PCK

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 2019

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 consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2019 (the "Consolidated Financial Statements") together with the comparative figures of the previous financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	**2019** *RMB'000*	2018 *RMB'000*
REVENUE	*5*	**1,193,961**	1,681,566
Cost of sales		**(981,769)**	(1,358,041)
Gross profit		**212,192**	323,525
Other income and gains, net	*5*	**441,747**	81,579
Selling and distribution expenses		**(55,821)**	(63,744)
Administrative expenses		**(336,042)**	(437,020)
Exchange gain, net		**23,528**	16,241
Finance costs	*7*	**(450,058)**	(374,468)
Fair value gain on investment properties		**78,008**	21,779
Fair value gain/(loss) on a derivative financial instrument		**19,260**	(22,984)
Other expenses, net	*8*	**(69,388)**	(93,432)
Share of loss of a joint venture		**(18,655)**	(2,724)
LOSS BEFORE TAX	*6*	**(155,229)**	(551,248)
Income tax credit	*9*	**13,140**	52,313
LOSS FOR THE YEAR		**(142,089)**	(498,935)

	Note	2019 RMB'000	2018 RMB'000
Attributable to:			
Owners of the parent		**(138,888)**	(498,813)
Non-controlling interests		**(3,201)**	(122)
		(142,089)	(498,935)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	*10*	**RMB(0.14)**	RMB(0.49)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	2019 *RMB'000*	2018 *RMB'000*
LOSS FOR THE YEAR	**(142,089)**	(498,935)
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(26,494)**	(134,589)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	**(26,494)**	(134,589)
Other comprehensive income that may not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of the Company's financial statements into presentation currency	**5,171**	17,732
Net other comprehensive income that may not be reclassified to profit or loss in subsequent periods	**5,171**	17,732
OTHER COMPREHENSIVE LOSS FOR THE YEAR, NET OF TAX	**(21,323)**	(116,857)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR	**(163,412)**	(615,792)
Attributable to:		
Owners of the parent	**(160,211)**	(615,670)
Non-controlling interests	**(3,201)**	(122)
	(163,412)	(615,792)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2019 RMB'000	2018 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**2,604,239**	2,805,810
Investment properties		**407,000**	1,160,000
Right-of-use assets		**1,114,551**	–
Long term prepayments and deposits		**85,975**	111,320
Prepaid land lease payments		**–**	1,087,394
Investment in a joint venture		**13,177**	31,832
Deferred tax assets		**210,943**	161,600
Pledged deposits		**–**	80,000
Total non-current assets		**4,435,885**	5,437,956
CURRENT ASSETS			
Properties under development		**1,822,964**	1,691,699
Completed properties held for sale		**383,977**	749,869
Inventories		**219,102**	223,057
Trade and bills receivables	*11*	**403,775**	540,225
Prepayments, other receivables and other assets		**916,170**	674,844
Due from a related party		**84,522**	84,676
Pledged and restricted bank balances		**164,826**	539,060
Cash and cash equivalents		**58,585**	66,907
Total current assets		**4,053,921**	4,570,337
CURRENT LIABILITIES			
Trade and bills payables	*12*	**379,935**	688,464
Other payables and accruals		**628,847**	738,660
Contract liabilities		**1,159,070**	896,765
Derivative financial instrument		**3,724**	22,984
Fixed rate bonds and notes	*14*	**170,404**	–
Interest-bearing bank and other borrowings	*13*	**1,116,889**	2,012,848
Due to a director		**88,857**	118,944
Tax payable		**365,567**	131,381
Total current liabilities		**3,913,293**	4,610,046

	Notes	**2019** *RMB'000*	2018 *RMB'000*
NET CURRENT ASSETS/(LIABILITIES)		**140,628**	(39,709)
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,576,513**	5,398,247
NON-CURRENT LIABILITIES			
Due to a director		**50,000**	–
Fixed rate bonds and notes	*14*	**7,631**	157,406
Interest-bearing bank and other borrowings	*13*	**3,753,975**	4,084,871
Deferred tax liabilities		**368,023**	574,798
Government grants		**341,915**	350,899
Total non-current liabilities		**4,521,544**	5,167,974
Net assets		**54,969**	230,273
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**88,856**	88,856
Reserves		**(33,887)**	129,997
		54,969	218,853
Non-controlling interests		**–**	11,420
Total equity		**54,969**	230,273

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 investment properties 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 RMB142,089,000 for the year ended 31 December 2019 (2018: loss of RMB498,935,000). As at 31 December 2019, the Group recorded net current assets of RMB140,628,000 (2018: liabilities of RMB39,709,000), included therein were the bank and other borrowings of RMB1,116,889,000 (2018: RMB2,012,848,000) and fixed rate bonds and notes of RMB170,404,000 (2018: Nil) which were due for repayment or renewal within the next twelve months after 31 December 2019.

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

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

However, the sale of PCKSP is subject to the fulfilment of certain conditions, among which some of these conditions cannot be controlled by the Group, such as the successful change of land use on the land owned by PCKSP. Further, the current market situation is uncertain and vulnerable, it may also further impact the Group's future sales. The validity of the going concern assumption on which the consolidated financial statements are prepared is dependent on favourable outcomes of the events as described above.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at amounts other than those they are currently recorded in the 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 16	*Leases*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Amendments to IFRS 9	*Prepayment Features with Negative Compensation*
Amendments to IAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to IAS 28	*Long-term Interests in Associates and Joint Ventures*
Annual Improvements 2015-2017 Cycle	Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23

Other than as explained below regarding the impact of IFRS 16 *Leases* and IFRIC 23 *Uncertainty over Income Tax Treatments*, the new and revised standards do not have significant impact on the consolidated financial statements of the Group. The nature and impact of the IFRS 16 and IFRIC 23 are described as below:

(a) IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC 15 *Operating Leases – Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in IAS 17.

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

New definition of a lease

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

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of IFRS 16

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

Impacts on transition

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

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

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

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

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

	RMB'000
Operating lease commitments as at 31 December 2018	9,342
Less:	
Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019	(322)
	9,020
Weighted average incremental borrowing rate as at 1 January 2019	9.51%
Discounted operating lease commitments at 1 January 2019	5,635
Lease liabilities as at 1 January 2019	5,635

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

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 2019

	Steel pipes *RMB'000*	Property development and investment *RMB'000*	Total *RMB'000*
Segment revenue (note 5)			
Sales to external customers	**1,141,665**	**52,296**	**1,193,961**
Segment results	**(341,190)**	**278,308**	**(62,882)**
Reconciliation:			
Corporate and other unallocated expenses			**(47,657)**
Finance costs (other than interest on lease liabilities)			**(44,690)**
Loss before tax			**(155,229)**
Segment assets	**4,351,083**	**5,651,968**	**10,003,051**
Reconciliation:			
Elimination of intersegment receivables			**(2,293,903)**
Corporate and other unallocated assets			**780,658**
Total assets			**8,489,806**
Segment liabilities	**6,935,784**	**3,300,340**	**10,236,124**
Reconciliation:			
Elimination of intersegment payables			**(2,293,903)**
Corporate and other unallocated liabilities			**492,616**
Total liabilities			**8,434,837**
Other segment information			
Share of loss of a joint venture	**(18,655)**	**–**	**(18,655)**
Impairment losses recognised in the statement of profit or loss, net	**(41,460)**	**–**	**(41,460)**
Depreciation and amortisation	**(132,021)**	**(215)**	**(132,236)**
Investment in a joint venture	**13,177**	**–**	**13,177**
Capital expenditure*	**36,434**	**45**	**36,479**

Year ended 31 December 2018

	Steel pipes *RMB'000*	Property development and investment *RMB'000*	Total *RMB'000*
Segment revenue (note 5)			
Sales to external customers	1,071,126	610,440	1,681,566
Segment results	(450,924)	74,599	(376,325)
Reconciliation:			
Corporate and other unallocated expenses			(77,717)
Finance costs			(97,206)
Loss before tax			(551,248)
Segment assets	3,844,651	5,735,092	9,579,743
Reconciliation:			
Elimination of intersegment receivables			(1,733,842)
Corporate and other unallocated assets			2,162,392
Total assets			10,008,293
Segment liabilities	7,003,115	3,578,427	10,581,542
Reconciliation:			
Elimination of intersegment payables			(1,733,842)
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, net	(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

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

Information about steel pipe products and services

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

	2019	2018
	RMB'000	*RMB'000*
Manufacture and sale of steel pipes:		
LSAW steel pipes	**835,348**	591,276
SSAW steel pipes	**29,645**	120,779
ERW steel pipes	**7,803**	30,576
Steel pipe manufacturing services:		
LSAW steel pipes	**167,859**	195,682
SSAW steel pipes	**52,335**	72,786
ERW steel pipes	**62**	897
Others*	**48,613**	59,130
	1,141,665	1,071,126
Sale of properties	**52,296**	610,440
	1,193,961	1,681,566

* 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:

	2019	2018
	RMB'000	*RMB'000*
Sales to external customers:		
Mainland China	**1,059,584**	1,415,032
European Union	**–**	2,026
Middle East	**56,638**	81,421
Other Asian countries	**77,739**	166,404
Oceania	**–**	16,683
	1,193,961	1,681,566

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

Information about major customers

Revenue of approximately RMB270,000,000 (2018: nil) was derived from sales by the steel pipe segment to a single customer, including sales to a group of entities which are known to be under common control with that customer.

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:

	2019	2018
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Manufacture and sale of seam welded steel pipes and the provision of related manufacturing services	**1,141,665**	1,071,126
Sale of properties	**52,296**	610,440
	1,193,961	1,681,566
Other income and gains		
Bank interest income	**23,794**	26,812
Subsidy income from the PRC government*	**34,764**	46,534
Gain on resumption of land use rights to the local authorities**	**368,305**	–
Compensation	**–**	79
Others	**14,884**	8,154
	441,747	81,579

* The subsidy income represents subsidies granted by the local finance bureaus to Panyu Chu Kong Steel Pipe 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.

** 1) During the year ended 31 December 2019, a land of PCKSP with a carrying amount of RMB1,128,000 located at Qinghe East Road, Shiji Town in Panyu District of Guangzhou, the PRC, was resumed by the local authority. The cash consideration of RMB16,923,000 was received in 2016. A net gain amounting to RMB15,795,000 was recognized in current year when the land transfer procedures were finalized.

** 2) During the year ended 31 December 2019, a land (the "Land") of Phase III GDC held by Guangdong Pearl Steel Investment Management Co., Ltd. ("Pearl Steel Investment") was sold to Guangzhou City Panyu District Land Development Centre ("GPDLDC"). The land transfer procedures were completed in 2019. According to the agreement signed by Pearl Steel Investment and GPDLDC and the valuation report of the Land provided by an independent valuer, the compensation amount was RMB1.52 billion. As at the date of this announcement, the Group has received an aggregated compensation amounting to RMB1.33 billion. A net gain amounting to RMB352,510,000 on the land resumption was recognised as other income and gains during the year ended 31 December 2019.

6. LOSS BEFORE TAX

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

	Notes	**2019** *RMB'000*	2018 *RMB'000*
Cost of inventories sold		**780,894**	730,714
Cost of properties sold		**41,540**	479,797
Depreciation of property, plant and equipment		**98,973**	140,406
Depreciation of right-of-use assets (2018: amortization of land lease payments)		**33,263**	25,407
Minimum lease payments under operating leases		**–**	10,458
Lease payments not included in the measurement of lease liabilities		**322**	–
Gain on resumption of land use rights to the local authorities**		**(368,305)**	–
Auditor's remuneration		**2,524**	2,460
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		**108,920**	140,257
Retirement benefit scheme contributions		**10,094**	15,095
Impairment of trade receivables*	*11*	**3,845**	2,450
Impairment of other receivables*		**37,615**	4,603
Bank interest income**	*5*	**(23,794)**	(26,812)
Research and development costs		**32,890**	38,718

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

** Included on "Other income and gains, net" in the consolidated statement of profit or loss.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 *RMB'000*	2018 *RMB'000*
Interest on bank and other borrowings (including bonds and notes, excluding lease liabilities)	**523,468**	462,155
Interest on sale and leaseback liabilities	**–**	4,344
Interest on lease liabilities	**794**	–
Interest on discounted bills	**4,368**	9,868
Total interest expense on financial liabilities not at fair value through profit or loss	**528,630**	476,367
Less: Interest capitalised	**(78,572)**	(101,899)
	450,058	374,468

8. OTHER EXPENSES

	Notes	2019 *RMB'000*	2018 *RMB'000*
Loss on disposal of a subsidiary		**20,107**	25,865
Loss on deregister of subsidiaries		**–**	14,008
Loss on disposal of property, plant and equipment		**–**	19,533
Compensation		**7,694**	23,386
Impairment of trade receivables	11	**3,845**	2,450
Impairment of other receivables		**37,615**	4,603
Others		**127**	3,587
		69,388	93,432

9. INCOME TAX

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

	2019 *RMB'000*	2018 *RMB'000*
Current – Mainland China		
PRC CIT Charge for the year	**94,793**	50,403
PRC CIT Overprovision in prior years	**(11,794)**	(6)
PRC LAT	**7,579**	61,111
Deferred	**(103,718)**	(163,821)
Total tax credit for the year	**(13,140)**	(52,313)

10. 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 (2018: 1,011,142,000) in issue during the year.

No diluted loss per share is calculated because the exercise price of the warrant instrument was greater than the average market price of the Company's share for the year ended 31 December 2019 and 2018.

11. TRADE AND BILLS RECEIVABLES

	2019	2018
	RMB'000	*RMB'000*
Trade receivables	**422,936**	459,112
Impairment	**(19,434)**	(16,883)
Trade receivables, net	**403,502**	442,229
Bills receivable	**273**	97,996
	403,775	540,225

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 to 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 ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2019	2018
	RMB'000	*RMB'000*
Within 60 days	**242,323**	234,319
61 to 90 days	**5,680**	3,882
91 to 180 days	**27,057**	10,005
181 to 365 days	**11,052**	41,986
1 to 2 years	**30,563**	60,762
2 to 3 years	**24,450**	91,275
Over 3 years	**62,377**	–
	403,502	442,229

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

	2019	2018
	RMB'000	*RMB'000*
At 1 January	**16,883**	14,433
Impairment losses recognized *(note 6)*	**3,845**	2,450
Impairment losses reversed	**(1,294)**	–
At 31 December	**19,434**	16,883

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.

12. 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:

	2019	2018
	RMB'000	*RMB'000*
Trade payables		
Within 90 days	**135,417**	48,033
91 to 180 days	**89,557**	253,033
181 to 365 days	**32,017**	157,306
1 to 2 years	**51,977**	129,086
2 to 3 years	**19,876**	31,056
Over 3 years	**45,188**	41,796
	374,032	660,310
Bills payable	**5,903**	28,154
	379,935	688,464

The trade payables are non-interest-bearing and are normally settled within a year. All the bills payable have maturity dates within 365 days.

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2019			2018		
	Effective interest rate (%)	**Maturity**	***RMB'000***	Effective interest rate (%)	Maturity	*RMB'000*
Current						
Lease liabilities	**9.51**	**2020**	**2,444**	–	–	–
Bank loans						
– secured	**5.00-6.31**	**2020**	**502,400**	4.35-5.22	2019	450,100
– unsecured	**6.09-6.13**	**2020**	**59,000**	6.09-6.63	2019	103,861
Other borrowings						
– unsecured	**5.60-24.00**	**2020**	**421,645**	5.60-19.44	2019	857,335
Government loans						
– secured	**4.90**	**2020**	**88,000**	4.90	2019	70,400
Current portion of long term loans						
– secured	**4.39-5.88**	**2020**	**43,400**	5.39-7.35	2019	531,152
Subtotal			**1,116,889**			2,012,848
Non-current						
Lease liabilities	**9.51**	**2021-2036**	**5,487**	–	–	–
Bank loans						
– secured	**4.90-10.00**	**2021-2028**	**1,430,005**	5.39-10.00	2020-2028	1,577,100
Government loans						
– secured	**4.90**	**2021-2023**	**220,000**	4.90	2020-2023	308,000
Other borrowings						
– secured	**10.00-11.25**	**2021**	**2,098,483**	10.00-16.00	2021	2,199,771
Subtotal			**3,753,975**			4,084,871
			4,870,864			6,097,719

	2019	2018
	RMB'000	*RMB'000*
Analysed into:		
Bank loans repayable:		
Within one year	**604,800**	1,085,113
In the second year	**149,400**	42,900
In the third to fifth years, inclusive	**1,154,605**	414,100
Beyond five years	**126,000**	1,120,100
	2,034,805	2,662,213
Government loans repayable:		
Within one year	**88,000**	70,400
In the second year	**88,000**	88,000
In the third to fifth years, inclusive	**132,000**	220,000
	308,000	378,400
Other borrowings repayable:		
Within one year	**421,645**	857,335
In the second year*	**2,098,483**	–
In the third to fifth years, inclusive	**–**	2,199,771
	2,520,128	3,057,106
Lease liabilities repayable:		
Within one year	**2,444**	–
In the second year	**2,255**	–
In the third to fifth years, inclusive	**1,563**	–
Beyond five years	**1,669**	–
	7,931	–
	4,870,864	6,097,719

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

(a) the pledge of certain property, plant and equipment of the Group with a net carrying amount of approximately RMB1,201,053,000 (2018: RMB833,371,000) 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 RMB792,454,000 (2018: RMB618,639,000) as at the end of the reporting period;

(c) the pledge of certain of the Group's deposits amounting to RMB2,000 (2018: RMB426,600,000) as at the end of the reporting period;

(d) the pledge of certain of the Group's properties under development amounting to RMB1,267,321,000 (2018: RMB1,105,871,000) as at the end of the reporting period; and

(e) the pledge of certain of the Group's completed properties held for sale amounting RMB109,434,000 (2018: 373,919,000) as at the end of the reporting period.

Except for the bank loans of RMB108,829,000 (2018: RMB296,490,000) as at 31 December 2019, which are denominated in United States dollars, all borrowings are in RMB.

The Group had the following undrawn banking facilities:

	2019	2018
	RMB'000	*RMB'000*
Floating rate		
– expiring within one year**	**290,331**	86,415

* Among which, the Group had an aggregate loan of RMB2,098,483,000 borrowed from Yuecai Trust and its related companies as at 31 December 2019.

** Pursuant to the relevant contract, certain of the Group's undrawn banking facilities of RMB172,595,000 (2018: RMB32,100,000) can only be used for property development projects and are repayable based on the pre-sale progress of such properties.

14. FIXED RATE BONDS AND NOTES

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

On 30 April 2013, the Group issued bonds with a principal amount of US$72,000,000 and the bonds should be repayable in full by 30 April 2018 (the "2013 Bonds"). The bonds may be redeemed at the option of the Group in whole, but not in part, at any time, by giving notice of not less than 30 nor more than 60 days' 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. In the current year, the remaining balance of the 2013 Bonds were rescheduled to be repayable on 30 June 2020 and reclassified to other borrowings.

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 interest at 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 HK$10 million to an individual investor (the "2017 Bonds B"). The bond will be repayable in full by August 2021. The bond bears interest at 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 HK$10 million to an individual investor (the "2017 Bonds C"). The bond will be repayable in full by September 2020. The bond bears interest at a fixed coupon interest rate at 6% per annum for three years payable semi-annually, commencing on 26 March 2018. The bond is unsecured.

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

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

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

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

	2019				2018			
	Principal at original currency 'million	**Contractual interest rate (%) per annum**	**Maturity**	***RMB'000***	Principal at original currency 'million	Contractual interest rate (%) per annum	Maturity	*RMB'000*
Current								
2013 Bonds	US$72	5.6	2020	–	US$72	5.6	2019	–
2017 Notes	HK$155	8.0	2020	135,593	HK$155	8.0	2020	–
2017 Bonds A	US$3	7.0	2020	20,360	US$3	7.0	2020	–
2017 Bonds C	HK$10	6.0	2020	8,293	HK$10	6.0	2020	–
2019 Bonds A	HK$3	5.0	2020	2,687	–	–	–	–
2019 Bonds B	USD$0.5	6.0	2020	3,471	–	–	–	–
				170,404				–
Non-current								
2013 Bonds	US$72	5.6	2020	–	US$72	5.6	2020	–
2017 Notes	HK$155	8.0	2020	–	HK$155	8.0	2020	124,790
2017 Bonds A	US$3	7.0	2020	–	US$3	7.0	2020	18,442
2017 Bonds B	HK$10	7.0	2021	7,631	HK$10	7.0	2021	6,834
2017 Bonds C	HK$10	6.0	2020	–	HK$10	6.0	2020	7,340
				7,631				157,406
				178,035				157,406

EXTRACT OF THE DRAFT 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 2019, 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 2019, 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.

Basis for opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material uncertainty related to going concern

We draw attention to note 2.1 to the consolidated financial statements, which indicates that the Group incurred a net loss of RMB142,089,000 during the year ended 31 December 2019. As at 31 December 2019, the Group recorded net current assets of RMB140,628,000, included therein were the bank and other borrowings of RMB1,116,889,000 and fixed rate bonds and notes of RMB170,404,000 which were due for repayment or renewal within the next twelve months after 31 December 2019. 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 consolidated annual results of the Group for the year ended 31 December 2019. In such a difficult and challenging year of 2019, the Group recorded a turnover of approximately RMB1,194.0 million (2018: RMB 1,681.6 million, representing a decrease of approximately 29.0% compared with that of 2018. Loss for the year was approximately RMB142.1 million (2018: loss of RMB498.9 million). Loss per share attributable to ordinary equity holders of the Company was approximately RMB0.14 (2018: loss per share was RMB0.49). The Board did not recommend the payment of a final dividend for the year ended 31 December 2019.

In 2019, the world economy underwent unprecedented challenges. The intensified trade frictions between China and the United States, repeated downturn in crude oil prices, geopolitical tensions, and complex and volatile factors dragged the global economy into a synchronized slowdown. According to the press release made by the National Bureau of Statistics of the PRC on 28 February 2020, the national GDP growth of 2019 was 6.1%, the slowest rate over 29 years.

At the beginning of 2020, there were more uncertainties in all walks of life under COVID-19, and the domestic economy in China persevered in the adversity. With our current scale and operation, during the year of 2019, the Group delivered a total of 327,000 tons of steel pipes and received orders for a total of 341,000 tons of steel pipes, including projects of the three large oil companies, Rizhao Port-Jingbo Oil Pipeline Project, the gas pipe network of Western Guangdong, Qingdao-Nanjing Natural Gas Pipeline Project and other national key projects.

Despite any adversity and the challenging business environment, the Board remains to be prudently optimistic about the prospect of energy construction sector. It is expected that after the current COVID-19 outbreak subsides, infrastructure projects will be an important part of the national economic recovery, and the oil and gas industry concerns the national energy security. The PRC government has been well prepared, such as deploying the Blue Sky Project and People's Livelihood Project to strategically set the policies for the oil and gas industry, issuing the pricing supervision mechanism for the oil and gas industry and establishing the state official network company in advance to liberalize the entire industrial chain of the oil and gas industry to the market. A large number of favorable policies has been set to drive a strong recovery of the oil and gas industry.

The Group is committed to reducing liabilities and finance cost to well prepare for the development of the steel pipe industry in the future. At the end of February 2019, the Group announced the land asset plan for the transfer of land (the "Land") held by Panyu Chu Kong Steel Pipe Co., Ltd（番禺珠江鋼管有限公司）("PCKSP"), which was originally used for PCKSP's production plant with an area of approximately 280,227 square meters, accounting for about three quarters of the total area of PCKSP's plant area and located in Qinghe Road, Shiji Town, Panyu District, Guangzhou City, Guangdong Province, China. In addition, the Group's GDC Phase III land was successfully sold to the PRC government for land resumption at the end of 2019, in return for a compensation of about RMB1.525 billion. The funds obtained would increase the Group's financial strength and reduce liabilities and finance cost, favorable for the long-term development of the Group's steel pipe business.

Over the past five years, oil prices have plummeted, large domestic infrastructure projects have stagnated, and the oil and gas industry has experienced a massive clean-up of capacity, The situation has been further deteriorated by the recent substantial reduction of oil prices after the launch of price war by Saudi Arabia. Having said that, with the support of the governments at all levels and the unremitting efforts of the Company, the Group is firmly confident that, in the long-lasting adversity, it will defy any hardships, adjust its strategic direction, build up its strength and lay a solid foundation to guard the Group with fearless spirit, as well as improve and strengthen its technologies, actively expand new product areas, and expand its product range from originally only supplying oil and gas transmission pipeline to offering steel pipes for infrastructure and civil high-end construction projects such as large-scale venues, wharfs, bridges, wind power generation, nuclear power and offshore platforms so as to meet the diversified demands of domestic and foreign markets for high-performance steel pipe products and meet the coming boom cycle with stronger strength.

PROSPECT AND GOING FORWARD

According to 13th and 14th Five-Year Plan, the PRC government has plans to build 28,000 km and 59,000 km natural gas pipelines in 2019-2020 and 2021-2025 respectively. It is expected that China will realize an investment in the construction of trunk pipelines respectively in the two stages, totalling over trillions in Renminbi.

The China Development and Reform Commission's Medium and Long-term Oil and Gas Pipeline Network Plan proposes to strengthen domestic and overseas collaboration, consolidate and improve the northwest, northeast, southwest and offshore oil and gas import channels, and promote energy interconnection among countries and regions along the "Belt and Road Initiative." By 2025, the channel pattern of "equal development in land and sea energy network" will basically be formed. At the same time, it is also necessary to strengthen the construction of the basic network of natural gas pipelines, adhere to the principle of "west-east gas transmission, north-south gas transmission and offshore-onshore gas transmission," and gradually form the basic network of natural gas featuring the interconnection of trunk-branch lines and the formation of regional network by 2025. The next year marks the first year under the 14th Five-Year Plan. It is believed that the distribution of pipeline networks in various fields will continue to grow, and the growth rate of natural gas will forerun that of other energy sources significantly.

The PRC government also plans to promote the integration of natural gas and renewable energy, and implement demonstration projects for the integration of natural gas in Sichuan, Jiangsu and Guangdong, advance gasification projects in key areas of Beijing-Tianjin-Hebei air pollution prevention and control, accelerate the construction of oil and gas pipelines in key areas and areas with low gasification rate, and push forward the construction of non-conventional natural gas pipelines such as shale gas. At present, the main natural gas pipelines proposed and under construction in China include Xinjiang-Guangdong-Zhejiang, Shaanxi-Beijing four lines, China-Russia natural gas pipeline and West-East Gas Pipeline (Line IV), which are expected to bring about 8 million tons of total steel pipe demand in the next 2-3 years. The steel pipes account for the main part of pipe materials; therefore it is estimated that the steel pipe demand increase brought by the construction of four pipelines will be about RMB30-40 billion.

The Group believes that the above-mentioned projects and policies are major opportunities for the steel pipe manufacturing industry, and the Group will grasp such opportunities to improve the sales. In 2020, the Group will be fully prepared to undertake the increase in market demand and enjoy the market cycle with an increase in both quantity and price as much as possible.

APPRECIATION

On behalf of the Group, I would like to thank all our staff 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 only 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 was 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, service 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

Most of the units under Phase I of GDC have been sold. The Group had pre-sold the units under Phase II of GDC and the total contracted sales were approximately RMB794 million as at 31 December 2019. Shops of Phase I are rented for rental income. The Phase III of GDC was sold to Guangzhou City Panyu District Land Development Centre*（廣州市番禺區土地開發中心）as disclosed in the Company's announcement dated 20 June 2019, circular dated 7 November 2019 and announcement of poll result of the extraordinary general meeting on 28 November 2019 respectively. For more details of the disposal, please refer to the paragraph titled "Land Resumption of Phase III GDC" on page 29 below.

The steel pipe business will remain as the Group's core business.

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

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

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

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

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

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

As at 31 December 2019, the Company has performed the following asset reorganization: (i) PCKSP's liabilities was reduced to below RMB159 million; (ii) most of the bank guarantees by PCKSP have been released; (iii) most of the outstanding sales contracts and engineering contracts of PCKSP were either terminated or discharged; and (iv) PCKSP has transferred the equity interest in Al-Oahtani PCK Pipe Co and PCK Steel (Middle East) FZE to the Group and an independent third party respectively.

Land Resumption of Phase III GDC

On 20 June 2019, the Group has entered into a land resumption compensation agreement ("Land Resumption Compensation Agreement") with Guangzhou City Panyu District Land Development Centre*（廣州市番禺區土地開發中心）("GPDLDC"), pursuant to which GPDLDC would resume, and the Group would sell the land of Phase III GDC at the final compensation of RMB1,524,628,500 (according to the final valuation report). The land resumption contemplated under the Land Resumption Compensation Agreement were approved by the Shareholders at the extraordinary general meeting held on 28 November 2019. Gain on resumption of RMB352.5 million was recorded in other income and gains.

Order Status

In 2019, the Group received new orders of approximately 341,000 tonnes of steel pipes and most orders 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"), and Guangxi Natural Gas Pipe Project. The Group delivered approximately 327,000 tonnes of welded steel pipes during 2019.

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

LSAW Steel Pipes

The Group is one of the largest LSAW steel pipe manufacturers and exporters in the PRC. LSAW steel pipe was the largest source of revenue of the Group and accounted for approximately 87.9% of our total steel pipe revenue for the year ended 31 December 2019. For the year ended 31 December 2019, revenue from the sales and manufacturing service of LSAW steel pipes amounted to approximately RMB835.3 million and RMB167.9 million, respectively, representing an increase of approximately 41.3% and a decrease of 14.2%, respectively, as compared to that for the year ended 31 December 2018. The net increase in sales of LSAW steel pipes was mainly due to the increase in domestic orders as the major oil and gas projects in the PRC have been recovered in 2019.

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 RMB29.6 million and RMB52.3 million respectively. The total revenue from SSAW steel pipes accounted for approximately 7.2% of the total steel pipe revenue for the year ended 31 December 2019, representing a decrease of approximately 57.6% as compared to that for the year ended 31 December 2018. The decrease in sales of SSAW steel pipes was mainly due to decrease in construction projects during the year.

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 2019, revenue from the sales and manufacturing service of ERW steel pipes amounted to approximately RMB7.8 million and RMB62 thousand, respectively. The total revenue from ERW steel pipes accounted for approximately 0.7% of the total steel pipe revenue for the year ended 31 December 2019, representing a decrease of approximately 75.0% compared to that for the year ended 31 December 2018. The decrease in sales of ERW steel pipes was mainly due to removal of ERW production line at Panyu production site during the year.

FINANCIAL REVIEW

Revenue and gross profit

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

For the year ended 31 December 2019, our revenue was approximately RMB1,194.0 million, representing a decrease of approximately RMB487.6 million or 29.0% as compared with that of 2018. The decrease in revenue was mainly due to the decrease in sales of property recognized in 2019. Excluding sales of property of Phase I of GDC of RMB52.3 million in 2019 (2018: sales of property of Phase I of GDC of RMB610.4 million), sales of steel pipes in 2019 representing an increase of approximately RMB70.5 million or 6.6% as compared with that of 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:

	2019		2018	
	RMB'000	***% to total***	*RMB'000*	*% to total*
Revenue				
Steel pipes	**1,141,665**	**95.6**	1,071,126	63.7
Property development and investment	**52,296**	**4.4**	610,440	36.3
	1,193,961	**100.0**	1,681,566	100.0

Steel pipes

	2019 Revenue		2018 Revenue	
	RMB'000	***% to total***	*RMB'000*	*% to total*
Sales of steel pipes				
LSAW steel pipes	**835,348**	**73.2**	591,276	55.2
SSAW steel pipes	**29,645**	**2.6**	120,779	11.3
ERW steel pipes	**7,803**	**0.7**	30,576	2.8
Subtotal	**872,796**	**76.5**	742,631	69.3
Manufacturing services				
LSAW steel pipes	**167,859**	**14.7**	195,682	18.3
SSAW steel pipes	**52,335**	**4.6**	72,786	6.8
ERW steel pipes	**62**	**–**	897	0.1
Subtotal	**220,256**	**19.3**	269,365	25.2
Others	**48,613**	**4.2**	59,130	5.5
Grand total	**1,141,665**	**100.0**	1,071,126	100.0

	2019			2018		
	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	**133,695**	**156,080**	**857**	74,169	105,418	704
SSAW steel pipes	**2,420**	**5,683**	**426**	3,739	24,941	150
ERW steel pipes	**439**	**1,243**	**353**	1,242	6,679	186
Subtotal	**136,554**	**163,006**		79,150	137,038	
Manufacturing services						
LSAW steel pipes	**68,939**	**104,861**	**657**	84,905	119,981	708
SSAW Steel pipes	**18,481**	**58,361**	**317**	27,458	90,526	303
ERW steel pipes	**13**	**412**	**32**	178	828	215
Subtotal	**87,433**	**163,634**		112,541	211,335	
Others	**(22,551)**	**N/A**	**N/A**	1,191	N/A	N/A
Grand total	**201,436**	**326,640**		192,882	348,373	

The revenue generated from the sales of steel pipes accounted for approximately 76.5% of our total steel pipe revenue in 2019 as compared with approximately 69.3% in 2018. Steel pipe manufacturing services accounted for approximately 19.3% of our total steel pipe revenue in 2019 as compared with approximately 25.2% in 2018. 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 4.2% of our total steel pipe revenue in 2019 as compared with approximately 5.5% in 2018.

Gross profit of steel pipe sales for 2019 was approximately RMB201.4 million as compared with approximately RMB192.9 million in 2018, representing an increase of approximately 4.4% or RMB8.6 million. Gross profit margin for 2019 was approximately 17.6% which was similar to that of 18.0% in 2018.

Our domestic sales accounted for approximately 88.2% of our total steel pipe revenue in 2019, as compared to approximately 75.1% in 2018.

SALES BY GEOGRAPHICAL AREAS – STEEL PIPES

	2019 Revenue		2018 Revenue	
	RMB'000	***% to total***	*RMB'000*	*% to total*
Overseas sales	**134,377**	**11.8**	266,534	24.9
Domestic sales	**1,007,288**	**88.2**	804,592	75.1
Total steel pipes and manufacturing services	**1,141,665**	**100.0**	1,071,126	100.0

Property development and investment	**2019**	2018
	RMB'000	*RMB'000*
Revenue	**52,296**	610,440
Cost of sales	**(41,540)**	(479,797)
Gross profit	**10,756**	130,643

Sales of property of GDC was approximately RMB52.3 million in 2019 as compared with approximately RMB610.4 million in 2018, representing a decrease of approximately 91.4% or RMB558.1 million. Most of the units under Phase I of GDC had been sold in 2018. Remaining parts of the units under Phase I of GDC was sold in 2019.

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. Cost of sales was approximately RMB41.5 million in 2019 as compared with approximately RMB479.8 million in 2018, representing a decrease of 91.3% or RMB438.3 million.

Gross profit of property sales was approximately RMB10.8 million in 2019 as compared with approximately RMB130.6 million in 2018, representing a decrease of 91.8% or RMB119.9 million.

All sales of properties were domestic sales.

CHANGE IN FAIR VALUES OF INVESTMENT PROPERTIES

The Group has adopted the accounting policy of measuring investment properties by using fair values. Accordingly, gains or losses arising from the changes in the fair values of investment properties are reflected as profit or loss for the reporting period. The investment properties as at 31 December 2019 were the shops of Phase I of GDC. The Group has engaged RHL Appraisal Limited, an independent valuer, to value the investment properties as at 31 December 2019. According to the valuation report as at 31 December 2019 issued by RHL Appraisal Limited, the market value of the investment properties as at 31 December 2019 was RMB407 million. Gain on fair values of the investment properties in 2019 was approximately RMB78 million (2018: nil).

The investment property as at 31 December 2018 was the land of Phase III of GDC, which was sold to GPDLDC at the final compensation of RMB1,524,628,500 during 2019 (according to the final valuation report). For details, please refer to the paragraph titled "Land Resumption of Phase III GDC" on page 29. Gain on resumption (recorded in other income and gains) was approximately RMB352.5 million (2018: gain on fair values of the investment property of RMB21.8 million).

OTHER INCOME AND GAINS

Other income and gains in 2019 mainly represented gain on resumption of land use rights, bank interest income and subsidy income from government. Other income and gains increased by approximately 441.5% or RMB360.2 million from approximately RMB81.6 million in 2018 to approximately RMB441.7 million in 2019. Increase in other income and gains was mainly due to gain on resumption of land-use-rights from local authority in 2019.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses decreased by approximately 12.4% or RMB7.9 million from approximately RMB63.7 million in 2018 to approximately RMB55.8 million in 2019. The decrease was mainly due to the decrease in sales.

ADMINISTRATIVE EXPENSES

Administrative expenses decreased by approximately 23.1% or RMB101.0 million from approximately RMB437.0 million in 2018 to approximately RMB336.0 million in 2019. The decrease in administrative expenses was mainly due to the closure of manufacturing operation of PCKSP during the year whereas overall administrative expenses decreased.

FINANCE COSTS

The finance costs for 2019 was approximately RMB450.1 million as compared with that of 2018 of approximately RMB374.5 million, representing an increase of RMB75.6 million or 20.2%. The effective interest rate in 2019 was approximately 8.9% (2018: 6.0%). Increase in finance costs was due to increase in average interest rate throughout the year.

OTHER EXPENSES

Other expenses decreased by approximately 25.7% or RMB24.0 million from approximately RMB93.4 million in 2018 to approximately RMB69.4 million in 2019. The decrease was mainly due to loss of disposal of subsidiaries, property, plant and equipment and compensation incurred in relation to asset reorganization in 2018.

EXCHANGE GAIN, NET

The Group recorded exchange gain of approximately RMB23.5 million in 2019 as compared to exchange gain of approximately RMB16.2 million in 2018, representing an increase of 44.9% or RMB7.3 million. The exchange gain was mainly due to appreciation of HKD against RMB.

INCOME TAX CREDIT

Income tax credit decreased from RMB52.3 million in 2018 to RMB13.1 million in 2019.

Income tax credit was the combined effect of (i) income tax expenses were recorded in 2019 mainly because the Group sold the Phase III of GDC during the year and there was tax provision on the gain on resumption of land use right; (ii) income tax credit in 2019 as the Group expects there will be gain on disposal of land in Panyu and (iii) land appreciation tax in 2019 as the Group sold properties.

Income tax credit was recorded in 2018 as the Group expects there will be gain on disposal of land in Panyu.

LOSS FOR THE YEAR

As a result of the reasons discussed above, the Group recorded a loss of approximately RMB142.1 million in 2019 (2018: RMB498.9 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 2018 and 2019:

	Year ended 31 December	
	2019	2018
	RMB'000	*RMB'000*
Net cash flows from operating activities	**310,851**	43,614
Net cash flows from investing activities	**1,211,064**	8,075
Net cash flows used in financing activities	**(1,544,076)**	(51,783)
Net decrease in cash and cash equivalents	**(22,161)**	(94)

NET CASH FLOWS FROM OPERATING ACTIVITIES

The Group's net cash inflows from operating activities increased from approximately RMB43.6 million in 2018 to approximately RMB310.9 million in 2019. The increased net cash inflows from operating activities were primarily due to the combined effect of (i) loss before taxation; (ii) decrease in inventories, trade receivables, pledged bank deposit, trade payables and other payables and accruals, prepayments, other receivables and other assets and (iii) increase in contract liabilities.

NET CASH FLOWS FROM INVESTING ACTIVITIES

The Group's net cash flows from investing activities increased from approximately RMB8.1 million in 2018 to approximately RMB1,211.1 million in 2019. The change in net cash flows were mainly due to the receipt of compensation for land resumption of Phase III GDC during the year.

NET CASH FLOWS USED IN FINANCING ACTIVITIES

The Group's net cash flows used in financing activities increased from approximately RMB51.8 million in 2018 to approximately RMB1,544.1 million in 2019. The increase was mainly resulted from the combined effect of (i) the issue of new bonds, the borrowing of new interest-bearing loans and other borrowings and amounts due to a director of approximately RMB1,137.6 million and (ii) the repayment of bank loans, other borrowings and principal portion of payment of lease and payment of interest and dividends of approximately RMB2,681.7 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 and HK 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 2019.

CAPITAL EXPENDITURE

For the year ended 31 December 2019, the Group invested approximately RMB36.5 million for the upgrading of property, plant and equipment. These capital expenditures were fully financed by internal resources.

FINANCIAL GUARANTEE

As at 31 December 2019, the Group guaranteed RMB94.3 million (2018: RMB128.2 million) to certain purchasers of the Group's properties for mortgage facilities.

As at 31 December 2019, the Group guaranteed RMB548.1 million (2018: RMB538.9 million) to joint venture for banking facilities in Saudi Arabia of which RMB511.5 million (2018: RMB333.5 million) was utilized by the joint venture.

PLEDGE OF ASSETS

The Group pledged certain property, plant and equipment, leasehold lands, deposits, certain properties under development and completed properties held for sale with an aggregate net book value of approximately RMB1,201.1 million (2018: RMB833.4 million), RMB792.5 million (2018: RMB618.6 million), RMB2,000 (2018: RMB426.6 million), RMB1,267.3 million (2018: RMB1,105.9 million) and RMB109.4 million (2018: RMB373.9 million) respectively as at 31 December 2019 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 fixed rate bonds and notes divided by total assets. The gearing ratio of the Group as at 31 December 2019 and 2018 were approximately 59.5% and 62.5%, respectively. Decrease in gearing ratio in 2019 as compared with that of 2018 was due to the Group's repayment of borrowings during the year.

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 2019, the Group's total borrowings amounted to approximately RMB5,048.9 million, of which approximately 75% (2018: 68%) were long term borrowings and approximately 25% (2018: 32%) were short term borrowings. The total borrowings including, (i) a loan of RMB1.96 billion from Guangdong YueCai and Xingchen (as disclosed in the announcements dated 12 February 2018 and 27 February 2019). Such loan will be set-off against the consideration under a disposal agreement (as disclosed in the announcement dated 27 February 2019); (ii) loan of RMB1.33 billion in relation to the property development business; (iii) net borrowings under steel pipe business was around RMB1,759.0 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 RMB290.3 million, the Group has sufficient liquidity and is in a strong financial position to repay its short term borrowings.

As at 31 December 2019, the current assets of the Group exceeded its current liabilities by approximately RMB140.6 million. Phase II of GDC has been pre-sold which enabled to increase the cashflow of the Group. The Group has sufficient cashflow to meet its short term obligations.

As at 31 December 2019, approximately 51% (2018: 46%) 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 43% (2018: 41%) of the total borrowings were denominated in Renminbi which carried fixed interest rate; and approximately 6% (2018: 13%) of the total borrowings were denominated in US dollar and HK dollar which carried fixed interest rate.

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

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. Details of the above were disclosed in the Company's announcement and circular dated 27 February 2019 and 26 March 2019 respectively.

The very substantial disposal and connected transaction in relation to disposal of 80% equity interest of PCKSP was approved by the Shareholders of the Company in extraordinary general meeting held on 16 April 2019.

On 20 June 2019, the Group has entered into a land resumption compensation agreement ("Land Resumption Compensation Agreement") with Guangzhou City Panyu District Land Development Centre*（廣州市番禺區土地開發中心）("GPDLDC"), pursuant to which GPDLDC would resume, and the Group would sell the land of Phase III GDC at the final compensation of RMB1,524,628,500 (according to the final valuation report). The land resumption contemplated under the Land Resumption Compensation Agreement were approved by the Shareholders at the extraordinary general meeting held on 28 November 2019.

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

CONTINGENT LIABILITIES

A subsidiary of the Group is currently a defendant in a lawsuit brought by a party alleging that the subsidiary breached a contract to purchase goods. The directors, based on the advice from the Group's legal counsel, believe that the subsidiary has a valid defence against the allegation and, accordingly, have not provided for any claim arising from the litigation, other than the related legal and other costs.

EVENT AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, there has been an outbreak of the Corona Virus Disease 2019 ("COVID-19") around the world. The Group considers this outbreak to be a non-adjusting event after reporting period. The Group has closely monitored its impact on the operations. As the COVID-19 rapidly evolving, the related impact on the Group's consolidated results of operations, cash flows and financial condition for the year 2020 could not be reasonably estimated at this stage. The directors will remain alerted to the development of the COVID-19 and take all possible and reasonable measures as appropriate.

EMPLOYEE AND REMUNERATION POLICY

For the year ended 31 December 2019, staff costs (including Directors' remuneration in the form of salaries and other benefits) were approximately RMB119.0 million (2018: RMB155.4 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 the 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 2019.

As at 31 December 2019, the Group had a total of 1,162 full time employees (2018: 1,110 employees). The following set forth the total number of our staff by functions:

	2019	2018
Management	**155**	149
Production and logistics	**578**	508
Sales and marketing	**42**	31
Finance	**30**	31
Quality control	**42**	47
R&D	**3**	12
Procurement	**22**	12
General administration and others	**290**	320
Total	**1,162**	1,110

PROSPECT AND GOING FORWARD

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

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

Under the 13th Five-Year Plan, China ushered in a stage of vigorous development in construction of natural gas pipeline networks. As it is stated in the Medium to Long Term Oil and Gas Pipeline Networks Planning (《中長期油氣管網規劃》) published by the National Development and Reform Commission of the People's Republic of China, China will strive to strengthen the land and sea linkage as well as onshore and offshore interaction, consolidate and improve the northwest, northeast, southwest and offshore channels for oil and gas import, and promote energy cooperation with countries and regions along the "Belt and Road Initiative", thereby forming a preliminary layout with balanced distribution of onshore and offshore channels by 2025. Besides, China will strengthen the infrastructure construction of natural gas pipeline networks by following the principle of transmitting gas from the west to the east and from the north to the south, and bringing gas from offshore, so as to establish natural gas infrastructure networks featured by "interconnection of backbone networks with regional networks" by 2025. Next year will be the kick off year of the 14th Five-Year Plan. It is believed that development and deployment of pipeline networks will be intensified, and natural gas sector is projected to become the fastest growing energy sector by reaching a growth rate of 9.40%, completely outmatches those of other energy sectors. It is expected that investment scale of trunk pipelines for the period from 2019 to 2025 will be extensive.

According to the 13th Five-Year Plan and the 14th Five-Year Plan, during the period from 2019 to 2020 and the period from 2021 to 2025, the planned construction length of natural gas pipelines in China will amount to 28,000 kilometers and 59,000 kilometers, respectively, and construction investment for newly constructed trunk pipelines will amount to RMB370.4 billion and RMB780.6 billion, respectively (in aggregate of RMB1,151 billion).

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

In the future, we will proactively develop and expand our customer bases both domestically and internationally. For domestic market, in view of the state's promotion of natural gas utilization and acceleration of infrastructure projects, a rebound in demand for steel pipes is expected. According to the plan of the state, the lengths of crude oil pipelines, refined oil pipelines and natural gas pipelines will reach 32,000 kilometers, 33,000 kilometers and 104,000 kilometers respectively by 2020. And the total length of oil and gas pipeline network will reach 240,000 kilometers, the network coverage will be further expanded, the network structure will be further optimized and the storage and transmission capability will be significantly improved by 2025. During the plan period, six new crude oil pipelines and eight new refined oil pipelines are planned to be constructed, which will be a golden era for the development of oil and gas pipelines.

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

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 2019.

CG CODE A.2.1

The Company is aware of the requirement under paragraph A.2.1 of the CG Code that the roles of chairman and chief executive should be separated and should not be performed by the same individual. The Company does not 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. The independent non-executive Directors are satisfied that the controlling shareholders have fully complied with the terms of the non-competition undertakings and no new competing business was reported by the controlling shareholders throughout the year ended 31 December 2019.

AUDIT COMMITTEE

The audit committee of the Board (the "Audit Committee") consists of three independent non-executive Directors, namely Mr Chen Ping, Mr Au Yeung Kwong Wah (appointed on 1 October 2019) and Mr Tian Xiao Ren. Mr Au Yeung Kwong 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 consolidated financial statements for the year ended 31 December 2019 and the condensed unaudited consolidated interim financial statements for the six months ended 30 June 2019, 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 2019 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 2019, 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 2019.

FINAL DIVIDEND

The Board did not recommend the payment of final dividend for the year ended 31 December 2019.

ANNUAL GENERAL MEETING

The annual general meeting ("AGM") of the Company will be held at Portion 2, 12th Floor, The Centre, 99 Queen's Road Central, Hong Kong on Thursday, 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 Monday, 15 June 2020 to Thursday, 18 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 12 June 2020.

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 2019 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, 30 March 2020

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. Tian Xiao Ren and Mr. Au Yeung Kwong Wah.

* *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.*