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CHU KONG PETROLEUM AND NATURAL GAS STEEL PIPE HOLDINGS LIMITED

珠江石油天然氣鋼管控股有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock code: 1938)

**2014 INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2014**

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 2014 together with the comparative figures for the previous corresponding period as follows:

FINANCIAL HIGHLIGHTS

	Six months ended 30 June		
	2014	2013	Change
Revenue (RMB'000)	1,484,020	1,200,111	23.7%
Gross profit (RMB'000)	245,000	222,891	9.9%
Gross profit margin	16.5%	18.6%	
Profit attributable to owners of the parent (RMB'000)	70,631	71,021	-0.5%
Earnings per share attributable to ordinary equity holders of the parent			
Basic and diluted (RMB)	0.07	0.07	0%

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2014

		Six months ended 30 June	
		2014	2013
		(Unaudited)	(Unaudited)
	<i>Notes</i>	RMB'000	RMB'000
REVENUE	6	1,484,020	1,200,111
Cost of sales		<u>(1,239,020)</u>	<u>(977,220)</u>
Gross profit		245,000	222,891
Fair value gains on investment properties		89,447	–
Other income and gains	6	106,596	139,661
Selling and distribution costs		(51,359)	(32,722)
Administrative expenses		(174,556)	(159,433)
Other expenses		(5,740)	(1,897)
Finance costs	7	(116,863)	(70,169)
Share of profit and loss of a joint venture		<u>(548)</u>	<u>–</u>
PROFIT BEFORE TAX	8	91,977	98,331
Income tax expense	9	<u>(21,346)</u>	<u>(27,310)</u>
PROFIT FOR THE PERIOD		<u>70,631</u>	<u>71,021</u>

		Six months ended 30 June	
		2014	2013
		(Unaudited)	(Unaudited)
<i>Notes</i>		RMB'000	RMB'000
Other comprehensive income:			
<i>Item that may be reclassified Subsequently to profit or loss</i>			
Exchange differences on translating foreign operations		(11,373)	9,833
Income tax relating to component of other comprehensive income		–	–
<i>Item that may not be reclassified Subsequently to profit or loss</i>			
Gains on revaluation of investment properties		–	1,538,287
Income tax relating to component of other comprehensive income		–	(384,572)
		<u> </u>	<u> </u>
Other comprehensive income for the period, net of tax		(11,373)	1,163,548
		<u> </u>	<u> </u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		59,258	1,234,569
		<u> </u>	<u> </u>
Profit attributable to:			
Owners of the parent		70,631	71,021
		<u> </u>	<u> </u>
Total comprehensive income attributable to:			
Owners of the parent		59,258	1,234,569
		<u> </u>	<u> </u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	10	RMB0.07	RMB0.07
		<u> </u>	<u> </u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2014

		30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	11	3,255,499	2,903,523
Investment properties	12	2,312,469	2,216,313
Long term prepayments and deposit		154,447	211,650
Prepaid land lease payments		1,055,406	859,617
Goodwill		4,075	4,075
Investment in a joint venture		178,877	75,647
Deferred tax assets		62,696	43,954
Pledged deposits		5,998	5,907
Total non-current assets		7,029,467	6,320,686
CURRENT ASSETS			
Inventories	13	968,041	1,148,337
Trade and bills receivables	14	1,667,945	1,219,104
Prepayments, deposits and other receivables		876,870	535,226
Pledged deposits		343,721	127,596
Derivative financial instruments	17	–	13,675
Cash and bank balances		726,134	1,609,517
Total current assets		4,582,711	4,653,455
CURRENT LIABILITIES			
Trade and bills payables	15	1,028,512	535,443
Interest-bearing loans and other borrowings	16	3,047,409	3,017,516
Other payables and accruals		372,724	393,757
Tax payable		84,479	67,080
Derivative financial instruments	17	136	480
Short-term notes		300,848	206,926
Total current liabilities		4,834,108	4,221,202
NET CURRENT (LIABILITIES)/ASSETS		(251,397)	432,253
TOTAL ASSETS LESS CURRENT LIABILITIES		6,778,070	6,752,939

		30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
	<i>Notes</i>		
NON-CURRENT LIABILITIES			
Interest-bearing loans and other borrowings	16	2,018,842	2,148,077
Fixed rate bonds		505,346	431,453
Government grants		105,411	106,345
Deferred tax liabilities		470,144	447,995
Total non-current liabilities		3,099,743	3,133,870
Net assets		3,678,327	3,619,069
EQUITY			
Equity attributable to owners of the parent			
Issued capital		88,856	88,856
Reserves		3,589,471	3,530,213
Total equity		3,678,327	3,619,069

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1. CORPORATE INFORMATION

Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 9 January 2008 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company’s registered office 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 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.

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

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements for the six months ended 30 June 2014 have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited 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 statements for the year ended 31 December 2013.

3. NET CURRENT LIABILITIES

As at 30 June 2014, the current liabilities of the Group exceeded its current assets by approximately RMB251 million. The Directors have prepared the Financial Information for the reporting Periods on a going concern basis notwithstanding the net current liabilities position because (i) as at 30 June 2014, the Group had available banking facilities agreed to be granted by the relevant banks of RMB6,235 million; (ii) the Directors do not anticipate that any of the existing loan lenders would tighten or withdraw the credit facilities granted to the Group in the foreseeable future; and (iii) the Group is expected to generate sufficient profit from the sales of its products to meet its financial obligations when they fall due.

4. CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The accounting policies used in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2013, except for the adoption of the standards, amendments and interpretations issued by the IASB effective for annual periods beginning 1 January 2014, noted below:

IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) – <i>Investment Entities</i>
IAS 32 Amendments	Amendments to IAS 32 <i>Financial Instruments: Presentation</i> – <i>Offsetting Financial Assets and Financial Liabilities</i>
IAS 39 Amendments	Amendments to IAS 39 <i>Financial Instruments: Recognition and Measurement</i> – <i>Novation of Derivatives and Continuation of Hedge Accounting</i>
IFRIC 21	<i>Levies</i>

The effect of the adoption of these standards, amendments and interpretations was not material to the Group’s results of operations or financial position.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

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

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

Six months ended 30 June 2014	Steel pipes RMB'000	Property development RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	<u>1,484,020</u>	<u>–</u>	<u>1,484,020</u>
Segment results:	25,083	84,982	110,065
<i>Reconciliation:</i>			
Corporate and other unallocated expenses			<u>(18,088)</u>
Profit before tax			<u>91,977</u>
Segment assets:	12,270,825	2,495,089	14,765,914
<i>Reconciliation:</i>			
Elimination of intersegment receivables			<u>(196,964)</u>
Corporate and other unallocated assets			<u>(2,956,772)</u>
Total assets			<u>11,612,178</u>
Segment liabilities:	8,008,622	632,140	8,640,762
<i>Reconciliation:</i>			
Elimination of intersegment payables			<u>(196,964)</u>
Corporate and other unallocated liabilities			<u>(509,947)</u>
Total liabilities			<u>7,933,851</u>

Six months ended 30 June 2013	Steel pipes RMB'000	Property development RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	<u>1,200,111</u>	<u>–</u>	<u>1,200,111</u>
Segment results:	108,907	(979)	107,928
<i>Reconciliation:</i>			
Corporate and other unallocated expenses			<u>(9,597)</u>
Profit before tax			<u>98,331</u>
Segment assets:	11,073,416	2,091,312	13,164,728
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(62,186)
Corporate and other unallocated assets			<u>(2,986,392)</u>
Total assets			<u>10,116,150</u>
Segment liabilities:	6,473,845	446,832	6,920,677
<i>Reconciliation:</i>			
Elimination of intersegment payables			(62,186)
Corporate and other unallocated liabilities			<u>(440,885)</u>
Total liabilities			<u>6,417,606</u>

Reconciliation of profit:

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Segment profit:	110,065	107,928
Finance costs	(13,563)	(4,447)
Corporate expenses	<u>(4,525)</u>	<u>(5,150)</u>
Consolidated profit for the period	<u>91,977</u>	<u>98,331</u>

Information about products

The revenue of the major products is analysed as follows:

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Manufacture and sale of steel pipes:		
LSAW steel pipes	1,196,417	884,842
ERW steel pipes	41,768	214,128
SSAW steel pipes	114,440	35,305
Steel pipe manufacturing services:		
LSAW steel pipes	3,177	20,208
ERW steel pipes	491	4,070
Others*	127,727	41,558
	1,484,020	1,200,111

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

Geographical information

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

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sales to external customers:		
Mainland China	758,200	919,257
America	186,906	59,597
European Union	–	5,772
Middle East	107,087	175,096
Other Asian countries	406,623	40,389
Oceania	25,204	–
	1,484,020	1,200,111

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

Information about major customers

For the six months ended 30 June 2014, revenue from two customers of the Group amounting to RMB266,604,000 and RMB165,329,000 which had accounted for over 17% and 11%, respectively of the Group's total revenue.

6. 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	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Manufacture and sale of seam welded steel pipes and the provision of related manufacturing services	1,484,020	1,200,111
Other income and gains		
Bank interest income	6,607	8,622
Subsidy income from the PRC government	101,179	122,170
Rental income	119	276
Others	3,190	430
	111,095	131,498
Gains		
Fair value gain/(loss), net:		
Derivative instruments – transactions not qualifying as hedge	(2,085)	7,102
Exchange gain/(loss), net	(2,414)	1,061
	(4,499)	8,163
	106,596	139,661

The subsidy income represented subsidies granted by the local finance bureaus to Panyu Chu Kong Steel Pipe (Lianyungang) Co. Ltd. (番禺珠江鋼管(連雲港)有限公司), Lianyungang Pearl River Petrol-Fittings Co. Ltd. (連雲港珍珠河石化管件有限公司) and Panyu Chu Kong Steel Pipe Co. Ltd. (番禺珠江鋼管有限公司) as awards for their investment and high product quality, respectively. There are no unfulfilled conditions or contingencies relating to such subsidies.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank loans and government loans	118,965	74,027
Interest on other loans (including bonds and short term notes)	18,835	15,050
Interest on finance lease	5,249	4,317
Total interest expense on financial liabilities not at fair value through profit or loss	143,049	93,394
Less: Interest capitalised	(26,186)	(23,225)
	116,863	70,169

8. PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of inventories sold	1,093,330	808,143
Depreciation	42,030	39,501
Impairment of trade receivables recognised/(reversed)	40	(150)

9. INCOME TAX

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

No provision for Hong Kong 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	
	2014	2013
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current – Mainland China charge for the period	17,939	36,719
Deferred	3,407	(9,409)
Total tax charge for the period	21,346	27,310

10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on the profit for the period attributable to ordinary equity holders of the parent of RMB70,631,000 (2013: RMB71,021,000), and the weighted average number of ordinary shares of 1,011,142,000 (2013: 1,011,142,000) in issue during the period.

No adjustment has been made to the basic earnings per share amounts presented for the periods ended 30 June 2014 and 2013 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 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
At beginning of the period/year	2,903,523	2,211,264
Additions	398,503	659,489
Acquisition of a subsidiary	–	120,222
Disposals	(4,523)	(135)
Depreciation	(42,030)	(87,228)
Exchange realignment	26	(89)
At end of the period/year	3,255,499	2,903,523

12. INVESTMENT PROPERTIES

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Buildings		
Carrying amount at 1 January	6,313	6,159
Net gain from a fair value adjustment	95	343
Exchange difference	61	(189)
Carrying amount at end of the period/year	6,469	6,313
Land		
Carrying amount at 1 January	2,210,000	–
Transfer from own properties	–	2,010,050
Additions	6,648	3,792
Net gain from a fair value adjustment	89,352	196,158
Carrying amount at end of the period/year	2,306,000	2,210,000
	2,312,469	2,216,313

13. INVENTORIES

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Raw materials	453,065	340,459
Work in progress	265,237	233,848
Finished goods	249,739	574,030
	968,041	1,148,337

14. TRADE AND BILLS RECEIVABLES

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Trade receivables	1,580,911	1,225,399
Impairment	(6,435)	(6,395)
Trade receivables, net	1,574,476	1,219,004
Bills receivable	93,469	100
	1,667,945	1,219,104

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 averagely 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 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within 60 days	952,498	561,766
61 to 90 days	39,934	32,895
91 to 180 days	109,092	143,039
181 to 365 days	243,393	295,377
1 to 2 years	174,840	126,400
2 to 3 years	38,492	50,069
Over 3 years	16,227	9,458
	1,574,476	1,219,004

15. 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 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Within 90 days	364,390	180,620
91 to 180 days	17,096	13,952
181 to 365 days	21,886	5,628
1 to 2 years	10,438	11,504
2 to 3 years	10,404	3,942
Over 3 years	3,131	2,721
	427,345	218,367
Bills payable	601,167	317,076
	1,028,512	535,443

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

All the bills payable bear maturity dates within 180 days.

16. INTEREST-BEARING LOANS AND OTHER BORROWINGS

	Effective interest rate %	Maturity	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Current				
Finance lease payables	6.66~6.87	2014~2015	70,240	34,095
Bank loans				
– secured	2.06~7.59	2014~2015	621,910	583,572
– unsecured	1.95~7.5	2014~2015	2,167,259	2,139,849
Government loans				
– unsecured	4.2	2014~2015	188,000	260,000
			3,047,409	3,017,516
Non-current				
Finance lease payables	6.66~6.87	2015~2019	187,351	37,163
Bank loans				
– secured	6.4~7.78	2015~2028	990,357	934,858
– unsecured	4.03~6.33	2015~2018	551,134	937,056
Government loans				
– unsecured	4.2	2015~2016	290,000	239,000
			2,018,842	2,148,077
			5,066,251	5,165,593

	30 June 2014 (Unaudited) RMB'000	31 December 2013 (Audited) RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	2,789,169	2,723,421
In the second year	851,134	827,406
In the third to fifth years, inclusive	540,357	1,044,508
Beyond five years	150,000	–
	<u>4,330,660</u>	<u>4,595,335</u>
Government loans repayable:		
Within one year	188,000	260,000
In the second year	290,000	239,000
	<u>478,000</u>	<u>499,000</u>
Finance lease payables:		
Within one year	70,240	34,095
In the second year	56,809	37,163
In the third to fifth years, inclusive	130,542	–
	<u>257,591</u>	<u>71,258</u>
	<u>5,066,251</u>	<u>5,165,593</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 RMB147,019,000 (31 December 2013: RMB148,775,000) as at the end of the reporting period; and
- (b) a charge over certain leasehold land of the Group with a net carrying amount of approximately RMB301,691,000 (31 December 2013: RMB302,399,000) as at the end of the reporting period; and

In addition, the Company has guaranteed certain of the Group's bank loans up to RMB2,944,263,000 (2013: RMB1,745,093,000) as at the end of the reporting period.

Except for the bank loans of RMB43,656,000 (2013: RMB31,449,000) and RMB846,884,000 (2013: RMB1,449,181,000) as at 30 June 2014, which are denominated in Hong Kong dollars and United State dollars, respectively, all borrowings are in RMB.

The Group had the following undrawn banking facilities:

	Group 2014 RMB'000	2013 RMB'000
Floating rate		
– expiring within one year	<u>6,234,749</u>	<u>6,938,407</u>

17. DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2014	
	Assets (Unaudited) RMB'000	Liabilities (Unaudited) RMB'000
Interest rate Swap	—	136
	<u>—</u>	<u>136</u>

The Group has entered into a cross currency swap contract and interest rate swap contract to manage its exchange rate and interest rate exposures. Those contracts are not designated for hedge purpose and are measured at fair value through profit or loss. The cross currency swap contract was terminated in February 2014. Changes in the fair value of non-hedging currency derivatives amounting to RMB2,085,000 were debited to the statement of comprehensive income during the six months ended 30 June 2014 (six months ended 30 June 2013: RMB7,104,000 as gain).

18. EVENT AFTER THE REPORTING PERIOD

On 20 June, 2014, the Group entered into the sales and purchase agreement with an independent third party to acquire 51% equity interest of Ningbo Sanhe Steel Pipe Co. Ltd. (寧波三合鋼管有限公司). The Ningbo Sanhe Steel Pipe Co. Ltd. is engaged in manufacture and sales of welded steel pipe. The consideration for the acquisition was RMB11,385,000 in the form of cash. The transaction was completed on 14 July 2014.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I would like to present to you the unaudited consolidated interim results of the Group for the six months ended 30 June 2014.

After a rather disappointing year of 2013, the management and all staff of the Group have put in tremendous effort to steer the Company onto the right track in the first half of 2014. Some of the pipeline projects in China which were delayed during last year have now resumed with promising progress lately. The sentiment of the industry displayed a turnaround and the industry has been encouraged by a series of good news, such as the construction of the Sino-Russian pipeline under the China and Russia natural gas agreement, the construction of the high-voltage-power towers in the region of Huainan, the approval and commencement of the construction of the middle section of the West-East-Pipeline Phase III, and the approval of the construction of the Xinjiang-Guangdong-Zhejiang coal-to-gas pipeline.

For the six months ended 30 June 2014, the Group recorded a turnover of approximately RMB1,484.0 million, increased by approximately 23.7% as compared with that for the same period in 2013 (1H2013: RMB1,200.1 million). Profit attributable to the owners of the Company was approximately RMB70.6 million, down by approximately 0.5% as compared with that for the same period in 2013 (1H2013: RMB71.0 million). Earnings per share were approximately RMB0.07 (1H2013: RMB0.07). The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2014 (1H2013: Nil).

In the first half of 2014, the Group has evolved into a more integrated and competitive pipe manufacturer than ever, by possessing four fully operating production sites supported by an unique self-owned and operated wharf that could handle the loading of pipes with lengths of 150 metres. Such wharf allowed the Company to undertake orders from enormous infrastructure projects, including the Hong Kong-Zhuhai-Macau Bridge. The Company is proud of being a piling pipe supplier for the construction of Hong Kong-Zhuhai-Macau Bridge, which shall be a landmark project in the future, by supplying pipes with lengths of 70 metres each. The unique design of our self-owned wharf in Zhuhai's production site enables us to participate in such glorious project for reasons of logistic and geographical convenience. To cater for the nation's strategy of marine resources exploration in the region of the South China Sea, the Group's Zhuhai production site and wharf occupy an ideal location along the shore of the Gaolanport Economic Zone, neighbouring some well-known oil and gas explorers as well as equipment and services providers, which enables the Group to provide support for offshore oil and gas projects. Together with the production site located in Lianyungang, the Group has two production sites situated along the shore, allowing easy access to the vessel loading facilities. As such, the Group is able to make faster deliveries with better cost management.

On the international front, the Group is set to have the construction of its very first overseas production line to be completed by the end of this year. A joint venture was formed between the Company and Abdel Abdullah Al Qhtani & Sons, Co ("AHQ"), a Saudi Arabian company and one of the largest pipe coating companies in the world. The Saudi Arabian production site will have a LSAW-JCOE production line with an estimated annual capacity of 300,000 tonnes. The introduction of the production of LSAW-JCOE to the Middle East region will increase the Group's regional presence, and therefore further strengthening the popularity and reputation of the "PCK brand". Furthermore, the Company has a considerable history of business relationship with AHQ, which has a well-established sales network and excellent relationships with its customers in the region. Hence, our Group expects such joint venture will enhance our overall competitiveness in the future.

The land in Karawang, West Java, Indonesia, which the Company acquired in July this year, provides room for the Group to expand its overseas production facilities, to further widen its product range and to diversify its income source. The Company will construct a production line for the manufacturing and sale of cold rolled coil and hot rolled pickled oiled products. The location of the production base is close to certain international vehicle manufacturers, which have a strong demand of cold rolled coil and hot rolled pickled oiled products. We believe such establishment will further strengthen its "PCK" brand in Indonesia and the South East Asia regions.

The recently signed natural gas supply agreement between China and Russia, or between China National Petroleum Corp. and Gazprom, is certainly a highlight of the industry for the next few years. The total value of the contract is estimated at USD400 billion, under which natural gas will be supplied to China as early as 2018 from the Siberian gas fields of Kovykta (Irkutsk) and Chayanda (Yakutsk). In light of the agreement, China will build thousands of kilometres of pipelines to import natural gas and it shall be translated into an increase in demand of steel pipes for transmission. As an industry leader of the steel pipes for oil and gas transmission, the Company will definitely use its utmost effort to participate in this landmark project. We shall keep our shareholders informed of the development in this regard in the future.

Other highlights in the industry include the construction projects of the West-East Pipeline Phase III and the Xinjiang-Guangdong-Zhejiang coal-to-gas pipeline. These pipelines are set to be built by 2016 and their combined length measures over 15,000 kilometres. The Company is working closely with the parties related to these pipelines and is optimistic to become one of the major suppliers of these large scale projects. The Company was a major supplier for West-East-Pipeline Phase II, and such precious experience and track record in national pipeline projects has granted the Company unparalleled advantages over other competitors, both locally and internationally.

Appreciation

Looking ahead, the market has shown promises of recovery from the struggles of last year. The demand of steel pipes will grow progressively throughout the next few years alongside with the growing demand of gas and other renewable energy resources worldwide. As a reasonable inference, this year shall be considered as a year of recovery, in which the Company shall resume its growth momentum. The Group has laid a solid foundation, formulated definite development strategies and improved its competitive strengths for its sustainable growth. The Group will adhere to its product diversification and “Integration of Steel Plates and Pipes” strategies and aspire to be a leading world class LSAW steel pipe manufacturer.

On behalf of the Group, I would like to express my gratitude to all staff members for their valuable contribution to the Group’s development. I would also like to thank our shareholders for their continuous tremendous support to the Group in this consolidation stage for accumulating strength to embrace the prosperities in the future. The Group and its staff members will work hard as a team to maintain the Group’s leading position and market the name “PCK”, which is one of the most reputable brand names in the steel pipe industry, aiming to further entrench its role model image in the industry.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group mainly manufactures and sells welded steel pipes and provides manufacturing service for processing raw materials into welded steel pipes. Our welded steel pipe products can be broadly categorised into LSAW steel pipes, SSAW steel pipes and ERW steel pipes. We are one of the largest LSAW steel pipes manufacturers in China. We are capable of manufacturing LSAW steel pipes that meet the X100 standard, and have also been accredited 10 certifications from international classification societies and industry associations such as Det Norske Veritas (“DNV”) and American Petroleum Institute (“API”). In addition, we are the first and sole Chinese manufacturer that has successfully produced deep sea welded pipelines for use at a water depth of 1,500 metres. Our products are widely applicable in major oil and gas pipeline projects (both onshore and offshore) and infrastructure projects domestically and internationally.

Our Group is able to manufacture pipes for offshore projects and is classified as one of the companies in the offshore engineering equipment industry (海洋工程裝備製造業) during the 12th Five-Year Plan. We benefited and were supported by China’s strategic policies. We were supported by policy banks and insurance institutions in China. We have maintained good relationships with China Development Bank, the Export-Import Bank of China and China Export & Credit Insurance Corporation and we have obtained medium-term loans and credit facilities from them.

In July 2014, the Group acquired a piece of land in Indonesia for approximately USD11.0 million for the construction of a production plant which will tentatively accommodate a production line for cold rolled coil and hot rolled pickled oiled products. This is mainly to implement the product diversification strategy of the Group and further penetrate into the Indonesia and South East Asia markets.

The Group received new orders of approximately 263,000 tonnes for the period under review and approximately 54.8% were received from overseas customers. Some sizeable overseas orders obtained were from Lukoil Company Oil Project in Uzbekistan, South America Project and Central Asia Gas Project. The Group also successfully diversified into other applications and obtained orders for supplying steel pipes for Hong Kong-Zhuhai-Macau Bridge in Hong Kong and Pingtan Bridge in China. The Group has delivered approximately 236,000 tonnes of welded steel pipes during the period under review.

Financial Review

During the period under review, the turnover of the Group was approximately RMB1,484.0 million (1H2013: RMB1,200.1 million), representing an increase of approximately 23.7% as compared with that for the corresponding period in 2013; gross profit amounted to approximately RMB245.0 million (1H2013: RMB222.9 million), representing an increase of approximately 9.9% as compared with that for the corresponding period in 2013; net profit attributable to the owners of the Company was approximately RMB70.6 million (1H2013: RMB71.0 million), representing a decrease of approximately 0.5% as compared with that for the corresponding period in 2013; earnings per share were RMB0.07 (1H2013: RMB0.07), which was at similar level as compared with that for the corresponding period in 2013.

Revenue

Sales by geography

	Six months ended 30 June			
	2014		2013	
	<i>RMB'000</i>	% of revenue	<i>RMB'000</i>	% of revenue
	(unaudited)		(unaudited)	
Domestic sales	758,200	51.1%	919,257	76.6%
Overseas sales	725,820	48.9%	280,854	23.4%
Total	1,484,020	100.0%	1,200,111	100.0%

Sales by products

	Six months ended 30 June			
	2014		2013	
	<i>RMB'000</i>	% of revenue	<i>RMB'000</i>	% of revenue
	(unaudited)		(unaudited)	
Manufacture and sale of steel pipes				
<i>LSAW steel pipes</i>	1,196,417	80.6%	884,842	73.7%
<i>ERW steel pipes</i>	41,768	2.8%	214,128	17.9%
<i>SSAW steel pipes</i>	114,440	7.7%	35,305	2.9%
Sub total	1,352,625	91.1%	1,134,275	94.5%
Steel pipes manufacturing services				
<i>LSAW steel pipes</i>	3,177	0.2%	20,208	1.7%
<i>ERW steel pipes</i>	491	0.1%	4,070	0.3%
Sub total	3,668	0.3%	24,278	2.0%
Others	127,727	8.6%	41,558	3.5%
Total	1,484,020	100.0%	1,200,111	100.0%

During the period under review, our overseas sales were approximately RMB725.8 million (1H2013: RMB280.9 million), accounted for approximately 48.9% (1H2013: 23.4%) of our total revenue. Our domestic sales was approximately RMB758.2 million (1H2013: RMB919.3 million), accounted for 51.1% (1H2013: 76.6%) of our total revenue. Increase in overseas sales was mainly due to the Group has received numerous overseas orders. During the period under review, the Group delivered pipes for the Thailand's gas project, South America's gas project and the Hong Kong-Zhuhai-Macau Bridge in Hong Kong. Domestic sales decreased as compared with the same period last year, was mainly due to the Group has delivered more overseas orders during the period under review.

Gross Profit and Gross Profit Margin

	Six months ended 30 June			
	2014		2013	
	<i>RMB'000</i>	<i>%</i>	<i>RMB'000</i>	<i>%</i>
	(unaudited)		(unaudited)	
Manufacture and sale of steel pipes				
<i>LSAW steel pipes</i>	206,929	17.3%	163,916	18.5%
<i>ERW steel pipes</i>	3,693	8.8%	31,121	14.5%
<i>SSAW steel pipes</i>	11,092	9.7%	1,890	5.4%
Sub total	221,714	16.4%	196,927	17.4%
Steel pipes manufacturing services				
<i>LSAW steel pipes</i>	1,701	53.5%	12,988	64.3%
<i>ERW steel pipes</i>	42	8.6%	249	6.1%
Sub total	1,743	47.5%	13,237	54.5%
Others	21,543	16.9%	12,727	30.6%
Total	245,000	16.5%	222,891	18.6%

During the period under review, the gross profit of the Group was approximately RMB245.0 million (1H2013: RMB222.9 million), representing an increase of approximately 9.9% as compared with that for the corresponding period in 2013. The increase was primarily attributable to the increase in sales as compared with that for the corresponding period in 2013. The overall gross profit margin was approximately 16.5% which was lower than that of approximately 18.6% for the same period in 2013. The decrease in gross profit margin was mainly due to the Group's delivery of more SSAW pipes and orders of infrastructure projects with lower profit margin during the period under review.

The Group has adopted the accounting policy to measure investment properties at fair values. Accordingly, gains or losses arising from the changes in the fair values of investment properties are reflected in profit or loss for the year. The Group has engaged LCH (Asia-Pacific) Surveyors Limited and RHL Appraisal Limited, both independent valuers, to value the investment properties. According to the valuation reports as at 30 June 2014 issued by LCH (Asia-Pacific) Surveyors Limited and RHL Appraisal Limited, the market value of the investment properties of the Group as at 30 June 2014 was approximately RMB2.3 billion. There was an increase in fair values of investment properties of the Group by approximately RMB89.4 million and was credited to profit or loss in the first half of 2014.

Other income and gains were approximately RMB106.6 million (1H2013: RMB139.7 million), representing a decrease of approximately 23.7% as compared with that for the corresponding period in 2013. Such decrease was due to the decrease in subsidies from the PRC government for the period under review as compared with the corresponding period in 2013. Government subsidies were mainly related to the investment in Lianyungang.

Selling and distribution expenses were approximately RMB51.4 million (1H2013: RMB32.7 million), representing an increase of approximately 57.0% as compared with that for the corresponding period in 2013. Selling and distribution in the six months ended 30 June 2014 increased as compared with that for the corresponding period in 2013, which was due to an increase in sales, especially overseas sales, during the period under review. The percentage of selling and distribution expenses to our revenue was approximately 3.5%, which was higher than that of 2.7% for the same period in 2013 mainly due to an increase in overseas sales.

Administrative expenses were approximately RMB174.6 million (1H2013: RMB159.4 million), representing an increase of approximately 9.5% as compared with that for the corresponding period in 2013. The increase in administrative expenses was mainly due to the Group's acquisition of 100% equity interests in Nanjing Rongyu Group in May 2013. Additional administrative expenses were incurred by the Group for Nanjing Rongyu Group during the period under review.

Finance costs were approximately RMB116.9 million (1H2013: RMB70.2 million), representing an increase of 66.5% as compared with that for the corresponding period in 2013. The increase was due to the rise in average borrowing balance to finance both the working capital and capital expenditure of the Group.

The Group entered into a cross currency swap contract with a financial institution in 2011 to manage the exchange rate exposure of the 3-year term loan of RMB300.0 million and was terminated in February 2014. Realised change in fair value of such derivative instrument of approximately RMB2.98 million was charged to profit or loss (1H2013: RMB7.1 million income) during the period under review. The Group also entered into an interest rate swap contract with a financial institution to manage the floating interest rate exposure of the six-month revolving loan of approximately USD31.0 million. Unrealised change in fair value of this derivative instrument of approximately RMB0.9 million (1H2013: RMB0.03 million as expense) was credited to profit or loss during the period under review.

Income tax expenses decreased by approximately 21.8% from approximately RMB27.3 million for the six months ended 30 June 2013 to approximately RMB21.3 million for the six months ended 30 June 2014.

Future Plan and Prospects

Due to the delays of the major pipeline projects in 2013, the nation's government has less than 2 years to reach its target of 150,000 kilometres, which is the total length of the gas pipelines that shall be installed by the end of the 12th Five-Year Plan period as set by the National Development and Reform Commission. At the same time, there are news of encouragement for the adoption of gas as energy source, such as the continuing construction of the West-East Pipeline Phase III (c.7,378 kilometres) after the completed construction of Phases I and II in 2004 and 2012, respectively, the recently approved Xinjiang-Guangdong-Zhejiang coal-to-gas pipeline (c.8,000 kilometres), the Central Asia-China Line D, which is undergoing steel pipes bidding process, and the development of other city gas networks due to the nation's rapid urbanisation. Furthermore, the signing of a 30-year gas supply deal, with estimated worth of USD400 billion, between Gazprom and China National Petroleum Corporation, is undoubtedly a major boost to the oil and gas industry. Gazprom of Russia is set to deliver 38 billion cubic metres of gas each year for 30 years starting in 2018, with an option of expanding to an annual capacity of 61 billion cubic metres. The gas sources are from the Siberian gas fields of Kovykta (Irkutsk) and Chayanda (Yakutsk) and therefore China will need to build thousands of kilometers of pipelines to divert the gas from the Russian pipeline across the border to China.

Apart from the gas projects, National Energy Administration also announced the plan to build a total of 12 power transmission channels, four of which are ultra-high-voltage-direct-current ("UHVDC") lines and will be under the possession of State Grid Corporation of China ("State Grid"). With our past business relationship with State Grid and our geographical advantage in the region of Huainan, at which the Huainan-Nanjing-Shanghai UHVDC will be situated, it is confident that the Company will be awarded the sales contract of the UHVDC projects.

The Board is confident of the future prospect of the steel pipe industry and aims to become a one-stop provider for different kinds of high quality welded steel pipes to buyers. The Group has strategically located its new production bases in Zhuhai and Lianyungang, China as well as Saudi Arabia to capture the rising demands. The LSAW production line at Saudi Arabia, in the form of a joint venture in which the Group has a 50% stake, is expected to commence production by the end of 2014.

Apart from the steel pipes production lines, the Group has implemented the "Integration of Steel Plates and Pipes" strategy and planned to construct a steel plate processing production line with an estimated annual capacity of 2 million tonnes at Lianyungang. This steel plate processing production line will be capable of producing API-grade steel plate and is designed to meet our own consumption requirement. By vertically integrating our supply chain, it will improve our steel pipe profitability and enable us to secure stable supply of quality steel plates for production of steel pipes.

In order to further implement the product diversification strategy and penetrate into the South East Asia markets, the Group decided to establish a production plant in Indonesia with a production line for cold rolled steel coil and hot rolled pickled oiled coil products.

The Group intends to fund the capital expenditure by internally generated funds and bank borrowings.

The Group strives to be the leading manufacturer of high quality welded steel pipes in both domestic and international markets and will continue to seek opportunities to realise sustainable growth of our business. Based on our experienced management team, research and development capabilities, well established relationships with our major suppliers and customers, and our diversified and high quality product range, the Group is well-positioned to capture the tremendous growth potential of the domestic and global steel pipe markets.

Employees

As at 30 June 2014, the Group had 3,952 full time employees in total (at 31 December 2013: 4,024). 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 under review, most of the Group's operating transactions are settled in RMB except for the export sales which are mostly denominated in US dollars. Most of the Group's assets and liabilities are denominated in RMB. The Group did not adopt hedging policies nor instruments of foreign currency for hedging purposes during the period under review.

Interim Dividend

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2014 (six months ended 30 June 2013: nil) to the shareholders.

Contingent Liabilities

As at 30 June 2014, the Group did not have any material contingent liabilities or guarantees.

Pledge of Assets

As at 30 June 2014, the Group pledged certain property, plant, equipment and land use rights with an aggregate net book value of RMB147.0 million (at 31 December 2013: RMB148.8 million) and RMB301.7 million (at 31 December 2013: RMB302.4 million) respectively, to secure bank loans granted to the Group.

Liquidity and Financial Resources

As at 30 June 2014, the cash and cash equivalents and current ratio of the Group, as a ratio of current assets to current liabilities, were approximately RMB726.1 million (at 31 December 2013: RMB1,609.5 million) and 1.0 (at 31 December 2013: 1.1) respectively.

As at 30 June 2014, the Group's aggregate borrowings were approximately RMB5,872.4 million (at 31 December 2013: approximately RMB5,804.0 million), of which approximately RMB4,808.7 million (at 31 December 2013: RMB5,094.3 million) were bank borrowings, approximately RMB257.6 million (at 31 December 2013: RMB71.3 million) were for obligations under finance leases, approximately RMB300.8 million (at 31 December 2013: RMB206.9 million) were short term notes and approximately RMB505.3 million (at 31 December 2013: RMB431.5 million) were USD and HKD bonds.

The gearing ratio, expressed as a percentage of the summation of interest-bearing borrowings, finance lease, bonds and short term notes over total assets of approximately RMB11,612.2 million (at 31 December 2013: RMB10,974.1 million) is approximately 50.6% (at 31 December 2013: 52.9%).

The maturity profile of the Group's total borrowings as at 30 June 2014 was spread over a period of over five years, with approximately 57% (at 31 December 2013: 56%) of the total borrowings repayable within one year, with approximately 40% (at 31 December 2013: 44%) repayable between two to five years and the remaining 3% (at 31 December 2013: nil) repayable over five years. The Group has to finance its working capital by short term borrowings as around 90% of the cost of sales was incurred on the procurement of steel plates and steel coils. Once the Group receives sales proceeds from its customers, it will repay the short term borrowings. In addition, the Group has net current liabilities of approximately RMB251 million at 30 June 2014 as some long term interest-bearing loans will be repayable within one year and was classified as current portion of the borrowings. Taking into account the cash held at the balance sheet date and unused banking facilities of approximately RMB6,235 million and cash flows generated from the profits of sale of products, the Group has sufficient liquidity and strong financial position to repay its short term borrowings.

As at 30 June 2014, approximately 50% (at 31 December 2013: 55%) of the Group's total borrowings were denominated in RMB which carried interest rates linked to the benchmark lending rate published by the People's Bank of China, approximately 23% (at 31 December 2013: 14%) of total borrowings were denominated in RMB which carried fixed interest rate, approximately 13% (at 31 December 2013: 19%) of total borrowings as at 30 June 2014 were denominated in US dollars and HK dollars with interest rates linked to the London Interbank Offered Rate for US-dollar loans and Hong Kong Interbank Offered Rate for HK-dollar loans and approximately 14% (at 31 December 2013: 12%) of the total borrowings as at 30 June 2014 were denominated in US dollars and HK dollars which carried fixed interest rate.

Significant Investments, Material Acquisitions and Disposals of Subsidiaries and Associated Companies

The Group had no significant investments, material acquisitions or disposals during the period under review.

Events after the Reporting Period

There are no significant events subsequent to 30 June 2014, being the date of interim consolidated financial statements was prepared, which would materially affect the Group's operating and financial performance.

Corporate Governance

Save as disclosed below, the Company has complied with all the code provisions of the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2014.

CG Code A.2.1

The Company is aware of the requirement under paragraph A.2.1 of the CG Code that the roles of chairman and chief executive should be separated and should not be performed by the same individual. The Company does not have any officer with the title of “chief executive”. 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 will 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 Issuers (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 six months ended 30 June 2014.

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 for the six months ended 30 June 2014.

Audit Committee

The Company’s Audit Committee comprises Mr. See Tak Wah (Chairman), Mr. Chen Ping and Mr. Tian Xiao Ren (appointed on 1 August 2014) who are the independent non-executive Directors of the Company.

The Audit Committee has reviewed the Group’s unaudited consolidated interim results for the six months ended 30 June 2014.

The Audit Committee has reviewed with the management of the Company the accounting principles and practices adopted by the Group, and discussed and reviewed the adequacy and effectiveness of the Group's internal control system and financial reporting system.

Publication of Interim Results Announcement

This interim results announcement is available for viewing on the website of the Stock Exchange at <http://www.hkexnews.hk> and the Company's website at <http://www.pck.com.cn> or <http://www.pck.todayir.com> and the 2014 interim report of the Company containing all the information required by the Listing Rules will be despatched 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

Hong Kong, 29 August 2014

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