB'000*
Manufacture and sale of steel pipes:		
LSAW steel pipes	**591,276**	512,343
SSAW steel pipes	**120,779**	37,370
ERW steel pipes	**30,576**	129,924
Steel pipe manufacturing services:		
LSAW steel pipes	**195,682**	47,165
SSAW steel pipes	**72,786**	24,190
ERW steel pipes	**897**	1,286
Others*	**59,130**	121,015
	1,071,126	873,293
Sales of properties	**549,330**	–
	1,620,456	873,293

* 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

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

	2018 *RMB'000*	2017 *RMB'000*
Sales to external customers:		
Mainland China	**1,353,922**	467,733
Other Asian countries	**166,404**	160,652
Africa	**–**	114,951
Oceania	**16,683**	77,093
America	**–**	44,932
Middle East	**81,421**	7,396
European Union	**2,026**	536
	1,620,456	873,293

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

Information about major customers

No revenue generated from a single customer amounted to 10% or more of total revenue of the Group for the year.

Revenue from each major customer which accounted for 10% or more of the Group's revenue for 2017 is set out below:

	2017
	RMB'000
Customer A	97,986
Customer B	90,866

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:

	2018	2017
	RMB'000	*RMB'000*
Revenue		
Manufacture and sale of welded steel pipes and the provision of related manufacturing services	**1,071,126**	873,293
Sales of properties	**549,330**	–
	1,620,456	873,293
Other income and gains		
Bank interest income	**26,812**	38,792
Subsidy income from the PRC government	**46,534**	26,914
Compensation	**79**	67,077
Gain on disposal of items of property, plant and equipment and prepaid land lease payments	**–**	5,879
Others	**8,154**	1,891
	81,579	140,553

The subsidy income represents subsidies granted by the local finance bureaus to Panyu Chu Kong Steel Pipe (Lianyungang) Co., Ltd., PCKSP, 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.

Revenue from contracts with customers

(i) Disaggregated revenue information

Year ended 31 December 2018	**Steel pipes** *RMB'000*	**Property** *RMB'000*	**Total** *RMB'000*
Sales of goods/properties	1,071,126	549,330	1,620,456
Geographical markets			
Mainland China	804,592	549,330	1,353,922
European Union	2,026	–	2,026
Middle East	81,421	–	81,421
Other Asian countries	166,404	–	166,404
Oceania	16,683	–	16,683
Total revenue from contracts with customers	1,071,126	549,330	1,620,456
Timing of revenue recognition			
Goods/properties transferred at a point in time with customers	1,071,126	549,330	1,620,456

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2018 *RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Sales of steel pipes	275,402
Sales of properties	507,700
	783,102

(ii) Performance obligations

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

Sales 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.

Sales of properties

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

6. LOSS BEFORE TAX

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

	Notes	2018 RMB'000	2017 RMB'000
Cost of inventories sold		**730,714**	542,921
Cost of properties sold		**479,797**	–
Depreciation		**140,406**	143,045
Share of loss of a joint venture		**2,724**	2,779
Amortisation of prepaid land lease payments		**25,407**	26,456
Minimum lease payments under operating leases		**10,458**	9,613
Auditor's remuneration		**2,460**	3,489
Exchange (gain)/loss, net		**(16,241)**	44,121
Fair value gain on an investment property		**(21,779)**	–
Fair value loss on a derivative financial instrument		**22,984**	–
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		**140,257**	156,789
Retirement benefit scheme contributions		**15,095**	21,219
Impairment of trade receivables	*10*	**2,450**	1,721
Impairment of/(reversal of impairment of) deposits and other receivables*		**4,603**	(12)
Write-down of inventories to net realisable value*		**–**	7,020
Impairment of property, plant and equipment		**–**	18,006
Bank interest income	*5*	**(26,812)**	(38,792)
Research and development costs		**38,718**	72,363

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 RMB'000	2017 RMB'000
Interest on bank and other borrowings (including bonds and notes)	**462,155**	470,153
Interest on finance leases	**4,344**	11,754
Interest on discounted bills	**9,868**	8,717
Total interest expense on financial liabilities not at fair value through profit or loss	**476,367**	490,624
Less: Interest capitalised	**(101,899)**	(64,338)
	374,468	426,286

8. INCOME TAX

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

	2018	2017
	RMB'000	*RMB'000*
Current – Mainland China		
Charged for the year	**33,349**	574
Deferred	**(146,772)**	(15,182)
Total tax credit for the year	**(113,423)**	(14,608)

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 (2017: 1,011,142,000) in issue during the year.

The calculation of the diluted loss per share is based on the loss for the year attributable to ordinary equity holders of the parent, adjusted to reflect the interest on a derivative financial instrument. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic loss per share calculation, and the weighted average number of ordinary shares assumed to have been issued at HK$0.84 per share on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares. Because the exercise price of the warrants is greater than share price as at 31 December 2018, the derivative financial instrument is ignored in the calculation of diluted loss per share.

10. TRADE AND BILLS RECEIVABLES

	2018	2017
	RMB'000	*RMB'000*
Trade receivables	**459,112**	350,024
Impairment	**(16,883)**	(14,433)
Trade receivables, net	**442,229**	335,591
Bills receivables	**97,996**	35,529
	540,225	371,120

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

	2018	2017
	RMB'000	*RMB'000*
Within 60 days	**234,319**	64,914
61 to 90 days	**3,882**	5,046
91 to 180 days	**10,005**	36,544
181 to 365 days	**41,986**	42,305
1 to 2 years	**60,762**	111,636
2 to 3 years	**91,275**	58,143
Over 3 years	**–**	17,003
	442,229	335,591

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

	2018	2017
	RMB'000	*RMB'000*
At 1 January	**14,433**	12,712
Impairment losses recognised	**2,450**	2,974
Impairment losses reversed	**–**	(1,253)
At 31 December	**16,883**	14,433

Impairment under IFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Invoice day				
	Less than 1 year	**1 to 2 years**	**2 to 3 years**	**Over 3 years**	**Total**
Expected credit loss rate	0.3%	1.1%	1.9%	100.0%	
Gross carrying amount *(RMB'000)*	291,194	61,466	93,066	13,386	459,112
Expected credit losses *(RMB'000)*	1,002	704	1,791	13,386	16,883

Impairment under IAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB14,433,000 with a carrying amount before provision of RMB14,433,000.

An ageing analysis of trade receivables as at 31 December 2017 that were not considered to be impaired under IAS 39 is as follows:

	2017 *RMB'000*
Neither past due nor impaired	161,646
Past due but not impaired	
1 to 180 days	44,840
181 to 365 days	66,681
Over 365 days	62,424
	335,591

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 were of the opinion that no provision for impairment under IAS 39 was necessary in respect of these balances as there has not been a significant change in credit quality and the balances were 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:

	2018	2017
	RMB'000	*RMB'000*
Trade payables		
Within 90 days	**48,033**	51,306
91 to 180 days	**253,033**	318,893
181 to 365 days	**157,306**	16,775
1 to 2 years	**129,086**	79,394
2 to 3 years	**31,056**	56,664
Over 3 years	**41,796**	24,240
	660,310	547,272
Bills payable	**28,154**	123,077
	688,464	670,349

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

All the bills payable have maturity dates within 365 days.

12. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2018			2017		
	Effective interest rate (%)	**Maturity**	***RMB'000***	Effective interest rate (%)	Maturity	*RMB'000*
Current						
Finance lease payables			**–**	4.61-8.43	2018	100,476
Bank loans						
– secured	**4.35-5.22**	**2019**	**450,100**	2.75-6.16	2018	825,833
– unsecured	**6.09-6.63**	**2019**	**103,861**	4.35-6.09	2018	404,230
Other borrowings						
– secured			**–**	16	2018	324,824
– unsecured	**5.6-19.44**	**2019**	**857,335**	4.35-24	2018	729,465
Government loans						
– secured	**4.90**	**2019**	**70,400**	4.75-4.90	2018	143,500
– unsecured			**–**	2.65-4.75	2018	194,000
Current portion of long term loans						
– secured	**5.39-7.35**	**2019**	**531,152**	4.75-7.35	2018	609,866
Subtotal			**2,012,848**			3,332,194
Non-current						
Finance lease payables			**–**	5.68-8.43	2019-2020	52,678
Bank loans						
– secured	**5.39-10.00**	**2020-2028**	**1,577,100**	2.95-7.21	2019-2028	1,449,608
Government loans						
– secured	**4.90**	**2020-2023**	**308,000**	4.90	2019-2023	378,400
Other borrowings						
– secured	**10.00-16.00**	**2021**	**2,199,771**			–
Subtotal			**4,084,871**			1,880,686
			6,097,719			5,212,880

	2018	2017
	RMB'000	*RMB'000*
Analysed into:		
Bank loans repayable:		
Within one year	**1,085,113**	2,168,753
In the second year	**42,900**	49,708
In the third to fifth years, inclusive	**414,100**	345,300
Beyond five years	**1,120,100**	1,050,600
	2,662,213	3,614,361
Government loans repayable:		
Within one year	**70,400**	337,500
In the second year	**88,000**	70,400
In the third to fifth years, inclusive	**220,000**	264,000
Beyond five years	**–**	44,000
	378,400	715,900
Other borrowings repayable:		
Within one year	**857,335**	829,942
In the second year	**–**	37,677
In the third to fifth years, inclusive	**2,199,771**	15,000
	3,057,106	882,619
	6,097,719	5,212,880

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 RMB833,371,000 (2017: RMB1,477,453,000) 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 RMB618,639,000 (2017: RMB1,003,365,000) as at the end of the reporting period;

(c) the pledge of certain of the Group's deposits amounting to RMB426,600,000 (2017: RMB413,741,000) as at the end of the reporting period;

(d) the pledge of certain of the Group's properties under development amounting to RMB1,105,871,000 (2017: RMB1,355,945,000) as at the end of the reporting period; and

(e) the pledge of certain of the Group's completed properties held for sale amounting RMB373,919,000 (2017: Nil) as at the end of the reporting period.

Except for the bank loans of RMB407,632,000 (2017: RMB324,824,000) and RMB296,490,000 (2017: RMB8,908,000) as at 31 December 2018, 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:

	2018	2017
	RMB'000	*RMB'000*
Floating rate		
– expiring within one year*	**86,415**	515,500

* Pursuant to the relevant contract, certain of the Group's undrawn banking facilities of RMB32,100,000 (2017: RMB200,000,000) 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 should be due 2018 but rescheduled to 2019

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 2019 (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. The 2013 Bonds were rescheduled and reclassified to other borrowings.

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 (2017 Notes)

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

US$3,000,000 7% bonds due 2020 (2017 Bonds-A)

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

HK$10,000,000 7% bonds due 2021 (2017 Bonds-B)

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

HK$10,000,000 6% bonds due 2020 (2017 Bonds-C)

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

	2018				2017			
	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
2014 Bonds				–	HK$100	5.0	2017	–
				–				467,821
Non-current								
2013 Bonds	US$72	5.6	2018	–	US$72	5.6	2018	–
2017 Notes	HK$155	8.0	2020	124,790	HK$155	8.0	2020	112,057
2017 Bonds_A	US$3	7.0	2020	18,442	US$3	7.0	2020	16,194
2017 Bonds_B	HK$10	7.0	2021	6,834	HK$10	7.0	2021	5,991
2017 Bonds_C	HK$10	6.0	2020	7,340	HK$10	6.0	2020	6,355
				157,406				140,597
				157,406				608,418

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 2018, 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 2018, 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 RMB498,935,000 during the year ended 31 December 2018 and, as of that date, the Group's current liabilities exceeded its current assets by RMB39,709,000. 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, I would like to present to you the audited consolidated annual results of the Group for the year ended 31 December 2018. In the difficult and challenging year of 2018, the Group recorded a turnover of approximately RMB1,620 million (2017: RMB873 million), increased by approximately 85.6% compared with that of 2017. Loss for the year was approximately RMB499 million (2017: loss of RMB874 million). Loss per share attributable to ordinary equity holders of the Company was approximately RMB0.49 (2017: loss per share of RMB0.86). The Board did not recommend the payment of a final dividend for the year ended 31 December 2018.

The oil and gas industry is set to trend upward steadily after about three years of "Cold Winter" with low price and low return since the slump in oil price. As the operation conditions for the steel pipe industry was extremely difficult due to a volatile market for oil price in 2018, the results of the Group was also unsatisfactory, which was attributable to the fact that major oil and gas projects were still launched at a slow pace in both domestic and international markets, and the demand for steel pipes fell below market expectation in the last year. Despite a slight increase in domestic and international sales, the Group's operation was extremely difficult based on its current scale. During the year, we delivered a total of 348,000 tons of steel pipes and received orders for a total of 360,000 tons of steel pipes, including projects of the three large oil companies, the project of Shenzhen-Zhongshan Bridge*（深中通道）and other national key projects.

Fortunately, with substantial advance on the reform of gas pipe network and further progress made in interconnection at the beginning of 2019, the demand for steel pipes has been recovering. The whole oilfield services industry is rebooting with a mass of new projects launched in the first quarter. In domestic market, we have secured orders, including Ordos-Anping-Cangzhou Project*（鄂安滄項目）from China Petroleum, Qingdao-Nanjing Natural Gas Pipeline Project *（青寧輸氣管道工程項目）and Zhongke Natural Gas Supply Project*（中科供氣管道項目）, to supply steel pipes of LSAW; and we have also been awarded the steel pipes procurement work for the construction of 30km high-pressure natural gas pipeline network of Foshan, a part of the natural gas pipeline network of Guangdong province; the project of the branch pipe networks of Shaoguan-Guangzhou, a part of the arterial natural gas pipe network of Northern Guangdong; and the project of the branch pipe networks of Yangjiang-Jiangmen, a part of the arterial natural gas pipe network of Western Guangdong. In overseas market, the Group has obtained projects from oil and gas companies based in East Asia to supply steel pipes of LSAW.

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

The Group has successfully relocated its production facilities from Panyu to Lianyungang and Zhuhai, which will become 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 types of steel pipes. The Zhuhai base and Lianyungang base have respectively been rewarded national and provincial titles, such as "Guangdong Engineering Technology Research Center for Marine Engineering 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 Engineering Technology Research Center for Marine Engineering Pipe Material and Equipment*" (廣東省海洋工程管材及裝備工程技術研究中心), "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) and they will be focused on securing orders of marine engineering equipment and oil and gas national projects by leveraging the Group's geographical advantages in southern part and northern part of China.

In 2018, a new milestone has been achieved by the Group in the course of its overseas expansion. The production plant under the joint venture located in Saudi Arabia has been duly put into commercial operation and acquired relevant international certificates required for tender of petroleum and natural gas, i.e. ISO 9001 and API certification. Moreover, in early 2019, it reached an impressive outlook by receiving new orders in aggregate of approximately 35,000 tonnes from Saudi Aramco, the largest oil company of the world. 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 of PCK will be more extensively recognised in the region and we can capture more business opportunities.

The plan of disposal of the land held by Panyu Chu Kong Steel Pipe Co., Ltd. was announced by the Group in late February. The land, located in Qinghe Road, Shiji Town, Panyu District, Guangzhou City, Guangdong Province, the PRC, was originally used for the production plant in Panyu. Covering an area of approximately 287,000 square meters, it accounted for roughly three fourths of the total land area of the Panyu factory site. The proceeds from foresaid disposal will be used to enhance the financial strength of the Group and reduce its debts and interest expenditures, which will be beneficial to the long-term development of the steel pipe business of the Group.

As an ongoing project of the Group, Golden Dragon City Fortune Plaza ("GDC") also contributed stable revenue to the Group of approximately RMB549 million for the year. GDC is a large-scale integrated commercial complex, occupying roughly a fourth of the total land area of the Panyu factory site. Phase one has been partially delivered by the end of the year. Phase one covers a permitted construction area (including underground construction area) of approximately 135,000 square meters. On the other hand, phase two covers an area of approximately 191,000 square meters, and certain units of which have been presold. 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.

Leveraging on our brand of PCK, outstanding performance and track record, we have been participating in a number of overseas large-scale projects that require steel pipes in high-quality standards. In 2018, the overseas orders we delivered included the gas pipeline project of Petrofac, orders from Saipem, the gas pipeline project in West Africa, etc. Recently, the Group also participated in tenders of several large-scale in domestic and overseas projects to further explore new markets, including oil and gas projects in other emerging markets of the globe. In general, there has been a boost in demand for steel pipe in the market, which resulted in a significant increase in tenders in progress by the Group as compared with last year.

PROSPECT AND GOING FORWARD

In 13th Five-Year Plan for Natural Gas Development, the PRC government has made it clear that the "13th Five-Year" will be an important era for the development of natural gas network of the nation, and the state will coordinate the supply of overseas and domestic gas resources and the gas demand of different regions for their economic development and will support the investment and construction activities in respect of natural gas pipelines by all participants. In the strategic pathway in Northwest China, the construction focus will be put on the Pipeline III (middle section), Pipeline IV, Pipeline V of West-East Gas Pipeline Project and to improve the D Line of Central Asia-China Gas Pipeline. The focus in the strategic pathway in Northeast China will be the Sino-Russian East-Route Natural Gas Pipeline. The focus in the strategic pathway in Southwest China will be the branch pipelines of China-Myanmar Natural Gas Pipeline which are to supply gas to Yunnan, Guizhou, Guangxi, Sichuan, etc. The construction of LNG terminals and ancillary pipeline network will be accelerated to facilitate the import of gas by sea. In addition, the government has also put forward a plan of constructing trunk line network, including Sichuan-East Gas Pipeline II, Ordos-Anping-Cangzhou Pipeline, Qingdao-Nanjing Pipeline and national trunk pipelines which supply gas to cities along the midstream of Yangtze River. Regional pipeline networks and inter-connected networks include Zhongwei-Jingbian, Puyang-Baoding, Dongxianpo-Yanshan, Wuqing-Tongzhou, Haikou-Xuwen, Jianping-Chifeng, Hangjinqi-Yinchuan, Chongqing-Guizhou-Guangxi, Weiyuan-Rongchang-Nanchuan-Fuling pipelines the construction of which have been completed. More resources will be invested in the construction of intra-provincial branch gas pipelines to extend market coverage.

In the future, we will develop more customers under "The Belt and Road Initiative" and more international oil company customers. In light of the positive effects brought by the government's policy of promoting the use of natural gas to the domestic market, we expect the demand for steel pipes may rebound. In fact, the "13th Five-Year Plan" for oil and gas pipeline networks has been launched, in which it is expected that by 2020, the crude oil pipelines, refined oil pipelines and natural gas pipelines would reach 32,000 km, 33,000 km and 104,000 km, respectively, and by 2025, the national oil and gas pipeline network would reach 240,000 km with further expanded coverage, optimized structure and significantly improved capacity of reserve and transmission. And there are 6 crude oil pipelines and 8 new refined oil pipelines to be constructed under the plan. Therefore, there would be another golden era for the development of oil and gas pipelines during the "13th Five-Year Plan".

Taking becoming a global leading steel pipe manufacturer as our long-term strategic target, the Group will seize the current opportunities of oil and gas development projects to expand our customer base and market share through biding for global oil and gas projects and will also continue to leverage its strengths in the steel pipe industry to obtain more orders.

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 continuous 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 and developed deep sea welded pipes for use at 3,500m 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 from the Export-Import Bank of China.

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 RMB1,662.3 million as at 31 December 2018. Sale of properties for the Group in 2018 was around RMB549.3 million.

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 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 (the "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 an 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 has relocated the production lines in Panyu to the Lianyungang and Zhuhai production sites. 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 2018, the Group received new orders of approximately 360,000 tonnes and approximately 87% were received from domestic customers. The Group has received some sizeable orders like orders from China Petroleum & Chemical Corporation（中國石油化工股份有限公司）("Sinopec"), Shenzhen-Zhongshan Bridge（深中通道）and construction projects in Hong Kong. The Group delivered approximately 348,000 tonnes of welded steel pipes during 2018.

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 73.5% of our total steel pipe revenue for the year ended 31 December 2018. For the year ended 31 December 2018, revenue from the sales and manufacturing service of LSAW steel pipes amounted to approximately RMB591.3 million and RMB195.7 million, respectively, representing an increase of approximately 15.4% and an increase of 314.9%, respectively, as compared to that for the year ended 31 December 2017. The increase in sales of LSAW steel pipes was mainly due to the increase in domestic orders. Major oil and gas projects in the PRC have been recovered.

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 RMB120.8 million and RMB72.8 million respectively. The total revenue from SSAW steel pipes accounted for approximately 18.1% of the total steel pipe revenue for the year ended 31 December 2018.

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 2018, revenue from the sales and manufacturing service of ERW steel pipes amounted to approximately RMB30.6 million and RMB0.9 million, respectively. The total revenue from ERW steel pipes accounted for approximately 2.9% of the total steel pipe revenue for the year ended 31 December 2018.

FINANCIAL REVIEW

Revenue and gross profit

Revenue of the Group mainly comprises (i) steel pipe sales, and (ii) property sales.

For the year ended 31 December 2018, our revenue was approximately RMB1,620.5 million, representing an increase of approximately RMB747.2 million or 85.6% as compared with that of 2017. The increase in revenue was mainly due to the increase in domestic orders received by the Group and recognition of property sales. Major oil and gas projects in the PRC have been recovered. The Group recognised most of property sales of Phase I of GDC in 2018.

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:

	2018		2017	
	RMB'000	***% to total***	*RMB'000*	*% to total*
Revenue				
Steel pipe sales	**1,071,126**	**66.1**	873,293	100.0
Property sales	**549,330**	**33.9**	–	–
	1,620,456	**100.0**	873,293	100.0

Steel pipes sales

	2018		2017	
	Revenue		Revenue	
	RMB'000	***% to total***	*RMB'000*	*% to total*
Sales of steel pipes				
LSAW steel pipes	**591,276**	**55.2**	512,343	58.6
SSAW steel pipes	**120,779**	**11.3**	37,370	4.3
ERW steel pipes	**30,576**	**2.8**	129,924	14.9
Subtotal	**742,631**	**69.3**	679,637	77.8
Manufacturing services				
LSAW steel pipes	**195,682**	**18.3**	47,165	5.4
SSAW steel pipes	**72,786**	**6.8**	24,190	2.8
ERW steel pipes	**897**	**0.1**	1,286	0.1
Subtotal	**269,365**	**25.2**	72,641	8.3
Others	**59,130**	**5.5**	121,015	13.9
Grand total	**1,071,126**	**100.0**	873,293	100.0

	2018			2017		
	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	**74,169**	**105,418**	**704**	41,574	101,401	410
SSAW steel pipes	**3,739**	**24,941**	**150**	2,584	8,235	314
ERW steel pipes	**1,242**	**6,679**	**186**	371	25,232	15
Subtotal	**79,150**	**137,038**		44,529	134,868	
Manufacturing services						
LSAW steel pipes	**84,905**	**119,981**	**708**	17,893	31,143	575
SSAW Steel pipes	**27,458**	**90,526**	**303**	276	47,601	6
ERW steel pipes	**178**	**828**	**215**	5	707	7
Subtotal	**112,541**	**211,335**		18,174	79,451	
Others	**1,191**	**N/A**	**N/A**	(4,592)	N/A	N/A
Grand total	**192,882**	**348,373**		58,111	214,319	

The revenue generated from the sales of steel pipes accounted for approximately 69.3% of our total steel pipe revenue in 2018 as compared with approximately 77.8% in 2017. Steel pipe manufacturing services accounted for approximately 25.2% of our total steel pipe revenue in 2018 as compared with approximately 8.3% in 2017. 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 5.5% of our total steel pipe revenue in 2018 as compared with approximately 13.9% in 2017.

Gross profit of steel pipe sales for 2018 was approximately RMB192.9 million as compared with approximately RMB58.1 million in 2017, representing an increase of approximately 231.9% or RMB134.8 million. Gross profit margin for 2018 was approximately 18.0% which was higher than that of last year as the Group has delivered some sizeable orders to Sinopec which were mainly manufacturing services with high profit margin.

Our domestic sales accounted for approximately 75.1% of our total steel pipe revenue in 2018, as compared to approximately 53.6% in 2017.

SALES BY GEOGRAPHICAL AREAS – STEEL PIPE SALES

	2018		2017	
	Revenue		Revenue	
	RMB'000	***% to total***	*RMB'000*	*% to total*
Overseas sales	**266,534**	**24.9**	405,560	46.4
Domestic sales	**804,592**	**75.1**	467,733	53.6
Total steel pipe sales	**1,071,126**	**100.0**	873,293	100

Property sales	**2018**	2017
	RMB'000	*RMB'000*
Revenue	**549,330**	–
Cost of sales	**(479,797)**	–
Gross profit	**69,533**	–

The Group recognized the sales of the first phase of GDC of around RMB549.3 million in 2018 (2017: nil).

Cost of sales primarily represents the costs we incurred directly for the Group's property development activities. The principal component of cost of sales is cost of properties sold, which includes the direct costs of construction and the costs of obtaining land use rights.

Gross profit was around RMB69.5 million or 12.7% in 2018.

All sales of properties were domestic sales.

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 2018 issued by RHL Appraisal Limited, the market value of the investment property – phase III as at 31 December 2018 was RMB1.16 billion. Gain of RMB21.8 million was resulted from the fair values of the investment property in 2018 (2017: nil).

OTHER INCOME AND GAINS

Other income and gains in 2018 mainly represented bank interest income and subsidy income from government. Other income and gains decreased by approximately 42.0% or RMB59.0 million from approximately RMB140.6 million in 2017 to approximately RMB81.6 million in 2018. Decrease in other income and gains was mainly due to a forfeiture of customer deposit in 2017 but nil in 2018.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses decreased by approximately 40.6% or RMB43.6 million from approximately RMB107.3 million in 2017 to approximately RMB63.7 million in 2018. The decrease was mainly due to the decrease in overseas sales.

ADMINISTRATIVE EXPENSES

Administrative expenses decreased by approximately 8.1% or RMB38.6 million from approximately RMB475.6 million in 2017 to approximately RMB437.0 million in 2018. The decrease in administrative expenses was mainly due to decrease in research and development expenses and bank charges during the year. Included in the administrative expenses, there was one-off expenses of around RMB41 million in relation to asset reorganisation (as disclosed in the Company's announcement dated 12 February 2018). If excluded such one-off expenses, administrative expenses were further reduced.

FINANCE COSTS

The finance costs for 2018 was approximately RMB374.5 million which were lower than that of 2017 which was approximately RMB426.3 million. The effective interest rate in 2018 was approximately 6.0% (2017: 7.3%). Decrease in finance costs was due to decrease in average interest rate.

IMPAIRMENT OF PROPERTY, PLANT AND EQUIPMENT

The Group recorded no impairment on property, plant and equipment for the year ended 31 December 2018 (2017: RMB18.0 million).

OTHER EXPENSES

Other expenses increased by approximately 625.8% or RMB80.6 million from approximately RMB12.9 million in 2017 to approximately RMB93.4 million in 2018. The increase was mainly due to loss of disposal of subsidiaries, property, plant and equipment and compensation incurred in relation to asset reorganization (as detailed in the Company's announcement dated 12 February 2018) during the year.

EXCHANGE GAIN/(LOSS), NET

The Group recorded exchange gain of approximately RMB16.2 million in 2018 as compared to exchange loss of approximately RMB44.1 million in 2017. The exchange gain was mainly due to depreciation of HKD against RMB which resulted in an exchange gain on RMB liability.

INCOME TAX CREDIT

Income tax credit increased from RMB14.6 million in 2017 to RMB113.4 million in 2018.

Deferred tax credit was recorded in 2018 as the Group expects there will be gain on disposal of land in Panyu. For more details, please refer to the announcement of the Company dated 12 February 2018 and 27 February 2019.

LOSS FOR THE YEAR

As a result of the reasons discussed above, the Group recorded a loss of approximately RMB498.9 million in 2018 (2017: RMB873.8 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 2017 and 2018:

	Year ended 31 December	
	2018	2017
	RMB'000	*RMB'000*
Net cash flows from operating activities	**43,614**	557,662
Net cash flows from/(used in) investing activities	**8,075**	(211,064)
Net cash flows used in financing activities	**(51,783)**	(911,558)
Net decrease in cash and cash equivalents	**(94)**	(564,960)

NET CASH FLOWS FROM OPERATING ACTIVITIES

The Group's net cash inflows from operating activities decreased from approximately RMB557.7 million in 2017 to approximately RMB43.6 million in 2018. The decreased net cash inflows from operating activities were primarily due to the combined effect of (i) loss before taxation; (ii) decrease in inventories, pledged bank deposit, and other payables and accruals; and (iii) increase in trade receivables, prepayments, other receivables and other assets, contract liabilities and trade payables.

NET CASH FLOWS FROM/(USED IN) INVESTING ACTIVITIES

The Group's net cash flows used in investing activities of approximately RMB211.1 million in 2017 changed to net cash flows from investing activities of approximately RMB8.1 million in 2018. The change in net cash flows 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 property, plant and equipment during the year.

NET CASH FLOWS USED IN FINANCING ACTIVITIES

The Group's net cash flows used in financing activities decreased from approximately RMB911.6 million in 2017 to approximately RMB51.8 million in 2018. 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 RMB3,659.2 million and (ii) the repayment of bank loans, other borrowings and finance lease rental payment and its associated interest and payment of interest of approximately RMB3,711.0 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 2018.

CAPITAL EXPENDITURE

For the year ended 31 December 2018, the Group invested approximately RMB22.5 million for the upgrading of property, plant and equipment. These capital expenditures were fully financed by internal resources and bank borrowings.

FINANCIAL GUARANTEE

As at 31 December 2018, the Group guaranteed RMB128.2 million (2017: RMB174.1 million) to certain purchasers of the Group's properties for mortgage facilities.

As at 31 December 2018, the Group guaranteed RMB538.9 million (2017: RMB217.8 million) to joint venture for banking facilities in Saudi Arabia of which RMB333.5 million (2017: RMB200.5 million) was utilized by the joint venture.

PLEDGE OF ASSETS

The Group pledged certain property, plant and equipment, land use rights, time deposits, certain properties under development and completed properties held for sale with an aggregate net book value of approximately RMB833.4 million (2017: RMB1,477.5 million), RMB618.6 million (2017: RMB1,003.4 million), RMB426.6 million (2017: RMB413.7 million), RMB1,105.9 million (2017: RMB1,355.9 million) and RMB373.9 million (2017: nil) respectively as at 31 December 2018 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 2018 and 2017 were approximately 62.5% and 57.3%, 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.

As at 31 December 2018, the Group's total borrowings amounted to approximately RMB6,255.1 million, of which approximately 68% (2017: 35%) were long term borrowings and approximately 32% (2017: 65%) were short term borrowings. Included in the total borrowings, (i) there was a bank loan of RMB490 million that was overseas loan under domestic guarantee（內保外貸） which was secured by bank deposit in PRC; (ii) there was a shareholder's loan of RMB1.68 billion which was paid by Guangdong YueCai (as disclosed in the announcement dated 12 February 2018). Such shareholder's loan will be set-off against the consideration under a disposal agreement (as disclosed in the announcement dated 27 February 2019); (iii) loan of RMB1.47 billion in relation to the property development business. Net borrowings under steel pipe business was around RMB2,616.9 million. The Group had to finance its working capital of steel pipe business 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 RMB86.4 million, the Group had sufficient liquidity and was in a strong financial position to repay its short term borrowings.

As at 31 December 2018, the current liabilities of the Group exceeded its current assets by approximately RMB39.7 million. Phase II of GDC has been pre-sold in order to increase the cashflow of the Group. The Group has sufficient cashflow to meet its short term obligations.

As at 31 December 2018, approximately 46% (2017: 61%) 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 41% (2017: 15%) of the total borrowings were denominated in Renminbi which carried fixed interest rate; approximately 0% (2017: 0%) 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 13% (2017: 24%) 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

On 12 February 2018, the Group has entered into the Agreement with Guangdong Yuecai and Guangzhou Asset Management (collectively the "Investor") in relation to the cooperation to facilitate the change of use of Land held by 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 the PCKSP shall complete an asset reorganisation, after which, the only asset held by the PCKSP shall be the Land. Pursuant to the Agreement, the Investor shall, by stages, (i) inject capital into PCKSP and acquire 19% of the equity interest in the PCKSP for RMB240 million; (ii) implement the asset reorganisation; (iii) apply for the change of use of the Land; and (iv) acquire 40% of the equity interest in PCKSP from the CKSPG for a consideration equivalent to 40% of the fair value of the Land (after the change of use of the Land).

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

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

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

EVENT AFTER THE REPORTING PERIOD

On 27 February 2019, the Group has 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 will be subject to the approval of shareholders in extraordinary general meeting to be held on 16 April 2019. In the event the Disposal Agreement lapses, the Agreement will remain effective. Details of the above were disclosed in the Company's announcement and circular dated 27 February 2019 and 26 March 2019 respectively.

Apart from the above, there were no significant events subsequent to 31 December 2018 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 2018, staff costs (including Directors' remuneration in the form of salaries and other benefits) were approximately RMB155.4 million (2017: RMB178.0 million).

The Group remunerates its employees based on their performance, experience and prevailing industry practice. The emoluments of the Directors are recommended by the Remuneration Committee and are decided by the Board, having regard to he Group's operating results, individual performance and comparable market statistics. 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 2018.

As at 31 December 2018, the Group had a total of 1,110 full time employees (2017: 1,600 employees). The following set forth the total number of our staff by functions:

	2018	2017
Management	**149**	170
Production and logistics	**508**	721
Sales and marketing	**31**	38
Finance	**31**	34
Quality control	**47**	66
R&D	**12**	67
Procurement	**12**	22
General administration and others	**320**	482
Total	**1,110**	1,600

FUTURE PLANS AND PROSPECTS

In 13th Five-Year Plan for Natural Gas Development, the PRC government has made it clear that the "13th Five-Year" will be an important era for the development of natural gas network of the nation, and the state will coordinate the supply of overseas and domestic gas resources and the gas demand of different regions for their economic development and will support the investment and construction activities in respect of natural gas pipelines by all participants. In the strategic pathway in Northwest China, the construction focus will be put on the Pipeline III (middle section), Pipeline IV, Pipeline V of West-East Gas Pipeline Project and to improve the D Line of Central Asia-China Gas Pipeline. The focus in the strategic pathway in Northeast China will be Sino-Russian East-Route Natural Gas Pipeline. The focus in the strategic pathway in Southwest China will be the branch pipelines of China-Myanmar Natural Gas Pipeline which are to supply gas to Yunnan, Guizhou, Guangxi, Sichuan, etc. The construction of LNG terminals and ancillary pipeline network will be accelerated to facilitate the import of gas by sea. In addition, the government has also put forward a plan of constructing trunk line network, including Sichuan-East Gas Pipeline II, Ordos-Anping-Cangzhou Pipeline, Qingdao-Nanjing Pipeline and national trunk pipelines which supply gas to cities along the midstream of Yangtze River. Regional pipeline networks and inter-connected networks include Zhongwei-Jingbian, Puyang-Baoding, Dongxianpo-Yanshan, Wuqing-Tongzhou, Haikou-Xuwen, Jianping-Chifeng, Hangjinqi-Yinchuan, Chongqing-Guizhou-Guangxi, Weiyuan-Rongchang-Nanchuan-Fuling pipelines the construction of which have been completed. More resources will be invested in the construction of intra-provincial branch gas pipelines to extend market coverage.

In the future, we will develop more customers under "The Belt and Road Initiative" and more international oil company customers. In light of the positive effects brought by the government's policy of promoting the use of natural gas to the domestic market, 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 by 2020, the crude oil pipelines, refined oil pipelines and natural gas pipelines would reach 32,000 km, 33,000 km and 104,000 km, respectively, and by 2025, the national oil and gas pipeline network would reach 240,000 km with further expanded coverage, optimized structure and significantly improved capacity of reserve and transmission. And there are 6 crude oil pipelines and 8 new refined oil pipelines to be constructed under the plan. Therefore, there would be another golden era for the development of oil and gas pipelines during the "13th Five-Year Plan".

Taking becoming a global leading steel pipe manufacturer as our long-term strategic target, the Group will seize the current opportunities of oil and gas development projects to expand our customer base and market share through biding for global oil and gas projects and will also continue to leverage its strengths in the steel pipe industry to obtain more orders.

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 (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the financial year ended 31 December 2018.

CG CODE A.2.1

The Company is aware of the requirement under paragraph A.2.1 of the CG Code that the roles of chairman and chief executive should be separated and should not be performed by the same individual. The Company does not 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 confirmation given by Mr Chen Chang and Bournam, being 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 our Group. The Audit Committee has reviewed the Company's audited consolidated financial statements for the year ended 31 December 2018 and the condensed unaudited consolidated interim financial statements for the six months ended 30 June 2018, including the accounting principles and practices adopted by the Company and the Group.

SCOPE OF WORK OF ERNST & YOUNG

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and consolidated statement of comprehensive income and the related notes to the consolidated financial statements thereto for the year ended 31 December 2018 as set out in this announcement have been agreed by the Company's external auditor, Ernst & Young ("EY"), to the amounts set out in the Group's consolidated financial statements for the year. The work performed by EY in this respect did not constitute an assurance engagement performed in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the HKICPA and consequently no assurance has been expressed by EY on this announcement.

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

During the year ended 31 December 2018, neither the Company, nor any of its subsidiaries 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 Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules. Following a specific enquiry, all the Directors confirmed that they have complied with the Model Code throughout the year ended 31 December 2018.

FINAL DIVIDEND

The Board did not recommend the payment of final dividend for the year ended 31 December 2018.

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 Tuesday, 18 June 2019 at 10:30 a.m.

CLOSURE OF REGISTER OF MEMBERS FOR AGM

The register of members of the Company will be closed from Thursday, 13 June 2019 to Tuesday, 18 June 2019, 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 Wednesday, 12 June 2019.

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 2018 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 2019

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.*