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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)

2021 INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 2021 together with the comparative figures for the corresponding period in 2020 as follows:

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2021

		Six months ended 30 June	
		2021	2020
		(Unaudited)	(Unaudited)
	Notes	***RMB'000***	*RMB'000*
REVENUE	*5*	**864,217**	367,743
Cost of sales		**(765,394)**	(282,125)
Gross profit		**98,823**	85,618
Other income and gains	*5*	**298,017**	11,049
Selling and distribution expenses		**(28,487)**	(24,527)
Administrative expenses		**(139,864)**	(120,599)
Other expenses, net		**(41,346)**	(54,882)
Exchange (loss)/gain, net		**(41,088)**	58,329
Finance costs	*6*	**(110,816)**	(173,449)
Fair value loss on a derivative financial instrument		**–**	(59)
Share of loss of a joint venture		**(12,924)**	(5,503)
PROFIT/(LOSS) BEFORE TAX	*7*	**22,315**	(224,023)
Income tax (expense)/credit	*8*	**(64,036)**	138
LOSS FOR THE PERIOD		**(41,721)**	(223,885)
Attributable to:			
Owners of the parent		**(41,721)**	(223,885)
LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	*9*	**RMB(0.04)**	RMB(0.22)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
LOSS FOR THE PERIOD	**(41,721)**	(223,885)
OTHER COMPREHENSIVE INCOME/(LOSS)		
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	**19,503**	(57,106)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	**19,503**	(57,106)
Other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of the Company's financial statements into the presentation currency	**(1,795)**	4,170
Net other comprehensive (loss)/income that will not be reclassified to profit or loss in subsequent periods	**(1,795)**	4,170
OTHER COMPREHENSIVE INCOME/(LOSS)	**17,708**	(52,936)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD	**(24,013)**	(276,821)
Attributable to:		
Owners of the parent	**(24,013)**	(276,821)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 30 June 2021

	Notes	**As at 30 June 2021 (Unaudited)** ***RMB'000***	As at 31 December 2020 (Audited) *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	*10*	**2,498,985**	2,530,037
Investment properties	*11*	**387,000**	387,000
Right-of-use assets		**1,016,628**	1,031,276
Long term prepayments and deposits		**73,897**	75,679
Investment in a joint venture		**–**	10,510
Total non-current assets		**3,976,510**	4,034,502
CURRENT ASSETS			
Inventories	*12*	**441,744**	415,709
Properties under development		**2,139,190**	2,064,560
Completed properties held for sale		**365,422**	365,422
Trade and bills receivables	*13*	**582,600**	511,538
Prepayments, other receivables and other assets		**706,579**	1,003,330
Due from a related party		**–**	84,522
Pledged and restricted bank balances		**255,583**	22,712
Cash and bank balances		**87,746**	19,466
		4,578,864	4,487,259
Assets classified as held for sale		**–**	19,767
Total current assets		**4,578,864**	4,507,026

	Notes	As at 30 June 2021 (Unaudited) RMB'000	As at 31 December 2020 (Audited) RMB'000
CURRENT LIABILITIES			
Trade and bills payables	*14*	**511,990**	614,511
Interest-bearing bank and other borrowings	*15*	**1,782,882**	2,178,336
Contract liabilities		**1,352,313**	1,286,986
Other payables and accruals		**646,303**	782,666
Fixed rate bonds and notes	*16*	**105,120**	33,903
Due to a director		**166,503**	80,768
Due to a related party		**116,025**	–
Tax payable		**480,860**	417,928
Provision		**90,294**	54,579
		5,252,290	5,449,677
Liabilities directly associated with the assets classified as held for sale		**–**	7,552
Total current liabilities		**5,252,290**	5,457,229
NET CURRENT LIABILITIES		**(673,426)**	(950,203)
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,303,084**	3,084,299
NON-CURRENT LIABILITIES			
Due to a director		**50,000**	50,000
Interest-bearing bank and other borrowings	*15*	**1,732,705**	1,373,109
Fixed rate bonds and notes	*16*	**–**	114,608
Government grants		**333,869**	336,011
Deferred tax liabilities		**353,828**	353,876
Total non-current liabilities		**2,470,402**	2,227,604
Net assets		**832,682**	856,695
EQUITY			
Equity attributable to owners of the parent			
Issued capital		**88,856**	88,856
Reserves		**743,826**	767,839
Total equity		**832,682**	856,695

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

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 principal 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 involved in the manufacture and sale of 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 six months ended 30 June 2021 (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 2021 have been prepared in accordance with 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 2020.

Going concern basis

The Group recorded a consolidated loss of RMB41,721,000 for the six months ended 30 June 2021. As at 30 June 2021, the Group recorded net current liabilities of RMB673,426,000.

In view of these circumstances, the Directors 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.

In order to improve the Group's liquidity and cash flows to sustain the Group as a going concern, the Group implemented or is in the process of implementing the following measures:

(1) Actively working on the land restoration under the land resumption compensation agreement entered on 15 September 2020 (the "**Land Resumption Compensation Agreement**")

The Group is actively working on the land restoration, including but not limited to soil remediation under the Land Resumption Compensation Agreement, and expects to receive the remaining compensation amounting to RMB1,036 million and the early completion bonus payments amounting to RMB691 million in the second half of 2021.

(2) Active negotiations with debtors on outstanding receivables

Management is actively following up with its debtors on outstanding receivables with an aim of agreeing a repayment schedule with each of them.

(3) Improvement of the Group's operating cash flows

The Group is taking measures to tighten cost control over various production costs and expenses with the aim to attain profitable and positive cash flow operations.

(4) Active negotiation with banks to obtain adequate bank borrowings to finance the Group's operations

Subsequent to 30 June 2021 and up to the date of this announcement, the Group renewed the existing loans of RMB457 million with related banks. The Group will continue to actively negotiate with the banks for the renewal of the Group's borrowings when they fall due or obtain additional sources of finance to meet the Group's working capital and financial requirements in the near future. The Directors have evaluated all the relevant facts available to them and are of the opinion that they have a good track record or relationship with the banks which will enhance the Group's ability to renew the Group's loans upon expiry.

The Directors have prepared a cash flow forecast for the Group which covers a period of twelve months from the end of the Period. Taking into account the fulfilment of land restoration including but not limited to soil remediation under the Land Resumption Compensation Agreement which could provide additional funds for the Group, coupled with positive cash flows from the Group's steel pipes business 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 progress of fulfilment of the land restoration under the Land Resumption Compensation Agreement including the soil remediation influences the future cash flow prospects and the fulfilment of the land restoration is subject to the acceptance by the local authorities. Further, the current market situation is uncertain and vulnerable, and it may also further impact the Group's future sales. The validity of the going concern assumption on which the interim condensed consolidated financial statements are prepared is dependent on 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 which 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 applied in the preparation of the Group's annual financial statements for the year ended 31 December 2020, except for the adoption of the following revised International Financial Reporting Standards ("IFRSs", which also include IASs and interpretations) for the first time for the current period's financial information.

Amendments to IFRS 9, IAS39, IFRS7, IFRS4 and IFRS 16	*Interest Rate Benchmark Reform – Phase 2*
Amendments to IFRS 16	*Covid-19-Related Concessions beyond 30 June 2021* (early adopted)

The nature and impact of the revised IFRSs are described below:

(a) Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative risk-free rate ("**RFR**"). The phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount of financial assets and liabilities when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of IFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments did not have any impact on the financial position and performance of the Group.

(b) Amendment to IFRS 16 issued in April 2021 extents the availability of the practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic by 12 months. Accordingly, the practical expedient applies to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022, provided the other conditions for applying the practical expedient are met. The amendment is effective retrospectively for annual periods beginning on or after 1 April 2021 with any cumulative effect of initially applying the amendment recognised as an adjustment to the opening balance of retained profits at the beginning of the current accounting period. Earlier application is permitted.

The Group has early adopted the amendment on 1 January 2021 and applied the practical expedient during the period ended 30 June 2021 to all rent concessions granted by the lessors that affected only payments originally due on or before 30 June 2022 as a direct consequence of the covid-19 pandemic. The amendments did not have any impact on the financial position and performance of the Group as the Group does not have any rent concessions arising as a direct consequence of the covid-19 pandemic.

4. OPERATING SEGMENT INFORMATION

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

(a) the steel pipes segment engages in the manufacture and sale of welded steel pipes and the provision of related manufacturing services; and

(b) property development and investment segment engages in property development for sale of properties and property investment for its rental income potential.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that head office and corporate expenses are excluded from such measurement.

Segment assets exclude unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales to third parties at the then prevailing market prices.

Six months ended 30 June 2021 (unaudited)	**Steel pipes** *RMB'000*	**Property development and investment** *RMB'000*	**Total** *RMB'000*
Segment revenue:			
Sales to external customers	**863,999**	**218**	**864,217**
Segment results :	**77,102**	**(23,977)**	**53,125**
Reconciliation:			
Corporate and other unallocated expenses			**(30,810)**
Loss before tax			**22,315**
Segment assets :	**4,870,244**	**5,664,847**	**10,535,091**
Reconciliation:			
Elimination of intersegment receivables			**(2,355,513)**
Corporate and other unallocated assets			**375,796**
Total assets			**8,555,374**
Segment liabilities :	**6,485,924**	**3,402,203**	**9,888,127**
Reconciliation:			
Elimination of intersegment payables			**(2,355,513)**
Corporate and other unallocated liabilities			**190,078**
Total liabilities			**7,722,692**
Other segment information:			
Share of loss of a joint venture	**(12,924)**	**–**	**(12,924)**
Depreciation and amortisation	**(62,036)**	**(14)**	**(62,050)**
Capital expenditure*	**(17,794)**	**–**	**(17,794)**

Six months ended 30 June 2020 (unaudited)	Steel pipes RMB'000	Property development and investment RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	367,194	549	367,743
Segment results:	(175,953)	(23,763)	(199,716)
Reconciliation:			
Corporate and other unallocated expenses			(24,307)
Loss before tax			(224,023)
Segment assets:	4,281,446	5,669,377	9,950,823
Reconciliation:			
Elimination of intersegment receivables			(2,465,674)
Corporate and other unallocated assets			756,674
Total assets			8,241,823
Segment liabilities:	7,099,239	3,341,512	10,440,751
Reconciliation:			
Elimination of intersegment payables			(2,465,674)
Corporate and other unallocated liabilities			488,598
Total liabilities			8,463,675
Other segment information:			
Share of loss of a joint venture	(5,503)	–	(5,503)
Impairment losses recognised in the statement of profit or loss	(6,875)	–	(6,875)
Depreciation and amortisation	(63,047)	(103)	(63,150)
Capital expenditure*	(12,960)	(20)	(12,980)

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

Information about steel pipe products and services

The revenue of the major products is analysed as follows:

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Manufacture and sale of steel pipes:		
LSAW steel pipes	**683,245**	228,612
ERW steel pipes	**2,600**	5,619
SSAW steel pipes	**30,948**	31,045
Steel pipe manufacturing services:		
LSAW steel pipes	**59,992**	37,501
ERW steel pipes	**–**	10,682
SSAW steel pipes	**55,278**	38,790
Others*	**32,154**	15,494
	864,217	367,743

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

Geographical information

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

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Sales to external customers:		
Mainland China	**365,190**	350,836
Africa	**351,464**	–
Other Asian countries	**32,430**	16,415
Middle East	**51,614**	492
European Union	**30,520**	–
America	**20,424**	–
Oceania	**12,575**	–
	864,217	367,743

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

Information about major customers

External customers that each contributes over 10% of total revenue of the Group for any of the six months ended 30 June 2021 and 2020 are as follows:

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Customer A	**351,464**	N/A
Customer B	**N/A**	41,493

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	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Manufacture and sale of welded steel pipes and the provision of related manufacturing services	**863,999**	367,194
Revenue from other sources		
Gross rental income	**218**	549
	864,217	367,743
Other income and gains		
Bank interest income	**2,009**	587
Subsidy income from the PRC government*	**5,266**	8,376
Gain on land restoration compensation**	**275,015**	–
Gain on disposal of a subsidiary	**11,728**	–
Others	**3,999**	2,086
	298,017	11,049

* *The subsidy income represented subsidies granted by the local finance bureaus to certain subsidiaries of the Group, 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 2021, compensation in relation to the land restoration under the Land Resumption Compensation Agreement amounting to RMB345 million was received with a net gain of RMB275 million.*

Revenue from contracts with customers:

(i) Disaggregated revenue information:

Six months ended 30 June 2021 (unaudited)	**Steel pipes** *RMB'000*	**Property development and investment** *RMB'000*	**Total** *RMB'000*
Sales of goods/properties	**748,729**	**–**	**748,729**
Rendering of services	**115,270**	**–**	**115,270**
Total revenue from contracts with customers	**863,999**	**–**	**863,999**
Geographical markets			
Mainland China	**364,972**	**–**	**364,972**
Africa	**351,464**	**–**	**351,464**
Other Asian countries	**32,430**	**–**	**32,430**
Middle East	**51,614**	**–**	**51,614**
European Union	**30,520**	**–**	**30,520**
America	**20,424**	**–**	**20,424**
Oceania	**12,575**	**–**	**12,575**
Total revenue from contracts with customers	**863,999**	**–**	**863,999**
Timing of revenue recognition			
Goods/properties transferred at a point in time	**748,729**	**–**	**748,729**
Services transferred over time	**115,270**	**–**	**115,270**
Total revenue from contracts with customers	**863,999**	**–**	**863,999**

Six months ended 30 June 2020 (unaudited)	Steel pipes *RMB'000*	Property development and investment *RMB'000*	Total *RMB'000*
Sales of goods/properties	280,221	–	280,221
Rendering of services	86,973	–	86,973
Total revenue from contracts with customers	367,194	–	367,194
Geographical markets			
Mainland China	350,287	–	350,287
Other Asian countries	16,415	–	16,415
Middle East	492	–	492
Total revenue from contracts with customers	367,194	–	367,194
Timing of revenue recognition			
Goods/properties transferred at a point in time	280,221	–	280,221
Services transferred over time	86,973	–	86,973
Total revenue from contracts with customers	367,194	–	367,194

(ii) Performance obligations:

Information about the Group's performance obligations is summarised below:

Sale of steel pipes

The performance obligation is satisfied upon delivery of the goods and payment is generally due within one year from the invoice date, except for new customers, where payment in advance is normally required.

Sale of properties

The performance obligation is satisfied upon the physical possession or when the legal title of the completed property is obtained by the purchasers.

Manufacturing services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 50 days from the date of delivery or customer acceptance of the product processed.

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Interest on bank loans and government loans	**61,107**	62,823
Interest on other loans (including bonds and short term notes)	**82,673**	145,846
Interest on discounted bills	**4,020**	588
Interest on lease liabilities	**87**	360
Total interest expenses	**147,887**	209,617
Less: Interest capitalised	**(37,071)**	(36,168)
	110,816	173,449

7. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Cost of inventories sold	**765,394**	282,125
Depreciation of property, plant and equipment	**48,235**	48,086
Depreciation of right-of-use assets	**13,815**	15,064
Impairment of other receivables*	**–**	6,875
Provision of claim for litigations*	**33,251**	45,922
Loss/(gain) on disposal of property, plant and equipment, net	**19**	(226)

* *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 and Indonesia 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 profit or loss are as follows:

	Six months ended 30 June	
	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Current – Mainland China charge for the Period	**64,084**	1
Deferred	**(48)**	(139)
Total tax expense/(credit) for the Period	**64,036**	(138)

9. LOSS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic loss per share amounts is based on the loss for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,011,142,000 (at 30 June 2020: 1,011,142,000) in issue during the period.

The Group had no potentially dilutive ordinary shares in issue during the six months ended 30 June 2021 and 2020.

The calculation of basic and diluted loss per share are based on:

	2021	2020
	(Unaudited)	(Unaudited)
	RMB'000	*RMB'000*
Loss		
Loss attributable to ordinary equity holders of the parent, used in the basic and diluted loss per share calculation	**(41,721)**	(223,885)

	Number of shares	
	2021	2020
Shares		
Weight average number of ordinary shares in issue during the period used in the basic and diluted loss per share calculation	**1,011,142,000**	1,011,142,000

10. PROPERTY, PLANT AND EQUIPMENT

	30 June 2021	31 December 2020
	(Unaudited)	(Audited)
	RMB'000	*RMB'000*
At beginning of the period/year	**2,530,037**	2,604,239
Additions	**17,794**	61,348
Disposals	**(611)**	(24,167)
Assets classified as held for sale	**–**	(12,628)
Depreciation	**(48,235)**	(98,748)
Exchange realignment	**–**	(7)
At end of the period/year	**2,498,985**	2,530,037

The Group's property, plant and equipment with a net carrying amount of approximately RMB1,085,125,000 (31 December 2020: RMB1,197,950,000) were pledged to secure the Group's bank borrowings, as further detailed in note 15.

11. INVESTMENT PROPERTIES

	30 June 2021 (Unaudited) *RMB'000*	31 December 2020 (Audited) *RMB'000*
Commercial properties in Mainland China, PRC		
Carrying amount at 1 January	**387,000**	407,000
Net loss from a fair value adjustment	**–**	(20,000)
Carrying amount at end of the period/year	**387,000**	387,000

12. INVENTORIES

	30 June 2021 (Unaudited) *RMB'000*	31 December 2020 (Audited) *RMB'000*
Raw materials	**125,346**	127,688
Work in progress	**100,449**	88,253
Finished goods	**218,167**	201,986
	443,962	417,927
Less: Provision against slow-moving and obsolete inventories	**(2,218)**	(2,218)
	441,744	415,709

13. TRADE AND BILLS RECEIVABLES

	30 June 2021 (Unaudited) *RMB'000*	31 December 2020 (Audited) *RMB'000*
Trade receivables	**562,038**	506,570
Impairment	**(6,244)**	(6,333)
Trade receivables, net	**555,794**	500,237
Bills receivable	**26,806**	11,301
	582,600	511,538

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 to 90 days. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables to minimise credit risk. Overdue balances are reviewed regularly by senior management. Trade receivables are non-interest-bearing.

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

	30 June 2021 (Unaudited) *RMB'000*	31 December 2020 (Audited) *RMB'000*
Within 60 days	**359,445**	343,253
61 to 90 days	**7,342**	11,429
91 to 180 days	**39,662**	19,290
181 to 365 days	**47,414**	28,418
1 to 2 years	**21,404**	10,642
2 to 3 years	**13,100**	14,333
Over 3 years	**67,427**	72,872
	555,794	500,237

14. TRADE AND BILLS PAYABLES

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

	30 June 2021 (Unaudited) *RMB'000*	31 December 2020 (Audited) *RMB'000*
Within 90 days	**291,636**	423,131
91 to 180 days	**67,005**	33,100
181 to 365 days	**40,607**	19,192
1 to 2 years	**19,498**	56,746
2 to 3 years	**16,520**	29,517
Over 3 years	**64,534**	47,882
	499,800	609,568
Bills payable	**12,190**	4,943
	511,990	614,511

The trade payables are non-interest-bearing and are normally settled within a year.

All the bills payable bear maturity dates within 360 days.

15. INTEREST-BEARING BANK AND OTHER BORROWINGS

	Effective interest rate %	Maturity	**30 June 2021** **(Unaudited)** ***RMB'000***	31 December 2020 (Audited) *RMB'000*
Current				
Lease liabilities	9.51	2021-2022	**1,292**	2,011
Bank loans				
– secured	4.71-6.09	2021-2022	**593,900**	402,900
– unsecured	N/A	N/A	**–**	59,000
Other borrowing				
– secured	10.00	2021	**18,830**	238,272
– unsecured	6.60-24.00	2021	**906,660**	398,270
Government loans				
– secured	4.90	2021-2022	**88,000**	88,000
Current portion of long term loans				
– secured	4.90-7.00	2021-2022	**174,200**	989,883
			1,782,882	2,178,336
Non-current				
Lease liabilities	N/A	N/A	**–**	354
Bank loans				
– secured	4.90-7.00	2022-2028	**1,649,705**	1,240,755
Government loans				
– secured	4.90	2022-2023	**83,000**	132,000
			1,732,705	1,373,109
			3,515,587	3,551,445

	30 June 2021 (Unaudited) *RMB'000*	31 December 2020 (Audited) *RMB'000*
Analysed into:		
Bank loans repayable:		
Within one year	**768,100**	613,300
In the second year	**690,500**	199,850
In the third to fifth years, inclusive	**839,205**	918,905
Beyond five years	**120,000**	122,000
	2,417,805	1,854,055
Government loans repayable:		
Within one year	**88,000**	88,000
In the second year	**83,000**	88,000
In the third to fifth years, inclusive	**–**	44,000
	171,000	220,000
Other borrowings payables:		
Within one year	**925,490**	1,475,025
	925,490	1,475,025
Lease liabilities repayable:		
Within one year	**1,292**	2,011
In the second year	**–**	354
	1,292	2,365
	3,515,587	3,551,445

The Group's bank and other borrowings are secured by:

(a) the pledge of certain property, plant and equipment of the Group with a net carrying amount of approximately RMB1,085,125,000 (31 December 2020: RMB1,197,950,000) as at the end of the Period;

(b) the pledge of certain leasehold land of the Group with a net carrying amount of approximately RMB696,358,000 (31 December 2020: RMB816,224,000) as at the end of the Period;

(c) the pledge of certain of the Group's time deposits with an aggregate carrying amount of RMB232,227,000 (31 December 2020: RMB2,000) as at the end of the Period;

(d) the pledge of certain of the Group's properties under development with an aggregate carrying amount of RMB1,300,033,000 (31 December 2020: RMB1,264,749,000) as at the end of the Period;

(e) the pledge of certain of the Group's completed properties held for sale with an aggregate carrying amount of RMB102,638,000 (31 December 2020: RMB102,638,000) as at the end of the Period;

(f) the pledge of trade receivable of the Group with an aggregate carrying amount of RMB2,551,000 (31 December 2020: RMB2,551,000) as at the end of the Period;

(g) the pledge of certain of the Group's prepayments, other receivables and other assets amounting to Nil (31 December 2020: RMB115,655,000) as at the end of the Period; and

(h) the pledge of right over remaining compensation of land restoration under the Land Resumption Compensation Agreement amounting to RMB690,000,000 (31 December 2020: Nil) as at the end of the Period.

Except for the bank loans and other borrowings of nil and RMB1,776,000 (31 December 2020: RMB101,788,000 and RMB4,413,000) as at 30 June 2021, which are denominated in US$ and HK$, all borrowings are in RMB.

The Group had the following undrawn banking facilities:

	30 June 2021 *RMB'000*	31 December 2020 *RMB'000*
Floating rate		
– expiring within one year	**61,600**	14,600

16. FIXED RATE BONDS AND NOTES

	30 June 2021 Principal at original currency 'million	Contractual interest rate (%) per annum	Maturity	*RMB'000*	31 December 2020 Principal at original currency 'million	Contractual interest rate (%) per annum	Maturity	*RMB'000*
Current								
2017 Bonds A	US$1.6	7.0	2021	10,415	US$1.8	7.0	2021	11,545
2017 Bonds B	HK$10	7.0	2021	8,200	HK$10	7.0	2021	7,889
2017 Bonds C	HK$10	6.0	2021	8,091	HK$10	6.0	2021	7,736
2019 Bonds A	HK$3	6.0	2021	2,496	HK$3	5.0	2021	2,525
2020 Bonds A	HK$2	6.0	2022	1,664	HK$2	5.5	2021	1,683
2020 Bonds B	N/A	N/A	N/A	–	HK$2	6.0	2021	1,683
2020 Bonds C	HK$1	6.0	2021	832	HK$1	6.0	2021	842
2020 Notes	HK$90	12.0	2022	73,422	N/A	N/A	N/A	–
				105,120				33,903
Non-Current								
2020 Notes	N/A	N/A	N/A	–	HK$140	12.0	2022	114,608
				–				114,608
				105,120				148,511

US$3,000,000 7% bonds due in 2021 (2017 Bonds A)

On 28 April 2017, the Group issued bonds with a principal amount of US$3,000,000 to an individual investor (the "**2017 Bonds A**"). The bonds should be repayable in full by 28 April 2020 but the expiry date has been extended to 30 September 2021. The bonds bear interest at a fixed coupon interest rate at 7% per annum for three years payable semiannually, commencing on 28 October 2017. The bonds are unsecured. As at 30 June 2021, the Company had partially redeemed the 2017 Bonds A with a principal amount of US$1,350,000.

HK$10,000,000 7% bonds due in 2021 (2017 Bonds B)

On 24 August 2017, the Group issued bonds with a principal amount of HK$10,000,000 to an individual investor (the "**2017 Bonds B**"). The bonds should be repayable in full by 24 August 2021. The bonds bear interest at a fixed coupon interest rate at 7% per annum for four years payable semiannually, commencing on 24 February 2018. The bonds are unsecured.

HK$10,000,000 6% bonds due in 2021 (2017 Bonds C)

On 26 September 2017, the Group issued bonds with a principal amount of HK$10,000,000 to an individual investor (the "**2017 Bonds C**"). The bonds should be repayable in full by 26 September 2020 but the expiry date has been extended to 28 September 2021. The bonds bear interest at a fixed coupon interest rate at 6% per annum for three years payable semiannually, commencing on 26 March 2018. The bonds are unsecured.

HK$3,000,000 6% bonds due in 2021 (2019 Bonds A)

On 30 August 2019, the Group issued a bond with a principal amount of HK$3,000,000 to an individual investor (the "**2019 Bonds A**"). The bonds should be repayable in full by 28 February 2020 but the expiry date has been extended to 8 Janaury 2022. The bonds bear interest at a fixed coupon interest rate at 5% per annum for half year payable semiannually. From 6 January 2021, the interest rate of the 2019 Bonds A increased from 5% per annum to 6% per annum. The bonds are unsecured.

HK$2,000,000 6% Bonds due in 2021 (2020 Bonds A)

On 6 July 2020, the Group issued bonds with a principal amount of HK$2,000,000 to an individual investor (the "**2020 Bonds A**"). The bonds should be repayable in full by 7 January 2021 but the expiry date could be extended to 7 January 2022. The bonds bear interest at a fixed coupon interest rate of 5.5% per annum for half year payable semiannually. From 7 January 2021, the interest rate of the 2020 Bonds A increased from 5.5% per annum to 6% per annum. The bonds are unsecured.

HK$2,000,000 6% Bonds due in 2021 (2020 Bonds B)

On 28 September 2020, the Group issued bonds with a principal amount of HK$2,000,000 to an individual investor (the "**2020 Bonds B**"). The bonds should be repayable in full by 30 April 2021. The bonds bear interest at a fixed coupon interest rate of 6% per annum for half year payable semiannually. The bonds are unsecured. As at 30 June 2021, the Company had fully redeemed the 2020 Bonds B.

HK$1,000,000 6% Bonds due in 2021 (2020 Bonds C)

On 14 December 2020, the Group issued bonds with a principal amount of HK$1,000,000 to an individual investor (the "**2020 Bonds C**"). The bonds should be repayable in full by 15 December 2021. The bonds bear interest at a fixed coupon interest rate of 6% per annum for half year payable semiannually. The bonds are unsecured.

HK$140,000,000 12% notes due in 2022 (2020 Notes)

On 27 April 2020, the Group issued 12% notes due on 27 April 2022 with a principal amount of HK$140,000,000 to an investment fund (the "**2020 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 2020 Notes immediately in accordance with the terms and conditions. As at 30 June 2021, the Company had partially redeemed the 2020 Notes with a principal amount of HK$50,000,000.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Overall Financial Results

For the six months ended 30 June 2021 (the "**Period**"), we recorded a revenue of approximately RMB864.2 million (1H2020: RMB367.7 million), representing an increase of approximately 135.0% as compared with the corresponding period in 2020. Loss attributable to ordinary equity holders of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "**Company**", together with its subsidiaries, the "**Group**") was RMB41.7 million (1H2020: loss of RMB223.9 million). Loss per share was RMB0.04 (1H2020: loss per share of RMB0.22). The board of directors of the Company (the "**Board**") did not recommend the payment of interim dividend for the Period (1H2020: Nil).

Revenue

During the Period, we recorded a revenue of approximately RMB864.2 million (1H2020: RMB367.7 million), representing an increase of approximately 135.0% as compared with the corresponding period in 2020. The revenue increase was due to an increase in both domestic and overseas orders received by the Group. Major oil and gas projects as well as construction projects in the PRC and overseas have been recovered.

During the Period, the revenue from domestic sales and overseas sales represented approximately 42.3% (1H2020: 95.4%) and approximately 57.7% (1H2020: 4.6%) respectively of our total revenue. Increase in overseas sales was due to the delivery of a sizeable order of Nigeria Natural Gas Pipe Project in 2021.

Sales by geography

	Six months ended 30 June			
	2021		2020	
	RMB'000	**% of revenue**	*RMB'000*	% of revenue
	(Unaudited)		(Unaudited)	
Domestic sales	**365,190**	**42.3%**	350,836	95.4%
Overseas sales	**499,027**	**57.7%**	16,907	4.6%
Total	**864,217**	**100.0%**	367,743	100.0%

Sales by products

	Six months ended 30 June			
	2021		2020	
	RMB'000	**% of revenue**	*RMB'000*	% of revenue
	(Unaudited)		(Unaudited)	
Manufacture and sale of steel pipes				
LSAW steel pipes	**683,245**	**79.1%**	228,612	62.2%
ERW steel pipes	**2,600**	**0.3%**	5,619	1.5%
SSAW steel pipes	**30,948**	**3.6%**	31,045	8.4%
Sub-total	**716,793**	**83.0%**	265,276	72.1%
Steel pipes manufacturing services				
LSAW steel pipes	**59,992**	**6.9%**	37,501	10.2%
ERW steel pipes	**–**	**–%**	10,682	2.9%
SSAW steel pipes	**55,278**	**6.4%**	38,790	10.6%
Sub-total	**115,270**	**13.3%**	86,973	23.7%
Others	**32,154**	**3.7%**	15,494	4.2%
Total	**864,217**	**100%**	367,743	100%

Gross Profit and Gross Profit Margin

During the Period, our gross profit was approximately RMB98.8 million (1H2020: RMB85.6 million), representing an increase of approximately 15.4% as compared with the corresponding period in 2020. The overall gross profit margin was approximately 11.4%, which was lower than that for the same period in 2020 which was approximately 23.3%. The increase in gross profit was due to the increase in sales during the Period. Overseas sales increased significantly during the Period which led to increase in freight charges. Decrease in gross profit margin was due to increase in freight charges in relation to overseas sales. In addition, overseas sales were denominated in USD but costs in RMB. Appreciation of RMB against USD during the Period further dragged down the gross profit margin.

Other income and gains for the Period were approximately RMB298.0 million (1H2020: RMB11.0 million), representing an increase of approximately 2,597.2% as compared with the corresponding period in 2020. Such increase was mainly due to a net gain on land restoration compensation from local authority in 2021 pursuant to the land resumption agreement dated 15 September 2020, details of which were disclosed in the circular of the Company dated 8 October 2020.

Selling and distribution expenses for the Period were approximately RMB28.5 million (1H2020: RMB24.5 million), representing an increase of approximately 16.2% as compared with the corresponding period in 2020. The increase in selling and distribution expenses was due to an increase in sales during the Period.

Administrative expenses for the Period were approximately RMB139.9 million (1H2020: RMB120.6 million), representing an increase of approximately 16.0% as compared with the corresponding period in 2020. The increase in administrative expenses was mainly due to increase in research and development costs during the Period.

Finance costs for the Period were approximately RMB110.8 million (1H2020: RMB173.4 million), representing a decrease of approximately 36.1% as compared with the corresponding period in 2020. The decrease in finance costs was mainly due to a decrease in average loan balance during the Period.

The Group recorded other expenses of approximately RMB41.3 million for the six months ended 30 June 2021 (1H2020: RMB54.9 million), representing a decrease of approximately 24.7% as compared with the corresponding period in 2020. The decrease was due to decrease in provision of claim arising from litigation during the Period.

The Group recorded exchange loss of approximately RMB41.1 million during the Period as compared to exchange gain of approximately RMB58.3 million during the corresponding period in 2020. The exchange loss was mainly due to depreciation of HKD against RMB. Payables to inter-companies denominated in HKD held by the Group's Hong Kong subsidiaries led to unrealised exchange losses of approximately RMB32.1 million.

Income tax expenses of approximately RMB64.0 million were recorded for the six months ended 30 June 2021 (1H2020: tax credit RMB138,000). Income tax expenses were recorded for the Period mainly because the Group received land restoration compensation during the Period and there was tax provision on the gain on land restoration compensation.

As a result of the above, the net loss attributable to ordinary equity holders of the Company was approximately RMB41.7 million (1H2020: loss RMB223.9 million). Loss per share was RMB0.04 (1H2020: loss per share of RMB0.22).

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 13 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 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, we received new orders of approximately 240,000 tonnes of steel pipes. We delivered approximately 229,000 tonnes of welded steel pipes during the Period.

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^2.

Below is a summary information of GDC:

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

The Group recorded most of the sales of the first phase of GDC in 2018. The Group pre-sold the second phase of GDC and the total contracted sales were approximately RMB1,032.2 million. The third phase of GDC was sold to Guangzhou City Panyu District Land Development Centre*（廣州市番禺區土地開發中心）in 2019.

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 entered into an agreement ("**Previous Agreement**") with Guangdong Yuecai Trust Co Limited*（廣東粵財信托有限公司）("**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 Previous 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 Previous Agreement had been completed on 12 October 2018. Guangdong Yuecai made capital injections 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 Disposal 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.

Details were disclosed in the Company's announcement dated 27 February 2019 and circular dated 26 March 2019.

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

On 15 June 2020, the Group entered into supplemental agreements (the "**Supplemental Agreements**") to provide a framework for the unwinding of the Previous Agreement dated 12 February 2018 and the Disposal Agreement dated 27 February 2019.

On 15 September 2020, the Group entered into the land resumption compensation agreement (the "**Land Resumption Compensation Agreement**") with Guangzhou City Land Development Centre* ("**Guangzhou LDC**"), pursuant to which Guangzhou LDC would resume, and the Group would sell the Land at the compensation of RMB3,453.4 million (subject to an early completion bonus payment of RMB690.7 million). The land resumption contemplated under the Land Resumption Compensation Agreement was approved by the Shareholders at the extraordinary general meeting held on 23 October 2020.

FUTURE PLAN AND PROSPECTS

2021 is the opening year of the "14th Five-Year Plan" development. According to the Medium and Long-Term Oil and Gas Pipeline Network Planning（《中長期油氣管網規劃》）, the scale of domestic oil and gas pipeline network is expected to increase to 240,000 kilometers by 2025, of which the mileages of natural gas, crude oil and refined oil pipeline are expected to reach 163,000 kilometers, 37,000 kilometers and 40,000 kilometers, respectively. During the 14th Five-Year Plan period, China's oil and gas pipeline mileage is expected to increase by 71,000 kilometers, and the capital expenditure on pipeline investment in China is expected to exceed RMB1 trillion during the 14th Five-Year Plan period.

The Qingdao-Nanjing Pipeline, the new Guangdong-Zhejiang Pipeline or the West Fourth Line, the extension section of Sichuan-East Gas Transmission Pipeline, the External Transmission Pipeline of Beijing LNG Receiving Station, the central section and southern section of the China-Russia Eastern Pipeline, the China-Russia Far East Pipeline, and the China-Russia Central Pipeline are expected to be constructed during the 14th Five-Year Plan period. Regional pipeline network will realize interconnection and interoperability. Particularly, the Yangtze River Delta will launch phase II of the Zhejiang-Shanghai natural gas connecting line, the construction of cross-provincial long-distance pipeline will commence in the Bohai Rim region, and the construction of Fujian-Guangdong branch of the Western Third Line along the southern coast, the new Guangdong-Zhejiang natural gas pipeline and the western Guangdong branch of North Sea LNG will commence. In addition to Tibet, more than 400 provincial-level cities in China have not yet been connected to natural gas, and the construction of provincial, city and county-level branch pipeline is expected to increase.

China Oil & Gas Pipeline Network Corporation ("**PipeChina**") and the Guangdong Provincial Government signed the Strategic Cooperation Agreement on the Reform of the Natural Gas Pipeline System in Guangdong Province（《關於廣東省天然氣管網體制改革戰略合作協議》）, indicating the first provincial natural gas pipeline network will be integrated into PipeChina in a market-oriented manner, the construction of the natural gas pipeline network in the province will be accelerated and the "county-to-county" natural gas trunk pipeline in Guangdong will be realized. PipeChina will accelerate the construction of natural gas pipeline network in Guangdong Province, a total of 751 kilometers of six trunk pipelines are expected to be completed by the end of 2021, initially realizing the "city to city" of natural gas in Guangdong Province, and the basic "county to county" is expected to be achieved by the end of 2022.

According to the Guidance on Energy Work in 2020 （《2020年能源工作指導意見》）issued by the National Energy Administration, a series of expected goals, pipeline and gas storage facilities, smart grid, charging facilities and other construction will also be accelerated. In addition to increasing oil and gas exploration and development efforts, the construction of natural gas pipeline facilities will also be accelerated to strengthen the shortcomings of natural gas interconnection and transmission capacity in key areas, and the formation of "national network" will be accelerated. In terms of non-fossil energy, it will promote the construction of wind power and offshore wind power, accelerate the development of decentralized wind power, actively and steadily develop hydropower, and steadily push forward the construction of projects.

In addition, PipeChina, established on 9 December, 2019, will take over the relevant oil and gas pipeline infrastructure assets of three large oil companies in China and officially put them into operation, inject capital into the construction of oil and gas infrastructure, accelerate the process of marketization, vigorously promote the pipeline construction plan, enhance the speed of construction of pipeline networks, achieve interconnection and interoperability of pipeline networks, establish the "national network" covering the west-east gas transmission, north-south gas transmission, coastal delivery to inland, east-west synergy, north-south interoperability in accordance with the national plan, enhance oil and gas transportation capacity, and ensure a safe and stable supply of oil and gas energy.

The Group believes that the above-mentioned projects and policies are major opportunities for the steel pipe manufacturing industry, and the Company will seize the opportunities to boost its sales. In view of our long-term strategic target to become a global leading steel pipe manufacturer, the Group will seize possible opportunities of oil and gas development projects to expand our customer base and market share through engaging in more global oil and gas projects and will also continue to leverage its strengths in the steel pipe industry to obtain more orders.

EMPLOYEES

As at 30 June 2021, we had 802 full time employees in total (as at 31 December 2020: 821). 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, most of our operating transactions were settled in RMB except for export sales which were mostly denominated in USD. Apart from the 3.0% 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.

INTERIM DIVIDEND

The Board did not recommend payment of any interim dividend for the six months ended 30 June 2021 (six months ended 30 June 2020: nil) to the shareholders of the Company.

FINANCIAL GUARANTEE

As at 30 June 2021, the Group guaranteed RMB83.5 million (as at 31 December 2020: RMB99.5 million) to certain purchasers of the Group's properties for mortgage facilities.

As at 30 June 2021, the Group guaranteed RMB521.3 million (as at 31 December 2020: RMB512.5 million) for banking facilities in Saudi Arabia, of which RMB357.5 million (as at 31 December 2020: RMB317.1 million) was utilized by our joint venture company in Saudi Arabia.

PLEDGE OF ASSETS

As at 30 June 2021, we pledged the following assets to secure bank loans and other borrowings granted to the Group:

(i) certain property, plant and equipment with an aggregate net book value of RMB1,085.1 million (as at 31 December 2020: RMB1,198.0 million);

(ii) leasehold lands with an aggregate net book value of RMB696.4 million (as at 31 December 2020: RMB816.2 million);

(iii) deposits with an aggregate net book value of RMB232.2 million (as at 31 December 2020: RMB2,000);

(iv) certain properties under development with an aggregate net book value of RMB1,300.0 million (as at 31 December 2020: RMB1,264.7 million);

(v) completed properties held for sale with an aggregate net book value of RMB102.6 million (as at 31 December 2020: RMB102.6 million);

(vi) trade receivables with an aggregate net book value of RMB2.6 million (as at 31 December 2020: RMB2.6 million);

(vii) prepayments, other receivables and other assets with an aggregate net book value of Nil (as at 31 December 2020: RMB115.7 million); and

(viii) right over remaining compensation of land restoration under the Land Resumption Compensation Agreement amounting to RMB690.0 million (as at 31 December 2020: Nil).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2021, our cash and bank balances and current ratio, as a ratio of current assets to current liabilities, were approximately RMB87.7 million (as at 31 December 2020: RMB19.5 million) and 0.87 (as at 31 December 2020: 0.83) respectively.

On 27 April 2020, the Company entered into a subscription agreement (the "**Subscription Agreement**") with an independent third party, pursuant to which the Company agreed to issue, and the subscriber agreed to subscribe for 12% bonds due in April 2022 in an aggregate principal amount of HK$140,000,000 (the "**Bonds**"). Pursuant to the Subscription Agreement, certain specific performance obligations (the "**Specific Performance Obligations**") are imposed on Mr. Chen, an executive director and controlling shareholder of the Company, during the term of the Subscription Agreement, including Mr. Chen shall remain (i) the single largest direct or indirect shareholder of the Company; and (ii) the chairman of the board of directors and executive director of the Company. Any breach of the Specific Performance Obligations may constitute a breach under the Subscription Agreement, pursuant to which the bondholder is entitled to redeem the Bonds immediately upon the occurrence of the breach in accordance with the terms and conditions of the Bonds.

As at 30 June 2021, our aggregate borrowings were approximately RMB3,620.7 million (as at 31 December 2020: approximately RMB3,700.0 million), of which approximately RMB3,514.3 million (as at 31 December 2020: RMB3,549.1 million) were bank loans, other borrowings and government loans, approximately RMB105.1 million (as at 31 December 2020: RMB148.5 million) were USD and HKD bonds and approximately RMB1.3 million (as at 31 December 2020: RMB2.4 million) were lease liabilities.

Included in the aggregate borrowings as at 30 June 2021 were property development loans of around RMB1,136.9 million. Excluding the above loans, the loans for our steel pipe business as at 30 June 2021 were around RMB2,483.8 million. We have to finance our working capital by short term borrowings as most 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 42.3% as at 30 June 2021 (as at 31 December 2020: 43.3%).

The maturity profile of our total borrowings as at 30 June 2021 was approximately 52.1% (as at 31 December 2020: 60%) of the total borrowings repayable within one year, and approximately 47.9% (as at 31 December 2020: 40%) of the total borrowings repayable over one year.

We had net current liabilities of approximately RMB673.4 million as at 30 June 2021. The Group has received around RMB1,032.2 million from pre-sale of Phase II of GDC as at 30 June 2021. The Group has sufficient cashflow to meet its short term obligations.

As at 30 June 2021, approximately 71% (as at 31 December 2020: 56%) 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 26% (as at 31 December 2020: 37%) of our total borrowings were denominated in RMB which carried fixed interest rate and approximately 3% (as at 31 December 2020: 7%) 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

Save as disclosed herein, the Group had no other significant investments, material acquisitions or disposals of subsidiaries, associates and joint ventures during the Period.

LITIGATION

As at 30 June 2021, the Group has the following outstanding lawsuits:

Jiangsu Binxin Iron and Steel Group Company Limited（江蘇省鑌鑫鋼鐵集團有限公司）("**Jaingsu Binxin**") alleged Nanjing Rongyu Group Company Limited（南京鎔裕集團有限公司）("**Nanjing Rongyu**") to have breached a contract to purchase goods for a claim of RMB34.3 million. The purchase contract was executed prior to the Group's acquisition of Nanjing Rongyu in May 2013. The Group was not informed of such purchase contract at the time of acquisition. According to the second instance judgement made by the Jiangsu Province Lianyungang Intermediate People's Court, Nanjing Rongyu had to pay a compensatory amount of RMB34.3 million and related interest to Jiangsu Binxin. As of the date of this announcement, the Group has made provision on the claim.

Shanghai Baoye Group Corp., Ltd（上海寶冶集團有限公司）("**Shanghai Baoye**") alleged Lianyungang Kaidi Heavy Equipment Technology Co. Ltd*（連雲港凱帝重工科技有限公司）("**Kaidi**") and Kaidi alledged Shanghai Baoye breached the performance under a general construction contract for a claim of RMB28.3 million (net). According to the first instance judgement made be the People's Court of Lianyun District, Lianyungang City, Kaidi had to pay a compensatory amount of RMB28.3 million (net) and related interest to Shanghai Baoye. As of the date of this announcement, the Group has made provision on the claim.

EVENT AFTER THE REPORTING PERIOD

As at the date of this announcement, there is no significant event subsequent to 30 June 2021 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 2021.

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 2021.

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 2021.

AUDIT COMMITTEE

The Company's Audit Committee comprises Mr. Au Yeung Kwong 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 2021.

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.** The interim report for the six months ended 30 June 2021 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, 27 August 2021

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Chen Chang, Mr. Chen Guo Xiong and Ms. Chen Zhao Nian ; and three independent non-executive Directors, namely Mr. Chen Ping, Mr. Tian Xiao Ren and Mr. Au Yeung Kwong Wah.