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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)

**2016 INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2016**

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 2016 together with the comparative figures for the previous corresponding period as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2016

		Six months ended 30 June	
		2016	2015
	<i>Notes</i>	(Unaudited) RMB'000	(Unaudited) RMB'000
REVENUE	5	788,787	1,128,701
Cost of sales		(676,983)	(947,325)
Gross profit		111,804	181,376
Other income and gains	5	13,039	16,305
Selling and distribution costs		(65,165)	(94,676)
Administrative expenses		(204,654)	(216,382)
Other expenses		(1,039)	(1,769)
Exchange gain/(loss), net		(28,403)	13,666
Finance costs	6	(103,002)	(127,005)
Share of loss of a joint venture		(386)	(116)
LOSS BEFORE TAX	7	(277,806)	(228,601)
Income tax credit	8	22,498	23,657
LOSS FOR THE PERIOD		(255,308)	(204,944)
Profit/(loss) attributable to:			
Owners of the parent		(253,536)	(206,118)
Non-controlling interests		(1,772)	1,174
		(255,308)	(204,944)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	9	RMB(0.25)	RMB(0.20)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
LOSS FOR THE PERIOD	<u>(255,308)</u>	<u>(204,944)</u>
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	<u>(37,112)</u>	<u>8,252</u>
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	(37,112)	8,252
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX	<u>(37,112)</u>	<u>8,252</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	<u>(292,420)</u>	<u>(196,692)</u>
Total comprehensive income/(loss) attributable to:		
Owners of the parent	(290,648)	(197,866)
Non-controlling interests	<u>(1,772)</u>	<u>1,174</u>
	<u>(292,420)</u>	<u>(196,692)</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

		30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
	<i>Notes</i>		
NON-CURRENT ASSETS			
Property, plant and equipment	10	3,740,591	3,721,360
Investment properties	11	2,306,804	2,306,804
Long term prepayments and deposits		190,795	204,937
Prepaid land lease payments		1,144,291	1,083,448
Goodwill		4,075	4,075
Investment in a joint venture		38,404	38,790
Available-for-sale investments		800	800
Deferred tax assets		100,843	80,497
Pledged deposits		111,091	431,924
Total non-current assets		<u>7,637,694</u>	<u>7,872,635</u>
CURRENT ASSETS			
Inventories	12	787,921	816,115
Properties under development		927,981	808,127
Trade and bills receivables	13	821,830	921,143
Prepayments, deposits and other receivables		975,497	950,785
Pledged deposits		730,877	418,425
Cash and bank balances		99,547	286,135
Total current assets		<u>4,343,653</u>	<u>4,200,730</u>
CURRENT LIABILITIES			
Trade and bills payables	14	1,085,727	1,062,085
Interest-bearing bank and other borrowings	15	2,766,613	2,853,246
Fixed rate bonds		82,190	–
Other payables and accruals		1,129,978	590,609
Provision		24,348	24,348
Tax payable		61,751	64,198
Total current liabilities		<u>5,150,607</u>	<u>4,594,486</u>
NET CURRENT LIABILITIES		<u>(806,954)</u>	<u>(393,756)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>6,830,740</u>	<u>7,478,879</u>

		30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
	<i>Note</i>		
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	15	2,608,740	2,914,481
Fixed rate bonds		473,775	541,651
Government grants		227,929	205,875
Deferred tax liabilities		612,814	616,970
Total non-current liabilities		3,923,258	4,278,977
Net assets		2,907,482	3,199,902
EQUITY			
Equity attributable to owners of the parent			
Issued capital		88,856	88,856
Reserves		2,802,198	3,092,846
		2,891,054	3,181,702
Non-controlling interests		16,428	18,200
Total equity		2,907,482	3,199,902

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2016

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 and property development and investment. 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

These interim condensed consolidated financial statements for the six months ended 30 June 2016 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”). These interim condensed consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

These 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 2015.

Going concern basis

Notwithstanding that the Group had consolidated net current liabilities of approximately RMB806,954,000 as at 30 June 2016, the interim condensed consolidated financial statements have been prepared by the directors of the Company on a going concern basis, because:

- (i) as at 30 June 2016, the Group had unutilised credit facilities from banks of approximately RMB1,009,726,000; and

- (ii) 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 interim condensed consolidated financial statements on a going concern basis, notwithstanding the Group's financial and liquidity positions as at 30 June 2016.

3.1 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of these interim condensed consolidated financial statements are the same as those used in the Group's annual financial statements for the year ended 31 December 2015, except for the adoption of the new and revised International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs") and Interpretations that the Group has adopted for the first time for the current period as disclosed below.

IFRS 14	<i>Regulatory Deferral Accounts</i>
Amendments to IFRS 10, IFRS 12 and IAS 28	<i>Investment Entities: Applying the Consolidation Exception</i>
Amendments to IFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i>
Amendments to IAS 1	<i>Disclosure Initiative</i>
Amendments to IAS 16 and IAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i>
Amendments to IAS 16 and IAS 41	<i>Agriculture: Bearer Plants</i>
Amendments to IAS 27	<i>Equity Method in Separate Financial Statements</i>
<i>Annual Improvements 2012-2014 Cycle</i>	<i>Amendments to a number of IFRSs</i>

The adoption of these revised IFRSs has no significant effect on these interim condensed consolidated financial statements and there have been no significant changes to the accounting policies applied in these financial statements.

3.2 ISSUED BUT NOT YET EFFECTIVE IFRSS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in the interim condensed consolidated financial statements:

IFRS 9	<i>Financial Instruments</i> ²
IFRS 15	<i>Revenue from Contracts with Customers</i> ²
IFRS 16	<i>Leases</i> ³
Amendments to IAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i> ¹
Amendments to IAS 7	<i>Disclosure Initiative</i> ¹
Amendments to IFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i> ²
Amendments to IFRS 15	<i>Revenue from Contracts with Customers</i> ²

¹ Effective for annual periods beginning on or after 1 January 2017

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for annual periods beginning on or after 1 January 2019

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application, but is not in a position to state whether these new and revised IFRSs will have a significant impact on the Group's results of operations and financial position.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments as follows:

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about 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.

Six months ended 30 June 2016 (unaudited)	Steel pipes RMB'000	Property development and investment RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	<u>788,787</u>	<u>–</u>	<u>788,787</u>
Segment results:	(233,169)	(21,310)	(254,479)
<i>Reconciliation:</i>			
Interest income			–
Corporate and other unallocated expenses			<u>(23,327)</u>
Loss before tax			<u>(277,806)</u>
Segment assets:	5,742,475	3,550,090	9,292,565
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(275,062)
Corporate and other unallocated assets			<u>2,963,844</u>
Total assets			<u>11,981,347</u>
Segment liabilities:	7,526,741	1,261,098	8,787,839
<i>Reconciliation:</i>			
Elimination of intersegment payables			(275,062)
Corporate and other unallocated liabilities			<u>561,088</u>
Total liabilities			<u>9,073,865</u>
Other segment information:			
Share of loss of a joint venture	(386)	–	(386)
Impairment losses recognised in the statement of profit or loss	(535)	–	(535)
Impairment losses reversed in the statement of profit or loss	10,986	–	10,986
Depreciation and amortisation	(97,577)	(163)	(97,740)
Capital expenditure*	177,924	641	178,565

Six months ended 30 June 2015 (unaudited)	Steel pipes <i>RMB'000</i>	Property development and investment <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:			
Sales to external customers	<u>1,128,701</u>	<u>–</u>	<u>1,128,701</u>
Segment results:	(195,055)	(12,842)	(207,897)
<i>Reconciliation:</i>			
Interest income			1
Corporate and other unallocated expenses			<u>(20,705)</u>
Loss before tax			<u>(228,601)</u>
Segment assets:	6,670,071	2,601,549	9,271,620
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(324,165)
Corporate and other unallocated assets			<u>2,909,446</u>
Total assets			<u>11,856,901</u>
Segment liabilities:	7,832,084	764,526	8,596,610
<i>Reconciliation:</i>			
Elimination of intersegment payables			(324,165)
Corporate and other unallocated liabilities			<u>512,032</u>
Total liabilities			<u>8,784,477</u>
Other segment information:			
Share of loss of a joint venture	(116)	–	(116)
Impairment losses recognised in the statement of profit or loss	(4,467)	–	(4,467)
Impairment losses reversed in the statement of profit or loss	17,870	–	17,870
Depreciation and amortisation	(89,466)	(97)	(89,563)
Capital expenditure*	221,169	50,515	271,684

* Capital expenditure consists of additions to property, plant and equipment, investment properties and intangible assets.

Information about products

The revenue of the major products is analysed as follows:

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Manufacture and sale of steel pipes:		
LSAW steel pipes	540,000	739,455
ERW steel pipes	32,029	110,152
SSAW steel pipes	64,646	222,105
Steel pipe manufacturing services:		
LSAW steel pipes	8,099	14,882
ERW steel pipes	1,945	2,486
SSAW steel pipes	5,068	4,260
Others*	137,000	35,361
	788,787	1,128,701

* 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	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Sales to external customers:		
Mainland China	348,068	452,847
America	215,900	433,741
European Union	4,539	2,723
Middle East	145,714	120,221
Other Asian countries	74,566	43,390
Oceania	–	42,564
Other	–	33,215
	788,787	1,128,701

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 2016, revenue from two customers of the Group amounting to RMB172,220,000 and RMB116,586,000, which had accounted for over 21% and 14%, respectively of the Group's total revenue.

5. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Manufacture and sale of seam welded steel pipes and the provision of related manufacturing services	788,787	1,128,701
Other income		
Bank interest income	2,694	11,948
Subsidy income from the PRC government*	7,812	4,026
Rental income	–	15
Others	2,533	316
	13,039	16,305

- * The subsidy income represented subsidies granted by the local finance bureaus to Panyu Chu Kong Steel Pipe (Lianyungang) Co Ltd., Panyu Chu Kong Steel Pipe (Zhuhai) Co., Ltd., Panyu Chu Kong Steel Pipe Co., Ltd. and Nanjing Rongyu Group Co., Ltd as awards for their products, respectively. There are no unfulfilled conditions or contingencies relating to such subsidies.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Interest on bank loans and government loans	118,368	117,906
Interest on other loans (including bonds and short term notes)	2,930	16,282
Interest on finance lease	7,639	8,697
Interest on discounted bills	2,383	19,122
Total interest expense on financial liabilities		
not at fair value through profit or loss	131,320	162,007
Less: Interest capitalised	(28,318)	(35,002)
	103,002	127,005

7. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of inventories sold	537,000	800,874
Depreciation	85,293	78,130
Impairment of trade receivables		
recognised/(reversed)	335	(13,403)

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 operated.

No provision for Hong Kong, Dubai, Indonesia and Singapore profits tax have been made as the Group had no assessable profits derived from or earned in these regions during the period.

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

	Six months ended 30 June	
	2016	2015
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current – Mainland China charged/(credit) for the period	106	(5,008)
Deferred	(22,604)	(18,649)
Total tax credit for the period	(22,498)	(23,657)

9. 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 period attributable to ordinary equity holders of the parent of RMB253,536,000 (six months ended 30 June 2015: RMB206,118,000), and the weighted average number of ordinary shares of 1,011,142,000 (30 June 2015: 1,011,142,000) in issue during the period.

No adjustment has been made to the basic loss per share amounts presented for the periods ended 30 June 2016 and 2015 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those periods.

10. PROPERTY, PLANT AND EQUIPMENT

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
At beginning of the period/year	3,721,360	3,547,707
Additions	103,767	317,894
Disposals	–	(990)
Depreciation	(85,293)	(144,250)
Exchange realignment	757	999
	<u>3,740,591</u>	<u>3,721,360</u>
At end of the period/year	<u>3,740,591</u>	<u>3,721,360</u>

11. INVESTMENT PROPERTIES

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Buildings		
Carrying amount at 1 January	–	6,627
Disposals	–	(6,627)
	<u>–</u>	<u>–</u>
Carrying amount at end of the period/year	<u>–</u>	<u>–</u>
Land		
Carrying amount at 1 January	2,306,804	2,327,000
Additions	–	145,118
Net gain from a fair value adjustment	–	627,882
Transfer to properties under development	–	(793,196)
	<u>2,306,804</u>	<u>2,306,804</u>
Carrying amount at end of the period/year	<u>2,306,804</u>	<u>2,306,804</u>
	<u>2,306,804</u>	<u>2,306,804</u>

12. INVENTORIES

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Raw materials	217,967	254,521
Work in progress	209,638	230,325
Finished goods	360,316	342,048
	<u>787,921</u>	<u>826,894</u>
Less: Provision against slow-moving and obsolete	<u>–</u>	<u>(10,779)</u>
	<u>787,921</u>	<u>816,115</u>

13. TRADE AND BILLS RECEIVABLES

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Trade receivables	825,563	912,410
Impairment	<u>(11,433)</u>	<u>(11,098)</u>
Trade receivables, net	814,130	901,312
Bills receivable	<u>7,700</u>	<u>19,831</u>
	<u>821,830</u>	<u>921,143</u>

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. 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 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Within 60 days	346,470	351,437
61 to 90 days	42,116	43,034
91 to 180 days	54,384	85,475
181 to 365 days	102,803	203,946
1 to 2 years	196,890	162,347
2 to 3 years	55,699	33,893
Over 3 years	15,768	21,180
	814,130	901,312

14. TRADE AND BILLS PAYABLES

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

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Within 90 days	279,451	353,210
91 to 180 days	118,154	60,472
181 to 365 days	94,227	92,767
1 to 2 years	69,258	33,059
2 to 3 years	13,611	16,041
Over 3 years	13,815	9,676
	588,516	565,225
Bills payable	497,211	496,860
	1,085,727	1,062,085

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.

15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate %	Maturity	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Current				
Finance lease payables	4.61-8.43	2016-2017	82,002	72,631
Bank loans				
– secured	3.98-6.90	2016-2017	429,033	393,060
– unsecured	2.30-6.16	2016-2017	1,079,556	1,232,162
Government loans				
– unsecured	3.15-5.50	2017	153,000	99,500
Current portion of long term loans				
– secured	2.23-7.04	2016-2017	659,817	674,839
– unsecured	2.40-6.46	2016-2017	363,205	381,054
			2,766,613	2,853,246
Non-current				
Finance lease payables	4.61-8.43	2017-2020	189,900	235,541
Bank loans				
– secured	2.07-6.40	2017-2028	423,834	566,767
– unsecured	2.50-3.86	2017-2020	1,408,506	1,502,173
Government loans				
– secured	4.90-5.40	2023	440,000	410,000
– unsecured	3.15-4.75	2017-2018	146,500	200,000
			2,608,740	2,914,481
			5,375,353	5,767,727

	30 June 2016 (Unaudited) RMB'000	31 December 2015 (Audited) RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	2,531,611	2,681,115
In the second year	1,217,645	1,354,970
In the third to fifth years, inclusive	474,695	565,970
Beyond five years	140,000	148,000
	4,363,951	4,750,055
Government loans repayable:		
Within one year	153,000	99,500
In the second year	146,500	200,000
Beyond five years	440,000	410,000
	739,500	709,500
Finance lease payables:		
Within one year	82,002	72,631
In the second year	91,500	89,948
In the third to fifth years, inclusive	98,400	145,593
	271,902	308,172
	5,375,353	5,767,727

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 RMB1,528,496,000 (31 December 2015: RMB582,846,000) as at the end of the reporting period;
- (b) a charge over certain leasehold land of the Group with a net carrying amount of approximately RMB1,056,402,000 (31 December 2015: RMB650,234,000) as at the end of the reporting period; and
- (c) certain of the Group's time deposits amounting to RMB491,205,000 (31 December 2015: RMB491,150,000) as at the end of the reporting period

In addition, the Company has guaranteed certain of the Group's bank loans up to RMB1,202,067,000 (31 December 2015: RMB1,369,000,000) as at the end of the reporting period.

Except for the bank loans of RMB262,070,000 (31 December 2015: RMB236,803,000), and RMB2,068,098,000 (31 December 2015: RMB2,194,929,000) as at 30 June 2016, 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	
	30 June	31 December
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Floating rate		
– expiring within one year	<u>1,009,726</u>	<u>1,365,867</u>

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board") of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited ("our Company" or "us", together with its subsidiaries hereafter referred to as "our Group"), I would like to present to you our Group's unaudited consolidated interim results for the six months ended 30 June 2016.

The market was exceptionally complicated and uncertain in the first half of 2016 in light of global political and economic uncertainties created by, among other things, a plunge in oil price, a surge of steel price, the depreciation of Renminbi and Euro and the UK voting for Brexit.

As a result, we have witnessed a slowdown in the rolling out of infrastructure and oil and gas projects and a general fall in the market price of steel pipes, resulting in a decline in our turnover.

For the six months ended 30 June 2016, we recorded revenue of RMB788.8 million, down by 30.1% as compared with the same period in 2015. Loss attributable to the owners of our Company was RMB253.5 million (1H2015: loss RMB206.1 million). Loss per share was RMB0.25 (1H2015: loss RMB0.20 per share). The Board did not recommend the payment of interim dividend for the six months ended 30 June 2016 (1H2015: Nil).

We are going through challenging times. But we have never failed to see the opportunities. We believe the 13th Five-year Plan, the "One Belt One Road" ("OBOR") initiative of China and a prospective recovery of oil price are likely to give rise to large scale domestic and overseas oil and gas projects which will drive up the demand for our products. In the first half of the year, we received a new order from Sinopec for a gas project in Tianjin. It is a sign that energy projects in China are coming back, which we believe will boost the domestic demand for steel pipes in the future.

We are also committed to weather the challenges by adjusting our operations, enhancing our cost and cash flow management and strengthening our market position.

In the first half of the year, we continued to extend our global footprint. During the period, we successfully secured overseas orders for notable projects, such as the Northern Gas Pipeline in Queensland, Australia (which connects Tennant Creek in the Northern Territory to Mount Isa in Queensland) and Petronas's refinery and petrochemical integrated development (RAPID) project in Johor, Malaysia. We also supplied steel pipes for a gas project in Mexico.

In order to promote our brand internationally and capture overseas business opportunities, we have set up a production plant in Saudi Arabia. The plant commenced trial production in 2015 and has been operating smoothly ever since. The plant is designed to house a 300,000-tonne LSAW production line to meet the demand in the Middle East. So far, it has obtained ISO9001, whilst we expect API Standards certifications and other certifications will follow. Benefiting from the extensive connections of our joint-venture partner, Abdel Hadi Abdullah Al Qhtani & Sons ("AHQ"), in the Middle East, we will continue to explore cooperation opportunities with major oil and gas players in the region.

It is also our strategy to diversify and expand into the offshore equipment manufacturing market. To this end, we have built our Zhuhai production plant with a self-owned and self-operated wharf. The wharf offers us easy access to transportation and cost efficiency. We have also started to supply steel structure pipes with a diameter of 6,500mm for constructing offshore platforms. Meanwhile, we are close to completing the research and development of deep sea pipes for use at a depth of 3,500m. We believe the new deep-sea pipes will enrich our product portfolio and enhance our reputation in the offshore equipment manufacturing market.

Meanwhile, the Lianyungang production plant is already contributing to our success. It has supplied steel pipes in the first half of the year to the iconic first cross-bay bridge project in Lianyungang, Jiangsu. It has also obtained ISO9001 certification recently.

Apart from the steel pipe business, we have also endeavoured to create value for our shareholders by developing a large scale integrated commercial complex project, namely the Golden Dragon City Fortune Plaza (“GDC”) on vacated lands adjoining its factory site in Panyu, which has a total permitted construction area (including underground construction area) of approximately 550,000m². The first phase accounts for 25% of the total construction area of the GDC development and over 700 units had been released for sale by end of August 2016. We believe the GDC development will broaden our income sources and give further financial support to our steel pipe business in the long run.

We are planning to relocate our production facilities in Panyu to Lianyungang and Zhuhai, which will serve as our major production bases in China in the future. After the relocation, we will carefully consider all available options relating to the vacated land in Panyu with a view to maximising its economic return to our Company and our shareholders.

Appreciation

On behalf of our Group, I would like to express my gratitude to all our staff for their valuable contributions to our Group’s development. I would also like to thank our shareholders for their unfailing support which enable us to accumulate strength to embrace the prosperities in the future. Our Group and our staff will work hard as a team to maintain our leading position and entrenching its role model image in the industry under the brand “PCK”, which is one of the most reputable brands in the steel pipe industry.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

We mainly manufacture and sell welded steel pipes and provide welded steel pipes manufacturing services. 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 and are capable of manufacturing LSAW steel pipes that meet the X100 standard. We also hold 10 international quality certifications accredited by renowned certification bodies, such as Det Norske Veritas (“DNV”) and American Petroleum Institute (“API”). In addition, we are the first and only PRC manufacturer that has successfully produced deep sea welded pipes for use at a water depth of 1,500m. Our products are widely used in major oil and gas pipeline projects (both onshore and offshore) and infrastructure projects domestically and internationally.

We are capable of manufacturing subsea pipes and drilling platform structure pipes for offshore projects and are classified as part of the Offshore Engineering Equipment Industry* (海洋工程裝備製造業). We benefit from China’s strategic policies and are supported by policy banks and insurance institutions in China. We maintain 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.

During the period under review, we received new orders of approximately 135,000 tonnes of steel pipes, 78% of which came from overseas customers. These included overseas orders for MRC’s Northern Gas Pipeline Project in Queensland of Australia and domestic orders for Sinopec’s natural gas project in Tianjin. We delivered approximately 148,000 tonnes of welded steel pipes during the period under review.

Financial Review

During the period under review, we recorded a revenue of approximately RMB788.8 million (1H2015: RMB1,128.7 million), representing a decrease of approximately 30.1% as compared with the corresponding period in 2015. The decrease in revenue was attributed to a drop in both domestic and overseas sales as well as the fall in the price of our steel pipes in light of the drop in the market price of steel pipes.

During the period under review, the revenue attributed to domestic sales and overseas sales represented approximately 44.1% (1H2015: 40.1%) and approximately 55.9% (1H2015: 59.9%) respectively of our total revenue. Both domestic and overseas sales dropped as compared with the corresponding period in 2015 due to the reduction in the number of large-size overseas and domestic orders received in light of the slowdown in the rolling out of infrastructure and oil and gas projects and the fall in the market price of steel pipes.

Revenue

Sales by geography

	Six months ended 30 June			
	2016		2015	
	<i>RMB'000</i> <i>(unaudited)</i>	<i>% of</i> <i>revenue</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>% of</i> <i>revenue</i>
Domestic sales	348,068	44.1%	452,847	40.1%
Overseas sales	440,719	55.9%	675,854	59.9%
Total	<u>788,787</u>	<u>100.0%</u>	<u>1,128,701</u>	<u>100.0%</u>

Sales by products

	Six months ended 30 June			
	2016		2015	
	<i>RMB'000</i> <i>(unaudited)</i>	<i>% of</i> <i>revenue</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>% of</i> <i>revenue</i>
Manufacture and sale of steel pipes				
<i>LSAW steel pipes</i>	540,000	68.5%	739,455	65.5%
<i>ERW steel pipes</i>	32,029	4.1%	110,152	9.8%
<i>SSAW steel pipes</i>	64,646	8.2%	222,105	19.7%
Sub total	<u>636,675</u>	<u>80.8%</u>	<u>1,071,712</u>	<u>95.0%</u>
Steel pipes manufacturing services				
<i>LSAW steel pipes</i>	8,099	1.0%	14,882	1.3%
<i>ERW steel pipes</i>	1,945	0.2%	2,486	0.2%
<i>SSAW steel pipes</i>	5,068	0.7%	4,260	0.4%
Sub total	<u>15,112</u>	<u>1.9%</u>	<u>21,628</u>	<u>1.9%</u>
Others	<u>137,000</u>	<u>17.3%</u>	<u>35,361</u>	<u>3.1%</u>
Total	<u>788,787</u>	<u>100.0%</u>	<u>1,128,701</u>	<u>100.0%</u>

During the period, our gross profit was approximately RMB111.8 million (1H2015: RMB181.4 million), representing a decrease of approximately 38.4% as compared with the corresponding period in 2015. The decrease was primarily attributable to the decrease in sales as compared with that for the corresponding period in 2015. The overall gross profit margin was approximately 14.2%, which was lower than that of approximately 16.1% for the same period in 2015. The decrease in gross profit margin was due to the increase of trading of steel materials with lower gross profit margin and the sale of old stock at loss to enhance our cashflow.

Gross Profit and Gross Profit Margin

	Six months ended 30 June			
	2016		2015	
	<i>RMB'000</i> (unaudited)	<i>GP margin</i> %	<i>RMB'000</i> (unaudited)	<i>GP margin</i> %
Manufacture and sale of steel pipes				
<i>LSAW steel pipes</i>	119,889	22.2%	128,007	17.3%
<i>ERW steel pipes</i>	2,259	7.1%	16,680	15.1%
<i>SSAW steel pipes</i>	9,641	14.9%	18,298	8.2%
Sub total	131,789	20.7%	162,985	15.2%
Steel pipes manufacturing services				
<i>LSAW steel pipes</i>	4,057	50.1%	8,686	58.4%
<i>ERW steel pipes</i>	678	34.9%	765	30.8%
<i>SSAW steel pipes</i>	1,599	31.6%	1,281	30.1%
Sub total	6,334	41.9%	10,732	49.6%
Others	(26,319)	-19.2%	7,659	21.7%
Total	111,804	14.2%	181,376	16.1%

Other income and gains for the six months ended 30 June 2016 were approximately RMB13.0 million (1H2015: RMB16.3 million), representing a decrease of approximately 20.0% as compared with that for the corresponding period in 2015. Such decrease was due to a decrease in bank interest income.

Selling and distribution expenses for the six months ended 30 June 2016 were approximately RMB65.2 million (1H2015: RMB94.7 million), representing a decrease of approximately 31.2% as compared with that for the corresponding period in 2015. Such decrease was mainly due to the decrease in sales.

Administrative expenses for the six months ended 30 June 2016 were approximately RMB204.7 million (1H2015: RMB216.4 million), representing a decrease of approximately 5.4% as compared with that for the corresponding period in 2015. The decrease in administrative expenses was mainly due to a decrease in research and development expenses during the period under review.

Finance costs for the six months ended 30 June 2016 were approximately RMB103.0 million (1H2015: RMB127.0 million), representing a decrease of 18.9% as compared with that for the corresponding period in 2015. The decrease was due to the decrease in borrowing cost and average borrowing balance during the period under review.

The Group recorded exchange losses of approximately RMB28.4 million for the six months ended 30 June 2016, as compared with the exchange gains of approximately RMB13.7 million recorded for the six months ended 30 June 2015. The exchange losses were mainly due to a depreciation of assets denominated in RMB held by our Hong Kong subsidiaries which led to unrealised exchange losses of approximately RMB19.1 million during the period under review.

Income tax credit decreased from approximately RMB23.7 million for the six months ended 30 June 2015 to approximately RMB22.5 million for the six months ended 30 June 2016.

As a result of the above, the net loss attributable to the owners of the Company was approximately RMB253.5 million (1H2015: RMB206.1 million). Loss per share was RMB0.25 (1H2015: loss per share RMB0.20).

Future Plan and Prospects

The year of 2016 marks the beginning China's 13th Five-year Plan, which sets out the social and economic development blueprint for China from 2016 to 2020. It emphasises better resources allocation and management and champions the development of greener and cleaner energy. Under the Plan's focus on tackling environmental challenges and curbing pollution, China is likely to continue its policy of encouraging gas consumption and gas resources development. Several long-distance pipelines, as well as other infrastructure and transportation networks, are expected to come onstream over the next few years to connect the mega oil and gas projects in resource producing areas to resource consuming regions. For instance, China's National Development and Reform Commission has approved the construction of "New Gas Pipeline" (previous known as the "Xinjiang-Guangdong-Zhejiang" pipeline), a key pipeline project with a total length of 8,400km. The project consists of one main line and six sub-lines worth over RMB130 billion. Besides, the construction of the Chinese section of the Eastern route of the Sino-Russia Pipeline has also commenced, and the pipeline is expected to start transmitting gas from Russia to China from 2018 at a rate of 38 billion cubic metres of gas per annum. The Chinese government anticipates that by 2020, being the last year covered under the 13th Five-year Plan, gas will account for over 10% of the nation's energy consumption. Given our solid business relationships with major oil and gas companies, we are well positioned to benefit from these developments in China.

We also aim to enhance our international competitiveness and aspire to become a multinational corporation in the market. We have already established sales offices abroad, including in the US, Saudi Arabia, Dubai, Singapore and other emerging markets. Our Saudi production plant will commence commercial production soon. These developments all help us to get closer to our international business partners and promote our PCK brand internationally. In addition, we have built production bases in Zhuhai and Lianyungang with self-owned and self-operated wharfs and port services company. The wharfs and port service company offer us easy access to transportation which will be a competitive advantage when we negotiate in overseas projects.

We will continue our development plan of the Golden Dragon City Fortune Plaza and push forward our plans to relocate the production facilities from Panyu to Lianyungang and Zhuhai at appropriate time after considering the orders on hand and the production and delivery schedule. After the relocation, we will carefully consider all available options relating to the vacated land in Panyu with a view to maximising its economic return to our Company and our shareholders.

Employees

As at 30 June 2016, we had 2,442 full time employees in total (at 31 December 2015: 2,775). To retain our employees, we provide competitive remuneration package including salaries, medical insurance, discretionary bonuses, other benefits as well as mandatory retirement benefit schemes for employees in respective countries.

Exchange Risk Exposure

During the period under review, most of our operating transactions are settled in RMB except for the export sales which are mostly denominated in USD. Apart from half of the bank borrowings denominated in USD/HKD, most of the our assets and liabilities are denominated in RMB. We did not adopt formal 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 any interim dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: nil) to the shareholders.

Contingent Liabilities

As at 30 June 2016, we did not have any material contingent liabilities or guarantees.

Pledge of Assets

As at 30 June 2016, we pledged certain property, plant, equipment, land use rights and time deposits with an aggregate net book value of RMB1,528.5 million (at 31 December 2015: RMB582.8 million), RMB1,056.4 million (at 31 December 2015: RMB650.2 million), and RMB491.2 million (at 31 December 2015: RMB491.1 million) respectively, to secure bank loans granted to us.

Liquidity and Financial Resources

As at 30 June 2016, our cash and cash equivalents and current ratio, as a ratio of current assets to current liabilities, were approximately RMB99.5 million (at 31 December 2015: RMB286.1 million) and 0.84 (at 31 December 2015: 0.91) respectively.

As at 30 June 2016, our aggregate borrowings were approximately RMB5,931.3 million (at 31 December 2015: approximately RMB6,309.4 million), of which approximately RMB5,103.4 million (at 31 December 2015: RMB5,459.6 million) were bank loans and and government loans, approximately RMB271.9 million (at 31 December 2015: RMB308.2 million) were for obligations under finance leases, and approximately RMB556.0 million (at 31 December 2015: RMB541.7 million) were USD and HKD bonds.

The gearing ratio, expressed as a percentage of the summation of interest-bearing borrowings, finance lease and bonds over total assets of approximately RMB11,981.3 million (at 31 December 2015: RMB12,073.4 million) was approximately 49.5% (at 31 December 2015: 52.3%).

The maturity profile of our total borrowings as at 30 June 2016 was spread over a period of over five years, with approximately 48% (at 31 December 2015: 45%) of the total borrowings repayable within one year, with approximately 42% (at 31 December 2015: 46%) repayable between two to five years and the remaining 10% (at 31 December 2015: 9%) repayable over five years. We have to finance our working capital by short term borrowings as around 90% of the cost of sales is incurred on the procurement of steel plates and steel coils. Once we receive sales proceeds from our customers, we will repay the short term borrowings. In addition, we have net current liabilities of approximately RMB807.0 million as at 30 June 2016 as some long term interest-bearing loans will be repayable within one year and is classified as current portion of the borrowings. Taking into account the cash held at the balance sheet date and unused banking facilities of approximately RMB1,009.7 million and cash flows generated from the profits of sales of products, we have sufficient liquidity to repay its short term borrowings.

As at 30 June 2016, approximately 35% (at 31 December 2015: 37%) of our 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 17% (at 31 December 2015: 16%) of the total borrowings were denominated in RMB which carried fixed interest rate, approximately 15% (at 31 December 2015: 15%) of total borrowings as at 30 June 2016 were denominated in USD and HKD with interest rates linked to the London Interbank Offered Rate for USD loans and Hong Kong Interbank Offered Rate for HKD loans and approximately 33% (at 31 December 2015: 32%) of the total borrowings as at 30 June 2016 were denominated in USD and HKD which carried fixed interest rate.

Litigation

As at 30 June 2016, we had four outstanding lawsuits which were initiated by Nanjing Yuanchang Investment Guarantee Development Co., Ltd. ("Yuancheng Investment") (南京源昌投資擔保發展有限公司) against Nanjing Rongyu Group Co., Ltd. (南京鎔裕集團有限公司) and Nanjing City Xixia Hill Roll Steeling Co., Ltd. (南京市棲霞山軋鋼有限公司), both of which are our subsidiaries. Please refer to our annual report for the year ended 31 December 2015 for particulars of the lawsuits.

As at 30 June 2016, we had made full provision for the claimed amounts for the lawsuits. We have paid RMB10 million to Yuancheng Investment on the basis of the court's judgment.

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

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

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 2016.

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”. The role is currently performed by Mr. Chen Chang, the Chairman and founder of the Group, who also responsible for the leadership and effective running of the Company and ensure 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 will complement Mr. Chen in carrying out his responsibilities. 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 circumstances 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 specific enquiries having been made to all Directors, all the Directors confirmed that they have complied with the Model Code throughout the six months ended 30 June 2016.

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 during the six months ended 30 June 2016.

Audit Committee

The Company’s Audit Committee comprises Mr. See Tak Wah (Chairman), Mr. Chen Ping and Mr. Tian Xiao Ren 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 2016.

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, risk management functions 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>. The interim report for the six months ended 30 June 2016 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, 31 August 2016

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.

* *For identification purpose only*