

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

**2010 INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2010**

The board (“Board”) of directors (“Directors”) of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the “Company”) announces the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2010 (the “Interim Period”) together with the comparative figures for the previous corresponding period as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2010

		Six months ended 30 June	
		2010	2009
		(Unaudited)	(Unaudited)
	<i>Notes</i>	RMB'000	RMB'000
REVENUE	4	865,521	1,279,121
Cost of sales		(718,900)	(1,057,366)
Gross profit		146,621	221,755
Other income and gains	5	7,249	2,643
Selling and distribution costs		(18,067)	(38,060)
Administrative expenses		(47,865)	(40,695)
Other expenses		(1,102)	(137)
Finance costs	6	(20,256)	(22,529)
Exchange loss, net		(3,216)	(1,411)

		Six months ended 30 June	
		2010	2009
		(Unaudited)	(Unaudited)
	<i>Notes</i>	RMB'000	RMB'000
PROFIT BEFORE TAX	7	63,364	121,566
Income tax expense	8	<u>(11,608)</u>	<u>(16,175)</u>
PROFIT FOR THE PERIOD		<u>51,756</u>	<u>105,391</u>
Other comprehensive income:			
Exchange differences on translating foreign operations		(239)	58
Income tax relating to component of other comprehensive income		<u>—</u>	<u>—</u>
Other comprehensive income for the period, net of tax		<u>(239)</u>	<u>58</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		<u>51,517</u>	<u>105,449</u>
Profit attributable to:			
Owners of the Company		<u>51,756</u>	<u>105,391</u>
Total comprehensive income attributable to:			
Owners of the Company		<u>51,517</u>	<u>105,449</u>
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted	10	<u>RMB0.05</u>	<u>RMB0.14</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2010

		30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	<i>11</i>	537,795	499,891
Deposit paid for purchases of items of property, plant and equipment		587,529	278,814
Prepaid land lease payments		83,582	84,659
Goodwill		4,075	4,075
Deferred tax assets		1,233	1,320
Pledged deposits		5,243	11,566
Total non-current assets		1,219,457	880,325
CURRENT ASSETS			
Inventories	<i>12</i>	516,386	520,157
Trade receivables	<i>13</i>	371,644	267,158
Prepayments, deposits and other receivables		178,035	116,223
Pledged deposits		125,663	201,056
Cash and bank balances		467,427	349,302
Total current assets		1,659,155	1,453,896
TOTAL ASSETS		2,878,612	2,334,221
CURRENT LIABILITIES			
Trade and bills payables	<i>14</i>	139,216	395,570
Interest-bearing bank loans	<i>15</i>	303,752	292,953
Other payables and accruals		139,734	266,220
Tax payable		18,975	24,236
Due to the ultimate shareholder		–	20,540
Total current liabilities		601,677	999,519
NET CURRENT ASSETS		1,057,478	454,377
TOTAL ASSETS LESS CURRENT LIABILITIES		2,276,935	1,334,702

		30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
	<i>Notes</i>		
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	15	290,000	377,000
Government grants		5,771	5,771
Total non-current liabilities		295,771	382,771
Net assets		1,981,164	951,931
EQUITY			
Equity attributable to Owners of the Company			
Issued capital		88,856	–
Reserves		1,892,308	951,931
Total equity		1,981,164	951,931
TOTAL EQUITY AND LIABILITIES		2,878,612	2,334,221

NOTES TO INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

1. CORPORATE INFORMATION

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 initial authorised share capital of the Company was HK\$100,000 divided into 1,000,000 shares of HK\$0.10 each. The Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Company and its subsidiaries (hereinafter collectively referred to as the "Group") are involved in the manufacture and sale of seam welded steel pipes and the provision of related manufacturing services. There were no significant changes in the nature of the Group's principal activities during the period.

The companies comprising the Group underwent a reorganisation to rationalise the Group's structure in preparation for the listing of the shares of the Company on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"), pursuant to which the Company became the holding company within the Group on 23 January 2010. Further details of the Group Reorganisation (the "Reorganisation") were set out in the Company's prospectus dated 28 January 2010. The shares of the Company were listed on the Main Board of the Stock Exchange on 10 February 2010.

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

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2010 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and International Accounting Standards ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board (the "IASB").

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statement as at 31 December 2009.

Basis of consolidation

The acquisitions of the subsidiaries pursuant to the Reorganisation were regarded as a business combination under common control. Accordingly, the interim condensed consolidated financial statements have been prepared in accordance with the principles of merger accounting. On this basis, the Company has been treated as the holding company of its subsidiaries since the beginning of the financial periods presented rather than from their respective dates of acquisition. Accordingly, the interim consolidated results for the six months ended 30 June 2010 include the results of the Company and its subsidiaries with effect from 1 January 2010 or since their respective dates of incorporation or establishment, whichever is shorter. The comparative interim condensed consolidated statement of financial position as at 31 December 2009 has been prepared as if the existing Group had been in place at that date.

In the opinion of the Directors, the interim condensed consolidated financial statements prepared on the above basis present fairly the results and state of affairs of the Group as a whole.

All material intra-group transactions and balances have been eliminated on consolidation.

These interim condensed consolidated financial statements are unaudited, but have been reviewed by the Audit Committee of the Company.

3. ACCOUNTING POLICIES

The accounting policies used in the preparation of the interim condensed consolidated financial statements are the same as those used in the annual financial statements for the financial year ended 31 December 2009, except for the adoption of the standards, amendments and interpretations issued by the IASB mandatory for annual periods beginning 1 January 2010. The effect of the adoption of these standards, amendments and interpretations was not material to the Group's results of operations or financial position.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services, and has one reportable operating segment: the manufacture and sale of seam welded steel pipes and the provision of related manufacturing services. Management monitors the operating results of the Group's business unit as a whole for the purpose of making decisions about resources allocation and performance assessment.

Information about products

The revenue of the major products is analysed as follows:

	Six months ended 30 June	
	2010	2009
	(Unaudited) RMB'000	(Unaudited) RMB'000
Manufacture and sale of steel pipes:		
LSAW steel pipes	740,711	941,106
ERW steel pipes	85,410	251,604
Steel pipe manufacturing services:		
LSAW steel pipes	18,109	25,391
ERW steel pipes	1,410	2,381
Others*	19,881	58,639
	<u>865,521</u>	<u>1,279,121</u>

* Others mainly included the manufacture and sale of steel fittings, trading of steel pipes and sale of scrap materials.

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the invoiced value of goods sold, net of value-added tax ("VAT") and other sales taxes, after allowances for returns and discounts; and the value of services rendered, net of business taxes and surcharges during the period.

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

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
<i>Revenue</i>		
Manufacture and sale of seam welded steel pipes and the provision of related manufacturing services	865,521	1,279,121
<i>Other income and gains</i>		
Bank interest income	4,483	2,479
Subsidy income from the PRC government	2,623	65
Compensation	143	71
Others	–	28
	7,249	2,643

The subsidy income represented subsidies granted by the local finance bureau to Panyu Chu Kong Steel Pipe Co. Ltd. ("PCKSP") as encouragement for its oversea market exploration. There are no unfulfilled conditions or contingencies relating to such subsidies.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank loans	20,256	22,529

7. PROFIT BEFORE TAX

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

		Six months ended 30 June	
		2010	2009
		(Unaudited)	(Unaudited)
	<i>Notes</i>	RMB'000	RMB'000
Cost of inventories sold		665,999	978,064
Depreciation	<i>11</i>	18,709	17,974
Impairment loss of trade receivables recognised/(reversed)		(571)	4,004

8. INCOME TAX

The Group is subject to income tax on an entity basis on profits arising in or derived from the jurisdictions in which members of the Group are domiciled and operate.

No provision for Hong Kong profits tax has been made as the Group had no assessable profits derived from or earned in Hong Kong during the period.

The major components of the income tax expense in the interim condensed consolidated statement of comprehensive income are as follows:

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current – Mainland China charged for the period	11,521	16,728
Deferred	87	(553)
Total tax charge for the period	11,608	16,175

9. DIVIDENDS

No dividend has been paid or declared by the Company during the period.

The dividends paid by the Company's subsidiary to its then shareholders during the period are as follows:

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Dividends	–	49,714

10. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of basic earnings per share is based on the profit for the period attributable to Owners of the Company, and the weighted average number of ordinary shares of 952,076,784 (2009: 750,000,000) in issue during the period.

The weighted average number of shares used to calculate the basic earnings per share for the period ended 30 June 2010 includes the pro forma issued share capital of the Company of 750,000,000 shares, comprising:

- (i) 100,000,000 shares issued and fully paid; and
- (ii) the capitalisation issue of 650,000,000 shares.

The weighted average number of shares used to calculate the basic earnings per share for the six months ended 30 June 2010 includes the weighted average of 194,751,381 shares issued upon the listing of the Company's shares on the Stock Exchange on 10 February 2010 and the weighted average of 7,325,403 shares issued upon exercise of the Over-allotment Option on 4 March 2010 in addition to the aforementioned 750,000,000 ordinary shares.

No adjustment has been made to the basic earnings per share amounts presented for the periods ended 30 June 2010 and 2009 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those periods.

11. PROPERTY, PLANT AND EQUIPMENT

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
At beginning of the period/year	499,891	479,637
Additions	57,617	143,852
Disposals	(965)	(92,059)
Depreciation	(18,709)	(31,534)
Exchange realignment	(39)	(5)
	537,795	499,891
At end of the period/year		

12. INVENTORIES

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Raw materials	222,477	166,604
Work in progress	41,582	49,820
Finished goods	252,327	303,733
	516,386	520,157

13. TRADE RECEIVABLES

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 for a period of 30 to 60 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

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

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Within 60 days	283,858	159,643
61 to 90 days	11,550	8,676
91 to 180 days	11,893	43,582
181 to 365 days	35,289	25,337
1 to 2 years	33,318	34,663
2 to 3 years	3,021	3,113
	378,929	275,014
Less: Impairment of trade receivables	(7,285)	(7,856)
	371,644	267,158

The carrying amounts of the trade receivables approximate to their fair values.

14. TRADE AND BILLS PAYABLES

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

	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Within 90 days	70,733	57,286
91 to 180 days	9,307	3,410
181 to 365 days	3,639	3,306
1 to 2 years	1,360	9,385
2 to 3 years	6,040	1,686
	91,079	75,073
Bills payable	48,137	320,497
	139,216	395,570

The trade payables are non-interest-bearing and are normally settled on 60-day terms. The carrying amounts of the trade payables and bills payable approximate to their fair values.

All the bills payable bear maturity dates within 180 days.

15. INTEREST-BEARING BANK LOANS

	Effective interest rate %	Maturity	30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Current				
Bank loans				
– secured	3.000~5.670	2011	<u>303,752</u>	<u>292,953</u>
Non-current				
Bank loans				
– secured	5.933	2014	<u>290,000</u>	<u>377,000</u>
			<u>593,752</u>	<u>669,953</u>
			30 June 2010 (Unaudited) RMB'000	31 December 2009 (Audited) RMB'000
Analysed into bank loans repayable:				
Within one year			<u>303,752</u>	<u>292,953</u>
In the third to fifth years, inclusive			<u>290,000</u>	<u>377,000</u>
			<u>593,752</u>	<u>669,953</u>

The Group's bank loans are secured by:

- (a) a charge over certain property, plant and equipment of the Group with a net carrying amount of approximately RMB53,615,000 (31 December 2009: RMB65,601,000) as at the end of the reporting period; and
- (b) a charge over certain leasehold lands of the Group with a net carrying amount of approximately RMB75,692,000 (31 December 2009: RMB83,713,000) as at the end of the reporting period.

In addition, no interest-bearing bank loans of the Group (31 December 2009: RMB126,050,000) were guaranteed by related parties as at the end of the reporting period.

16. EVENTS AFTER THE REPORTING PERIOD

There are no significant events subsequent to 30 June 2010 which would materially affect the Group's operating and financial performance as of the date of these interim condensed consolidated financial statements.

CHAIRMAN'S STATEMENT

On behalf of the Board, I hereby present to our shareholders the unaudited interim results of the Group for the six months ended 30 June 2010.

During the Interim Period, the turnover of our Group was approximately RMB865.5 million, representing a decrease of 32.3% from approximately RMB1,279.1 million in the same period last year. Profit attributable to the equity holders of the Company decreased by 50.9% as compared to the same period last year to approximately RMB51.8 million (2009: approximately RMB105.4 million). The Board did not recommend the payment of any interim dividend for the six months ended 30 June 2010.

Despite the gradual recovery of the global economy from the impact brought by the financial crisis started in late 2008, Europe was hit by another round of financial turmoil in early 2010. Confidence in the global capital market deteriorated, and resulted in the slowdown of infrastructure projects in the world in 2010, including pipeline projects. A number of export contracts that our Group initially expected during the period did not materialize. During the first half of 2009, our Group has completed partial delivery of a large order of electric resistant welding pipes ("ERW steel pipe") to a customer in the Sultanate of Oman. In the first half of 2010, however, no order of the same kind was secured. This also resulted in a significant decline in our export sales.

In respect of the domestic market, the implementation of a series of tightening measures by the PRC government with the view of curbing spending resulted in a delay of a number of pipeline construction projects in the PRC. This in turn has led to the postponement of the delivery schedule for the Group's orders on hand in the PRC, and also affected the progress of new pipeline project approval. As such, our domestic sales were affected and recorded a decline. However, deep sea pipeline projects in the PRC were not affected and even posted a satisfactory growth as compared to the previous year. We believe that these projects will become the market focus and our sales growth driver in the future.

Regarding additional production capacity, our Group's new production line in Panyu, Guangdong commenced production in June 2010, which was ahead of schedule. With an annual production capacity of 300,000 tonnes, this production line is mainly used for the production of steel pipes for infrastructure projects. Our Group has already secured orders from the State Grid Corporation of China and expects that the number of orders from State Grid's projects will increase substantially. We will proactively participate in new project tender and to explore stable income source by capitalizing on our first mover advantage in producing infrastructure steel pipes.

Our Group has achieved remarkable breakthrough in research and development during the Interim Period, we have successfully developed deep sea longitudinal steel pipes which are formed utilising submerged arc welded technology ("LSAW steel pipes") and have obtained approval of the Expert Committee in the scientific achievement appraisal meeting organized by the Department of Science and Technology of Guangdong Province and hosted by the Bureau of Science and Technology of Guangzhou Municipality. We are also accredited international certifications such as Det Norske Veritas ("DNV") and American Petroleum

Institute (“API”). We are the first manufacturer in the PRC that has successfully developed steel pipes applicable for deep sea pipeline projects. It is expected that new orders will be secured in the second half of 2010. Deep sea LSAW is mainly used in high pressure environment and deep sea oil and gas transmission projects. As offshore oil and gas resources will be the key area for exploitation around the world in the future, we believed that this sector will definitely become the focus of the oil and gas market with promising prospects. We are confident of capturing the enormous opportunities for deep sea pipeline projects.

Our Company is not only the largest manufacturer of longitudinal submerged arc welded steel pipes (“LSAW steel pipes”) in the PRC, but also the first domestic manufacturer with LSAW steel pipe production line using UOE production method. As our Group has successfully tapped into the international capital market early this year, we will continue to expand our business through this international platform and capitalize on arising market opportunities.

Looking forward to the second half of the year, with the tightening policies in the PRC loosened, the delivery of certain projects in the PRC is expected to be resumed. In respect of the overseas market, while a number of key projects are ready to kick off, we have also received new overseas orders, which may bring forth positive impact on the gradual recovery of our exports business.

In addition to strengthening our existing exports and domestic sales of steel pipes business, we will also further explore the non-oil and gas pipeline projects. We will proactively facilitate project development progress, so as to speed up order delivery and boost sales performance to return to an increasing track. While we are upgrading and enhancing our existing production and ancillary facilities, we will also further strengthen our cooperation with customers, with an aim of staying abreast with market trend, developing and producing products that cater to customers’ requirement and market demand, as well as driving product sales.

Leveraging our excellent product quality, advanced and diversified production equipment and technologies as well as scalable production scale and a global customer base, we have established good reputation in the industry. We will continue to further develop our competitive edge as market pioneer and are committed to becoming the leading manufacturer of quality LSAW steel pipes in the PRC and creating the best return to our shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group mainly manufactures and sells longitudinal weld steel pipes, as well as provides manufacturing service for processing raw materials into steel pipes. Our steel pipe products can be broadly categorized into LSAW steel pipes and ERW steel pipes. We are one of the largest LSAW steel pipes manufacturers who are capable of producing LSAW steel pipes that meet the X80 standard, which are suitable for application in major national pipeline projects in the PRC.

During the Interim Period, while the global economic environment seems stabilizing, the PRC government has imposed tightening measures to curb spending which resulted in a postponement of a number of pipeline construction projects in the PRC. This has resulted in delay of the delivery schedule of some of our domestic sales orders on hand. Moreover, the European financial crisis led to deterioration of confidence in the global financial market, and also slowed down global infrastructure projects, including pipeline projects. A number of export contracts that the Group initially expected during the period did not materialize. As a result, the Group's performance has been adversely affected.

Financial Review

During the Interim Period, the turnover of the Group was approximately RMB865.5 million (2009: RMB1,279.1 million), representing a decrease of approximately 32.3% as compared to the corresponding period in 2009; gross profit amounted to approximately RMB146.6 million (2009: RMB221.8 million), representing a decrease of approximately 33.9% as compared to the corresponding period in 2009; net profit attributable to the owners of the Company was approximately RMB51.8 million (2009: net profit of RMB105.4 million), representing a decrease of approximately 50.9% as compared to the corresponding period in 2009; earnings per share was RMB0.05.

Revenue

Sales by geography

	Six months ended 30 June			
	2010		2009	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
	(unaudited)		(unaudited)	
Domestic sales	600,955	69.4%	651,747	51.0%
Overseas sales	264,566	30.6%	627,374	49.0%
Total	865,521	100.0%	1,279,121	100.0%

Sales by products

	Six months ended 30 June			
	2010		2009	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
	(unaudited)		(unaudited)	
Manufacture and sale of steel pipes				
LSAW steel pipes	740,711	85.6%	941,106	73.6%
ERW steel pipes	85,410	9.9%	251,604	19.7%
Sub total	826,121	95.5%	1,192,710	93.3%
Steel pipe manufacturing services				
LSAW steel pipes	18,109	2.1%	25,391	2.0%
ERW steel pipes	1,410	0.1%	2,381	0.2%
Sub total	19,519	2.2%	27,772	2.2%
Others	19,881	2.3%	58,639	4.5%
Total	865,521	100.0%	1,279,121	100.0%

During the Interim Period, our overseas sales was approximately RMB264.6 million, accounted for approximately 30.6% of our total revenue as compared to that of approximately RMB627.4 million, accounted for approximately 49.0%, for the corresponding period in 2009. The decrease in overseas sales of approximately RMB362.8 million or 57.8% was mainly due to the deterioration of confidence in the global financial market resulted from European financial crisis in early 2010 and hence, slowdown in global infrastructure projects, including pipeline projects. Our domestic sales was approximately RMB601.0 million, accounted for 69.4% of our total revenue as compared to that of approximately RMB651.7 million, accounted for 51.0% of our total revenue, for the corresponding period in 2009. The decrease in domestic sales of approximately RMB50.7 million or 7.8% was mainly due to the tightening measures adopted by the PRC government to curb spending since 2010 which resulted in the postponement of a number of pipeline construction projects in the PRC and therefore delayed the delivery schedule for some of our domestic sales orders on hand.

During the Interim Period, revenue from the manufacture and sale of LSAW steel pipes was approximately RMB740.7 million (2009: RMB941.1 million), representing a decrease of approximately 21.3% year-on-year. Sales volume for LSAW was approximately 93,000 tons (2009: 104,700 tons), representing a decrease in approximately 11.2% and the average selling price was approximately RMB8,000 per ton (2009: RMB9,000 per ton), representing a decrease in approximately 11% compared to the corresponding period in 2009. The decrease in average selling price was mainly attributable to the decrease in the average cost of our raw material – steel plate compared to the corresponding period in 2009. Revenue from the manufacturing service of LSAW steel pipes was approximately RMB18.1 million (2009: RMB25.4 million), representing a decrease of approximately 28.7% as compared to the corresponding period in 2009.

During the Interim Period, revenue from the manufacture and sale of ERW steel pipes was approximately RMB85.4 million (2009: RMB251.6 million), representing a decrease of approximately 66.1% as compared to the corresponding period in 2009. Sales volume for ERW was approximately 16,700 tons (2009: 28,900 tons), representing a decrease in approximately 42.2% and the average selling price was approximately RMB5,100 per ton (2009: RMB8,700 per ton), representing a decrease in approximately 41.4% as compared to the corresponding period in 2009. The decrease in both quantity and average selling price was primarily due to the completion of a large order from a customer in the Sultanate of Oman and sales to such customer was amounted to approximately RMB200.3 million in the six months ended 30 June 2009. The unit selling price per ton of such order was higher due to the customer's special technical requirement for anti-corrosive ERW steel pipes. This order was completed in August 2009 and no such lucrative order of ERW steel pipes was received during the Interim Period. Revenue from the manufacturing service of ERW steel pipes was approximately RMB1.4 million (2009: RMB2.4 million), representing a decrease of approximately 41.7% compared to the corresponding period in 2009.

Gross profit and gross profit margin	Six months ended 30 June			
	2010		2009	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
	(unaudited)		(unaudited)	
Manufacture and sale of steel pipes				
LSAW steel pipes	132,561	17.9%	132,182	14.0%
ERW steel pipes	1,809	2.1%	64,223	25.5%
Sub total	134,370	16.3%	196,405	16.5%
Steel pipe manufacturing services				
LSAW steel pipes	10,296	56.9%	15,455	60.9%
ERW steel pipes	114	8.1%	839	35.2%
Sub total	10,410	53.3%	16,294	58.7%
Others	1,841	9.3%	9,056	15.4%
Total	146,621	16.9%	221,755	17.3%

During the Interim Period, the gross profit of the Group was approximately RMB146.6 million (2009: RMB221.8 million), representing a decrease of approximately 33.9% as compared to the corresponding period in 2009. The decrease was primarily attributable to the completion of the sales order from a major customer in the Sultanate of Oman as discussed above. This also accounted for the lower gross profit margin for ERW steel pipe during the Interim Period. The gross profit margin for the manufacture and sale of LSAW steel pipe has increased from approximately 14.0% for the corresponding period in 2009 to approximately 17.9% for the Interim Period. This was mainly attributable to the lower gross profit margin from the Central Asia Pipeline Project which amounted to RMB358.5 million with a gross profit margin of only approximately 5% and was completed in 2009. The overall gross profit margin was approximately 16.9% as compared with approximately 17.3% for the same period in 2009.

Other income and gains were approximately RMB7.2 million (2009: RMB2.6 million), representing an increase of approximately 176.9% as compared to the corresponding period in 2009. The increase was mainly due to the increase in both bank interest income and subsidy income from the government.

Selling and distribution expenses were approximately RMB18.1 million (2009: RMB38.1 million), representing a decrease of approximately 52.5% as compared to the corresponding period in 2009. The percentage of selling and distribution expenses to our revenue was approximately 2.1% as compared to 3.0% for the same period in 2009. The major decreases were commission and transportation cost which were in line with our decline in revenue.

Administrative expenses were approximately RMB47.9 million (2009: RMB40.7 million), representing an increase of approximately 17.7% compared to the corresponding period in 2009. The major increases were research and development cost, salary of management staff and relevant expenses.

Finance costs were approximately RMB20.3 million (2009: RMB22.5 million), representing a decrease of 9.8% as compared to the corresponding period in 2009. The decrease was primarily due to the decrease in monthly average balance of our interest-bearing bank loans.

Future Plan and Prospects

The business for the second half of 2010 probably will still be challenging. However, there are signs of improvement after the second quarter of the year as enquiries and orders from overseas customers are becoming more active. The outlook of the steel pipe market remains positive although short-term fluctuation is inevitable.

The Directors are confident that with the Group's solid foundation, times of challenge bring opportunity for the Group to break away from competitors and take business to next level of market leadership in China steel pipe industry.

To maintain steady growth of its businesses in the long run, the Group will adhere to its pro active yet prudent development strategies.

Employees

As at 30 June 2010, the Group had 1,933 full time employees in total (31 December 2009: 1,816). The Group provides competitive remuneration package to retain its employees including salaries, medical insurance, discretionary bonuses, other benefits as well as mandatory provident fund schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC.

Exchange Risk Exposure

During the period, most of its operating transactions are settled in RMB except for the export sales which are mostly denominated in USD. The fluctuation of the exchange rate between RMB and USD may affect the operating results of the Group. However, the Group did not experience any material difficulties or effects on its operations or liquidity as a result of exchange rate fluctuation during the period.

Interim Dividend

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2010 (Six months ended 30 June 2009: Nil) to the shareholders.

Contingent Liabilities

As at 30 June 2010, the Group did not have any material contingent liabilities or guarantees.

Liquidity and Financial Resources

As at 30 June 2010, the Group maintained a sound financial position where cash and cash equivalents and current ratio, as a ratio of current assets to current liabilities, were approximately RMB467.4 million and 2.76 respectively. Based on the current cash position, the Group should have sufficient liquidity to meet its operational needs.

The gearing ratio, expressed as a percentage of the summation of bank borrowings, government grants and amount due to the ultimate shareholder (at 30 June 2010: Nil) over total assets of approximately RMB2,878.6 million (at 31 December 2009: RMB2,334.2 million) is approximately 20.8% (at 31 December 2009: 29.8%).

Code on Corporate Governance Practices

Save as disclosed below, the Company has complied with all the code provisions set out in Appendix 14 Code on Corporate Governance Practices (the “CG Code”) to the Listing Rules since the listing of shares of the Company on the Stock Exchange on 10 February 2010 (“listing date”).

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 officer should be separated and should not be performed by the same individual. The Company does not have any officer with the title of “chief executive officer”. 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 officer. 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 move is being taken should suitable circumstance arise.

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 for transactions in the Company’s securities since listing date up to 30 June 2010.

Purchase, Redemption or Sale of Listed Securities of the Company

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities since listing date up to 30 June 2010.

Audit Committee

The Company's Audit Committee comprises Mr. See Tak Wah, Mr. Liang Guo Yao and Mr. Chen Ping who are the independent non-executive directors of the Company.

The Audit Committee reviewed with the management of the Company the accounting principles and practices adopted by the Group, and discussed internal controls and financial reporting matters including a review of the unaudited consolidated interim results of the Group for the Interim Period.

Publication of Result Announcement

This interim results announcement is available for viewing on the websites of the Stock Exchange at <http://www.hkexnews.hk> and the Company's website at <http://www.pck.com.cn> and the 2010 interim report of the Company containing all the information required by the Listing Rules will be dispatched to the shareholders and published on the respective websites of the Company and the Stock Exchange in due course.

By Order of the Board
**Chu Kong Petroleum and Natural Gas
Steel Pipe Holdings Limited**
Chen Chang
Chairman and Executive Director

Hong Kong, 23 August 2010

As at the date of this announcement, the executive directors of the Company are Mr. Chen Chang, Ms. Chen Zhao Nian and Ms. Chen Zhao Hua. The independent non-executive directors of the Company are Mr. Chen Ping, Mr. Liang Guo Yao and Mr. See Tak Wah.