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 2014

AUDITED CONSOLIDATED FINANCIAL RESULTS

The board (the "Board") of directors (the "Directors") of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "Company") announces the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2014 (the "Consolidated Financial Statements") together with the comparative figures for the previous financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

		For the year ended 31 December	
		2014	2013
	Notes	**RMB'000**	RMB'000
REVENUE	5	**2,679,188**	2,027,057
Cost of sales		**(2,367,575)**	(1,714,113)
Gross profit		**311,613**	312,944
Fair value gains on investment properties		**99,587**	196,501
Other income and gains	5	**127,690**	222,098
Selling and distribution expenses		**(139,232)**	(131,511)
Administrative expenses		**(453,637)**	(337,537)
Other expenses		**(38,156)**	(6,518)
Finance costs	6	**(260,365)**	(173,777)
Share of loss of a joint venture		**(263)**	(299)
PROFIT/(LOSS) BEFORE TAX	7	**(352,763)**	81,901
Income tax expense	8	**(5,914)**	(40,430)
PROFIT/(LOSS) FOR THE YEAR		**(358,677)**	41,471
Profit/(loss) attributable to:			
Owners of the parent		**(359,247)**	41,471
Non-controlling interests		**570**	–
		(358,677)	41,471
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	9	**RMB(0.36)**	RMB0.04

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	For the year ended 31 December 2014 RMB'000	2013 RMB'000
PROFIT/(LOSS) FOR THE YEAR	**(358,677)**	41,471
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**(2,189)**	22,219
Income tax effect	**–**	–
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**(2,189)**	22,219
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Gains on property revaluation	**–**	1,538,287
Income tax effect	**–**	(384,572)
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods	**–**	1,153,715
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**(2,189)**	1,175,934
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**(360,866)**	1,217,405
Total comprehensive income/(loss) attributable to:		
Owners of the parent	**(361,436)**	1,217,405
Non-controlling interests	**570**	–
	(360,866)	1,217,405

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	31 December 2014 RMB'000	31 December 2013 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**3,547,707**	2,903,523
Investment properties		**2,333,627**	2,216,313
Long term prepayments and deposits		**228,424**	211,650
Prepaid land lease payments		**1,051,625**	859,617
Goodwill		**4,075**	4,075
Investment in a joint venture		**39,493**	75,647
Due from a joint venture		**140,050**	–
Deferred tax assets		**61,987**	43,954
Pledged deposits		**22,313**	5,907
Total non-current assets		**7,429,301**	6,320,686
CURRENT ASSETS			
Inventories		**921,526**	1,148,337
Trade and bills receivables	10	**1,342,668**	1,219,104
Prepayments, deposits and other receivables		**648,344**	535,226
Investment deposits		**26,000**	–
Pledged deposits		**456,192**	127,596
Derivative financial instruments		**–**	13,675
Cash and bank balances		**637,577**	1,609,517
Total current assets		**4,032,307**	4,653,455
CURRENT LIABILITIES			
Trade and bills payables	11	**922,551**	535,443
Interest-bearing bank loans and other borrowings	12	**2,830,164**	3,017,516
Other payables and accruals		**616,348**	393,757
Provision		**29,960**	–
Tax payable		**66,362**	67,080
Derivative financial instruments		**–**	480
Short term notes	13	**313,608**	206,926
Total current liabilities		**4,778,993**	4,221,202
NET CURRENT ASSETS/(LIABILITIES)		**(746,686)**	432,253
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,682,615**	6,752,939
NON-CURRENT LIABILITIES			
Interest-bearing bank loans and other borrowings	12	**2,319,038**	2,148,077
Fixed rate bonds	14	**505,174**	431,453
Government grants		**112,728**	106,345
Deferred tax liabilities		**476,559**	447,995
Total non-current liabilities		**3,413,499**	3,133,870
Net assets		**3,269,116**	3,619,069
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**88,856**	88,856
Reserves		**3,168,777**	3,530,213
		3,257,633	3,619,069
Non-controlling interests		**11,483**	–
Total equity		**3,269,116**	3,619,069

NOTES TO FINANCIAL STATEMENTS

31 December 2014

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 Company's registered office address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The Group are principally involved in the manufacture and sale of 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 year.

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

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"), and the International Accounting Standards and Standing Interpretations Committee Interpretations approved by the International Accounting Standards Committee that remain in effect. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance relating to the preparation of financial statements, which for this financial year and the comparative period continue to be those of the predecessor Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. The financial statements have been prepared under the historical cost convention, except for investment properties and derivative financial instruments 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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2014. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

2. BASIS OF PREPARATION (continued)

Going concern basis

Notwithstanding that the Group had consolidated net current liabilities of approximately RMB746,686,000 at 31 December 2014, the financial statements have been prepared by the directors of the Company on a going concern basis, because:

(i) subsequent to the reporting period, the Group has obtained long-term loans of RMB936,696,000 which could be used to finance its operation;

(ii) as at 31 December 2014, the Group had unutilised credit facilities from banks of approximately RMB5,740,163,000; and

(iii) the directors of the Company continue to take action to tighten cost controls over various operating expenses, and are actively seeking new investment and business opportunities with an aim to attaining profitable and positive cash flow operations.

In the opinion of the directors of the Company, in light of the measures taken to date together with the expected results of other measures in progress, the Group is able to fulfil its financial obligations upon fall due. Accordingly, it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial and liquidity positions at 31 December 2014.

3 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised)	*Investment Entities*
Amendments to IAS 32	*Offsetting Financial Assets And Financial Liabilities*
Amendments to IAS 39	*Novation of Derivatives and Continuation of Hedge Accounting*
IFRIC 21	*Levies*
Amendment to IFRS 2 included in *Annual Improvements 2010–2012 Cycle*	*Definition of Vesting Condition*[1]
Amendment to IFRS 3 included in *Annual Improvements 2010–2012 Cycle*	*Accounting for Contingent Consideration in a Business Combination*[1]
Amendment to IFRS 13 included in *Annual Improvements 2010–2012 Cycle*	*Short-term Receivables and Payables*
Amendment to IFRS 1 included in *Annual Improvements 2011–2013 Cycle*	*Meaning of Effective IFRSs*
Amendments to IFRS 10 and IAS 28 (Revised)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* (Early adopted)

1 Effective from 1 July 2014

The adoption of the new and revised IFRSs has had no significant effect on these financial statements 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 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/(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 2014

	Steel pipes	**Property development and investment**	**Total**
	RMB'000	RMB'000	RMB'000
Segment revenue:			
Sales to external customers	2,679,188	–	2,679,188
Segment results:	(382,195)	73,455	(308,740)
Reconciliation:			
Corporate and other unallocated expenses			(44,023)
Loss before tax			(352,763)
Segment assets:	6,244,369	2,534,654	8,779,023
Reconciliation:			
Elimination of intersegment receivables			(244,354)
Corporate and other unallocated assets			2,926,939
Total assets			11,461,608
Segment liabilities:	7,242,034	684,790	7,926,824
Reconciliation:			
Elimination of intersegment payables			(244,354)
Corporate and other unallocated liabilities			510,022
Total liabilities			8,192,492
Other segment information:			
Share of loss of a joint venture	(263)	–	(263)
Impairment losses recognised in the statement of profit or loss	(43,627)	–	(43,627)
Impairment losses reversed in the statement of profit or loss	231	–	231
Depreciation and amortisation	(138,591)	(179)	(138,770)
Capital expenditure*	983,490	18,206	1,001,696

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2013

	Steel pipes RMB'000	Property development and investment RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	2,027,057	–	2,027,057
Segment results:	(84,755)	193,145	108,390
Reconciliation:			
Corporate and other unallocated expenses			(26,489)
Profit before tax			81,901
Segment assets:	6,075,263	2,545,032	8,620,295
Reconciliation:			
Elimination of intersegment receivables			(540,240)
Corporate and other unallocated assets			2,894,086
Total assets			10,974,141
Segment liabilities:	6,733,978	725,711	7,459,689
Reconciliation:			
Elimination of intersegment payables			(540,240)
Corporate and other unallocated liabilities			435,623
Total liabilities			7,355,072
Other segment information:			
Share of loss of a joint venture	(299)	–	(299)
Impairment losses recognised in the statement of profit or loss	(35)	–	(35)
Impairment losses reversed in the statement of profit or loss	243	–	243
Depreciation and amortisation	(106,333)	(5)	(106,338)
Investment in a joint venture	75,647	–	75,647
Capital expenditure*	1,173,230	454,970	1,628,200

* Capital expenditure consists of additions to property, plant and equipment, investment properties and intangible assets including assets from the acquisition of subsidiaries.

4. OPERATING SEGMENT INFORMATION (continued)

Information about steel pipe products

The revenue from the major products is analysed as follows:

	2014	2013
	RMB'000	RMB'000
Manufacture and sale of steel pipes:		
LSAW steel pipes	**1,897,809**	1,440,276
SSAW steel pipes	**392,036**	136,835
ERW steel pipes	**147,388**	249,455
Steel pipe manufacturing services:		
LSAW steel pipes	**13,708**	32,166
SSAW steel pipes	**11,113**	–
ERW steel pipes	**2,369**	6,037
Others*	**214,765**	162,288
	2,679,188	2,027,057

* 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:

	2014	2013
	RMB'000	RMB'000
Sales to external customers:		
Mainland China	**1,306,771**	1,671,209
America	**429,643**	83,145
European Union	**6,717**	1,788
Middle East	**152,834**	114,589
Other Asian countries	**655,669**	91,395
Oceania	**120,355**	–
Others	**7,199**	64,931
	2,679,188	2,027,057

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

Information about major customers

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

	2014	2013
	RMB'000	RMB'000
Customer A	*****	382,864
Customer B	**266,921**	*

* Less than 10%

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 year.

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

	2014	2013
	RMB'000	RMB'000
Revenue		
Manufacture and sale of welded steel pipes and the provision of related manufacturing services	**2,679,188**	2,027,057
Other income		
Bank interest income	**9,971**	14,861
Subsidy income from the PRC government	**112,101**	173,938
Compensation	**2,464**	–
Rental income	**243**	240
Others	**1,061**	60
	125,840	189,099
Gains		
Fair value gain, net:		
Derivative instruments – transactions not qualifying as hedge	**–**	16,926
Exchange gain, net	**1,850**	16,073
	1,850	32,999
	127,690	222,098

The subsidy income represented subsidies granted by the local finance bureaus to Panyu Chu Kong Steel Pipe (Lianyungang) Company Limited, Panyu Chu Kong Steel Pipe Company Limited, Lianyungang Pearl River Petrol-Fittings Company Limited, Panyu Chu Kong Steel Pipe (Zhuhai) Company Limited, Lianyungang Aike New Construction Materials Limited and Nanjing Rongyu Group Company Limited, as awards for their investments and products. There are no unfulfilled conditions or contingencies relating to such subsidies.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2014	2013
	RMB'000	RMB'000
Interest on bank loans and government loans	**273,363**	183,013
Interest on other loans (including bonds and short term notes)	**49,120**	40,262
Interest on finance leases	**11,539**	6,242
Interest on discounted bills	**10,338**	–
Total interest expense on financial liabilities not at fair value through profit or loss	**344,360**	229,517
Less: Interest capitalised	**(83,995)**	(55,740)
	260,365	173,777

7. PROFIT/(LOSS) BEFORE TAX

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

	Notes	**2014** **RMB'000**	2013 RMB'000
Cost of inventories sold		**2,111,016**	1,503,018
Depreciation		**117,744**	87,228
Share of loss of a joint venture		**263**	299
Amortisation of prepaid land lease payments		**21,026**	19,110
Minimum lease payments under operating leases in respect of buildings		**8,009**	5,297
Auditors' remuneration		**2,520**	2,415
Exchange gain, net		**(1,850)**	(16,073)
Finance costs	6	**260,365**	173,777
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		**252,971**	217,363
Retirement benefit scheme contributions		**30,943**	27,826
Impairment/(reversal of impairment) of trade receivables		**22,512**	(208)
Impairment of deposits and other receivables		**20,884**	–
Changes in fair value of investment properties		**(99,587)**	(196,501)
Fair value loss/(gain) of derivative instruments – transactions not qualifying as hedges		**1,846**	(16,926)
Rental income on investment properties less direct operating expenses of RMB42,458 (2013: RMB22,990)		**(200)**	(217)
Bank interest income	5	**(9,971)**	(14,861)
Research and development costs		**85,132**	92,762

8. INCOME TAX

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

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

	2014 **RMB'000**	2013 RMB'000
Group:		
Current – Mainland China		
Charged for the year	**523**	27,248
Overprovision in prior years	**(5,116)**	–
Deferred	**10,507**	13,182
Total tax charge for the year	**5,914**	40,430

9. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of 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 (2013: 1,011,142,000) in issue during the year.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2013 and 2014, respectively, in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

10. TRADE AND BILLS RECEIVABLES

	2014	2013
	RMB'000	RMB'000
Trade receivables	**1,329,720**	1,225,399
Impairment	**(28,963)**	(6,395)
Trade receivables, net	**1,300,757**	1,219,004
Bills receivable	**41,911**	100
	1,342,668	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 generally 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. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

	2014	2013
	RMB'000	RMB'000
Within 60 days	**676,460**	561,766
61 to 90 days	**108,877**	32,895
91 to 180 days	**151,551**	143,039
181 to 365 days	**126,577**	295,377
1 to 2 years	**196,833**	126,400
2 to 3 years	**26,153**	50,069
Over 3 years	**14,306**	9,458
	1,300,757	1,219,004

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

	2014	2013
	RMB'000	RMB'000
At 1 January	**6,395**	6,603
Impairment losses recognised	**22,743**	35
Acquisition of a subsidiary	**56**	–
Impairment losses reversed	**(231)**	(243)
At 31 December	**28,963**	6,395

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB28,963,000 (2013: RMB6,395,000) with a carrying amount before provision of RMB28,963,000 (2013: RMB6,395,000).

10. TRADE AND BILLS RECEIVABLES (continued)

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

	2014 RMB'000	2013 RMB'000
Neither past due nor impaired	**978,344**	666,333
Past due but not impaired		
1 to 180 days	**174,494**	380,674
181 to 365 days	**78,400**	104,748
Over 365 days	**69,519**	67,249
	1,300,757	1,219,004

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

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

11. TRADE AND BILLS PAYABLES

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

	2014 RMB'000	2013 RMB'000
Within 90 days	**280,708**	180,620
91 to 180 days	**48,837**	13,952
181 to 365 days	**16,543**	5,628
1 to 2 years	**16,806**	11,504
2 to 3 years	**8,576**	3,942
Over 3 years	**3,070**	2,721
	374,540	218,367
Bills payable	**548,011**	317,076
	922,551	535,443

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

All the bills payable have maturity dates within 180 days.

12. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	Effective interest rate %	Maturity	2014 RMB'000	2013 RMB'000
Current				
Finance lease payables	6.66~6.87	2015	**72,539**	34,095
Bank loans				
– secured	2.07~7.59	2015	**607,513**	583,572
– unsecured	2.30~7.59	2015	**1,932,112**	2,139,849
Government loans				
– unsecured	4.2	2015	**218,000**	260,000
			2,830,164	3,017,516
Non-current				
Finance lease payables	6.66	2016~2019	**148,901**	37,163
Bank loans				
– secured	6.40~7.59	2016~2028	**918,339**	934,858
– unsecured	2.50~6.15	2016	**1,122,298**	937,056
Government loans				
– unsecured	4.2	2016	**129,500**	239,000
			2,319,038	2,148,077
			5,149,202	5,165,593

	2014 RMB'000	2013 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**2,539,625**	2,723,421
In the second year	**1,503,352**	827,406
In the third to fifth years, inclusive	**389,285**	1,044,508
Beyond five years	**148,000**	–
	4,580,262	4,595,335
Government loans repayable:		
Within one year	**218,000**	260,000
In the second year	**129,500**	239,000
	347,500	499,000
Finance lease repayables:		
Within one year	**72,539**	34,095
In the second year	**41,505**	37,163
In the third to fifth years, inclusive	**107,396**	–
	221,440	71,258
	5,149,202	5,165,593

12. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS (continued)

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

(a) certain property, plant and equipment of the Group with a net carrying amount of approximately RMB278,969,000 (2013: RMB148,775,000) as at the end of the reporting period; and

(b) certain leasehold lands of the Group with a net carrying amount of approximately RMB500,049,000 (2013: RMB302,399,000) as at the end of the reporting period.

In addition, the Company has guaranteed certain of the Group's bank loans up to RMB2,249,650,000 (2013: RMB1,745,093,000) as at the end of the reporting period.

Except for the bank loans of RMB446,844,000 (2013: RMB31,449,000) and RMB1,725,821,000 (2013: RMB1,449,181,000) as at 31 December 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:

	2014	2013
	RMB'000	RMB'000
Floating rate		
– expiring within one year	**5,740,163**	6,938,407

13. SHORT TERM NOTES

The carrying amount of the Group's short term notes is as follows:

	2014	2013
	RMB'000	RMB'000
The Second Tranche Notes 2012–5.1% fixed rate notes maturing in May 2014 – unsecured	**–**	206,926
The First Tranche Notes 2014–8.3% fixed rate notes maturing in June 2015 – unsecured	**313,608**	–
	313,608	206,926

In September 2012, Panyu Chu Kong Steel Pipe Company Limited ("PCKSP") completed the registration with the National Association of Financial Market Institutional Investors for a RMB500 million unsecured short-term notes ("Notes 2012") facility issuable in two years from the date of registration. In December 2012, PCKSP issued the First Tranche Notes of RMB300 million in the PRC with a tenure of one year, carrying interest at a fixed rate of 5.1% per annum, which matured in November 2013 was repaid. In May 2013, PCKSP issued the Second Tranche Notes of RMB200 million in the PRC with a tenure of one year, carrying interest at a fixed rate of 5.1% per annum, which matured in May 2014 and was repaid.

In May 2014, PCKSP completed the registration with the National Association of Financial Market Institutional Investors for a RMB500 million unsecured short-term notes ("Notes 2014") facility issuable in two years from the date of registration. In June 2014, PCKSP issued the First Tranche Notes of RMB300 million in the PRC with a tenure of one year, carrying interest at a fixed rate of 8.3% per annum.

14. FIXED RATE BONDS

US dollar 72,000,000 5.6% Bonds due 2018

On 30 April 2013, the Group issued bonds with a principal amount of US dollar 72,000,000 and the bonds will be repayable in full by 30 April 2018 (the "2013 Bonds"). The bonds may be redeemed at the option of the Group in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the holders of the bonds, at their principal amount, together with the interest accrued to the date fixed for redemption. The bonds bear a fixed coupon interest rate at 5.6% per annum for five years payable semi-annually, commencing on 30 October 2013. The bonds are unsecured.

The bonds were issued for refinancing the existing debt and were for general corporate purposes. The net proceeds of the bonds after deducting issue expenses amounted to approximately RMB438,381,000.

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

On 2 May 2014, the Group issued bonds with a principal amount of HK dollar 100,000,000, which were subscribed at a price equal to HK dollar 86,500,000 and the bonds will be repayable in full by 2 May 2017 (the "2014 Bonds"). The bonds may be redeemed at the option of the Group in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days' notice to the holders of the bonds, at their principal amount, together with the interest accrued to the date fixed for redemption. The bonds bear a fixed coupon interest rate at 5% per annum for three years payable semi-annually, commencing on 2 November 2014. The bonds are unsecured.

The bonds were issued for refinancing the existing debt and were for general corporate purposes. The net proceeds from the bonds after deducting issue expenses amounted to approximately RMB68,597,000.

2013 Bonds

	2014 **RMB'000**	2013 RMB'000
Carrying amount as at 1 January	**431,453**	–
Newly issued	**–**	446,990
Issue expenses	**–**	(8,609)
Amortisation	**1,569**	1,001
Exchange realignment	**1,610**	(7,929)
Carrying amount as at 31 December	**434,632**	431,453

The effective interest rate of the bonds is 6.05% per annum.

2014 Bonds

	2014 **RMB'000**	2013 RMB'000
Carrying amount as at 1 January	**–**	–
Newly issued	**68,659**	–
Issue expenses	**(62)**	–
Amortisation	**2,377**	–
Exchange realignment	**(432)**	–
Carrying amount as at 31 December	**70,542**	–

The effective interest rate of the bonds is 10.62% per annum.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I would like to present to you the audited consolidated annual results of the Group for the year ended 31 December 2014. In the difficult and challenging year of 2014, the Group has a turnover of approximately RMB2,679.2 million, up by approximately 32.2% as compared with that of 2013 (2013: RMB2,027.1 million). Loss attributable to equity holders of the Company was approximately RMB358.7 million (2013: profit RMB41.5 million). Loss per share were approximately RMB0.36, (2013: earnings per share RMB0.04). The Board did not recommend the payment of final dividend for the year ended 31 December 2014.

UPS AND DOWNS

2014 was a year with a mix of good and bad. The political restlessness in relation to the anti-corruption movement, which was initiated by the central government of China for enhancing the integrity of the state-owned-enterprises and government departments, has caused substantial impacts to the oil and gas industry and the domestic energy sector. Many of the ongoing domestic national construction pipeline projects either came to a halt or slowed down, leading to a further significant decline in the number of projects available for bidding. Such tough condition has negatively influenced the sentiment and the industry.

The vigorous expansion plan the Group carried out which is still in progress has brought the Group to a state with six production plants and a wharf in operation by the end of 2014. Though the Saudi Arabian production line will only commence commercial operation in the second half of 2015, the construction of the plant is completed and the technical and production team are already in place. The expansion will serve the Group well in the long-run, yet nevertheless it will also cause an increase in expenses and financial pressure of the Group, particularly when the volume of sales has yet to make a recovery, which is expected to be taken place in 2015.

Despite the poor sentiment in the domestic market in 2014, the Group's overseas sales team proactively extended its reach to different places and markets around the globe. After a considerable amount of hard work and effort they had put in, the new orders from overseas increased significantly and made up approximately 57% of the signed new orders in 2014. The performance of the overseas sales team had gone from strength to strength, and had made an immense positive impact to the Group in terms of the new orders. Once again, it was a proof to the world that the Company and the brand of PCK is no stranger to the international oil and gas industry. The quality of the Group's products is well accepted not only by the domestic oil majors but by international players as well.

The second development phase of the Zhuhai plant had been completed, with a self-owned and operated wharf commencing operation in early 2014. Wasting no time, the Company already started to utilise it, by handling some distinctive orders for shipping pipes in a length of over 70 metres each and for some construction projects, such as the Hong Kong-Zhuhai-Macau Bridge (the "Bridge"). The Company supplied a good number of pipes for the construction of the foundation of the Bridge and the artificial island as part of the Bridge project. The self-operated wharf also brought us unprecedented convenience with regards to the transportation of our products, especially for export, which accounted for a at least 50% of the Company's income. This is indeed an unparalleled competitive advantage over our peers. The location of the Zhuhai plant is neighbouring the South China Sea, a major offshore exploration area for China National Offshore Oil Corporation ("CNOOC"), having its marine equipment manufacturing base established only blocks away from us. The South China Sea has ample natural gas reserve and the Chinese government has implemented a strategy to explore the South China Sea area for oil and gas. We therefore expect the Zhuhai plant can handle more and more offshore orders to supply pipes for the construction of drilling platforms and pipelines for energy transmissions.

In mid-2014, China and Russia entered into a natural gas deal, under which Russia will supply as much as 38 billion cubic metres of gas each year for 30 years, starting in 2018 at the earliest. In November 2014, these two countries executed another preliminary gas-supply agreement for supplying another approximately 30 billion cubic metres of gas each year, also over 30 years. Such arrangements demonstrated the determination of the Chinese government to shift its traditional energy source of thermo coal to clean alternative gas so as to reduce pollution. However, in order to have a wider adoption of gas as energy source, China has to install more long distance pipelines for transmitting the gases to the mainland. Most of the gas reserve are located in the western and southern part of China, especially in the region of South China Sea. The Group has two production bases situated along the coastline, with the support of easy and even exclusive access to wharf facilities.

SOMETHING NEW

Part of the commercial use converted land in Panyu has been assigned for property development, including retails shops and office buildings. The development project of the first phase is expected to be completed before 2016 and by then, incomes will be generated for the Group in forms of property rental. Having the property development segment established, the Company's business and income will be more diversified. The development of the converted land into a commercial complex will increase the economic scale and returns on the land, and it is believed that such approach is certainly in the best interest of the shareholders. The returns from the property development will enhance the profitability and create value for the Company, and as a result, the shareholders will be all benefited.

In the fourth quarter of 2014, the Company entered into 3 separate agreements to enhance its competitiveness by establishing business relationships with companies within the industry. A framework agreement has been entered into with Guangxin Shipbuilding & Heavy Industry Co. Ltd. (廣新海事重工股份有限公司) ("Guangxin Shipbuilding"), under which both parties would jointly develop and bid for CNOOC's offshore projects. The second agreement was made with CPP Material & Equipment Corporation (中油管道物資裝備總公司)("CPPMEC"), a subsidiary of the state-owned China National Petroleum Corporation 中國石油天然氣集團公司 ("CNPC") and is principally engaged in the provision of procurement service to oil and gas pipeline projects, the Company has been recognised as a recommended supplier by CCPMEC who has agreed to provide support in bidding and quotation of pipelines projects. Co-operation with China Railway Major Bridge Engineer Group Co. Ltd (中鐵大橋局集團有限公司) ("MBEC") also established in December 2014, as the Company will assist MBEC in bidding offshore installation engineering projects, marine ports projects as well as bridge construction projects. Both parties entitle business priority, to work as subcontractor in each other's projects.

PROSPECTS AND GO FORWARD

The Group has evolved into a more sizeable scale, with six production bases in operation, a newly commenced property development and investment business segment and a newly started Singapore and Indonesian offices. Such new expansions and developments have transformed the Company into a multi-income platform enterprise, which shall no longer rely only on the income from pipe manufacturing. Business segments shall create supports to each other, and further solidifying the foundation of the Company and evolving the brand name of PCK into a multinational corporation, with cross-border business activities in pipe manufacturing, building materials, property development and steel processing.

The increase of new orders in the year of 2015 was a sign of a turnaround for the Company. A total of 510,000 tonnes of new order was received in 2014, and the Company is poised to regain its momentum with overseas segment continuing to grow in a sustainable and stable manner. The hibernated domestic market is expected to become active, with a few mega national projects to be either initiated or resumed construction, for instance, the West-East-Pipeline Phase III and Xinjiang-Guangdong-Zhejiang Pipeline, the Shaanxi-Beijing Pipeline Phase IV. In order to fulfilling the target of building almost 50,000 kilometres of pipeline, which was set in the beginning of the 12th Five-Year-Plan, the nation has to accelerate its construction pace to make up the lost time in the last two years. Therefore, we shall expect the domestic demand to make a comeback in 2015 and it will be sustained for the years to come.

APPRECIATION

On behalf of the Group, I wish to express my gratitude to all employees and shareholders. I sincerely look forward to all your continuing support to the Group's future development. The Group is confident in reaching new heights of success in the years to come, further realising the mutual growth of both the enterprise and employees and sharing our brilliant success with our shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group mainly manufactures and sells longitudinal welded steel pipes, as well as providing manufacturing service for processing raw materials into steel pipes. 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 X120 standard. We are also accredited 10 international quality certifications such as Det Norske Veritas ("DNV") and American Petroleum Institute ("API"). In addition, we are the first and the sole PRC manufacturer that has successfully produced deep sea welded pipes for use under 1,500 m water depth. 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 platform for offshore projects and is being classified under the Offshore Engineering Equipment Industry* (海洋工程裝備製造業) in the 12th Five-Year Plan. We are benefited and supported by China's strategic policies and received supports by policy banks and insurance institutions in China. We have maintained good relationships with and have obtained medium-term loans and credit facilities from the China Development Bank, the Export-Import Bank of China, and the China Export & Credit Insurance Corporation.

In July 2014, the Group has signed an agreement to acquire piece of land in Indonesia of a size of 73,703m^2 at a value of 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 forms part of the product diversification strategy of the Group and further penetrate into the Indonesia and South East Asia markets.

In November 2014, the Group entered into a strategic cooperation framework agreement with Guangxin Shipbuilding in relation to the development of the offshore engineering manufacturing in China. By entering into the strategic cooperation framework agreement with Guangxin Shipbuilding the Group can leverage both parties' competitive edges to further enhance our presence in the offshore engineering equipment business, further strengthen our position in the offshore engineering equipment sector and be involved in the construction of offshore drilling platforms and offshore windmills.

In November 2014, the Group also entered into a cooperation agreement with CPPMEC, a subsidiary of the state-owned CNPC. Under the cooperation agreement, the Group became the preferred strategic supplier of CPPMEC and CPPMEC will support in bidding and quotation of pipelines projects.

In December 2014, the Group entered into a strategic cooperation agreement with China Railway Major Bridge Engineering Group Co. Ltd (中鐵大橋局集團有限公司) ("MBEC") focusing on marine engineering equipment manufacturing, transport infrastructure construction and marine engineering projects in Zhuhai, China. By entering into the strategic cooperation agreement with MBEC, each party can leverage on its respective competitive edges so as further enhance its presence in the offshore engineering equipment and bridge construction markets.

The Group has also partnered with Abdel Hadi Abdullah Al Qahtani & Sons. Co ("AHQ") to establish a joint venture company ("JV Company") for the purpose of installing our first overseas LSAW production line with an annual capacity of 300,000 tonnes in Saudi Arabia. The JV Company was owned as to 50% by the Group and 50% by AHQ. The proposed principal business of the JV Company is the manufacturing and sales of LSAW, and will commence trial operation by April 2015 and commercial operation in the second half of 2015. Forming the JV Company with AHQ will further develop, strengthen and expand the market penetration of the Group in the Kingdom of Saudi Arabia and the Middle East. It is expected that the JV Company will improve the Group's financial results.

On 27 March 2015, the Group has entered into the agreement with 連雲港徐圩港口投資集團有限公司 (Lianyungang Xuwei Port Investment Group Co., Ltd.*) ("Lianyungang Xuwei Port") to establish a joint venture company with registered capital of RMB100 million. The joint venture company will be owned as to 25% by the Group and 75% by Lianyungang Xuwei Port. The initial investment in the JV Company by the Group is RMB25 million. The total investment commitment in the joint venture company by the Group will not exceed RMB200 million. The proposed principal business of the joint venture company will be construction and operation of port facilities and logistics services of the port located in Xuwei New District of Lianyungang. The Group has the priority to use the port and will make deliveries at a lower cost and at a faster pace. The investment will be recorded as investment in an associate in the account.

Panyu Land Development

The Group plans to develop the first phase of the land of Panyu (the "Panyu Land") into an integrated commercial complex of offices, shops, serviced apartments and villas (the "Development"). Details of the first phase of the Development are set out as follows:

Project name:	Golden Dragon Fortune Plaza* (金龍財富廣場)
Duration:	To be completed before 2016
Land area:	25,000 square metres
Total permitted construction area of the Panyu Land:	82,500 square metres
Planned usage:	An integrated commercial complex of offices, shops, serviced apartments and villas will be built. The developed area will be used as investment property for providing rental income to the Group in the future. The land size of the first phase of the Development accounts for approximately 20% of the total permitted construction area of the Panyu Land. The Development will be completed before 2016. The Group expects income from the Development to be recognised starting from 2015.

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

The Group will relocate the production lines in Panyu to Lianyungang production site within 3 years. The Director will seek any further development opportunities on the Panyu Land in order to maximize its economic return. Lianyungang and Zhuhai production bases will be the major production bases of the Group in China, as both production bases are in proximity to the ports where it can save transportation cost.

Order Status

In 2014, the Group received new orders of approximately 510,000 tonnes and approximately 57.4% was received from overseas customers. Some sizeable overseas orders obtained were related to Lukoil Company's Uzbekistan oil project, South America oil project, Central Asia gas project, Mexico gas project, Russia pipeline project, Australia gas project and Odebrecht E&P GmbH gas project in Peru. The Group delivered approximately 482,000 tonnes of welded steel pipes during 2014.

LSAW Steel Pipes

The Group is the largest LSAW steel pipe manufacturer and exporter in the PRC. LSAW steel pipe was the largest revenue contributor to the Group and accounted for approximately 71.4% of our total revenue for the year ended 31 December 2014. For the year ended 31 December 2014, revenue from the sales and manufacturing service of LSAW steel pipes amounted to approximately RMB1,897.8 million and RMB13.7 million, respectively, representing an increase of approximately 31.8% and a decrease of 57.4%, respectively, as compared to that for the year ended 31 December 2013. The increase in sales of LSAW steel pipes was mainly due to the increase in overseas orders the Group has received. The Group has delivered pipes for the Thailand's gas project, South America's gas project and the Hong Kong – Zhuhai – Macau Bridge in Hong Kong.

SSAW Steel Pipes

Our SSAW steel pipes produced in our plant in Lianyungang are using 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 RMB392.0 million and 11.1 million respectively. The total revenue from SSAW steel pipes accounted for approximately 15.0% of the total revenue for the year ended 31 December 2014.

ERW Steel Pipes

Market competition of ERW steel pipes has been very keen due to its relatively low technical and standardised requirements as entry barriers. For the year ended 31 December 2014, revenue from the sales and manufacturing service of ERW steel pipes amounted to approximately RMB147.4 million and RMB2.4 million, respectively. The total revenue from ERW steel pipes accounted for approximately 5.6% of the total revenue for the year ended 31 December 2014.

FINANCIAL REVIEW

Revenue and gross profit

For the year ended 31 December 2014, our revenue was approximately RMB2,679.2 million, representing an increase of approximately RMB652.1 million or 32.2% as compared with that of 2013. The increase in revenue was mainly due to the numerous overseas orders the Group has received.

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

	2014		2013	
	Revenue RMB'000	**% to total**	Revenue RMB'000	% to total
Sales of steel pipes				
LSAW steel pipes	**1,897,809**	**70.9**	1,440,276	71.0
SSAW steel pipes	**392,036**	**14.6**	136,835	6.8
ERW steel pipes	**147,388**	**5.5**	249,455	12.3
Subtotal	**2,437,233**	**91.0**	1,826,566	90.1
Manufacturing services				
LSAW steel pipes	**13,708**	**0.5**	32,166	1.6
SSAW steel pipes	**11,113**	**0.4**	–	–
ERW steel pipes	**2,369**	**0.1**	6,037	0.3
Subtotal	**27,190**	**1.0**	38,203	1.9
Others	**214,765**	**8.0**	162,288	8.0
Grand total	**2,679,188**	**100.0**	2,027,057	100.0

	2014			2013		
	Gross profit RMB'000	**Sales volume tonnes**	**Average gross profit RMB/tonne**	Gross profit RMB'000	Sales volume tonnes	Average gross profit RMB/tonne
Sales of steel pipes						
LSAW steel pipes	**277,006**	**312,423**	**887**	240,310	240,895	998
SSAW steel pipes	**15,831**	**102,749**	**154**	6,316	23,925	264
ERW steel pipes	**1,548**	**31,133**	**50**	33,480	40,025	836
Subtotal	**294,385**	**446,305**		280,106	304,845	
Manufacturing services						
LSAW steel pipes	**6,263**	**4,748**	**1,319**	16,307	15,259	1,069
SSAW Steel pipes	**1,476**	**26,933**	**55**	–	–	–
ERW steel pipes	**82**	**3,913**	**21**	384	16,655	23
Subtotal	**7,821**	**35,594**		16,691	31,914	
Others	**9,407**	**N/A**	**N/A**	16,147	N/A	N/A
Grand total	**311,613**	**481,899**		312,944	336,759	

The revenue generated from the sales of steel pipes accounted for approximately 91.0% of our total revenue in 2014 as compared with approximately 90.1% in 2013. Steel pipe manufacturing services accounted for approximately 1.0% of our total revenue in 2014 as compared with approximately 1.9% in 2013. The revenue denoted by "Others" mainly represented the sales of screw thread steel, sales of steel fittings, trading of equipment and sales of scrap materials which accounted for approximately 8.0% of our total revenue in 2014 as compared with approximately 8.0% in 2013.

Gross profit for 2014 was approximately RMB311.6 million, representing a decrease of approximately 0.4% or RMB1.3 million as compared with approximately RMB312.9 million in 2013. Gross profit margin for 2014 was approximately 11.6% which was lower than that of last year was due to the change of product mix. The Group has delivered more SSAW pipes and orders for infrastructure projects with lower profit margin this year.

As to the manufacturing services, the average gross profit per tonne for manufacturing services of LSAW steel pipes was similar as compared with last year.

Our overseas sales accounted for approximately 51.2% of our total revenue in 2014, as compared to approximately 17.6% in 2013. Increase in overseas sales was mainly due to the outstanding performance by the overseas sales team.

SALES BY GEOGRAPHICAL AREAS

	2014		2013	
	Revenue RMB'000	**% to total**	Revenue RMB'000	% to total
Overseas sales	**1,372,417**	**51.2**	355,848	17.6
Domestic sales	**1,306,771**	**48.8**	1,671,209	82.4
Total	**2,679,188**	**100.0**	2,027,057	100.0

CHANGE IN FAIR VALUES OF INVESTMENT PROPERTIES

The Group has adopted the accounting policy to measure investment properties by using 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 RHL Appraisal Limited, an independent valuer, to value the investment properties. According to the valuation report as at 31 December 2014 issued by RHL Appraisal Limited, the market value of the investment properties as at 31 December 2014 was RMB2.3 billion. There was an increase in the fair values of investment properties of approximately RMB99.6 million and was credited to profit or loss in 2014.

OTHER INCOME AND GAINS

Other income and gains in 2014 mainly represents bank interest income and subsidy income from the PRC government. Other income and gains decreased by approximately 42.5% or RMB94.4 million from approximately RMB222.1 million in 2013 to approximately RMB127.7 million in 2014. Decrease in other income and gains was mainly due to (i) the decrease in government subsidies and (ii) decrease in fair value of derivative financial instruments. Government subsidies were mainly related to awards to the Group for its investment in Lianyungang as well as its high product quality.

Loss of approximately RMB1.8 million on derivative financial instruments was recorded in 2014 (2013: gain of approximately RMB16.9 million). For more details, please refer to the section headed "Changes in fair value of derivative financial instruments" below.

SELLING AND DISTRIBUTION COSTS

Selling and distribution costs increased by approximately 5.9% or RMB7.7 million from approximately RMB131.5 million in 2013 to approximately RMB139.2 million in 2014. The increase was mainly due to the increase in commission expenses for some overseas sales projects.

ADMINISTRATIVE EXPENSES

Administrative expenses increased by approximately 34.4% or RMB116.1 million from approximately RMB337.5 million in 2013 to approximately RMB453.6 million in 2014. The increase was primarily due to the surge in salaries and wages and office expenses for the new production bases, increase in amortisation of land and increased provision of doubtful debts.

FINANCE COSTS

Finance costs increased by approximately 49.8% or RMB86.6 million from approximately RMB173.8 million in 2013 to approximately RMB260.4 million in 2014. The effective interest rate in 2014 was approximately 4.4% (2013: 3.0%). The increase in finance costs was mainly due to the increase in average borrowing balance to finance both the working capital and capital expenditure of the Group and increase in average borrowing cost.

CHANGES IN FAIR VALUE OF DERIVATIVE FINANCIAL INSTRUMENTS

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 million and was terminated in February 2014. Realised change in fair value of such derivative instrument of approximately RMB1.8 million was charged to profit or loss (2013: RMB17.3 million gain).

OTHER EXPENSES

Other expenses increased by approximately 485.4% or 31.6 million from approximately RMB6.5 million in 2013 to approximately 38.2 million in 2014. The increase was mainly due to provision for the Nanjing litigations. Details of litigations refers to litigation section.

INCOME TAX EXPENSES

Income tax expenses decreased by approximately 85.4% or RMB34.5 million from approximately RMB40.4 million in 2013 to approximately RMB5.9 million in 2014. The decrease was mainly due to the decrease in our profit before tax and reverse of deferred tax assets for those subsidiaries which have losses for 2014. Panyu Chu Kong Steel Pipe Company Limited ("PCKSP") and Panyu Chu Kong Steel Pipe (Lianyungang) Co. Limited ("PCKSP (Lianyungang)"), wholly-owned subsidiaries of the Company, were qualified as High Technology Enterprises and thus entitled to a reduced tax rate of 15% in 2014 (2013: 15%(PCKSP), 25% ("PCKSP (Lianyungang)").

LOSS FOR THE YEAR

As a result of the factors discussed above, the Group recorded a loss of RMB358.7 million in 2014 (2013: profit RMB41.5 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 2013 and 2014:

	Year ended 31 December	
	2014	2013
	RMB'000	RMB'000
Net cash flows from/(used in) operating activities	**122,222**	(559,900)
Net cash flows used in investing activities	**(867,002)**	(1,551,103)
Net cash flows (used in)/from financing activities	**(233,876)**	2,681,083
Net (decrease)/increase in cash and cash equivalents	**(978,656)**	570,080

NET CASH FLOWS FROM/(USED IN) OPERATING ACTIVITIES

The Group's net cash flows from operating activities changed from an outflow of approximately RMB559.9 million in 2013 to an inflow of approximately RMB122.2 million in 2014. The net cash inflows from operating activities were primarily due to the combined effect of (i) decrease in inventories; and (ii) increases in trade and bills receivables, prepayments, deposits and other receivables, trade and bills payables and other payables and accruals.

NET CASH FLOWS USED IN INVESTING ACTIVITIES

The Group's net cash flows used in investing activities decreased from approximately RMB1,551.1 million in 2013 to approximately RMB867.0 million in 2014. The net cash outflows were mainly due to the capital expenditure for the production bases in Lianyungang and Zhuhai of China, Indonesia and Saudi Arabia, as well as the acquisition of Ningbo Sanhe Steel Pipe Co. Ltd (寧波三合綱管有限公司) ("Ningbo Sanhe") during the year.

NET CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES

The Group's net cash flows from financing activities changed from an inflow of approximately RMB2,681.1 million in 2013 to an outflow of approximately RMB233.9 million in 2014. The net cash outflows were mainly resulted from the combined effect of (i) borrowing of new interest bearing loans and other borrowings, issue of bonds and short term note and cash received from finance lease of approximately RMB5,544.4 million and (ii) repayment of bank loans, government loans and finance lease of approximately RMB5,778.3 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 which are mostly denominated in US dollar. Most of its assets and liabilities are denominated in Renminbi. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect that future currency fluctuations would materially impact the Group's operations. The Group did not adopt formal hedging policies nor instruments of foreign currency (except the one entered into in 2011 and was terminated in February 2014) for managing the exchange risk exposure during the year ended 31 December 2014.

CAPITAL EXPENDITURE

For the year ended 31 December 2014, the Group invested approximately RMB867.0 million for the purchase of property, plant and equipment in Lianyungang and Zhuhai of China and Saudi Arabia, acquisition of Ningbo Sanhe and for payment of land use in Indonesia and Lianyungang. These capital expenditures were fully financed by internal resources and bank borrowings.

CONTINGENT LIABILITIES

As at 31 December 2014, the Group did not have any material contingent liabilities or guarantees.

PLEDGE OF ASSETS

The Group pledged certain property, plant and equipment and land use rights with an aggregate net book value of RMB279.0 million (2013: RMB148.8 million) and RMB500.0 million (2013: RMB302.4 million) respectively as at 31 December 2014 to secure bank loans granted to the Group.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group's gearing ratio is calculated based on the sum of bank loans, other borrowings and short term notes divided by total assets. The gearing ratio of the Group as at 31 December 2014 and 2013 were 52.1% and 52.9%, respectively.

On 31 October 2012, the Group entered into a facility agreement for a 3-year term loan of USD36 million with a syndicate of banks. The loan is on a LIBOR basis and repayable by 4 semi-annual installments starting 18 months after the date of the facility agreement. The purpose of this loan to finance the construction cost of the new production base at Lianyungang. Under the terms of the facility agreement, Mr. Chen Chang, is required to remain as chairman of the Group; and he and his family collectively are required to maintain at least 60% of the voting right in the Company, free from any security. The Group has terminated the facility agreement on April 2014 and Mr. Chen Chang is not required to maintain at least 60% of the voting right in the Company.

On April 2014, the Group entered into a finance lease arrangement with a leasing company. Under the finance lease arrangement, the Group sold the equipment to the leasing company at a consideration of RMB200 million and the Group leaseback the equipment at a total lease payments of approximately RMB233.74 million. The finance lease payments were payable in 20 quarterly instalments in arrears. The total interest payable under the finance lease arrangement amounts to RMB33.74 million, which is calculated at a fixed annual interest rate of 6.4%. Panyu Chu Kong Steel Pipe (Lianyungang) Co Limited has to provide guarantee in favour of the leasing company for the total lease payments of approximately RMB233.74 million.

On 2 May 2014, the Group issued bonds with a principal amount of HK$100,000,000 and the bonds will be repayable in full by 2 May 2017. The bonds may be redeemed at the option of the Group in whole. The bonds bear a fixed coupon interest rate at 5% per annum for three years payable semi-annually, commencing on 2 November 2014. The bonds are unsecured and were issued for refinancing the existing debt and for general corporate purposes.

As at 31 December 2014, the Group's total borrowings amounted to approximately RMB5,968.0 million, of which approximately 47% (2013: 44%) were long term borrowings and approximately 53% (2013: 56%) were short term borrowings. Approximately 61% of total borrowings of the Group were financing working capital of the Group, and approximately 39% of total borrowings of the Group were financing capital expenditure of the Group. The Group had to finance its working capital by short term borrowings as around 90% of the cost of sales was incurred on the procurement of steel plate and steel coil. 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, the Group had sufficient liquidity and was in strong financial position to repay its short term borrowings.

As at 31 December 2014, the current liabilities of the Group exceeded its current assets by approximately RMB746.7 million. Subsequent to 31 December 2014, the Group has obtained a medium term loan of around RMB936.7 million from a bank to refinance the short term debts by this long term loan. The Group has sufficient cashflow to meet its short term obligations.

As at 31 December 2014, approximately 41% (2013: 55%) of the total borrowings was denominated in Renminbi, which carried interest rates linked to the benchmark lending rate published by the People's Bank of China; approximately 15% (2013: 14%) of the total borrowings were denominated in Renminbi which carried fixed interest rate; approximately 29% (2013: 19%) of the total borrowings were denominated in US dollar and HK dollar with interest rates linked to the London interbank offered rates for US dollar loans and Hong Kong interbank offered rates for HK dollar loans and approximately 15% (2013: 12%) of the total borrowings were denominated in US dollar which carried fixed interest rate.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

In July 2014, the Group acquired 51% equity interest in Ningbo Sanhe from independent third parties. Ningbo Sanhe is principally engaged in the manufacture and sales of welded steel pipe. The consideration for the acquisition was approximately RMB11.4 million.

The acquisition of Ningbo Sanhe was to increase the market share in SSAW market and infrastructure market in China.

Save as disclosed above, the Group had no other material acquisitions or disposals during the year.

LITIGATION

At 31 December 2014, the Group has four outstanding lawsuits as follows:

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

南京源昌投資擔保發展有限公司 alleged Nanjing Rongyu and Xixia Hill of breaching and repudiating counter guarantee contract in the amount of RMB5.6 million with interest. Such counter guarantee contract was signed by the ex-beneficial owners of Nanjing Rongyu Group (collectively, Nanjing Rongyu, Xixia Hill and Nanjing Rongyu Group Market Management Company Limited* (南京鎔裕集團市場管理有限公司) ("Market Management") prior to the Group's acquisition on May 2013. The Group was not informed of such counter guarantee contract at the time of acquisition. The claim is subject to the legal arbitration. The Group has fully provided the claim in the profit and loss account in 2014.

(ii) Nanjing Rongyu

南京源昌投資擔保發展有限公司 alleged Nanjing Rongyu of breaching and repudiating counter guarantee contract in the amount of RMB7.6 million with interest. Such counter guarantee contract was signed by the ex-beneficial owners of Nanjing Rongyu Group prior to the Group's acquisition on May 2013. The Group was not informed of such counter guarantee contract at the time of acquisition. The claim is subject to the legal arbitration. The Group has fully provided the claim in the profit and loss account in 2014.

(iii) Nanjing Rongyu

南京源昌投資擔保發展有限公司 alleged Nanjing Rongyu of breaching and repudiating counter guarantee contract in the amount of RMB4 million with interest. Such counter guarantee contract was signed by the ex-beneficial owners of Nanjing Rongyu Group prior to the Group's acquisition on May 2013. The Group was not informed of such counter guarantee contract at the time of acquisition. The claim is subject to the legal arbitration. The Group has fully provided the claim in the profit and loss account in 2014.

(iv) Nanjing Rongyu and Xixia Hill

南京源昌投資擔保發展有限公司 alleged Nanjing Rongyu and Xixia Hill of breaching and repudiating counter guarantee contract in the amount of RMB4.2 million with interest. Such counter guarantee contract was signed by the ex-beneficial owners of Nanjing Rongyu Group prior to the Group's acquisition on May 2013. The Group was not informed of such counter guarantee contract at the time of acquisition. The claim is subject to the legal arbitration. The Group has fully provided the claim in the profit and loss account in 2014.

EVENT AFTER THE REPORTING PERIOD

There are no significant events subsequent to 31 December 2014 which would materially affect the Group's operating and financial performance as of the date of consolidated financial statements.

EMPLOYEE AND REMUNERATION POLICY

For the year ended 31 December 2014, staff cost (including Directors' remuneration in the form of salaries and other benefits) was approximately RMB283.9 million (2013: RMB245.2 million).

The Group remunerates its employees based on their performance, experience and prevailing industry practice. Competitive remuneration package is offered to retain elite employees. Our package includes salaries, medical insurance, discretionary bonuses, on-job training, other benefits as well as mandatory provident funds schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC. Pursuant to the Company's share option scheme and share award scheme, options to subscribe respectively for shares in the Company or share awards of the Company may be granted to eligible employees. No share option nor share award was granted under the share option scheme or share award scheme during the year ended 31 December 2014.

As at 31 December 2014, the Group had a total of 3,892 full time employees (2013: 4,024 employees). The following set forth the total number of our staff by functions:

	2014	2013
Management	**274**	241
Production and logistics	**1,822**	2,037
Sales and marketing	**43**	45
Finance	**53**	54
Quality control	**515**	545
R&D	**337**	396
Procurement	**49**	54
General administration and others	**799**	652
Total	**3,892**	4,024

FUTURE PLANS AND PROSPECTS

We expect the demand in steel pipes for the oil and gas in the domestic market will increase in 2015 as it is the last year of the 12th-five-year-plan, and oil majors will attempt to fulfill the targeted length of pipeline that needed to be built. West-East-Pipeline Phase III, a pipeline over seven thousand kilometres long, is aiming to be completed sometime in 2015. As per the information publicly available, CNPC will also have Phase IV and Phase V to follow in the next few years. The Sino-Russian gas supply project, as agreed by both nations, will commence operation as early as 2018, meaning that the pipeline for transmitting the gas from Russia to Shanghai, China will need to be in place and ready to provide service before that. Petro China will also start building the fourth Shaanxi-Beijing pipeline with a total length of over a thousand kilometres long. The Xinjiang-Guangdong-Zhejiang pipeline for Sinopec's coal-to-gas project will likely to commence construction within 2015 and the length of the pipeline is set to be over eight thousand kilometres. CNOOC has been actively exploring the region of South China Sea, which may stimulate the demand for deep-sea pipes. Together with its Guangdong province pipeline network expansion, the regional demand is likely to increase in general.

With five production bases in China, one in Saudi Arabia and several offices in other overseas countries, the Company has evolved into a multi-national corporation. The Company will take advantage on the strategically placed production locations of the plants and strive for more international exposures, with a view to enhancing the competitiveness of the brand name of PCK. The overseas sales segment shall be retained as a solid contribution to the Company; however, the domestic sales segment shall not be underestimated in the year of 2015, as some of the national as well as the cross-border pipeline projects will either resume or initiate constructions. The non-oil & gas transmission segment will continue to grow according to the growing trend of using pipes as building and construction materials, such as ultra-high-voltage towers, piling for bridges and other buildings, offshore drilling platform, wind farm foundations and etc.

Additional income from the development of the properties may also make certain financial contribution to the Company in late 2015. The Company will also seize the right opportunities to migrate the existing up and running productions lines in Panyu to Lianyungang and Zhuhai. Furthermore, the use of the destined to be emptied lands might have converted and hence the potential value of the previously unconverted land will be unlocked.

Construction of Steel Plate Processing Facilities in Lianyungang

It is the intention of the Group to build its own steel plate processing plant in Lianyungang. As the major cost component of pipe manufacturing is steel plates, the possession of plate processing skills will further improve the profit margins, delivery time and quality control. The steel plate processing plant is aiming to be built in 2016, with a designed annual capacity of around 2 million tonnes API-grade plates, proprietary to the Group. The Group has to acquire additional land for plant building and commence infrastructure construction works.

The Group intends to fund the capital expenditure of the above project by the proceeds from the internally generated funds and bank borrowings.

Moving ahead, the Group is in a better-than-ever position to capture the ever expanding welded steel pipe market, with a total of 3.38 million tonnes of combined annual capacity in three different product segments, LSAW, SSAW and ERW steel pipes. Furthermore, new and technologically advanced products will also widen our income sources and diversify our product and application range.

CODE OF CORPORATE GOVERNANCE PRACTICES

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

AUDIT COMMITTEE

The audit committee of the Board (the "Audit Committee") consists of three independent non-executive Directors, namely Mr. Chen Ping, Mr. See Tak Wah and Mr. Tian Xiao Ren. Mr. See Tak Wah is the Chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise the financial reporting process and the internal control procedures of our Group. The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2014 and the condensed consolidated interim financial statements for the six months ended 30 June 2014, including the accounting principles and practices adopted by the Company and the Group.

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

During the year ended 31 December 2014, 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 2014.

FINAL DIVIDEND

The Board did not recommend the payment of final dividend for the year ended 31 December 2014.

ANNUAL GENERAL MEETING

The annual general meeting ("AGM") of the Company will be held at Room 1, 7th Floor, W Hong Kong Hotel, 1 Austin Road West, Kowloon Station, Kowloon on Friday, 29 May 2015 at 10:30 a.m.

CLOSURE OF REGISTER OF MEMBERS FOR AGM

The register of members of the Company will be closed from Tuesday, 26 May 2015 to Friday, 29 May 2015, both days inclusive, during which no transfer of Shares will be registered. In order to qualify for attending and voting at the AGM or any adjournment thereof, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 22 May 2015.

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

The 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 2014 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 and Executive Director

Hong Kong, 31 March 2015

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. See Tak Wah and Mr. Tian Xiao Ren.