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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)**

**2019 INTERIM RESULTS ANNOUNCEMENT  
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

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 2019 together with the comparative figures for the corresponding period in 2018 as follows:

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

*For the six months ended 30 June 2019*

|                                                      |              | <b>Six months ended 30 June</b> |                    |
|------------------------------------------------------|--------------|---------------------------------|--------------------|
|                                                      |              | <b>2019</b>                     | <b>2018</b>        |
|                                                      |              | <b>(Unaudited)</b>              | <b>(Unaudited)</b> |
|                                                      | <i>Notes</i> | <b>RMB'000</b>                  | <b>RMB'000</b>     |
| REVENUE                                              | 5            | <b>491,880</b>                  | 475,730            |
| Cost of sales                                        |              | <b>(388,530)</b>                | (432,536)          |
| Gross profit                                         |              | <b>103,350</b>                  | 43,194             |
| Other income and gains                               | 5            | <b>58,341</b>                   | 44,852             |
| Selling and distribution expenses                    |              | <b>(35,391)</b>                 | (32,838)           |
| Administrative expenses                              |              | <b>(162,650)</b>                | (231,072)          |
| Other expenses, net                                  |              | <b>(10,571)</b>                 | (44,254)           |
| Exchange gain/(loss), net                            |              | <b>19,331</b>                   | (2,041)            |
| Finance costs                                        | 6            | <b>(233,424)</b>                | (187,045)          |
| Fair value gain on investment properties             |              | <b>74,008</b>                   | –                  |
| Fair value loss on a derivative financial instrument |              | <b>(2,573)</b>                  | –                  |
| Share of loss of a joint venture                     |              | <b>(12,756)</b>                 | (13,166)           |
| LOSS BEFORE TAX                                      | 7            | <b>(202,335)</b>                | (422,370)          |
| Income tax (expenses)/credit                         | 8            | <b>(11,460)</b>                 | 109,859            |
| LOSS FOR THE PERIOD                                  |              | <b>(213,795)</b>                | (312,511)          |
| Attributable to:                                     |              |                                 |                    |
| Owners of the parent                                 |              | <b>(212,800)</b>                | (313,152)          |
| Non-controlling interests                            |              | <b>(995)</b>                    | 641                |
|                                                      |              | <b>(213,795)</b>                | (312,511)          |
| LOSS PER SHARE                                       |              |                                 |                    |
| ATTRIBUTABLE TO                                      |              |                                 |                    |
| ORDINARY EQUITY HOLDERS OF THE PARENT                |              |                                 |                    |
| Basic and diluted                                    | 9            | <b>RMB(0.21)</b>                | RMB(0.31)          |

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

|                                                                                               | Six months ended 30 June |                  |
|-----------------------------------------------------------------------------------------------|--------------------------|------------------|
|                                                                                               | 2019                     | 2018             |
|                                                                                               | (Unaudited)              | (Unaudited)      |
|                                                                                               | RMB'000                  | RMB'000          |
| LOSS FOR THE PERIOD                                                                           | <u>(213,795)</u>         | <u>(312,511)</u> |
| OTHER COMPREHENSIVE LOSS                                                                      |                          |                  |
| Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:    |                          |                  |
| Exchange differences on translation of foreign operations                                     | <u>(2,669)</u>           | <u>(31,901)</u>  |
| Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods | (2,669)                  | (31,901)         |
| OTHER COMPREHENSIVE LOSS                                                                      | <u>(2,669)</u>           | <u>(31,901)</u>  |
| TOTAL COMPREHENSIVE LOSS FOR THE PERIOD                                                       | <u>(216,464)</u>         | <u>(344,412)</u> |
| Total comprehensive loss attributable to:                                                     |                          |                  |
| Owners of the parent                                                                          | (215,469)                | (345,053)        |
| Non-controlling interests                                                                     | <u>(995)</u>             | <u>641</u>       |
|                                                                                               | <u>(216,464)</u>         | <u>(344,412)</u> |

# INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

|                                                                                |       | As at<br>30 June<br>2019<br>(Unaudited)<br>RMB'000 | As at<br>31 December<br>2018<br>(Audited)<br>RMB'000 |
|--------------------------------------------------------------------------------|-------|----------------------------------------------------|------------------------------------------------------|
|                                                                                | Notes |                                                    |                                                      |
| <b>NON-CURRENT ASSETS</b>                                                      |       |                                                    |                                                      |
| Property, plant and equipment                                                  | 10    | 2,755,617                                          | 2,805,810                                            |
| Investment properties                                                          | 11    | 403,000                                            | 1,160,000                                            |
| Right-of-use assets                                                            |       | 1,107,874                                          | –                                                    |
| Long term prepayments and deposits                                             |       | 115,931                                            | 111,320                                              |
| Prepaid land lease payments                                                    |       | –                                                  | 1,087,394                                            |
| Investment in a joint venture                                                  |       | 19,075                                             | 31,832                                               |
| Deferred tax assets                                                            |       | 161,600                                            | 161,600                                              |
| Pledged deposits                                                               |       | –                                                  | 80,000                                               |
| Total non-current assets                                                       |       | 4,563,097                                          | 5,437,956                                            |
| <b>CURRENT ASSETS</b>                                                          |       |                                                    |                                                      |
| Inventories                                                                    | 12    | 334,302                                            | 223,057                                              |
| Properties under development                                                   |       | 1,799,192                                          | 1,691,699                                            |
| Completed properties held for sale                                             |       | 420,831                                            | 749,869                                              |
| Trade and bills receivables                                                    | 13    | 497,646                                            | 540,225                                              |
| Prepayments, deposits and other receivables                                    |       | 933,197                                            | 674,844                                              |
| Due from a related party                                                       |       | 84,563                                             | 84,676                                               |
| Financial assets at fair value through<br>profit or loss                       |       | 200                                                | –                                                    |
| Pledged and restricted bank balances                                           |       | 583,775                                            | 539,060                                              |
| Cash and bank balances                                                         |       | 83,903                                             | 66,907                                               |
|                                                                                |       | 4,737,609                                          | 4,570,337                                            |
| Non-current assets classified as held for sale                                 | 14    | 1,160,000                                          | –                                                    |
| Total current assets                                                           |       | 5,897,609                                          | 4,570,337                                            |
| <b>CURRENT LIABILITIES</b>                                                     |       |                                                    |                                                      |
| Trade and bills payables                                                       | 15    | 758,434                                            | 688,464                                              |
| Interest-bearing bank and other borrowings                                     | 16    | 1,663,757                                          | 2,012,848                                            |
| Contract liabilities                                                           |       | 1,013,997                                          | 896,765                                              |
| Other payables and accruals                                                    |       | 1,529,868                                          | 762,458                                              |
| Fixed rate bonds and notes                                                     | 17    | 148,397                                            | –                                                    |
| Derivative financial instrument                                                |       | 25,557                                             | 22,984                                               |
| Due to a director                                                              |       | 123,498                                            | 118,944                                              |
| Tax payable                                                                    |       | 109,829                                            | 107,583                                              |
|                                                                                |       | 5,373,337                                          | 4,610,046                                            |
| Liabilities directly associated with the<br>assets classified as held for sale | 14    | 248,843                                            | –                                                    |
| Total current liabilities                                                      |       | 5,622,180                                          | 4,610,046                                            |
| <b>NET CURRENT ASSETS/(LIABILITIES)</b>                                        |       | <b>275,429</b>                                     | <b>(39,709)</b>                                      |
| <b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>                                   |       | <b>4,838,526</b>                                   | <b>5,398,247</b>                                     |

|                                                    |              | As at<br>30 June<br>2019<br>(Unaudited)<br><i>RMB'000</i> | As at<br>31 December<br>2018<br>(Audited)<br><i>RMB'000</i> |
|----------------------------------------------------|--------------|-----------------------------------------------------------|-------------------------------------------------------------|
|                                                    | <i>Notes</i> |                                                           |                                                             |
| <b>NON-CURRENT LIABILITIES</b>                     |              |                                                           |                                                             |
| Interest-bearing bank and other borrowings         | 16           | 4,123,114                                                 | 4,084,871                                                   |
| Fixed rate bonds and notes                         | 17           | 14,898                                                    | 157,406                                                     |
| Government grants                                  |              | 349,867                                                   | 350,899                                                     |
| Deferred tax liabilities                           |              | 336,838                                                   | 574,798                                                     |
|                                                    |              |                                                           |                                                             |
| Total non-current liabilities                      |              | 4,824,717                                                 | 5,167,974                                                   |
|                                                    |              |                                                           |                                                             |
| <b>Net assets</b>                                  |              | <b>13,809</b>                                             | <b>230,273</b>                                              |
| <b>EQUITY</b>                                      |              |                                                           |                                                             |
| <b>Equity attributable to owners of the parent</b> |              |                                                           |                                                             |
| Issued capital                                     |              | 88,856                                                    | 88,856                                                      |
| Reserves                                           |              | (85,472)                                                  | 129,997                                                     |
|                                                    |              |                                                           |                                                             |
|                                                    |              | 3,384                                                     | 218,853                                                     |
| Non-controlling interests                          |              | 10,425                                                    | 11,420                                                      |
|                                                    |              |                                                           |                                                             |
| Total equity                                       |              | 13,809                                                    | 230,273                                                     |

# NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

*For the six months ended 30 June 2019*

## 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 is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principle place of business in Hong Kong is located at suites nos. 1, 2 and 19, 15th Floor, Tower 3, China Hong Kong City, 33 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong. The Company and its subsidiaries (together, the “Group”) are principally engaged 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 of the Company (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 2019 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 (the “Listing Rule”) 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 2018.

### Going concern basis

The Group recorded a consolidated loss of RMB213,795,000 for the period ended 30 June 2019 (30 June 2018: loss of RMB312,511,000). As at 30 June 2019, the Group recorded net current assets of RMB275,429,000 (31 December 2018: net current liabilities of RMB39,709,000), included therein were the bank and other borrowings of RMB1,663,757,000 (31 December 2018: RMB2,012,848,000) which were due for repayment or renewal within the next twelve months after 30 June 2019.

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

On 20 June 2019, the Group has entered into a land resumption compensation agreement (“Land Resumption Compensation Agreement”) with Guangzhou City Panyu District Land Development Centre\* (廣州市番禺區土地開發中心) (“GPDLDC”), pursuant to which GPDLDC will resume, and the Group will sell the land of Phase III Golden Dragon City Fortune Plaza (金龍城財富廣場) (“GDC”) at the initial compensation of RMB1.16 billion.

The directors of the Company have prepared a cash flow forecast for the Group which covers a period of twelve months from the end of the reporting period. Taking into account the possible disposal of Panyu Chu Kong Steel Pipe Co. Ltd (“PCKSP”) as detailed in the Company’s announcement dated 27 February 2019 and the land of Phase III of GDC which could provide additional funds for the Group, coupled with the rebound of the market demand of the Group’s steel pipes and related products and the continued sale of the Group’s existing real estate projects, the directors considered that the Group will have sufficient working capital to finance its operations and meet its financial obligations as and when they fall due. Accordingly, the interim condensed consolidated financial statements of the Group have been prepared on a going concern basis.

However, the sale of Panyu Chu Kong Steel Pipe Co. Ltd (“PCKSP”) and the land of Phase III GDC is subject to the fulfilment of certain conditions, among which some of these conditions cannot be controlled by the Group, such as the successful change of land use on the land owned by PCKSP. The validity of the going concern assumption on which the interim condensed consolidated financial statements are prepared is dependent on the successful sale of PCKSP and favourable outcomes of the events as described above.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at amounts other than those they are currently recorded in the interim condensed consolidated statement of financial position. In addition, the Group may have to provide for any further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities, respectively. The effects of these adjustments have not been reflected in the interim condensed consolidated financial statements.

### 3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. In the current interim period, the Group has applied, for the first time, the following amendments to International Financial Reporting Standards (“IFRSs”, which also include IASs and interpretations) that are relevant to the Group’s operation for the preparation of the Group’s interim condensed consolidated financial statements:

|                                            |                                                             |
|--------------------------------------------|-------------------------------------------------------------|
| IFRS 16                                    | <i>Leases</i>                                               |
| IFRIC – Int 23                             | <i>Uncertainty over Income Tax Treatments</i>               |
| Amendments to IFRS 9                       | <i>Prepayment Features with Negative Compensation</i>       |
| Amendments to IAS 19                       | <i>Plan Amendment, Curtailment or Settlement</i>            |
| Amendments to IAS 28                       | <i>Long-term Interests in Associates and Joint Ventures</i> |
| <i>Annual Improvements 2015-2017 Cycle</i> | <i>Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23</i>     |

Other than as explained below regarding the impact of IFRS 16 Leases, the new and revised standards do not have significant impact on the unaudited interim condensed consolidated financial statements of the Group. The nature and impact of the IFRS 16 are described as below:

#### IFRS 16

IFRS 16 replaces IAS 17 Leases, IFRIC-Int 4 Determining whether an Arrangement contains a Lease, SIC-Int 15 Operating Leases – Incentives and SIC-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model. Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have any financial impact on leases where the Group is the lessor.

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

#### ***New definition of a lease***

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

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their standard-alone prices. A practical expedient is available to a lessee, which the Group has adopted, not to separate non-lease components and to account for the lease and the associated non-lease components (e.g., property management services for leases of properties) as a single lease component.

#### ***As a lessee – Leases previously classified as operating leases***

##### *Nature of the effect of adoption of IFRS 16*

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

##### *Impacts on transition*

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

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

The Group has used the following elective practical expedients when applying IFRS 16 at 1 January 2019:

- Applied the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

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

|                                                        | <b>Increase/<br/>(decrease)<br/>RMB'000<br/>(Unaudited)</b> |
|--------------------------------------------------------|-------------------------------------------------------------|
| <b>Assets</b>                                          |                                                             |
| Increase in right-of-use assets                        | 1,093,029                                                   |
| Decrease in prepaid land lease payments                | (1,087,394)                                                 |
|                                                        | <hr/>                                                       |
| Increase in total assets                               | 5,635                                                       |
|                                                        | <hr/>                                                       |
| <b>Liabilities</b>                                     |                                                             |
| Increase in interest-bearing bank and other borrowings | 5,635                                                       |
|                                                        | <hr/>                                                       |
| Increase in total liabilities                          | 5,635                                                       |
|                                                        | <hr/>                                                       |
| Decrease in retained earnings                          | —                                                           |
|                                                        | <hr/>                                                       |

#### ***Summary of new accounting policies***

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of IFRS 16 from 1 January 2019:

##### ***Right-of-use assets***

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. When the right-of-use assets relate to interests in leasehold land held as inventories, they are subsequently measured at the lower of cost and net realisable value in accordance with the Group's policy for "inventories". The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term. When a right-of-use asset meets the definition of investment property, it is included in investment properties. The corresponding right-of-use asset is initially measured at cost, and subsequently measured at fair value, in accordance with the Group's policy for 'investment properties'.

##### ***Lease liabilities***

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

***Significant judgement in determining the lease term of contracts with renewal options***

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

***Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss***

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the Period:

|                             | <b>Right-of-use assets</b> |                        | <b>Lease liabilities</b> |
|-----------------------------|----------------------------|------------------------|--------------------------|
|                             | <b>Buildings</b>           | <b>Land-use rights</b> |                          |
|                             | <i>RMB'000</i>             | <i>RMB'000</i>         | <i>RMB'000</i>           |
|                             | (Unaudited)                | (Unaudited)            | (Unaudited)              |
| <b>As at 1 January 2019</b> | 5,635                      | 1,112,993              | 5,635                    |
| Additions                   | 6,042                      | –                      | 6,042                    |
| Early termination           | (1,774)                    | –                      | (1,774)                  |
| Disposal                    | –                          | (1,128)                | –                        |
| Depreciation                | (998)                      | (12,896)               | –                        |
| Interest expense            | –                          | –                      | 373                      |
| Payments                    | –                          | –                      | (1,293)                  |
|                             | <hr/>                      | <hr/>                  | <hr/>                    |
| <b>As at 30 June 2019</b>   | <b>8,905</b>               | <b>1,098,969</b>       | <b>8,983</b>             |

The Group recognised rental expense from short-term leases of RMB309,000 for the six months ended 30 June 2019.

**IFRIC-Int 23**

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

#### 4A. DISAGGREGATION OF REVENUE

Set out below is the disaggregation of the Group's revenue from contracts with customers:

| Six months ended 30 June 2019 (unaudited)   | Steel pipes<br>RMB'000 | Property<br>development<br>and investment<br>RMB'000 | Total<br>RMB'000 |
|---------------------------------------------|------------------------|------------------------------------------------------|------------------|
| <b>Segments</b>                             |                        |                                                      |                  |
| <b>Type of goods or service:</b>            |                        |                                                      |                  |
| Manufacture and sale of steel pipes         | 390,734                | –                                                    | 390,734          |
| Steel pipe manufacturing services           | 71,658                 | –                                                    | 71,658           |
| Sales of other steel products               | 26,158                 | –                                                    | 26,158           |
|                                             | <hr/>                  | <hr/>                                                | <hr/>            |
| Total revenue from contracts with customers | 488,550                | –                                                    | 488,550          |
| Revenue from other sources                  |                        |                                                      |                  |
| – rental income                             | –                      | 3,330                                                | 3,330            |
|                                             | <hr/>                  | <hr/>                                                | <hr/>            |
| Total revenue                               | <u>488,550</u>         | <u>3,330</u>                                         | <u>491,880</u>   |
| <b>Geographical markets</b>                 |                        |                                                      |                  |
| Mainland China                              | 384,462                | 3,330                                                | 387,792          |
| Other Asian countries                       | 53,082                 | –                                                    | 53,082           |
| Middle East                                 | 42,727                 | –                                                    | 42,727           |
| European Union                              | 8,279                  | –                                                    | 8,279            |
|                                             | <hr/>                  | <hr/>                                                | <hr/>            |
| Total revenue                               | <u>488,550</u>         | <u>3,330</u>                                         | <u>491,880</u>   |
| <b>Timing of revenue recognition</b>        |                        |                                                      |                  |
| At a point in time                          | <u>488,550</u>         | <u>3,330</u>                                         | <u>491,880</u>   |

#### 4B. OPERATING SEGMENT INFORMATION

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

- (a) the steel pipes segment engages in the manufacture and sale of welded steel pipes and the provision of related manufacturing services; and
- (b) the property development and investment segment engages in 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 to third parties at the then prevailing market prices.

| <b>Six months ended 30 June 2019 (Unaudited)</b>                   | <b>Steel pipes<br/>RMB'000</b> | <b>Property<br/>development and<br/>investment<br/>RMB'000</b> | <b>Total<br/>RMB'000</b> |
|--------------------------------------------------------------------|--------------------------------|----------------------------------------------------------------|--------------------------|
| <b>Segment revenue:</b>                                            |                                |                                                                |                          |
| Sales to external customers                                        | <u>488,550</u>                 | <u>3,330</u>                                                   | <u>491,880</u>           |
| <b>Segment results:</b>                                            |                                |                                                                |                          |
| <i>Reconciliation:</i>                                             |                                |                                                                |                          |
| Corporate and other unallocated expenses                           |                                |                                                                | <u>(32,024)</u>          |
| Loss before tax                                                    |                                |                                                                | <u>(202,335)</u>         |
| <b>Segment assets:</b>                                             | <b>4,322,488</b>               | <b>6,432,062</b>                                               | <b>10,754,550</b>        |
| <i>Reconciliation:</i>                                             |                                |                                                                |                          |
| Elimination of intersegment receivables                            |                                |                                                                | (2,160,942)              |
| Corporate and other unallocated assets                             |                                |                                                                | <u>1,867,098</u>         |
| Total assets                                                       |                                |                                                                | <u>10,460,706</u>        |
| <b>Segment liabilities:</b>                                        | <b>7,670,316</b>               | <b>4,241,430</b>                                               | <b>11,911,746</b>        |
| <i>Reconciliation:</i>                                             |                                |                                                                |                          |
| Elimination of intersegment payables                               |                                |                                                                | (2,160,942)              |
| Corporate and other unallocated liabilities                        |                                |                                                                | <u>696,093</u>           |
| Total liabilities                                                  |                                |                                                                | <u>10,446,897</u>        |
| <b>Other segment information:</b>                                  |                                |                                                                |                          |
| Share of loss of a joint venture                                   | (12,756)                       | –                                                              | (12,756)                 |
| Impairment losses recognised in<br>the statement of profit or loss | (3,956)                        | –                                                              | (3,956)                  |
| Depreciation                                                       | (54,143)                       | (18)                                                           | (54,161)                 |
| Capital expenditure*                                               | (22,928)                       | (41)                                                           | (22,969)                 |

| Six months ended 30 June 2018 (Unaudited)                          | Steel pipes<br>RMB'000 | Property<br>development and<br>investment<br>RMB'000 | Total<br>RMB'000 |
|--------------------------------------------------------------------|------------------------|------------------------------------------------------|------------------|
| <b>Segment revenue:</b>                                            |                        |                                                      |                  |
| Sales to external customers                                        | 475,730                | –                                                    | 475,730          |
| <b>Segment results:</b>                                            | (328,014)              | (18,986)                                             | (347,000)        |
| <i>Reconciliation:</i>                                             |                        |                                                      |                  |
| Corporate and other unallocated expenses                           |                        |                                                      | (75,370)         |
| Loss before tax                                                    |                        |                                                      | (422,370)        |
| <b>Segment assets:</b>                                             | 2,333,290              | 4,113,652                                            | 6,446,942        |
| <i>Reconciliation:</i>                                             |                        |                                                      |                  |
| Elimination of intersegment receivables                            |                        |                                                      | 1,823,429        |
| Corporate and other unallocated assets                             |                        |                                                      | 2,327,930        |
| Total assets                                                       |                        |                                                      | 10,598,301       |
| <b>Segment liabilities:</b>                                        | 3,477,775              | 3,784,917                                            | 7,262,692        |
| <i>Reconciliation:</i>                                             |                        |                                                      |                  |
| Elimination of intersegment payables                               |                        |                                                      | 1,823,429        |
| Corporate and other unallocated liabilities                        |                        |                                                      | 1,010,527        |
| Total liabilities                                                  |                        |                                                      | 10,096,648       |
| <b>Other segment information:</b>                                  |                        |                                                      |                  |
| Share of loss of a joint venture                                   | (13,166)               | –                                                    | (13,166)         |
| Impairment losses recognised in<br>the statement of profit or loss | (1,437)                | –                                                    | (1,437)          |
| Impairment losses reversed in<br>the statement of profit or loss   | 1,562                  | –                                                    | 1,562            |
| Depreciation and amortisation                                      | (88,054)               | (186)                                                | (88,240)         |
| Capital expenditure*                                               | (12,201)               | (26)                                                 | (12,227)         |

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

## Information about products

The revenue of the major products is analysed as follows:

|                                      | Six months ended 30 June |                        |
|--------------------------------------|--------------------------|------------------------|
|                                      | 2019                     | 2018                   |
|                                      | (Unaudited)<br>RMB'000   | (Unaudited)<br>RMB'000 |
| Manufacture and sale of steel pipes: |                          |                        |
| LSAW steel pipes                     | 360,321                  | 247,939                |
| ERW steel pipes                      | 87                       | 30,297                 |
| SSAW steel pipes                     | 30,326                   | 97,285                 |
| Steel pipe manufacturing services:   |                          |                        |
| LSAW steel pipes                     | 57,392                   | 44,628                 |
| ERW steel pipes                      | 62                       | 798                    |
| SSAW steel pipes                     | 14,204                   | 31,159                 |
| Others*                              | 29,488                   | 23,624                 |
|                                      | <u>491,880</u>           | <u>475,730</u>         |

\* Others mainly included the sales of other steel products and rental income.

## Geographical information

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 2019, revenue from one customer of the Group amounting to RMB95,764,000, which had accounted for 19% of the Group's total revenue.

For the six months ended 30 June 2018, revenue from two customers of the Group amounting to RMB67,021,000 and RMB47,921,000, which had accounted for 14% and 10% of the Group's total revenue respectively.

## 5. REVENUE, OTHER INCOME AND GAINS

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

|                                                                                                     | Six months ended 30 June |                |
|-----------------------------------------------------------------------------------------------------|--------------------------|----------------|
|                                                                                                     | 2019                     | 2018           |
|                                                                                                     | (Unaudited)              | (Unaudited)    |
|                                                                                                     | RMB'000                  | RMB'000        |
| <b>Revenue from contracts with customers</b>                                                        |                          |                |
| Manufacture and sale of seam welded steel pipes and the provision of related manufacturing services | 488,550                  | 475,730        |
| <b>Revenue from other sources</b>                                                                   |                          |                |
| Gross rental income                                                                                 | 3,330                    | —              |
|                                                                                                     | <b>491,880</b>           | <b>475,730</b> |
| <b>Other income and gains</b>                                                                       |                          |                |
| Fair value gains on financial assets at fair value through profit or loss                           | —                        | 5,603          |
| Bank interest income                                                                                | 13,228                   | 19,531         |
| Subsidy income from the PRC government*                                                             | 22,618                   | 17,697         |
| Gain on resumption of land use rights to the local authority**                                      | 15,795                   | —              |
| Others                                                                                              | 6,700                    | 2,021          |
|                                                                                                     | <b>58,341</b>            | <b>44,852</b>  |

\* The subsidy income represented subsidies granted by the local finance bureaus to Panyu Chu Kong Steel Pipe Co Ltd. (番禺珠江鋼管有限公司), Panyu Chu Kong Steel Pipe (Lianyungang) Co Ltd. (番禺珠江鋼管(連雲港)有限公司) and Panyu Chu Kong Steel Pipe (Zhuhai) Co., Ltd. (番禺珠江鋼管(珠海)有限公司), mainly as compensation for certain projects and tax refunds. There are no unfulfilled conditions or contingencies relating to such subsidies.

\*\* During the six months ended 30 June 2019, a land of PCKSP with a carrying value of RMB1,128,000 located at Qinghe East Road, Shiji Town in Panyu District of Guangzhou, the PRC, was resumed by the local authority, with a cash consideration of RMB16,923,000 received.

## 6. FINANCE COSTS

An analysis of finance costs is as follows:

|                                                                | Six months ended 30 June |             |
|----------------------------------------------------------------|--------------------------|-------------|
|                                                                | 2019                     | 2018        |
|                                                                | (Unaudited)              | (Unaudited) |
|                                                                | RMB'000                  | RMB'000     |
| Interest on bank loans and government loans                    | 132,521                  | 110,959     |
| Interest on other loans (including bonds and short term notes) | 143,182                  | 135,374     |
| Interest on finance lease                                      | –                        | 2,815       |
| Interest on discounted bills                                   | 1,542                    | 7,219       |
| Interest on lease liabilities                                  | 373                      | –           |
|                                                                | <hr/>                    | <hr/>       |
| Total interest expense                                         | 277,618                  | 256,367     |
| Less: Interest capitalised                                     | (44,194)                 | (69,322)    |
|                                                                | <hr/>                    | <hr/>       |
|                                                                | 233,424                  | 187,045     |
|                                                                | <hr/>                    | <hr/>       |

## 7. LOSS BEFORE TAX

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

|                                                                | Six months ended 30 June |             |
|----------------------------------------------------------------|--------------------------|-------------|
|                                                                | 2019                     | 2018        |
|                                                                | (Unaudited)              | (Unaudited) |
|                                                                | RMB'000                  | RMB'000     |
| Cost of inventories sold                                       | 385,207                  | 356,275     |
| Depreciation of property, plant and equipment                  | 40,267                   | 75,488      |
| Depreciation of right-of-use assets                            | 13,894                   | –           |
| Amortisation of prepaid land lease payments                    | –                        | 12,752      |
| Impairment/(reversal of impairment) of trade receivables*      | 2,451                    | (958)       |
| Impairment of deposits and other receivables*                  | 1,505                    | –           |
| Loss on disposal of a subsidiary*                              | 20,107                   | –           |
| (Gain)/loss on disposal of property, plant and equipment, net* | (5,206)                  | 19,533      |
|                                                                | <hr/>                    | <hr/>       |

\* These items are included in "Other expenses, net" on the face of interim condensed consolidated statement of profit or loss.

## 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:

|                                                | <b>Six months ended 30 June</b> |                    |
|------------------------------------------------|---------------------------------|--------------------|
|                                                | <b>2019</b>                     | <b>2018</b>        |
|                                                | <b>(Unaudited)</b>              | <b>(Unaudited)</b> |
|                                                | <b>RMB'000</b>                  | <b>RMB'000</b>     |
| Current – Mainland China charge for the period | <b>577</b>                      | –                  |
| Deferred                                       | <b>10,883</b>                   | (109,859)          |
|                                                | <hr/>                           | <hr/>              |
| Total tax expenses/(credit) for the period     | <b>11,460</b>                   | (109,859)          |
|                                                | <hr/>                           | <hr/>              |

## 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 RMB212,800,000 (six months ended 30 June 2018: RMB313,152,000), and the weighted average number of ordinary shares of 1,011,142,000 (at 30 June 2018: 1,011,142,000) in issue during the period.

The calculation of the diluted loss per share is based on the loss for the period attributable to ordinary equity holders of the parent. Because the exercise price of the warrant instrument was greater than the share price as at 30 June 2019 and the diluted loss per share amount is increased when taking the warrant instrument into account, the warrant instrument had an anti-dilutive effect on the basic loss per share for the period and was ignored in the calculation of diluted loss per share.

## 10. PROPERTY, PLANT AND EQUIPMENT

|                                 | <b>30 June</b>     | <b>31 December</b> |
|---------------------------------|--------------------|--------------------|
|                                 | <b>2019</b>        | <b>2018</b>        |
|                                 | <b>(Unaudited)</b> | <b>(Audited)</b>   |
|                                 | <b>RMB'000</b>     | <b>RMB'000</b>     |
| At beginning of the period/year | <b>2,805,810</b>   | 3,082,754          |
| Additions                       | <b>22,969</b>      | 22,471             |
| Disposals                       | <b>(1,658)</b>     | (80,759)           |
| Disposals of subsidiaries       | <b>(31,296)</b>    | (72,087)           |
| Deregister of subsidiaries      | –                  | (7,840)            |
| Depreciation                    | <b>(40,267)</b>    | (140,406)          |
| Exchange realignment            | <b>59</b>          | 1,677              |
|                                 | <hr/>              | <hr/>              |
| At end of the period/year       | <b>2,755,617</b>   | 2,805,810          |
|                                 | <hr/>              | <hr/>              |

The Group's property, plant and equipment with a net carrying amount of approximately RMB324,931,000 (31 December 2018: RMB833,371,000) were pledged to secure the Group's bank borrowings, as further detailed in note 16 to the interim condensed consolidated financial statements.

## 11. INVESTMENT PROPERTIES

|                                                                      | 30 June<br>2019<br>(Unaudited)<br>RMB'000 | 31 December<br>2018<br>(Audited)<br>RMB'000 |
|----------------------------------------------------------------------|-------------------------------------------|---------------------------------------------|
| Commercial properties in Mainland China, PRC                         |                                           |                                             |
| Carrying amount at 1 January                                         | 1,160,000                                 | 1,138,221                                   |
| Net gain from a fair value adjustment                                | 74,008                                    | 21,779                                      |
| Transfer from completed properties held for sale                     | 328,992                                   | –                                           |
| Transfer to non-current assets classified as held for sale (note 14) | (1,160,000)                               | –                                           |
|                                                                      | <u>403,000</u>                            | <u>1,160,000</u>                            |
| Carrying amount at end of the period/year                            | <u>403,000</u>                            | <u>1,160,000</u>                            |

## 12. INVENTORIES

|                                                  | 30 June<br>2019<br>(Unaudited)<br>RMB'000 | 31 December<br>2018<br>(Audited)<br>RMB'000 |
|--------------------------------------------------|-------------------------------------------|---------------------------------------------|
| Raw materials                                    | 103,396                                   | 99,946                                      |
| Work in progress                                 | 44,709                                    | 59,497                                      |
| Finished goods                                   | 198,887                                   | 76,304                                      |
|                                                  | <u>346,992</u>                            | <u>235,747</u>                              |
| Less: Provision against slow-moving and obsolete | (12,690)                                  | (12,690)                                    |
|                                                  | <u>334,302</u>                            | <u>223,057</u>                              |

## 13. TRADE AND BILLS RECEIVABLES

|                        | 30 June<br>2019<br>(Unaudited)<br>RMB'000 | 31 December<br>2018<br>(Audited)<br>RMB'000 |
|------------------------|-------------------------------------------|---------------------------------------------|
| Trade receivables      | 511,174                                   | 459,112                                     |
| Impairment             | (19,334)                                  | (16,883)                                    |
|                        | <u>491,840</u>                            | <u>442,229</u>                              |
| Trade receivables, net | 491,840                                   | 442,229                                     |
| Bills receivable       | 5,806                                     | 97,996                                      |
|                        | <u>497,646</u>                            | <u>540,225</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 60 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

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

|                 | <b>30 June<br/>2019<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2018<br>(Audited)<br>RMB'000 |
|-----------------|-----------------------------------------------------|---------------------------------------------|
| Within 60 days  | 98,866                                              | 234,319                                     |
| 61 to 90 days   | 106,589                                             | 3,882                                       |
| 91 to 180 days  | 44,566                                              | 10,005                                      |
| 181 to 365 days | 113,550                                             | 41,986                                      |
| 1 to 2 years    | 58,564                                              | 60,762                                      |
| 2 to 3 years    | 23,539                                              | 91,275                                      |
| Over 3 years    | 46,166                                              | –                                           |
|                 | <b>491,840</b>                                      | <b>442,229</b>                              |

#### 14. ASSETS AND LIABILITIES CLASSIFIED AS HELD FOR SALE

As mentioned in note 2 to the interim condensed consolidated financial statements, on 20 June 2019, the Group has entered into the Land Resumption Compensation Agreement with GPDLDC, pursuant to which GPDLDC will resume, and the Group will sell the land of GDC at the initial compensation of RMB1.16 billion (the “**Transaction**”). The completion of the Transaction is subject to, among others, the approval of the shareholders of the Company. As at 30 June 2019, the Land was reclassified from investment properties to non-current assets classified as held for sale and measured at fair value. The deferred tax liabilities directly related to the Land were reclassified to liabilities directly associated with the assets classified as held for sale. Further details of the Transaction are set out in the Company's announcement dated 20 June 2019.

|                                                                                                           | <b>30 June<br/>2019<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2018<br>(Audited)<br>RMB'000 |
|-----------------------------------------------------------------------------------------------------------|-----------------------------------------------------|---------------------------------------------|
| Non-current asset classified as held for sale – Investment properties                                     | <b>1,160,000</b>                                    | –                                           |
| Liabilities directly associated with the assets classified as held for sale<br>– deferred tax liabilities | <b>248,843</b>                                      | –                                           |

No fair value gain or loss was recognized in respect of the non-current asset classified as held for sale for the six months ended 30 June 2019.

## 15. TRADE AND BILLS PAYABLES

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

|                 | 30 June<br>2019<br>(Unaudited)<br><i>RMB'000</i> | 31 December<br>2018<br>(Audited)<br><i>RMB'000</i> |
|-----------------|--------------------------------------------------|----------------------------------------------------|
| Within 90 days  | 212,352                                          | 48,033                                             |
| 91 to 180 days  | 130,298                                          | 253,033                                            |
| 181 to 365 days | 238,234                                          | 157,306                                            |
| 1 to 2 years    | 86,180                                           | 129,086                                            |
| 2 to 3 years    | 43,356                                           | 31,056                                             |
| Over 3 years    | 31,723                                           | 41,796                                             |
|                 | <hr/> 742,143                                    | <hr/> 660,310                                      |
| Bills payable   | <hr/> 16,291                                     | <hr/> 28,154                                       |
|                 | <hr/> <b>758,434</b>                             | <hr/> <b>688,464</b>                               |

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

All the bills payable bear maturity dates within 360 days.

## 16. INTEREST-BEARING BANK AND OTHER BORROWINGS

|                                    | Effective<br>interest rate<br><br>% | Maturity  | 30 June<br>2019<br>(Unaudited)<br>RMB'000 | 31 December<br>2018<br>(Audited)<br>RMB'000 |
|------------------------------------|-------------------------------------|-----------|-------------------------------------------|---------------------------------------------|
| <b>Current</b>                     |                                     |           |                                           |                                             |
| Lease liabilities                  | 9.51%                               | 2019-2020 | 2,381                                     | –                                           |
| Bank loans                         |                                     |           |                                           |                                             |
| – secured                          | 4.35%-6.31%                         | 2019-2020 | 434,600                                   | 450,100                                     |
| – unsecured                        | 6.09%-6.13%                         | 2020      | 65,000                                    | 103,861                                     |
| Other borrowing                    |                                     |           |                                           |                                             |
| – unsecured                        | 5.6%-16.71%                         | 2019-2020 | 547,387                                   | 857,335                                     |
| Government loans                   |                                     |           |                                           |                                             |
| – secured                          | 4.90%                               | 2020      | 79,200                                    | 70,400                                      |
| Current portion of long term loans |                                     |           |                                           |                                             |
| – secured                          | 5.39%-7.35%                         | 2019-2020 | 535,189                                   | 531,152                                     |
|                                    |                                     |           | <u>1,663,757</u>                          | <u>2,012,848</u>                            |
| <b>Non-current</b>                 |                                     |           |                                           |                                             |
| Lease liabilities                  | 9.51%                               | 2020-2036 | 6,602                                     | –                                           |
| Bank loans                         |                                     |           |                                           |                                             |
| – secured                          | 5.39%-10.00%                        | 2020-2028 | 1,481,000                                 | 1,577,100                                   |
| Other borrowing                    |                                     |           |                                           |                                             |
| – secured                          | 10.00%-16.00%                       | 2021      | 2,371,512                                 | 2,199,771                                   |
| Government loans                   |                                     |           |                                           |                                             |
| – secured                          | 4.90%                               | 2020-2023 | 264,000                                   | 308,000                                     |
|                                    |                                     |           | <u>4,123,114</u>                          | <u>4,084,871</u>                            |
|                                    |                                     |           | <u>5,786,871</u>                          | <u>6,097,719</u>                            |

|                                              | <b>30 June<br/>2019<br/>(Unaudited)<br/>RMB'000</b> | 31 December<br>2018<br>(Audited)<br>RMB'000 |
|----------------------------------------------|-----------------------------------------------------|---------------------------------------------|
| Analysed into:                               |                                                     |                                             |
| Bank loans repayable:                        |                                                     |                                             |
| Within one year                              | 1,034,789                                           | 1,085,113                                   |
| In the second year                           | 43,400                                              | 42,900                                      |
| In the third to fifth years, inclusive       | 482,900                                             | 414,100                                     |
| Beyond five years                            | 954,700                                             | 1,120,100                                   |
|                                              | <u>2,515,789</u>                                    | <u>2,662,213</u>                            |
| Government loans repayable:                  |                                                     |                                             |
| Within one year                              | 79,200                                              | 70,400                                      |
| In the second year                           | 88,000                                              | 88,000                                      |
| In the third to fifth years, inclusive       | 176,000                                             | 220,000                                     |
|                                              | <u>343,200</u>                                      | <u>378,400</u>                              |
| Other borrowings and finance lease payables: |                                                     |                                             |
| Within one year                              | 547,387                                             | 857,335                                     |
| In the second year                           | 2,235,512                                           | –                                           |
| In the third to fifth years, inclusive       | 136,000                                             | 2,199,771                                   |
|                                              | <u>2,918,899</u>                                    | <u>3,057,106</u>                            |
| Lease liabilities repayable:                 |                                                     |                                             |
| Within one year                              | 2,381                                               | –                                           |
| In the second year                           | 1,515                                               | –                                           |
| In the third to fifth years, inclusive       | 2,470                                               | –                                           |
| Beyond five years                            | 2,617                                               | –                                           |
|                                              | <u>8,983</u>                                        | <u>–</u>                                    |
|                                              | <u><u>5,786,871</u></u>                             | <u><u>6,097,719</u></u>                     |

The Group's bank loans are secured by:

- (a) a charge over certain property, plant and equipment of the Group with a net carrying amount of approximately RMB324,931,000 (31 December 2018: RMB833,371,000) 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 RMB626,669,000 (31 December 2018: RMB618,639,000) as at the end of the reporting period;
- (c) certain of the Group's time deposits amounting to RMB432,977,000 (31 December 2018: RMB426,600,000) as at the end of the reporting period;
- (d) mortgages over certain of the Group's properties under development with an aggregate carrying amount of RMB1,094,366,000 (31 December 2018: RMB1,105,871,000) as at the end of the reporting period;
- (e) mortgages over certain of the Group's completed properties held for sale with an aggregate carrying amount of RMB354,668,000 (31 December 2018: RMB373,919,000) as at the end of the reporting period; and
- (f) a charge over 525,742,000 ordinary shares of the Company, representing 52.0% of the total number of issued shares.

Except for the bank loans and other borrowings of RMB273,029,000 (31 December 2018: RMB407,632,000), and RMB179,265,000 (31 December 2018: RMB296,490,000) as at 30 June 2019, 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:

|                            | <b>30 June<br/>2019<br/>RMB'000</b> | 31 December<br>2018<br>RMB'000 |
|----------------------------|-------------------------------------|--------------------------------|
| Floating rate              |                                     |                                |
| – expiring within one year | <b>92,991</b>                       | 86,415                         |

## 17. FIXED RATE BONDS AND NOTES

|              | 30 June 2019 (Unaudited)                         |                                                  |          |         | 31 December 2018 (Audited)                       |                                                  |          |         |
|--------------|--------------------------------------------------|--------------------------------------------------|----------|---------|--------------------------------------------------|--------------------------------------------------|----------|---------|
|              | Principal<br>at original<br>currency<br>'million | Contractual<br>interest<br>rate (%)<br>per annum | Maturity | RMB'000 | Principal<br>at original<br>currency<br>'million | Contractual<br>interest<br>rate (%)<br>per annum | Maturity | RMB'000 |
| Current      |                                                  |                                                  |          |         |                                                  |                                                  |          |         |
| 2017 Notes   | HK\$155                                          | 8.0                                              | 2020     | 129,166 | –                                                | –                                                | –        | –       |
| 2017 Bonds_A | US\$3                                            | 7.0                                              | 2020     | 19,231  | –                                                | –                                                | –        | –       |
|              |                                                  |                                                  |          | 148,397 |                                                  |                                                  |          | –       |
| Non-Current  |                                                  |                                                  |          |         |                                                  |                                                  |          |         |
| 2017 Notes   | HK\$155                                          | 8.0                                              | 2020     | –       | HK\$155                                          | 8.0                                              | 2020     | 124,790 |
| 2017 Bonds_A | US\$3                                            | 7.0                                              | 2020     | –       | US\$3                                            | 7.0                                              | 2020     | 18,442  |
| 2017 Bonds_B | HK\$10                                           | 7.0                                              | 2021     | 7,161   | HK\$10                                           | 7.0                                              | 2021     | 6,834   |
| 2017 Bonds_C | HK\$10                                           | 6.0                                              | 2020     | 7,737   | HK\$10                                           | 6.0                                              | 2020     | 7,340   |
|              |                                                  |                                                  |          | 14,898  |                                                  |                                                  |          | 157,406 |
|              |                                                  |                                                  |          | 163,295 |                                                  |                                                  |          | 157,406 |

### US\$72,000,000 5.6% bonds should be due 2018 but rescheduled to 2019 (2013 Bonds)

On 30 April 2013, the Group issued bonds with a principal amount of US\$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, by 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 interest at a fixed coupon interest rate of 5.6% per annum for five years payable semi-annually, commencing on 30 October 2013. The bonds are unsecured. In the current year, the remaining balance of the 2013 Bonds were rescheduled to be repayable on 30 September 2019 and the remaining balance was reclassified to other borrowings.

**HK\$155,000,000 8% notes due 2020 (2017 Notes)**

On 27 April 2017, the Company entered into a note purchase agreement with an investment fund. The Group agreed to issue, and the investment fund agreed to purchase from the Group, HK\$155,000,000 8% notes due in April 2020 (the “2017 Notes”). Pursuant to the purchase agreement, specific performance obligations are imposed on the controlling shareholder of the Group. Any breach of the specific performance obligations may constitute a breach under the note purchase agreement, pursuant to which the investment fund is entitled to redeem the 2017 Notes immediately in accordance with the terms and conditions.

**US\$3,000,000 7% bonds due 2020 (2017 Bonds\_A)**

On 28 April 2017, the Company issued a bond with a principal amount of US dollar 3,000,000 to an individual investor (the “2017 Bonds\_A”). The bond will be repayable in full by April 2020. The bond bears a fixed coupon interest rate at 7% per annum for three years payable semi-annually, commencing on 28 October 2017. The bond is unsecured.

**HK\$10,000,000 7% bonds due 2021 (2017 Bonds\_B)**

On 24 August 2017, the Company issued a bond with a principal amount of HKD10 million to an individual investor (the “2017 Bonds\_B”). The bond will be repayable in full by August 2021. The bond bears a fixed coupon interest rate at 7% per annum for four years payable semi-annually, commencing on 24 February 2018. The bond is unsecured.

**HK\$10,000,000 6% bonds due 2020 (2017 Bonds\_C)**

On 26 September 2017, the Company issued a bond with a principal amount of HKD10 million to an individual investor (the “2017 Bonds\_C”). The bond will be repayable in full by September 2020. The bond bears a fixed coupon interest rate at 6% per annum for three years payable semi-annually, commencing on 26 March 2018. The bond is unsecured.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

#### *Overall Financial Results*

During the period under review, the Group recorded a revenue of approximately RMB491.9 million (1H2018: RMB475.7 million), representing an increase of approximately 3.4% as compared with the corresponding period in 2018. Loss attributable to ordinary equity holders of the Company was RMB212.8 million (1H2018: loss of RMB313.2 million). Loss per share was RMB0.21 (1H2018: loss per share of RMB0.31). The Board did not recommend the payment of interim dividend for the six months ended 30 June 2019 (1H2018: Nil).

#### *Revenue*

During the period under review, we recorded a revenue of approximately RMB491.9 million (1H2018: RMB475.7 million), representing an increase of approximately 3.4% as compared with the corresponding period in 2018. The revenue increase was due to a rebound of steel pipe demand in the People's Republic of China (the "PRC").

During the period under review, the revenue from domestic sales and overseas sales represented approximately 78.8% (1H2018: 72.4%) and approximately 21.2% (1H2018: 27.6%) respectively of our total revenue. Increase in domestic sales was due to a rebound of steel pipes demand in the PRC.

#### *Sales by geography*

|                | Six months ended 30 June |              |                |              |
|----------------|--------------------------|--------------|----------------|--------------|
|                | 2019                     |              | 2018           |              |
|                | <i>RMB'000</i>           | % of revenue | <i>RMB'000</i> | % of revenue |
|                | (Unaudited)              |              | (Unaudited)    |              |
| Domestic sales | 387,792                  | 78.8%        | 344,310        | 72.4%        |
| Overseas sales | 104,088                  | 21.2%        | 131,420        | 27.6%        |
| Total          | 491,880                  | 100.0%       | 475,730        | 100.0%       |

## ***Sales by products***

|                                     | Six months ended 30 June                    |                     |                                             |                     |
|-------------------------------------|---------------------------------------------|---------------------|---------------------------------------------|---------------------|
|                                     | 2019                                        |                     | 2018                                        |                     |
|                                     | <b><i>RMB'000</i></b><br><b>(Unaudited)</b> | <b>% of revenue</b> | <b><i>RMB'000</i></b><br><b>(Unaudited)</b> | <b>% of revenue</b> |
| Manufacture and sale of steel pipes |                                             |                     |                                             |                     |
| <i>LSAW steel pipes</i>             | <b>360,321</b>                              | <b>73.2%</b>        | 247,939                                     | 52.1%               |
| <i>ERW steel pipes</i>              | <b>87</b>                                   | <b>–%</b>           | 30,297                                      | 6.4%                |
| <i>SSAW steel pipes</i>             | <b>30,326</b>                               | <b>6.2%</b>         | 97,285                                      | 20.4%               |
| Sub-total                           | <b>390,734</b>                              | <b>79.4%</b>        | 375,521                                     | 78.9%               |
| Steel pipes manufacturing services  |                                             |                     |                                             |                     |
| <i>LSAW steel pipes</i>             | <b>57,392</b>                               | <b>11.7%</b>        | 44,628                                      | 9.4%                |
| <i>ERW steel pipes</i>              | <b>62</b>                                   | <b>–%</b>           | 798                                         | 0.2%                |
| <i>SSAW steel pipes</i>             | <b>14,204</b>                               | <b>2.9%</b>         | 31,159                                      | 6.5%                |
| Sub-total                           | <b>71,658</b>                               | <b>14.6%</b>        | 76,585                                      | 16.1%               |
| Others                              | <b>29,488</b>                               | <b>6.0%</b>         | 23,624                                      | 5.0%                |
| Total                               | <b>491,880</b>                              | <b>100%</b>         | 475,730                                     | 100.0%              |

## ***Gross Profit and Gross Profit Margin***

During the period under review, our gross profit was approximately RMB103.4 million (1H2018: RMB43.2 million), representing an increase of approximately 139.3% as compared with the corresponding period in 2018. The overall gross profit margin was approximately 21.0%, which was higher than that for the same period in 2018 which was approximately 9.1%. The increase in gross profit and gross profit margin was partly because there was an increase in the sales of steel pipes manufacturing services, the gross profit margin of which was generally high. In addition, the average selling price increased as compared with last corresponding period.

|                                     | Six months ended 30 June |                     |                    |                     |
|-------------------------------------|--------------------------|---------------------|--------------------|---------------------|
|                                     | 2019                     |                     | 2018               |                     |
|                                     | <b>RMB'000</b>           | <b>Gross profit</b> | <b>RMB'000</b>     | <b>Gross profit</b> |
|                                     | <b>(Unaudited)</b>       | <b>margin %</b>     | <b>(Unaudited)</b> | <b>margin %</b>     |
| Manufacture and sale of steel pipes |                          |                     |                    |                     |
| <i>LSAW steel pipes</i>             | <b>62,737</b>            | <b>17.4%</b>        | 26,688             | 10.8%               |
| <i>ERW steel pipes</i>              | <b>13</b>                | <b>14.9%</b>        | 559                | 1.8%                |
| <i>SSAW steel pipes</i>             | <b>6,943</b>             | <b>22.9%</b>        | 3,857              | 4.0%                |
| Sub total                           | <b>69,693</b>            | <b>17.8%</b>        | 31,104             | 8.3%                |
| Steel pipes manufacturing services  |                          |                     |                    |                     |
| <i>LSAW steel pipes</i>             | <b>25,323</b>            | <b>44.1%</b>        | 7,468              | 16.7%               |
| <i>ERW steel pipes</i>              | <b>28</b>                | <b>45.2%</b>        | 113                | 14.2%               |
| <i>SSAW steel pipes</i>             | <b>6,278</b>             | <b>44.2%</b>        | 4,827              | 15.5%               |
| Sub total                           | <b>31,629</b>            | <b>44.1%</b>        | 12,408             | 16.2%               |
| Others                              | <b>2,028</b>             | <b>6.9%</b>         | (318)              | -1.3%               |
| Total                               | <b>103,350</b>           | <b>21.0%</b>        | 43,194             | 9.1%                |

Other income and gains for the six months ended 30 June 2019 were approximately RMB58.3 million (1H2018: RMB44.9 million), representing an increase of approximately 30.1% as compared with the corresponding period in 2018. Such increase was mainly due to an increase in subsidy income and gain on resumption of land-use-rights from local authority.

Selling and distribution expenses for the six months ended 30 June 2019 were approximately RMB35.4 million (1H2018: RMB32.8 million), representing a slight increase of approximately 7.8% as compared with the corresponding period in 2018. The increase in selling and distribution expenses was due to an increase in sales during the period under review.

Administrative expenses for the six months ended 30 June 2019 were approximately RMB162.7 million (1H2018: RMB231.1 million), representing a decrease of approximately 29.6% as compared with the corresponding period in 2018. The decrease in administrative expenses was mainly due to closure of manufacturing operation of Panyu Chu Kong Steel Pipe Co. Ltd (“PCKSP”) (an indirect subsidiary of the Company which will be disposed of) (as disclosed in the Company’s announcement dated on 27 February 2019) during the period under review.

Finance costs for the six months ended 30 June 2019 were approximately RMB233.4 million (1H2018: RMB187.0 million), representing an increase of 24.8% as compared with the corresponding period in 2018. The increase in finance costs was mainly due to an increase in average interest rate and the average loan balance during the period under review.

The Group recorded other expenses of approximately RMB10.6 million for the six months ended 30 June 2019 (1H2018: RMB44.3 million), representing a decrease of approximately 76.1% as compared with the corresponding period in 2018. The decrease was due to a loss on disposal of a subsidiary and property, plant and equipment in the corresponding period in 2018.

Income tax expenses of approximately RMB11.5 million was recorded for the six months ended 30 June 2019 (1H2018: tax credit: RMB109.9 million).

As a result of the above, the net loss attributable to ordinary equity holders of the Company was approximately RMB212.8 million (1H2018: loss of RMB313.2 million). Loss per share was RMB0.21 (1H2018: loss per share of RMB0.31).

## **Business Review**

### ***Steel pipe business***

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 the PRC and are capable of manufacturing LSAW steel pipes that meet the X100 standard. We also hold 11 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 developed deep sea welded pipes for use at a water depth of 3,500m. 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 being classified as part of the Offshore Engineering Equipment Industry\* (海洋工程裝備製造業). We have benefited from the PRC’s strategic policies and are supported by policy banks and insurance institutions in the PRC.

During the period under review, we received new orders of approximately 189,000 tonnes of steel pipes. Orders received during the period under review include orders from China Petroleum & Chemical Corporation (中國石油化工股份有限公司) (Sinopec) for supplying approximately 35,600 tons of steel pipes for its gas and oil pipeline projects in the PRC, including projects of Rizhao Port-Jingbo Oil Pipeline, Yuexi Pipe Network and Qingning Gas Pipeline Project. We delivered approximately 142,000 tonnes of welded steel pipes during the period under review.

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

## ***Property development***

Apart from the steel pipe manufacturing business, the Group also engaged in property development and investment. Following the conversion of a land in Panyu, PRC in 2013, the Group grasped the opportunity of asset appreciation to convert the land use right of the Panyu production plant from industrial use to commercial use. The property project, named Golden Dragon City Fortune Plaza (金龍城財富廣場) (“GDC”), is a large scale integrated commercial complex of offices, shops, apartments and villas. The land area of the converted land accounted for approximately 25% of the total land area of our factory in Panyu. The total permitted construction area of the land (including underground construction area) is approximately 550,000 m<sup>2</sup>.

Below is a summary information of GDC:

|                                                                                       |                                                                                                       |
|---------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------|
| Address:                                                                              | Qinghe Road, Shiji Town, Panyu District,<br>Guangzhou City, Guangdong, PRC                            |
| Usage:                                                                                | large scale integrated commercial complex of<br>offices, shops, apartments and villas                 |
| The total permitted<br>construction area (including<br>underground construction area) | Phase I: 135,000m <sup>2</sup><br>Phase II: 191,000m <sup>2</sup><br>Phase III: 224,000m <sup>2</sup> |

The Group has recorded most of the sales of first phase of GDC in 2018. The Group has pre-sold the second phase of GDC and the total contracted sales were approximately RMB951.2 million. The third phase of GDC will be sold to Guangzhou City Panyu District Land Development Centre\* (廣州市番禺區土地開發中心) as disclosed in the Company’s announcement dated 20 June 2019. For details of the disposal, please refer to the paragraph titled “Land Resumption of GDC Phase III” below.

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

## ***Proposed change of land use in Panyu from “industrial” to “residential and commercial”***

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

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

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

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

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

As at 30 June 2019, the Company has performed the following asset reorganization: (i) PCKSP’s liabilities was reduced to below RMB159 million; (ii) most of the bank guarantees by PCKSP have been released; (iii) most of the outstanding sales contracts and engineering contracts of PCKSP were either terminated or discharged; and (iv) PCKSP has transferred the equity interest in Al-Oahtani PCK Pipe Co and PCK Steel (Middle East) FZE to the Group and an independent third party respectively.

### ***Land Resumption of GDC Phase III***

On 20 June 2019, the Group has entered into a land resumption compensation agreement (“Land Resumption Compensation Agreement”) with Guangzhou City Panyu District Land Development Centre\* (廣州市番禺區土地開發中心) (“GPDLC”), pursuant to which GPDLC will resume, and the Group will sell the land of Phase III GDC at the initial compensation of RMB1.16 billion. The land resumption is conditional upon, among others, the approval of the Shareholders at an extraordinary general meeting in accordance with the requirements under the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

### **Future Plan and Prospects**

Looking forward, as it is stated in the Medium to Long Term Oil and Gas Pipeline Networks Planning (《中長期油氣管網規劃》) published by the National Development and Reform Commission of the People’s Republic of China, China will strive to strengthen the land and sea linkage as well as onshore and offshore interaction, consolidate and improve the northwest, southwest and offshore channels for oil and gas import, and promote energy cooperation with countries and regions along the “Belt and Road Initiative”, thereby forming a preliminary layout with balanced distribution of onshore and offshore channels by 2025. Besides, China will strengthen the infrastructure construction of natural gas pipeline networks by following the principle of transmitting gas from the west to the east and from the north to the south, and bringing gas from offshore, so as to establish natural gas infrastructure networks featured by “interconnection of backbone networks with regional networks” by 2025.

During the 13th Five-Year Plan, the compound annual growth rate (“CAGR”) of the oil and gas pipeline networks construction in China is approximately 8%. Specifically, the CAGR of networks construction for refined petroleum and natural gas is about 10%, while growth of crude oil networks remained at a slightly low rate. It is expected that during the 14th Five-Year Plan, development and deployment of pipeline networks will be intensified, and natural gas sector is projected to become the fastest growing energy sector by reaching a growth rate of 9%, completely outmatches those of other energy sectors. It is expected that investment scale of trunk pipelines for the period from 2019 to 2025 will be over trillion. According to the 13th Five-Year Plan and the 14th Five-Year Plan, during the period from 2019 to 2020 and the period from 2021 to 2025, the planned construction length of natural gas pipelines in China will amount to 28,000 kilometers and 59,000 kilometers, respectively, and construction investment for newly constructed trunk pipelines will amount to over RMB370 billion and RMB780 billion, respectively (in aggregate over RMB1,150 billion).

We had seen turnaround in 2016, significant improvement in 2017, and steady and positive growth in 2018, which were in line with the overall trend of steel pipes industry. We expected that in 2019, downstream sectors of steel pipes industry such as crude processing, natural gas, shale gas, power generation, pipeline construction, real estate, mechanical engineering, coal and coal-bed methane will maintain overall sound development. As the coal-to-gas conversion projects continue to promote the increasing demand for natural gas and the construction of oil and gas pipelines and networks is in a period of rapid development, market demand for steel pipes will be strong.

In 2019, a new round of infrastructure construction has commenced. Against the backdrop of continuous pressures in macro-economy and increasing pressure in respect of product export, the State Council of the PRC issued Guiding Opinions on Maintaining Efforts to Remedy Shortcomings in Infrastructure Field, setting forth requirements on accelerating the implementation of key projects in nine major sectors including railway, highway and water carriage to remedy the respective shortcomings in these sectors and to promote domestic demands. In the year 2019, new railway, highway, airport and affordable housing construction projects will be launched with an expected investment amount over RMB3.4 trillion, which will boost the demand of steel pipe industry. In the first half of 2019, the demand for steel pipe has been increasing continuously.

We will develop relationships with more domestic and overseas oil enterprise customers in the future. For domestic market, in view of the state’s promotion of natural gas utilization and acceleration of infrastructure projects, it is expected the demand for steel pipe may rebound robustly. According to the plan of the state, the lengths of crude oil pipeline, refined oil pipeline and natural gas pipeline will reach 32,000 kilometers, 33,000 kilometers and 104,000 kilometers respectively by 2020. And the total length of oil and gas pipeline network will reach 240,000 kilometers, the network coverage will be further expanded, the network structure will be further optimized and the storage and transmission capability will be significantly improved by 2025. During the period of the “13th Five-year”, six new crude oil pipelines and eight new refined oil pipelines are planned to be constructed, which will be a golden era for the development of oil and gas pipeline.

In light of the benefits brought by the development of Guangdong-Hong Kong-Macau Greater Bay Area, the on-going recovery of global oil, and gas industries and the continuous development of clean energy resources, the Group will grasp opportunities arising from such developments to expand our customer base and market share through bidding for global oil and gas and infrastructure projects, and will continue to leverage on our advantages in the steel pipe industry to obtain more project orders, taking developing into a global leading steel pipe manufacturer as its long-term strategic goal.

## **Employees**

As at 30 June 2019, we had 991 full time employees in total (as at 31 December 2018: 1,110). 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 their respective countries.

## **Exchange Risk Exposure**

During the period under review, most of our operating transactions were settled in RMB except for export sales which were mostly denominated in USD. Apart from the 11% of borrowings and bonds denominated in USD/HKD, most of our assets and liabilities were 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 payment of any interim dividend for the six months ended 30 June 2019 (six months ended 30 June 2018: nil) to the shareholders of the Company.

## **Financial Guarantee**

As at 30 June 2019, the Group guaranteed RMB122.5 million (as at 31 December 2018: RMB128.2 million) to certain purchasers of the Group's properties for mortgage facilities.

As at 30 June 2019, the Group guaranteed RMB540.2 million (as at 31 December 2018: RMB538.9 million) for banking facilities in Saudi Arabia of which RMB411.0 million (as at 31 December 2018: RMB333.5 million) was utilized by the joint venture.

## **Pledge of Assets**

As at 30 June 2019, we pledged certain property, plant and equipment, leasehold land, time deposits, certain properties under development and completed properties held for sale with an aggregate net book value of RMB324.9 million (as at 31 December 2018: RMB833.4 million), RMB626.7 million (as at 31 December 2018: RMB618.6 million), RMB433.0 million (as at 31 December 2018: RMB426.6 million), RMB1,094.4 million (as at 31 December 2018: RMB1,105.9 million) and RMB354.7 million (as at 31 December 2018: RMB373.9 million) respectively, to secure bank loans granted to the Group.

## Liquidity and Financial Resources

As at 30 June 2019, our cash and bank balances and current ratio, as a ratio of current assets to current liabilities, were approximately RMB83.9 million (as at 31 December 2018: RMB66.9 million) and 1.05 (as at 31 December 2018: 0.99) respectively.

On 27 April 2017, the Company entered into a note purchase agreement (the “Note Purchase Agreement”) with an investment fund, pursuant to which the Company agreed to issue, and the investment fund agreed to purchase from the Company, HK\$155,000,000 8% notes due in April 2020 (the “Notes”). Pursuant to the Note Purchase Agreement, specific performance obligations (the “Specific Performance Obligations”) are imposed on Mr. Chen, the controlling shareholder of the Company, during the term of the Note Purchase Agreement including (i) Mr. Chen, directly or indirectly, holds or owns more than 50% of the voting rights of the Company; or (ii) the controlling shareholder of the Company, has management control of the Company. Any breach of the Specific Performance Obligations may constitute a breach under the Note Purchase Agreement, pursuant to which the investment fund is entitled to redeem the Notes immediately upon the occurrence of the breach in accordance with the terms and conditions of the Notes.

On 1 June 2017, the Company entered into a facility agreement with an investment company (the “Investment Company”), in respect of a one-year loan in an aggregate amount of HKD350 million (the “Loan”). Under the terms of the Loan, Mr. Chen Chang and Bournam Profits Limited shall remain as shareholders of the Company interested in an aggregate of no less than 69.42% of the shareholding in the Company. On 22 June 2018, the Company entered into a loan amendment deed with the Investment Company, pursuant to which the Investment Company agreed to provide a further advance of HKD250 million (together with the Loan, “the Loans”). In return for the further advance, the Company agreed to provide further security for the Loans and to issue unlisted warrants to the Investment Company. The unlisted warrants in the amount of HKD313,320,000 were issued pursuant to a specific mandate granted to the Board at the extraordinary meeting held on 9 October 2018.

On 30 April 2018, the Company failed to redeem the bonds (the “Bonds”) with a principal amount of US\$72 million. On 22 June 2018, the Company entered into a rescheduling agreement with all holders of the Bonds (the “Bondholders”), pursuant to which, the Company shall make partial payments to the Bondholders in accordance with a new repayment schedule. The Company has to pay interest on the Bonds at the rate of 7.6% per annum during the standstill period.

As at 30 June 2019, our aggregate borrowings were approximately RMB5,950.2 million (as at 31 December 2018: approximately RMB6,255.1 million), of which approximately RMB5,777.9 million (as at 31 December 2018: RMB6,097.7 million) were bank loans, other borrowings and government loans, approximately RMB163.3 million (as at 31 December 2018: RMB157.4 million) were USD and HKD bonds and approximately RMB9.0 million (as at 31 December 2018: nil) were lease liabilities.

Included in the aggregate borrowings as at 30 June 2019, there were onshore guarantees for offshore loan (內保外貸) of around RMB492 million, property development loan of around RMB1,376 million and shareholder's loan from Guangdong Yuecai of around RMB1.68 billion. Excluding the above loans, the loans for steel pipe business as at 30 June 2019 were around RMB2,402 million. 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.

The gearing ratio, expressed as a percentage of the summation of interest-bearing borrowings and bonds over total assets was approximately 56.9% as at 30 June 2019 (as at 31 December 2018: 62.5%).

The maturity profile of our total borrowings as at 30 June 2019 was approximately 30% (as at 31 December 2018: 32%) of the total borrowings repayable within one year, and approximately 70% (as at 31 December 2018: 68%) of the total borrowings repayable over one year.

We had net current assets of approximately RMB275.4 million as at 30 June 2019. The Group has received around RMB716 million from pre-sale of Phase II of GDC as at 30 June 2019. The Group has sufficient cashflow to meet its short term obligations.

As at 30 June 2019, approximately 43% (as at 31 December 2018: 46%) 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 46% (as at 31 December 2018: 41%) of our total borrowings were denominated in RMB which carried fixed interest rate and approximately 11% (as at 31 December 2018: 13%) of our total borrowings were denominated in USD and HKD which carried fixed interest rate.

### ***Significant Investments, Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Ventures***

On 27 February 2019, the Group entered into an agreement pursuant to which an aggregate of 80% of the equity interest in PCKSP would be disposed of. For details of such disposal, please refer to the paragraph headed "Proposed change of land use in Panyu from "industrial" to "residential and commercial" above at page 28.

Except for the above, the Group had no other significant investments, material acquisitions or disposals of subsidiaries, associates and joint ventures during the period under review.

### ***Event after the Reporting Period***

As at the date of this announcement, there is no significant event subsequent to 30 June 2019 which would materially affect the Group's operating and financial performance.

### **Corporate Governance**

Save as disclosed below, the Company has complied with all the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2019.

## **CG Code A.2.1**

The Company is aware of the requirement under paragraph A.2.1 of the CG Code that the roles of chairman and chief executive should be separated and should not be performed by the same individual. The Company does not have any officer with the title of “chief executive”. The role is currently performed by Mr. Chen Chang, an executive Director, the chairman and founder of the Group, who is responsible for the leadership and effective running of the Company and 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 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 management and Board structure from time to time to ensure appropriate measures would be 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 of all Directors, all the Directors confirmed that they have complied with the Model Code throughout the six months ended 30 June 2019.

## **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 2019.

## **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 condensed consolidated interim results for the six months ended 30 June 2019.

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 [pck.todayir.com](http://pck.todayir.com). The interim report for the six months ended 30 June 2019 of the Company containing all the information required by the Listing Rules will be despatched to the shareholders of the Company and published on the respective websites of the Company and the Stock Exchange in due course.

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

Hong Kong, 29 August 2019

*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*