



**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



2022
Interim Report

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Corporate Information

Directors

Executive Directors

Mr. CHEN Chang (*Chairman*)
Mr. CHEN Guo Xiong (*Vice Chairman*)
Ms. CHEN Zhao Nian

Independent Non Executive Directors

Mr. AU YEUNG Kwong Wah
Mr. CHEN Ping
Mr. TIAN Xiao Ren

Registered Office

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

Company Secretary

Ms. WONG Pui Shan

Audit Committee

Mr. AU YEUNG Kwong Wah (*Chairman*)
Mr. CHEN Ping
Mr. TIAN Xiao Ren

Nomination Committee

Mr. CHEN Ping (*Chairman*)
Mr. TIAN Xiao Ren
Mr. CHEN Chang

Remuneration Committee

Mr. TIAN Xiao Ren (*Chairman*)
Mr. CHEN Ping
Mr. CHEN Chang

Authorised Representatives

Mr. CHEN Chang
Ms. CHEN Zhao Nian

Head Office and Principal Place of Business in the PRC

2-5/F., 3-5 Golden Dragon City
Yayun Avenue
511450 Panyu District
Guangzhou City
Guangdong Province
The PRC

Principal Place of Business in Hong Kong

Unit 605-606, 6/F.,
Tower III,
Enterprise Square,
No. 9 Sheung Yuet Road,
Kowloon Bay, Kowloon
Hong Kong

Auditor

KTC Partners CPA Limited

Stock Code

1938

Company's Website

www.pck.com.cn
pck.todayir.com

Legal Advisers as to Hong Kong Law

Loeb & Loeb LLP

Corporate Information

Principal Bankers

Bank of China Limited
Bank of Communications
Bank of Jiangsu
China Construction Bank
Guangzhou Rural Commercial Bank
Industrial and Commercial Bank of China

Principal Share Registrar and Transfer Office

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
24 Shedden Road
P.O. Box 1586
Grand Cayman
KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

Management Discussion and Analysis

Financial Review

Overall Financial Results

For the six months ended 30 June 2022 (the “Period”), we recorded a revenue of approximately RMB1,186.5 million (1H2021: RMB864.2 million), representing an increase of approximately 37.3% as compared with the corresponding period in 2021. Profit 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 RMB153.3 million (1H2021: loss of RMB41.7 million). Earnings per share was RMB0.15 (1H2021: loss per share of RMB0.04). The board of directors of the Company (the “Board”) did not recommend the payment of interim dividend for the Period (1H2021: Nil).

Revenue

Revenue of the Group mainly comprises (i) sales of steel pipe, and (ii) sales of property.

During the Period, we recorded a revenue of approximately RMB1,186.5 million (1H2021: RMB864.2 million), representing an increase of approximately 37.3% as compared with the corresponding period in 2021. The revenue increase was due to recognition of property sales of Phase II of Golden Dragon City Fortune Plaza (金龍城財富廣場) (“GDC”) by the Group.

The following table sets forth the revenue and gross profit by business segments for each of the periods indicated:

	2022		2021	
	RMB'000	% to total	RMB'000	% to total
Revenue				
Steel Pipes	845,798	71.3%	863,999	100%
Property development and investment	340,733	28.7%	218	–%
	1,186,531	100%	864,217	100%

During the Period, the steel pipe revenue from domestic sales and overseas sales represented approximately 68.9% (1H2021: 42.2%) and approximately 31.1% (1H2021: 57.8%) respectively of our total steel pipe revenue.

Management Discussion and Analysis

Sales by geography – Steel Pipes

	Six months ended 30 June			
	2022		2021	
	RMB'000 (Unaudited)	% of revenue	RMB'000 (Unaudited)	% of revenue
Domestic sales	582,557	68.9%	364,972	42.2%
Overseas sales	263,241	31.1%	499,027	57.8%
Total steel pipes and manufacturing services	845,798	100%	863,999	100%

Sales by products – Steel Pipes

	Six months ended 30 June			
	2022		2021	
	RMB'000 (Unaudited)	% of revenue	RMB'000 (Unaudited)	% of revenue
Manufacture and sale of steel pipes				
<i>LSAW steel pipes</i>	628,888	74.4%	683,245	79.1%
<i>ERW steel pipes</i>	–	–%	2,600	0.3%
<i>SSAW steel pipes</i>	45,047	5.3%	30,948	3.6%
Sub-total	673,935	79.7%	716,793	83.0%
Steel pipes manufacturing services				
<i>LSAW steel pipes</i>	101,825	12.0%	59,992	6.9%
<i>ERW steel pipes</i>	–	–%	–	–%
<i>SSAW steel pipes</i>	20,042	2.4%	55,278	6.4%
Sub-total	121,867	14.4%	115,270	13.3%
Others	49,996	5.9%	31,936	3.7%
Total	845,798	100%	863,999	100%

Management Discussion and Analysis

Steel Pipes

	2022 RMB'000	2021 RMB'000
Sales	845,798	863,999
Cost of sales	(635,024)	(765,394)
Gross profit	210,774	98,605

Gross Profit and Gross Profit Margin – Steel Pipes

During the Period, our gross profit of steel pipes was approximately RMB210.8 million (1H2021: RMB98.6 million), representing an increase of approximately 113.8% as compared with the corresponding period in 2021. The overall gross profit margin was approximately 24.9%, which was higher than that for the same period in 2021 which was approximately 11.4%. The increase in gross profit was due to the increase in gross profit margin during the Period. Increase in gross profit margin was due to decrease in overseas sales during the Period which led to decrease in overseas freight charges. In addition, overseas sales were denominated in USD but costs in RMB. Appreciation of USD against RMB further increased the gross profit margin during the Period.

Property development and investment

	2022 RMB'000	2021 RMB'000
Sales	340,733	218
Cost of sales	(207,044)	–
Gross profit	133,689	218

Revenue under property development and investment mainly comprises sales of property of Phase II of GDC and rental income from shops in Phase I of GDC. Revenue under property development and investment was approximately RMB340.7 million in 2022 as compared with the amount of approximately RMB0.2 million in 2021, representing an increase of approximately 1,703 times.

Cost of sales primarily represents the costs we incurred directly for the Group's property development activities. The principal component of cost of sales is costs of properties sold, which include the direct costs of construction and the costs of obtaining land use rights. Cost of sales was approximately RMB207.0 million in 2022 as compared with nil amount in 2021.

Management Discussion and Analysis

Gross profit of property sales was approximately RMB133.7 million in 2022 as compared with the amount of approximately RMB0.2 million in 2021, representing an increase of 668 times.

All revenue under property development and investment was domestic in nature.

Other income and gains for the Period were approximately RMB7.8 million (1H2021: RMB298.0 million), representing a decrease of approximately 97.4% as compared with the corresponding period in 2021. Such decrease 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 but nil amount in 2022, details of which were disclosed in the circular of the Company dated 8 October 2020.

Selling and distribution expenses for the Period were approximately RMB31.1 million (1H2021: RMB28.5 million), representing an increase of approximately 9.1% as compared with the corresponding period in 2021. The increase in selling and distribution expenses was due to an increase in sales during the Period.

Administrative expenses for the Period were approximately RMB116.6 million (1H2021: RMB139.9 million), representing a decrease of approximately 16.7% as compared with the corresponding period in 2021. The decrease in administrative expenses was mainly due to the decrease in research and development expenses and office expenses during the Period.

Finance costs for the Period were approximately RMB20.1 million (1H2021: RMB110.8 million), representing a decrease of approximately 81.9% as compared with the corresponding period in 2021. The decrease in finance costs was mainly due to a decrease in average loan balance and interest rate during the Period.

The Group recorded other expenses of approximately RMB18.0 million for the six months ended 30 June 2022 (1H2021: RMB41.3 million), representing a decrease of approximately 56.4% as compared with the corresponding period in 2021. The decrease was due to provision of litigation of approximately RMB33.3 million in 2021 but nil amount during the Period.

The Group recorded exchange gain of approximately RMB18.7 million during the Period as compared to exchange loss of approximately RMB41.1 million during the corresponding period in 2021. The exchange gain was mainly due to appreciation of HKD against RMB.

Management Discussion and Analysis

Income tax expenses of approximately RMB32.0 million were recorded for the six months ended 30 June 2022 (1H2021: RMB64.0 million). The decrease in income tax expenses during the Period as compared with the corresponding period in 2021 was mainly due to the land restoration compensation in corresponding period in 2021 but nil amount during the Period.

As a result of the above, the net profit attributable to ordinary equity holders of the Company was approximately RMB153.3 million (1H2021: loss of RMB41.7 million). Earnings per share was RMB0.15 (1H2021: loss per share of RMB0.04).

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).

During the Period, we received new orders of approximately 137,000 tonnes of steel pipes. We delivered approximately 144,000 tonnes of welded steel pipes during the Period.

* *unofficial transliteration from Chinese name for identification purposes only*

Management Discussion and Analysis

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 m².

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: 135,000 m ² Phase II: 191,000 m ² Phase III: 224,000 m ²

The Group recorded most of the sales of the first phase of GDC in 2018. The Group recognised the second phase of GDC in 2022. 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.

Future Plan and Prospects

In 2022, persistence of the COVID-19 pandemic globally and sluggish economic recovery have added uncertainties to the economy of the world and have reduced the demand for oil and gas. The Group expects 2022 will still be a challenging year for the oil and gas industry.

Management Discussion and Analysis

2022 marked the second year of the “14th Five-Year Plan” development. According to the Medium and Long-Term Oil and Gas Pipeline Network Plan (《中長期油氣管網規劃》) formulated by the National Development and Reform Commission, 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 pipelines 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 km, the capital expenditure on pipeline investment in China is expected to exceed RMB1 trillion during the 14th Five-Year Plan period. In order to keep up with the progress of the “14th Five-Year Plan” and achieve its goals, the construction of oil and natural gas pipelines will speed up, and there will be more opportunities in the future.

In addition, China Oil & Gas Pipeline Network Corporation (“Pipe China”), which was established in late 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, invest the capital for 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, so as to enhance oil and gas transportation capacity and ensure a safe and stable supply of oil and gas energy. Pipe China plans to build a natural gas pipeline network of “5 vertical, 5 horizontal” in the next few years. By 2025, the natural gas pipeline network of Pipe China will form a trunk pipe network pattern of “four major (import) channels” and “5 vertical, 5 horizontal”. Pipe China forecasts that the growth of the natural gas market will focus on the eastern region, including the Bohai Rim, Southeast region, South Central region and Yangtze River Delta, which will be immensely beneficial to the Group’s production base in Zhuhai. With the establishment of Pipe China, it is believed that the construction of the oil and gas pipeline network in China will be significantly accelerated in the future.

The Chinese government has reaffirmed its commitment of “dual carbon” to “strive to peak carbon dioxide emission before 2030 and achieve carbon neutrality before 2060” at the Leaders’ Summit on Climate, marking that ecology-focused green and low-carbon development will become the leading strategy in the future. This indicates that China will pay more attention to natural gas, wind power and hydro-power and other clean energies. The construction of a series of natural gas pipeline and storage facilities, smart grid, wind power and offshore wind power will be accelerated and will drive the demand for our products in the future.

Management Discussion and Analysis

The Group believes that the above projects and policies will generate significant opportunities for the steel pipe manufacturing industry and the Company will firmly seize the opportunities to boost its sales. In view of our long-term strategic goal to become a leading global steel pipe manufacturer, the Group will grasp the opportunities of potential oil and natural gas development projects, expand our customer bases and market share by participating in more global oil and gas and engineering projects, and continue to leverage our strengths in the steel pipe industry to secure more project orders.

Employees

As at 30 June 2022, we had 819 full time employees in total (as at 31 December 2021: 862). 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 5% 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 2022 (six months ended 30 June 2021: nil) to the shareholders of the Company.

Financial Guarantee

As at 30 June 2022, the Group guaranteed RMB79.4 million (as at 31 December 2021: RMB73.7 million) to certain purchasers of the Group's properties for mortgage facilities.

As at 30 June 2022, the Group guaranteed nil amount (as at 31 December 2021: RMB514.1 million) for banking facilities in Saudi Arabia, of which nil amount (as at 31 December 2021: RMB514.1 million) was utilized by our joint venture company in Saudi Arabia.

Management Discussion and Analysis

Pledge of Assets

As at 30 June 2022, 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 RMB564.2 million (as at 31 December 2021: RMB567.9 million);
- (ii) leasehold lands with an aggregate net book value of RMB495.7 million (as at 31 December 2021: RMB501.9 million);
- (iii) certain properties under development with an aggregate net book value of nil amount (as at 31 December 2021: RMB1,086.1 million); and
- (iv) completed properties held for sale with an aggregate net book value of RMB1,193.9 million (as at 31 December 2021: RMB93.8 million).

Liquidity and Financial Resources

As at 30 June 2022, our cash and bank balances and current ratio, as a ratio of current assets to current liabilities, were approximately RMB18.4 million (as at 31 December 2021: RMB20.6 million) and 1.07 (as at 31 December 2021: 1.03) 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 2022, our aggregate borrowings were approximately RMB1,787.8 million (as at 31 December 2021: approximately RMB1,810.2 million), of which approximately RMB1,694.8 million (as at 31 December 2021: RMB1,721.0 million) were bank loans and other borrowings, approximately RMB92.0 million (as at 31 December 2021: RMB88.9 million) were USD and HKD bonds and approximately RMB1.0 million (as at 31 December 2021: RMB0.3 million) were lease liabilities.

Management Discussion and Analysis

Included in the aggregate borrowings as at 30 June 2022 were property development loans of around RMB820.4 million. Excluding the above loans, the loans for our steel pipe business as at 30 June 2022 were around RMB967.4 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 24.0% as at 30 June 2022 (as at 31 December 2021: 22.8%).

The maturity profile of our total borrowings as at 30 June 2022 was approximately 55% (as at 31 December 2021: 54%) of the total borrowings repayable within one year, and approximately 45% (as at 31 December 2021: 46%) of the total borrowings repayable over one year.

As at 30 June 2022, approximately 79% (as at 31 December 2021: 80%) 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 16% (as at 31 December 2021: 15%) of our total borrowings were denominated in RMB which carried fixed interest rate and approximately 5% (as at 31 December 2021: 5%) 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 26 April 2022, Panyu Chu Kong Steel Pipe Co., Ltd. (the "PCKSP"), an indirect wholly-owned subsidiary of the Company, entered into the disposal agreement with the joint venture partner, Abdel Hadi Abdullah Al Qahtani & Sons, Co. (the "AHQ"), pursuant to which AHQ has conditionally agreed to purchase, and PCKSP has conditionally agreed to sell, the 50% equity interest in Al-Qahtani PCK Pipe Company (the "JV Company"). The consideration payable by AHQ is SR41.5 million (or equivalent to approximately RMB70.55 million). Upon Completion, the Group will cease to hold any interests in the JV Company. As at the date of this report, the disposal of the JV Company has not been completed.

For details, please refer to the Company's announcements and circular dated 26 April 2022 and 27 June 2022 respectively.

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

Event after the Reporting Period

As at the date of this report, there is no significant event subsequent to 30 June 2022 which would materially affect the Group's operating and financial performance.

Other Information

Directors' Interests in Competing Business

As at the date of this report, none of the directors of the Company (the "Directors") are considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with our businesses.

Directors' Interests and Short Positions in Shares and Underlying Shares and Debentures

As at 30 June 2022, the interests or short positions of the Directors and chief executive of the Company in the shares or underlying shares or, as the case may be, the percentage in the equity interest and debentures of the Company or its associated corporations (within the meaning of the Securities and Futures Ordinance (Chapter 571) (the "SFO")), which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), to be notified to the Company and the Stock Exchange, were as follows:

Shares of the Company

Name of Director	Capacity	Position	Number of shares held	Percentage of shareholding in the Company
Chen Chang	Interest of controlled corporation (note 1)	Long	701,911,000	69.42%
	Beneficial owner	Long	4,350,000	0.43%

Note:

1. These shares are held by Bournam Profits Limited, the entire issued share capital of which is wholly and beneficially owned by Mr. Chen Chang. By virtue of the SFO, Mr. Chen is deemed to be interested in the 701,911,000 shares held by Bournam Profits Limited.

Other Information

Shares of Associated Corporation

Mr. Chen Chang beneficially owns the entire issued share capital of Bournam Profits Limited. Bournam Profits Limited is the beneficial owner of about 69.42% of the issued shares of the Company.

Interests and Short Positions of Substantial Shareholders in Shares and Underlying Shares

As at 30 June 2022, so far as the Directors are aware, save as disclosed above, the persons or corporations (not being a Director or a chief executive of the Company) who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO or have otherwise notified to the Company were as follows:

Name of shareholder	Capacity	Position	Number of shares	Approximately percentage of voting power
Bournam Profits Limited	Beneficial owner (note)	Long	701,911,000	69.42%

Note:

The entire share capital of Bournam Profits Limited is solely and beneficially owned by Mr. Chen Chang. Mr. Chen is deemed under the SFO to be interested in the 701,911,000 shares held by Bournam Profits Limited.

Share Option Scheme

We adopted a share option scheme on 18 June 2020. The purpose of the aforementioned scheme is to provide incentives to eligible participants who contribute to the growth of the Group. Eligible participants of the aforementioned scheme include, without limitation, employees, Directors and any other eligible persons as defined in the scheme. As at 30 June 2022, no share option has been granted or agreed to be granted to any person under the scheme.

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 2022.

Other Information

CG Code C.2.1

The Company is aware of the requirement under paragraph C.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 2022.

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 2022.

Other Information

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 2022.

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.

Interim Condensed Consolidated Statement of Profit or Loss

For the six months ended 30 June 2022

		Six months ended 30 June	
		2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
	Notes		
REVENUE	5	1,186,531	864,217
Cost of sales		(842,068)	(765,394)
Gross profit		344,463	98,823
Other income and gains	5	7,824	298,017
Selling and distribution expenses		(31,050)	(28,487)
Administrative expenses		(116,587)	(139,864)
Other expenses, net		(18,018)	(41,346)
Exchange gain/(loss), net		18,719	(41,088)
Finance costs	6	(20,083)	(110,816)
Share of loss of a joint venture		–	(12,924)
PROFIT BEFORE TAX	7	185,268	22,315
Income tax expense	8	(31,976)	(64,036)
PROFIT/(LOSS) FOR THE PERIOD		153,292	(41,721)
Attributable to:			
Owners of the parent		153,292	(41,721)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	9	RMB0.15	RMB(0.04)

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022 RMB'000 (Unaudited)	2021 RMB'000 (Unaudited)
PROFIT/(LOSS) FOR THE PERIOD	153,292	(41,721)
OTHER COMPREHENSIVE (LOSS)/INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(69,134)	19,503
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	(69,134)	19,503
Other comprehensive income /(loss) 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	5,172	(1,795)
Net other comprehensive income/(loss) that will not be reclassified to profit or loss in subsequent periods	5,172	(1,795)
OTHER COMPREHENSIVE (LOSS)/INCOME	(63,962)	17,708
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD	89,330	(24,013)
Attributable to:		
Owners of the parent	89,330	(24,013)

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2022

	Notes	As at 30 June 2022 (Unaudited) RMB'000	As at 31 December 2021 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	10	1,888,842	1,874,309
Investment properties	11	370,000	370,000
Right-of-use assets		654,222	661,172
Long term prepayments and deposits		41,045	61,494
Total non-current assets		2,954,109	2,966,975
CURRENT ASSETS			
Inventories	12	545,027	416,885
Properties under development		–	2,255,293
Completed properties held for sale		2,803,281	385,203
Trade and bills receivables	13	387,305	503,106
Prepayments, other receivables and other assets		703,226	1,125,353
Pledged and restricted bank balances		23,936	249,719
Cash and bank balances		18,372	20,588
Total current assets		4,481,147	4,956,147
CURRENT LIABILITIES			
Trade and bills payables	14	1,204,699	1,289,635
Interest-bearing bank and other borrowings	15	883,497	881,394
Contract liabilities		959,161	1,351,558
Other payables and accruals		500,825	693,026
Fixed rate bonds and notes	16	92,013	88,930
Due to a director	19	461,309	449,111
Tax payable		47,734	25,844
Provision		24,634	30,488
Total current liabilities		4,173,872	4,809,986
NET CURRENT ASSETS		307,275	146,161
TOTAL ASSETS LESS CURRENT LIABILITIES		3,261,384	3,113,136

Interim Condensed Consolidated Statement of Financial Position (continued)

As at 30 June 2022

	Notes	As at 30 June 2022 (Unaudited) RMB'000	As at 31 December 2021 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	15	812,260	839,905
Long-term tax payable		857,277	767,930
Government grants		327,423	330,207
Deferred tax liabilities		349,578	349,578
Total non-current liabilities		2,346,538	2,287,620
Net assets		914,846	825,516
EQUITY			
Equity attributable to owners of the parent			
Issued capital	17	88,856	88,856
Reserves		825,990	736,660
Total equity		914,846	825,516

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2022

	Attributable to owners of the parent								Total RMB'000
	Issued capital RMB'000 (note 17)	Share premium* RMB'000	Asset revaluation reserve* RMB'000	Contributed surplus* RMB'000	Capital reserve* RMB'000 (note (a))	Statutory reserve fund* RMB'000 (note (b))	Accumulated losses* RMB'000	Exchange fluctuation reserve* RMB'000	
At 1 January 2022 (audited)	88,856	767,097	612,661	224,589	53,934	274,185	(1,240,775)	44,969	825,516
Profit for the period	-	-	-	-	-	-	153,292	-	153,292
Other comprehensive loss for the period:									
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(69,134)	(69,134)
Exchange differences related to the translation of the Company's financial statements into the presentation currency	-	-	-	-	-	-	-	5,172	5,172
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	153,292	(63,962)	89,330
At 30 June 2022 (unaudited)	88,856	767,097	612,661	224,589	53,934	274,185	(1,087,483)	(18,993)	914,846

* These reserve accounts comprise the consolidated reserves of RMB825,990,000 (30 June 2021: RMB743,826,000) in the interim condensed consolidated statement of financial position as at 30 June 2022.

For the six months ended 30 June 2021

	Attributable to owners of the parent								Total RMB'000
	Issued capital RMB'000 (note 17)	Share premium* RMB'000	Asset revaluation reserve* RMB'000	Contributed surplus* RMB'000	Capital reserve* RMB'000 (note (a))	Statutory reserve fund* RMB'000 (note (b))	Accumulated losses* RMB'000	Exchange fluctuation reserve* RMB'000	
At 1 January 2021 (audited)	88,856	767,097	612,661	224,589	53,934	275,523	(1,147,759)	(18,206)	856,695
Loss for the period	-	-	-	-	-	-	(41,721)	-	(41,721)
Other comprehensive income for the period:									
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	19,503	19,503
Exchange differences related to the translation of the Company's financial statements into the presentation currency	-	-	-	-	-	-	-	(1,795)	(1,795)
Total comprehensive (loss)/income for the period	-	-	-	-	-	-	(41,721)	17,708	(24,013)
Disposal of a subsidiary	-	-	-	-	-	(1,388)	1,388	-	-
At 30 June 2021 (unaudited)	88,856	767,097	612,661	224,589	53,934	274,135	(1,188,092)	(498)	832,682

Interim Condensed Consolidated Statement of Changes in Equity (continued)

For the six months ended 30 June 2022

Notes:

- (a) Capital reserve represents the excess capital paid over the registered capital of Panyu Chu Kong Steel Pipe Co., Ltd. (“PCKSP”) by Lessonstart Enterprises Limited (“Lessonstart”).
- (b) In accordance with the Company Law of the People’s Republic of China (the “PRC”), the Company’s subsidiaries registered in the PRC are required to appropriate 10% of the annual statutory net profit after tax (after offsetting any prior years’ losses) to the statutory reserve fund. When the balance of the statutory reserve fund reaches 50% of each entity’s registered capital, any further appropriation is optional. The statutory reserve fund can be utilised to offset prior years’ losses or to increase the registered capital. However, such balance of the statutory reserve fund must be maintained at a minimum of 25% of the registered capital after such usage.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	185,268	22,315
Adjustments for:		
Finance costs	20,123	110,816
Share of loss of a joint venture	–	12,924
Gain on disposal of subsidiaries	–	(11,728)
Loss on disposal of items of property, plant and equipment	158	19
Bank interest income	(3,648)	(2,009)
Government grant income	(3,473)	(5,266)
Gain on compensation for land resumption	–	(275,015)
Depreciation of property, plant and equipment	22,033	48,235
Depreciation of right-of-use assets	8,218	13,815
Reversal of impairment of trade receivables	–	(89)
Provision for claim of litigations	–	33,251
	228,679	(52,732)
Increase in inventories	(128,142)	(26,035)
Decrease/(increase) in properties under development	2,255,293	(41,448)
Increase in completed properties held for sale	(2,418,078)	–
Decrease/(increase) in trade and bills receivables	115,801	(76,096)
Decrease/(increase) in prepayments, other receivables and other assets	422,127	(258,114)
Decrease/(increase) in pledged and restricted bank balances	225,783	(232,871)
Decrease in trade and bills payables	(84,936)	(21,621)
(Decrease)/increase in contract liabilities, other payables and accruals	(584,598)	195,269
Decrease to provision	(5,854)	–
Cash generated from/(used in) operations	26,075	(513,648)
Interest received	3,648	2,009
Interest paid	(40)	(87)
Corporate income tax paid	81,365	(1)
Land appreciation tax paid	(2,104)	(426)
Net cash flows generated from/(used in) operating activities	108,944	(512,153)

Interim Condensed Consolidated Statement of Cash Flows (continued)

For the six months ended 30 June 2022

	Six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of items of property, plant and equipment	(24,444)	(7,566)
Addition to right-of-use assets	(1,251)	–
Receipt of government grants	689	3,124
Disposal of a subsidiary	–	8,511
Receipt of compensation for land resumption	–	752,397
Proceeds from disposal of property, plant and equipment	8,169	–
Net cash flows (used in)/generated from investing activities	(16,837)	756,466
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans and other borrowings	250,936	1,305,539
Repayment of bank loans and other borrowings	(277,130)	(1,471,739)
Proceeds from issue of bonds	855	–
Repayment of bonds	(994)	(42,741)
Interest paid	(20,083)	(287,355)
Principal portion of lease payments	(627)	(917)
Increase in an amount due to a related party	–	200,547
Increase in an amount due to a director	12,198	85,735
Addition of lease liability	1,210	–
Net cash flows used in financing activities	(33,635)	(210,931)
NET INCREASE IN CASH AND CASH EQUIVALENTS		
	58,472	33,382
Effect of foreign exchange rate changes, net	(60,688)	34,898
Cash and cash equivalents at 1 January	20,588	19,466
CASH AND CASH EQUIVALENTS AT 30 JUNE		
	18,372	87,746

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

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 Unit 605-606, 6th Floor, Tower III, Enterprise Square, No. 9 Sheung Yuet Road, Kowloon Bay, 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 2022 (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 2022 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 2021.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

3. Changes in Accounting Policies and Disclosures

Other than changes in accounting policies resulting from application of new and amendments to International Financial Reporting Standards (“IFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2022 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2021.

Application of new and amendments to IFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to IFRSs issued by the International Accounting Standards Board (the “IASB”) which are mandatory effective for the annual period beginning on or after 1 January 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment: Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Costs of Fulfilling a Contract
Annual Improvements to IFRSs	Annual Improvements to IFRSs 2018-2020

The application of the new and amendments to IFRSs in the current period has had no material impact on the Group’s financial performance and positions for the current and prior periods and on the disclosures set out in these condensed consolidated financial statements.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

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.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

4. Operating Segment Information (Continued)

Six months ended 30 June 2022 (unaudited)	Steel pipes RMB'000	Property development and investment RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	845,798	340,733	1,186,531
Segment results:	118,006	67,362	185,368
<i>Reconciliation:</i>			
Corporate and other unallocated expenses			(100)
Profit before tax			185,268
Segment assets:	2,710,210	6,006,802	8,717,012
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(1,626,804)
Corporate and other unallocated assets			345,048
Total assets			7,435,256
Segment liabilities:	4,233,760	3,735,639	7,969,399
<i>Reconciliation:</i>			
Elimination of intersegment payables			(1,626,804)
Corporate and other unallocated liabilities			177,815
Total liabilities			6,520,410
Other segment information:			
Depreciation and amortisation	(30,237)	(14)	(30,251)
Capital expenditure*	(44,893)	–	(44,893)

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

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

4. Operating Segment Information (Continued)

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:			
<i>Reconciliation:</i>			
Corporate and other unallocated expenses			(30,810)
Profit before tax			22,315
Segment assets:			
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(2,355,513)
Corporate and other unallocated assets			375,796
Total assets			8,555,374
Segment liabilities:			
<i>Reconciliation:</i>			
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)

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

4. Operating Segment Information (Continued)

Information about steel pipe products and services and sales of property

The revenue of the major products is analysed as follows:

	Six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Manufacture and sale of steel pipes:		
LSAW steel pipes	628,888	683,245
ERW steel pipes	–	2,600
SSAW steel pipes	45,047	30,948
Steel pipe manufacturing services:		
LSAW steel pipes	101,825	59,992
SSAW steel pipes	20,042	55,278
Others*	49,996	31,936
	845,798	863,999
Sale of properties	340,733	218
	1,186,531	864,217

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

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

4. Operating Segment Information (Continued)

Geographical information

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

	Six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Sales to external customers:		
Mainland China	923,290	365,190
Africa	11,420	351,464
Asia and Central Asian countries	186,394	32,430
Middle East	57,420	51,614
European Union	8,007	30,520
America	–	20,424
Oceania	–	12,575
	1,186,531	864,217

- (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 the six months ended 30 June 2022 and 2021 are as follows:

	Six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Customer A	N/A	351,464
Customer B	125,942	N/A

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

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	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Revenue from contracts with customers		
Manufacture and sale of welded steel pipes and the provision of related manufacturing services	845,798	863,999
Sale of properties	340,566	–
Revenue from other sources		
Gross rental income	167	218
	1,186,531	864,217
Other income and gains		
Bank interest income	3,648	2,009
Subsidy income from the PRC government*	3,473	5,266
Gain on land restoration compensation**	–	275,015
Gain on disposal of a subsidiary	–	11,728
Others	703	3,999
	7,824	298,017

* 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.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

5. Revenue, Other Income and Gains (Continued)

Revenue from contracts with customers:

(i) Disaggregated revenue information:

Six months ended 30 June 2022 (unaudited)	Property development and investment		Total RMB'000
	Steel pipes RMB'000	RMB'000	
Sales of goods/properties	723,931	340,733	1,064,664
Rendering of services	121,867	–	121,867
Total revenue from contracts with customers	845,798	340,733	1,186,531
Geographical markets			
Mainland China	582,557	340,733	923,290
Africa	11,420	–	11,420
Asia and Central Asian countries	186,394	–	186,394
Middle East	57,420	–	57,420
European	8,007	–	8,007
Total revenue from contracts with customers	845,798	340,733	1,186,531
Timing of revenue recognition			
Goods/properties transferred at a point in time	723,931	340,733	1,064,664
Services transferred over time	121,867	–	121,867
Total revenue from contracts with customers	845,798	340,733	1,186,531

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

5. Revenue, Other Income and Gains (Continued)

(i) Disaggregated revenue information: (Continued)

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	218	748,947
Rendering of services	115,270	–	115,270
Total revenue from contracts with customers	863,999	218	864,217
Geographical markets			
Mainland China	364,972	218	365,190
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	218	864,217
Timing of revenue recognition			
Goods/properties transferred at a point in time	748,729	218	748,947
Services transferred over time	115,270	–	115,270
Total revenue from contracts with customers	863,999	218	864,217

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

5. Revenue, Other Income and Gains (Continued)

(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.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

6. Finance Costs

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Interest on bank loans, government loans and other loans (including bonds and short term notes)	41,310	143,780
Interest on discounted bills	2,094	4,020
Interest on lease liabilities	40	87
Total interest expenses	43,444	147,887
Less: Interest capitalised	(23,361)	(37,071)
	20,083	110,816

7. Profit Before Tax

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Cost of inventories sold	635,024	765,394
Depreciation of property, plant and equipment	22,033	48,235
Depreciation of right-of-use assets	8,218	13,815
Provision of claim for litigations*	–	33,251
Loss on disposal of property, plant and equipment, net	–	19

* Included in "Other expenses, net" on the face of interim condensed consolidated statement of profit or loss.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

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 in the interim condensed consolidated statement of profit or loss are as follows:

	Six months ended 30 June	
	2022	2021
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current – Mainland China charge for the Period	31,976	64,084
Deferred	–	(48)
Total tax expense for the Period	31,976	64,036

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

9. Earnings/(Loss) Per Share Attributable to Ordinary Equity Holders of the Parent

The calculation of basic earnings/(loss) per share amounts is based on the profit/(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 2021: 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 2022 and 2021.

The calculation of basic and diluted earnings/(loss) per share are based on:

	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Profit/(loss)		
Profit/(loss) attributable to ordinary equity holders of the parent, used in the basic and diluted earnings/(loss) per share calculation	153,292	(41,721)
	Number of shares	
	2022	2021
Shares		
Weight average number of ordinary shares in issue during the period used in the basic and diluted earnings/(loss) per share calculation	1,011,142,000	1,011,142,000

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

10. Property, Plant and Equipment

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
At beginning of the period/year	1,874,309	2,530,037
Additions	44,893	51,986
Disposals	(8,327)	(60,820)
Impairment	–	(596,765)
Depreciation	(22,033)	(50,051)
Write-off	–	(78)
At end of the period/year	1,888,842	1,874,309

The Group's property, plant and equipment with a net carrying amount of approximately RMB564,195,000 (31 December 2021: RMB567,860,000) were pledged to secure the Group's bank borrowings, as further detailed in note 15.

11. Investment Properties

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Commercial properties in Mainland China, PRC		
Carrying amount at 1 January	370,000	387,000
Net loss from a fair value adjustment	–	(17,000)
Carrying amount at end of the period/year	370,000	370,000

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

12. Inventories

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Raw materials	106,305	104,953
Work in progress	178,119	76,120
Finished goods	274,264	249,473
	558,688	430,546
Less: Provision against slow-moving and obsolete inventories	(13,661)	(13,661)
	545,027	416,885

13. Trade and Bills Receivables

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Trade receivables	400,821	508,402
Impairment	(13,516)	(13,516)
Trade receivables, net	387,305	494,886
Bills receivable	–	8,220
	387,305	503,106

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.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

13. Trade and Bills Receivables (Continued)

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

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Within 60 days	140,931	248,838
61 to 90 days	13,576	10,810
91 to 180 days	23,104	24,499
181 to 365 days	68,940	105,091
1 to 2 years	46,356	25,019
2 to 3 years	6,882	6,170
Over 3 years	87,516	74,459
	387,305	494,886

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 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Within 90 days	816,643	729,282
91 to 180 days	120,332	45,093
181 to 365 days	57,867	34,126
1 to 2 years	47,316	56,669
2 to 3 years	13,769	75,642
Over 3 years	88,009	62,153
	1,143,936	1,002,965
Bills payable	60,763	286,670
	1,204,699	1,289,635

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

All the bills payable bear maturity dates within 360 days.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

15. Interest-Bearing Bank and Other Borrowings

	Effective interest rate	Maturity	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
	%			
Current				
Lease liabilities	7.97	2022-2023	620	325
Bank loans				
– secured	4.79-5.70	2022-2023	374,720	403,220
– unsecured	5.44	2023	58,000	59,000
Other borrowing				
– unsecured	11.20-15.00	2022	282,157	270,349
Current portion of long term loans				
– secured	4.90-5.88	2022-2023	168,000	148,500
			883,497	881,394
Non-current				
Lease liabilities	7.97	2023-2024	364	–
Bank loans				
– secured	4.90-5.88	2024-2028	810,905	839,905
– unsecured	16.20	2024	991	–
			812,260	839,905
			1,695,757	1,721,299

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For the six months ended 30 June 2022

15. Interest-Bearing Bank and Other Borrowings (Continued)

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	596,720	610,720
In the second year	427,491	177,000
In the third to fifth years, inclusive	252,405	524,905
Beyond five years	132,000	138,000
	1,408,616	1,450,625
Other borrowings payables:		
Within one year	286,157	270,349
	286,157	270,349
Lease liabilities repayable:		
Within one year	620	325
In the second year	364	–
	984	325
	1,695,757	1,721,299

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

15. Interest-Bearing Bank and Other Borrowings (Continued)

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 RMB564,195,000 (31 December 2021: RMB567,860,000) as at the end of the Period;
- (b) the pledge of certain leasehold land of the Group with a net carrying amount of approximately RMB495,664,000 (31 December 2021: RMB501,928,000) as at the end of the Period;
- (c) the pledge of certain of the Group's properties under development with an aggregate carrying amount of nil (31 December 2021: RMB1,086,130,000) as at the end of the Period; and
- (d) the pledge of certain of the Group's completed properties held for sale with an aggregate carrying amount of RMB1,193,882,000 (31 December 2021: RMB93,778,000) as at the end of the Period.

Except for the bank loans and other borrowings of RMB1,967,000 (31 December 2021: RMB1,975,000) as at 30 June 2022, which are denominated in HK\$, all borrowings are in RMB.

The Group had the following undrawn banking facilities:

	30 June 2022 RMB'000	31 December 2021 RMB'000
Floating rate		
– expiring within one year	112,280	213,280
– expiring beyond one year	703,595	690,595
Total undrawn banking facilities	815,875	903,875

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

16. Fixed Rate Bonds and Notes

	30 June 2022				31 December 2021			
	Principal at original currency 'million	Contractual interest rate (%) per annum	Maturity	RMB'000	Principal at original currency 'million	Contractual interest rate (%) per annum	Maturity	RMB'000
Current								
2017 Bonds A	US\$1.5	7.0	2022	9,710	US\$1.65	7.0	2022	10,265
2019 Bonds A	HK\$3	6.0	2023	2,566	HK\$3	6.0	2022	2,453
2020 Bonds A	HK\$2	6.0	2023	1,710	HK\$2	6.0	2022	1,635
2020 Notes	HK\$90	12.0	2022	75,461	HK\$90	12.0	2022	72,942
2021 Bonds A	HK\$2	6.0	2022	1,710	HK\$2	6.0	2022	1,635
2022 Bonds A	HK\$1	6.0	2023	856	N/A	N/A	N/A	-
				92,013				88,930

US\$3,000,000 7% bonds due in 2022 (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 2022. 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 2022, the Company had partially redeemed the 2017 Bonds A with a principal amount of US\$1,500,000. The balance of the principal amount will be repayable on 30 September 2022.

HK\$3,000,000 6% bonds due in 2023 (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 has been renewed to 9 January 2023. 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.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

16. Fixed Rate Bonds and Notes (Continued)

HK\$2,000,000 6% Bonds due in 2023 (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 9 January 2021 but has been renewed to 9 January 2023. 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\$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 2022, the Company had partially redeemed the 2020 Notes with a principal amount of HK\$50,000,000. The balance of the principal amount will be repayable on 18 November 2022.

HK\$2,000,000 6% Bonds due in 2022 (2021 Bonds A)

On 28 September 2021, the Group issued bonds with a principal amount of HK\$2,000,000 to an individual investor (the "2021 Bonds A"). The bonds should be repayable in full by 29 September 2022. The bonds bear interest at a fixed coupon interest rate of 6% per annum for payable monthly. The bonds are unsecured.

HK\$1,000,000 6% Bonds due in 2023 (2022 Bonds A)

On 3 January 2022, the Group issued bonds with a principal amount of HK\$1,000,000 to an individual investor (the "2022 Bonds A"). The bonds should be repayable in full by 4 January 2023. The bonds bear interest at a fixed coupon interest rate of 6% per annum for payable monthly. The bonds are unsecured.

Notes to the Interim Condensed Consolidated Financial Statements

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17. Issued Capital

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Authorised:		
10,000,000,000 (31 December 2021: 10,000,000,000) ordinary shares of HK\$0.10 each	878,335	878,335
Issued and fully paid:		
1,011,142,000 (31 December 2021: 1,011,142,000) ordinary shares of HK\$0.10 each	88,856	88,856

18. Commitments

The Group had the following capital commitments:

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Contracted, but not provided for:		
Buildings	160,748	253,264
Plant and machinery	35,270	35,356
Capital contributions payable to joint venture	–	99,951
	196,018	388,571

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

19. Related Party Transactions

- (a) Outstanding balances with a director:

	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Due to a director Mr. Chen Chang	461,309	449,111

The outstanding balances with related parties are unsecured, interest-free and have no fixed terms of repayment.

- (b) Compensation of key management personnel of the Group:

	Six months ended 30 June	
	2022 (Unaudited) RMB'000	2021 (Unaudited) RMB'000
Salaries, allowances and benefits in kind	1,898	1,918
Retirement benefit scheme contributions	58	32
Total compensation paid to key management personnel	1,956	1,950

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

20. Fair Value and Fair Value Hierarchy of Financial Instruments

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amounts		Fair values	
	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000	30 June 2022 (Unaudited) RMB'000	31 December 2021 (Audited) RMB'000
Financial liabilities				
Interest-bearing bank and other borrowings (other than lease liabilities)	1,694,773	1,720,974	1,715,172	1,776,416
Fixed rate bonds and notes	92,013	88,930	92,013	88,930
	1,786,786	1,809,904	1,807,185	1,865,346

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, current portion of amounts due to a director and an amount due to a related party approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the financial assets and liabilities included in interest-bearing bank and other borrowings, fixed rate bonds and notes and an amount due to a director have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The changes in fair value as a result of the Group's own non-performance risk for interest-bearing bank and other borrowings, fixed rate bonds and notes and an amount due to a director as at 30 June 2022 were assessed to be insignificant. The carrying amounts of these financial instruments carried at amortised cost were not materially different from their fair values as at 30 June 2022 and 31 December 2021.

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

20. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

Fair value hierarchy

The following tables illustrative the fair value measurement hierarchy of the Group's financial instruments:

Liabilities for which fair values are disclosed:

As at 30 June 2022

	Fair value measurement using			Total (Unaudited) RMB'000
	Quoted prices in active markets (Level 1) (Unaudited) RMB'000	Significant observable inputs (Level 2) (Unaudited) RMB'000	Significant unobservable input (Level 3) (Unaudited) RMB'000	
Interest-bearing bank and other borrowings (other than lease liabilities)	–	–	1,715,172	1,715,172
Fixed rate bonds and notes	–	–	92,013	92,013

As at 31 December 2021

	Fair value measurement using			Total (Audited) RMB'000
	Quoted prices in active markets (Level 1) (Audited) RMB'000	Significant observable inputs (Level 2) (Audited) RMB'000	Significant unobservable input (Level 3) (Audited) RMB'000	
Interest-bearing bank and other borrowings (other than lease liabilities)	–	–	1,776,416	1,776,416
Fixed rate bonds and notes	–	–	88,930	88,930

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2022

20. Fair Value and Fair Value Hierarchy of Financial Instruments (Continued)

Fair value hierarchy (Continued)

The Group did not have any financial assets measured at fair value as at 30 June 2022 (31 December 2021: Nil).

The Group did not have any financial liabilities measured at fair value as at 30 June 2022 (31 December 2021: Nil).

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (six months ended 30 June 2021: Nil).

21. Approval of Interim Condensed Consolidated Financial Statements

These interim condensed consolidated financial statements were approved and authorised for issue by the Board on 30 August 2022.