



**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

2024

INTERIM REPORT



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Corporate Information

Board of Directors

Executive Directors

Mr. CHEN Chang (*Chairman*)
Ms. CHEN Zhao Nian

Independent Non Executive Directors

Mr. AU YEUNG Kwong Wah
Mr. CHEN Ping
Mr. ZHAN Jian Zhou

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. ZHAN Jian Zhou

Nomination Committee

Mr. CHEN Ping (*Chairman*)
Mr. ZHAN Jian Zhou
Mr. CHEN Chang

Remuneration Committee

Mr. ZHAN Jian Zhou (*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

CCTH CPA Limited

Stock Code

1938

Company's Website

www.pck.com.cn

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 Bohai Bank
China Construction Bank
Rural Commercial Bank
Industrial and Commercial Bank of China
Industrial Bank

Principal Share Registrar and Transfer Office

Suntera (Cayman) Limited
Suite 3204, Unit 2A, Block 3
Building D, P.O. Box 1586
Gardenia Court,
Camana Bay
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 2024 (the “Period”), we recorded a revenue of approximately RMB1,638.1 million (six months ended 30 June 2023 (“1H2023”): RMB1,194.6 million), representing an increase of approximately 37.1% as compared with the corresponding period in 2023. 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 RMB129.5 million (1H2023: RMB158.0 million). Earnings per share for the Period was RMB0.13 (1H2023: RMB0.16). The board of directors of the Company (the “Board”) did not recommend the payment of interim dividend for the Period (1H2023: 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 RMB1,638.1 million (1H2023: RMB1,194.6 million), representing an increase of approximately 37.1% as compared with the corresponding period in 2023. The revenue increase was due to the increase in sales of steel pipes especially increase in demand from overseas market.

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

	Six months ended 30 June			
	2024		2023	
	RMB'000 (Unaudited)	% to total	RMB'000 (Unaudited)	% to total
Revenue				
Steel Pipes	1,637,661	100.0%	1,194,465	100.0%
Property development and investment	480	0.0%	167	0.0%
	1,638,141	100.0%	1,194,632	100.0%

During the Period, the steel pipe revenue from domestic sales and overseas sales represented approximately 20.9% (1H2023: 40.0%) and approximately 79.1% (1H2023: 60.0%) respectively of our total steel pipe revenue.

Management Discussion and Analysis

Sales by geography – Steel Pipes

	Six months ended 30 June			
	2024		2023	
	RMB'000 (Unaudited)	% of revenue	RMB'000 (Unaudited)	% of revenue
Domestic sales	341,665	20.9%	477,208	40.0%
Overseas sales	1,295,996	79.1%	717,257	60.0%
Total steel pipes and manufacturing services	1,637,661	100%	1,194,465	100.0%

Sales by products – Steel Pipes

	Six months ended 30 June			
	2024		2023	
	RMB'000 (Unaudited)	% of revenue	RMB'000 (Unaudited)	% of revenue
Manufacture and sale of steel pipes				
<i>LSAW steel pipes</i>	1,364,809	83.3%	715,802	59.9%
<i>SSAW steel pipes</i>	171,891	10.5%	357,663	30.0%
<i>ERW steel pipes</i>	2,181	0.1%	–	0.0%
Sub-total	1,538,881	93.9%	1,073,465	89.9%
Steel pipes manufacturing services				
<i>LSAW steel pipes</i>	21,494	1.3%	81,192	6.8%
<i>SSAW steel pipes</i>	18,758	1.2%	12,111	1.0%
Sub-total	40,252	2.5%	93,303	7.8%
Others	58,528	3.6%	27,697	2.3%
Total	1,637,661	100.0%	1,194,465	100.0%

Management Discussion and Analysis

Steel Pipes

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Sales	1,637,661	1,194,465
Cost of sales and services	(1,330,865)	(898,107)
Gross profit	306,796	296,358

Gross Profit and Gross Profit Margin – Steel Pipes

During the Period, our gross profit of steel pipes was approximately RMB306.8 million (1H2023: RMB296.4 million), representing an increase of approximately 3.5% as compared with the corresponding period in 2023. The overall gross profit margin was approximately 18.7%, which was lower than that for the same period in 2023 which was approximately 24.8%. Decrease in gross profit margin was due to relatively lower gross profit margin of one significant overseas project which dragged down the average gross profit margin.

Property development and investment

	Six months ended 30 June	
	2024 RMB'000 (Unaudited)	2023 RMB'000 (Unaudited)
Property sales:		
Sales	–	–
Cost of sales	–	–
Gross profit	–	–
Rental income	480	167
Total revenue	480	167

Management Discussion and Analysis

Revenue under property development and investment mainly comprises rental income from shops in Phase I of GDC. No recognition of sales of property of GDC during the Period.

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

Other income and gains for the Period were approximately RMB31.4 million (1H2023: RMB6.0 million), representing an increase of approximately 425.4% as compared with the corresponding period in 2023. Such increase was mainly due to the increase in subsidy income.

Selling and distribution expenses for the Period were approximately RMB30.7 million (1H2023: RMB43.7 million), representing a decrease of approximately 30.0% as compared with the corresponding period in 2023. The decrease in selling and distribution expenses was due to the decrease in commission and consultant fees.

Administrative expenses for the Period were approximately RMB96.8 million (1H2023: RMB106.3 million), representing a decrease of approximately 8.9% as compared with the corresponding period in 2023. The decrease in administrative expenses was mainly due to the decrease in research and development expenses.

Finance costs for the Period were approximately RMB58.1 million (1H2023: RMB35.8 million), representing an increase of approximately 62.2% as compared with the corresponding period in 2023. The increase in finance costs was mainly because the interest in relation to property sector can no longer be capitalised and has to be charged to finance costs during the Period.

The Group recorded other expenses of approximately RMB83.4 million for the Period (1H2023: RMB33.5 million), representing an increase of approximately 149.0% as compared with the corresponding period in 2023. The increase was due to write off and impairment of other receivable.

The Group recorded exchange gain of approximately RMB17.1 million during the Period as compared to exchange gain of approximately RMB227,000 during the corresponding period in 2023. The exchange gain was mainly due to the appreciation of USD against RMB.

Income tax credit of approximately RMB42.9 million were recorded for the Period (1H2023: income tax credit of RMB3.7 million). The income tax credit during the Period was mainly due to tax credit on loss of certain subsidiaries during the Period.

As a result of the above, the net profit attributable to ordinary equity holders of the Company was approximately RMB129.5 million (1H2023: RMB158.0 million). Earnings per share for the Period was RMB0.13 (1H2023: RMB0.16).

Management Discussion and Analysis

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 3,500 m. 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 116,000 tonnes of steel pipes. We delivered approximately 217,000 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), 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.

* unofficial transliteration from Chinese name for identification purposes only

Management Discussion and Analysis

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 started to recognise sales of the second phase of GDC in 2022. The land with respect to 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 the face of geopolitical tensions and climate change, the volatility of global oil and gas trade prices poses significant risks to the strategy of reducing inflation. As a result, global economic development is full of uncertainty, which will continue to restrain demand growth and thus limit the pace of global recovery in 2024. The Group expects that the year 2024 will remain a challenging year for the oil and natural gas industry. In the medium and long term, it is expected that the oil and natural gas industry will continue to develop due to the combined effects of the insufficient oil and natural gas pipeline facilities, and China's emphasis on energy security and the promotion of clean energy.

Management Discussion and Analysis

For a long time, oil and natural gas have always been the overriding primary energy in the global energy consumption structure, and China is no exception. In recent years, the output of crude oil and natural gas has continued to increase, especially for clean energy such as natural gas, which has experienced long-term rapid growth in output. Oil and gas pipeline construction industry is an important part of the development of China's energy industry, as well as an important support for national energy security and economic development. With the rapid development of China's economy, the oil and gas pipeline industry has developed rapidly, and the market size has been expanding. The National Energy Administration held the 2023 National Oil and Gas Pipeline Planning, Construction and Protection Work Conference in April 2023 to implement the new deployment and requirements of energy work, continue to promote the construction of oil and gas production, supply, storage and sales system, accelerate the improvement of the "national network", and coordinate the pipeline protection work and major oil and gas pipeline network projects. Meanwhile, it is necessary to take the mid-term evaluation and optimization of the "14th Five-Year Plan" as an opportunity to further strengthen the connection between provincial and enterprise planning and national planning, and effectively ensure the implementation of national strategies and plans.

At the beginning of 2022, the National Development and Reform Commission and the National Energy Administration issued the "14th Five-Year Plan Modern Energy System Plan", which put forward the goal that by 2025, the scale of domestic oil and gas pipeline network would reach approximately 210,000 kilometers. As of the end of 2022, the total mileage of long-distance oil and gas pipelines in China reached approximately 180,000 kilometers, which was twice the length recorded a decade ago, including 28,000 kilometers of crude oil pipelines, 32,000 kilometers of refined oil pipelines and 120,000 kilometers of natural gas pipelines. According to the demand forecast under the "dual carbon" goal, it is expected that China will add a total of approximately 65,000 kilometers of natural gas pipeline construction by 2035, including 29,500 kilometers of new trunk pipelines and 35,300 kilometers of provincial pipelines, approximately 2,000 kilometers of new crude oil pipelines and 4,000 kilometers of refined oil product pipelines. The "14th Five-Year Plan" will see China's oil and gas pipeline network enter into a new development stage of "national network" with physical interconnection and fair and open services, and it is expected that China will enjoy a stable growth in pipeline transportation in the next 10 to 20 years, of which the construction of pipeline transportation for natural gas pipelines and other ancillary facilities will be the focus of development. Emphasis will also be put on the construction of the Southern Section of China-Russia East Line, the middle section of West-to-East line 3, West-to-East line 4, Sichuan-to-East line 2, Hulin-Changchun natural gas pipeline and other major projects. The Group will benefit from the construction of oil and natural gas pipelines.

Management Discussion and Analysis

At the end of 2019, China Oil & Gas Pipeline Network Corporation (“Pipe China”) was formally established, which is principally engaged in the investment, construction and operation of infrastructure such as oil and gas trunk pipeline networks and gas storage and peak shaving, the interconnection of the trunk pipeline network and the connection of social pipelines, as well as the operation and scheduling of the national oil and gas pipeline network, and the construction of an oil and gas pipeline 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 verticals, 5 horizontals” in the next five years. By 2025, the natural gas pipeline network of Pipe China will form a trunk pipe network pattern of “four major (inlet) channels” and “5 verticals, 5 horizontals”. Since its establishment, Pipe China has been constantly strengthening the overall co-ordination of China’s oil and gas pipeline network layout, which has a positive impact on the development of the industry and the Group.

According to the China Natural Gas Development Report (2023), China’s oil and gas enterprises increased their investment in exploration and development by approximately RMB370 billion in 2022, representing a year-on-year increase of 19%. Major breakthroughs have been made in natural gas exploration and development in onshore ultra-deep, deepwater, shale gas and coalbed methane. Among them, offshore oil and gas exploration and development has been moving towards deep water, and China’s offshore oil and gas resources are relatively abundant. The remaining technically recoverable reserves of offshore oil and natural gas account for approximately 34% and 52% of China’s remaining technically recoverable reserves of oil and natural gas, respectively. The ocean will be an important substitute area for the development of oil and gas exploration and production in China. In the future, China’s offshore oil and gas exploration and development will expand to deepwater and ultra-deep water areas, and the Group, as a deep sea welded steel pipe manufacturer, will firmly seize the opportunities.

Management Discussion and Analysis

In order to achieve the “dual carbon” strategic goal of “achieving peak carbon dioxide emission before 2030 and carbon neutrality before 2060”, China indicates that ecology-focused green and low-carbon development will become the leading strategy in the future. In the medium to long term, natural gas will become the focus of fossil energy development, while oil and gas companies will also actively develop and explore clean energy, such as hydrogen, wind power and hydro-power. The construction of a series of natural gas pipeline, wind power and offshore platforms will be accelerated, and the Group will be able to meet the demand for green and low-carbon products with its technical strength and track record.

In the international market, the original global industrial and supply chains have been disrupted and are facing readjustment due to geopolitical conflicts, rising international commodity prices, high inflation and other factors. As such, importers of steel pipes are more inclined to seek for stable suppliers in the PRC. Besides, since the economies of certain developing countries around the world are gradually recovering from the pandemic, the demand for oil and natural gas continues to increase, which enables the Group to further expand its market share of the welded pipe overseas.

The Group believes that it is also our mission to achieve national energy safety and dual carbon goal, which will create business opportunities for the steel pipe manufacturing industry at the same time. Therefore, the Group will firmly seize the opportunities to boost its sales. As our long-term strategic goal is to become a leading global steel pipe manufacturer, the Group will expand our customer bases and market share by participating in more global oil and gas and engineering projects, diversify the use of steel pipes by supplying steel pipes for projects in infrastructure and high-end construction fields, such as bridges, wind power generation, offshore platforms, insulation pipe and water pipes. The Group will also continue to leverage its strengths in the steel pipe industry to secure project orders.

Employees

As at 30 June 2024, we had 868 full time employees in total (as at 31 December 2023: 875). 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.

Management Discussion and Analysis

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 2024 (six months ended 30 June 2023: nil) to the shareholders of the Company.

Financial Guarantee

As at 30 June 2024, the Group guaranteed RMB21.5 million (as at 31 December 2023: RMB27.4 million) to certain purchasers of the Group's properties for mortgage facilities.

Pledge of Assets

As at 30 June 2024, 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 RMB673.1 million (as at 31 December 2023: RMB696.4 million);
- (ii) leasehold lands with an aggregate net book value of RMB469.4 million (as at 31 December 2023: RMB481.6 million); and
- (iii) completed properties held for sale with an aggregate net book value of RMB1,079.6 million (as at 31 December 2023: RMB1,003.0 million).

Management Discussion and Analysis

Liquidity and Financial Resources

As at 30 June 2024, our cash and bank balances and current ratio, as a ratio of current assets to current liabilities, were approximately RMB75.1 million (as at 31 December 2023: RMB32.2 million) and 0.83 (as at 31 December 2023: 0.81) 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"). The maturity date has been extended to 22 December 2023 and as at 30 June 2024, the parties are still negotiating for another extension. 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. Subsequent to 30 June 2024 and up to the date of this report, the Company will continue to actively negotiate with the investor for the extension of the Bonds.

As at 30 June 2024, our aggregate borrowings were approximately RMB1,911.1 million (as at 31 December 2023: approximately RMB1,832.4 million), of which approximately RMB1,852.6 million (as at 31 December 2023: RMB1,769.7 million) were bank loans and other borrowings, approximately RMB57.5 million (as at 31 December 2023: RMB61.7 million) were USD and HKD bonds and approximately RMB1.0 million (as at 31 December 2023: RMB1.0 million) were lease liabilities.

Included in the aggregate borrowings as at 30 June 2024 were property development loans of around RMB786.1 million. Excluding the above loans, the loans for our steel pipe business as at 30 June 2024 were around RMB1,125.0 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.

Management Discussion and Analysis

The gearing ratio, expressed as a percentage of the summation of interest bearing borrowings and bonds over total assets was approximately 29.5% as at 30 June 2024 (as at 31 December 2023: 28.5%).

The maturity profile of our total borrowings as at 30 June 2024 was approximately 92% (as at 31 December 2023: 92%) of the total borrowings repayable within one year, and approximately 8% (as at 31 December 2023: 8%) of the total borrowings repayable over one year.

As at 30 June 2024, approximately 80% (as at 31 December 2023: 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 17% (as at 31 December 2023: 16%) of our total borrowings were denominated in RMB which carried fixed interest rate and approximately 3% (as at 31 December 2023: 4%) 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

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 2024 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 2024, 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 (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 2024, 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. The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme and other share option scheme of the Group (if any) must not in aggregate exceed 10% of the shares in issue as at the date of adoption of the Share Option Scheme (i.e. not exceeding 101,114,200 shares). As at 30 June 2024, no share option has been granted or agreed to be granted to any person under the scheme.

As at 1 January 2024 and 30 June 2024, the total number of share options that can be granted under the Share Option Scheme was 101,114,200 and 101,114,200 respectively, which represented approximately 10% and 10% of the issued share capital of the Company at such dates respectively.

Other Information

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 C1 to the Listing Rules throughout the six months ended 30 June 2024.

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 C3 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 2024.

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 2024.

Other Information

Audit Committee

The Company's audit committee (the "Audit Committee") comprises Mr. Au Yeung Kwong Wah (Chairman), Mr. Chen Ping and Mr. Zhan Jian Zhou, 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 2024.

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 2024

		Six months ended 30 June	
	Notes	2024 (Unaudited) RMB'000	2023 (Unaudited) RMB'000
REVENUE	5	1,638,141	1,194,632
Cost of sales and services		(1,330,865)	(898,107)
Gross profit		307,276	296,525
Other income and gains	5	31,370	5,971
Selling and distribution expenses		(30,729)	(43,703)
Administrative expenses		(96,837)	(106,297)
Exchange gain, net		17,137	227
Other expenses, net	6	(83,430)	(33,501)
Finance costs	7	(58,122)	(35,826)
Gain on disposal of investment in a joint venture		–	70,922
PROFIT BEFORE TAX	8	86,665	154,318
Income tax credit	9	42,851	3,713
PROFIT FOR THE PERIOD, ATTRIBUTABLE TO OWNERS OF THE COMPANY		129,516	158,031
EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted	10	RMB0.13	RMB0.16

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2024

	Six months ended 30 June	
	2024 (Unaudited) RMB'000	2023 (Unaudited) RMB'000
PROFIT FOR THE PERIOD	129,516	158,031
OTHER COMPREHENSIVE LOSS		
Other comprehensive loss that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	(13,477)	(16,567)
Net other comprehensive loss that may be reclassified to profit or loss in subsequent periods	(13,477)	(16,567)
Other comprehensive 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	740	3,796
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	740	3,796
OTHER COMPREHENSIVE LOSS FOR THE PERIOD, NET OF TAX	(12,737)	(12,771)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD, ATTRIBUTABLE TO OWNERS OF THE COMPANY	116,779	145,260

Interim Condensed Consolidated Statement of Financial Position

As at 30 June 2024

	Notes	As at 30 June 2024 (Unaudited) RMB'000	As at 31 December 2023 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	11	1,837,577	1,839,427
Investment properties	12	360,000	360,000
Right-of-use assets		623,455	631,830
Long term prepayments and deposits		47,297	61,550
Total non-current assets		2,868,329	2,892,807
CURRENT ASSETS			
Completed properties held for sale		2,028,029	2,022,678
Inventories	13	418,416	583,474
Trade and bills receivables	14	494,836	311,953
Prepayments, other receivables and other assets		550,613	572,588
Pledged and restricted bank balances		34,357	5,730
Cash and bank equivalents		75,136	32,191
Total current assets		3,601,387	3,528,614
CURRENT LIABILITIES			
Trade and bills payables	15	858,461	942,593
Other payables and accruals		694,144	601,614
Contract liabilities		736,457	742,784
Fixed rate bonds and notes	16	57,499	61,678
Interest-bearing bank and other borrowings	17	1,706,080	1,616,860
Due to a director	20	9,603	64,353
Tax payable		235,797	294,512
Provision		51,984	49,964
Total current liabilities		4,350,025	4,374,358
NET CURRENT LIABILITIES		(748,638)	(845,744)
TOTAL ASSETS LESS CURRENT LIABILITIES		2,119,691	2,047,063

Interim Condensed Consolidated Statement of Financial Position (continued)

As at 30 June 2024

	Notes	As at 30 June 2024 (Unaudited) RMB'000	As at 31 December 2023 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	17	147,505	153,816
Deferred tax liabilities		183,770	183,770
Long-term tax payable		451,753	486,614
Government grants		143,809	146,788
Total non-current liabilities		926,837	970,988
Net assets		1,192,854	1,076,075
EQUITY			
Equity attributable to owners of the Company			
Issued capital	18	88,856	88,856
Reserves		1,103,998	987,219
Total equity		1,192,854	1,076,075

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2024

For the six months ended 30 June 2024

	Attributable to owners of the Company								Total RMB'000
	Issued capital RMB'000 (note 18)	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 2024 (audited)	88,856	767,097	612,661	224,589	53,934	274,185	(893,963)	(51,284)	1,076,075
Profit for the period	-	-	-	-	-	-	129,516	-	129,516
Other comprehensive loss for the period:									
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(13,477)	(13,477)
Exchange differences related to the translation of the Company's financial statements into the presentation currency	-	-	-	-	-	-	-	740	740
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	129,516	(12,737)	116,779
Transfer of capital reserve and statutory reserve fund upon the deregistration at subsidiaries	-	-	-	-	(5,705)	(652)	6,357	-	-
At 30 June 2024 (unaudited)	88,856	767,097	612,661	224,589	48,229	273,533	(758,090)	(64,021)	1,192,854

Interim Condensed Consolidated Statement of Changes in Equity (continued)

For the six months ended 30 June 2024

For the six months ended 30 June 2023

	Attributable to owners of the Company								
	Issued capital RMB'000 (note 18)	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	Total RMB'000
At 1 January 2023 (audited)	88,856	767,097	612,661	224,589	53,934	274,185	(1,077,741)	(12,642)	930,939
Profit for the period	-	-	-	-	-	-	158,031	-	158,031
Other comprehensive income for the period:									
Exchange differences on translation of foreign operations	-	-	-	-	-	-	-	(16,567)	(16,567)
Exchange differences related to the translation of the Company's financial statements into the presentation currency	-	-	-	-	-	-	-	3,796	3,796
Total comprehensive income/(loss) for the period	-	-	-	-	-	-	158,031	(12,771)	145,260
At 30 June 2023 (unaudited)	88,856	767,097	612,661	224,589	53,934	274,185	(919,710)	(25,413)	1,076,199

* These reserve accounts comprise the consolidated reserves of approximately RMB1,103,998,000 (30 June 2023: RMB987,343,000) in the interim condensed consolidated statement of financial position as at 30 June 2024.

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.
- (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 2024

	Six months ended 30 June	
	2024 (Unaudited) RMB'000	2023 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	86,665	154,318
Adjustments for:		
Finance costs	58,122	35,826
Gain on disposal of investment in a joint venture	–	(70,922)
Loss on disposal of property, plant and equipment	–	46
Bank interest income	(77)	(135)
Subsidy income from the PRC government	(5,021)	(2,966)
Depreciation of property, plant and equipment	35,688	37,690
Depreciation of right-of-use assets	7,956	9,132
Write-off of property, plant and equipment	88	2
Inventories written off	–	3,812
Loss on deregistration of subsidiaries	4,056	–
Write-off of other receivables	46,341	–
Impairment of other receivables	27,593	25,162
	261,411	191,965
Decrease/(increase) in inventories	165,058	(98,657)
Increase in completed properties held for sale	(5,351)	(17,972)
Increase in trade and bills receivables	(182,883)	(131,242)
Increase in prepayments, other receivables and other assets	(41,762)	(79,521)
(Increase)/decrease in pledged and restricted bank balances	(28,627)	7,054
(Decrease)/increase in trade and bills payables	(84,132)	33,115
Increase in contract liabilities, other payables and accruals	84,377	233,566
Increase/(decrease) in provision	2,020	(1,058)
Cash generated from operations	170,111	137,250
Interest received	77	135
Interest paid	(49)	(15)
Corporate income tax paid	(53,714)	(146)
Land appreciation tax paid	(144)	–
Net cash flows from operating activities	116,281	137,224

Interim Condensed Consolidated Statement of Cash Flows (continued)

For the six months ended 30 June 2024

	Six months ended 30 June	
	2024 (Unaudited) RMB'000	2023 (Unaudited) RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(33,926)	(42,970)
Receipt of government grants	2,042	67
Proceeds from disposal of investment in a joint venture	–	30,761
Proceeds from disposal of property, plant and equipment	–	921
Net cash flows used in investing activities	(31,884)	(11,221)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans and other borrowings	557,356	353,511
Repayment of bank loans and other borrowings	(474,213)	(298,742)
Repayment of bonds	(4,597)	(15,634)
Interest paid	(53,114)	(35,811)
Principal portion of lease payments	(227)	(336)
Decrease in an amount due to a director	(54,750)	(44,799)
Net cash flows used in financing activities	(29,545)	(41,811)
NET INCREASE IN CASH AND CASH EQUIVALENTS	54,852	84,192
Effect of foreign exchange rate changes, net	(11,907)	(13,055)
Cash and cash equivalents at 1 January	32,191	16,128
CASH AND CASH EQUIVALENTS AT 30 JUNE	75,136	87,265

Notes to the Interim Condensed Consolidated Financial Statements

For the six months ended 30 June 2024

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 2024 (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 2024 have been prepared in accordance with International Accounting Standards ("IAS") 34 Interim Financial Reporting issued by the International Accounting Standards Board. 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 2023.

Going concern basis

As at 30 June 2024, the Group maintained cash and cash equivalents of approximately RMB75,136,000 and recorded net current liabilities of approximately RMB748,638,000. In view of these circumstances, the directors of the Company have considered the future liquidity and performance of the Group and its available sources of finance in assessing whether the Group will have sufficient financial resources to continue as a going concern.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

2. Basis of Preparation (Continued)

Going concern basis (Continued)

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

As at 30 June 2024, the Group have obtained sufficient unutilised general facility granted by financial institutions, and the Group is expected to have sufficient financial support to pay off debts in the next 18 months, so the interim condensed consolidated financial statements are prepared on the basis of going concern.

Subsequent to 30 June 2024 and up to the date of this report, the renewal of the loan amounted to RMB786,000,000 which is due in one year is under negotiation and the Group expects that the renewal of such loan could be renewed with the related bank for five years. The Group continues 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 of the Company have evaluated all the relevant facts available to them and are of the opinion that they have a good track record and relationship with the banks and considered that the Group would be able to renew the Group's loans upon expiry.

(2) *Improvement of the Group's operating cash flows*

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

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

2. Basis of Preparation (Continued)

Going concern basis (Continued)

(2) *Improvement of the Group's operating cash flows* (Continued)

The directors of the Company have prepared a cash flow forecast for the Group which covers a period of eighteen months from the end of the reporting period. Taking into account the 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.

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 and methods of computation used in the interim condensed consolidated financial statements for the six months ended 30 June 2024 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2023, except for the adoption of the following amendments to International Financial Reporting Standards ("IFRSs") for the first time for the current period's financial information.

Adoption of amended IFRSs – effective on 1 January 2024

Amendments to IFRS 16	Lease Liability in a Sale and Leaseback
Amendments to IAS 1	Classification of Liabilities as Current or Non-current ("2020 amendments")
Amendments to IAS 1	Non-current Liabilities with Covenants ("2022 amendments")
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

3. Changes in Accounting Policies and Disclosures (Continued)

Adoption of amended IFRSs – effective on 1 January 2024 (Continued)

The nature and impact of the amendments to IFRSs:

- (a) Amendments to IFRS 16 specify the requirements that a seller-lessee uses in measuring the lease liability arising in a sale and leaseback transaction to ensure the seller-lessee does not recognise any amount of the gain or loss that relates to the right of use it retains. Since the Group has no sale and leaseback transactions with variable lease payments that do not depend on an index or a rate occurring from the date of initial application of IFRS 16, the amendments did not have any impact on the financial position or performance of the Group.
- (b) Amendments to IAS 1 – Classification of Liabilities as Current or Non-current (the “2020 Amendments”) clarify the requirements for classifying liabilities as current or non-current, including what is meant by a right to defer settlement and that a right to defer must exist at the end of the reporting period. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement. The amendments also clarify that a liability can be settled in its own equity instruments, and that only if a conversion option in a convertible liability is itself accounted for as an equity instrument would the terms of a liability not impact its classification. The Amendments to IAS 1 – Non-current Liabilities with Covenants (the “2022 Amendments”) further clarify that, among covenants of a liability arising from a loan arrangement, only those with which an entity must comply on or before the reporting date affect the classification of that liability as current or non-current. Additional disclosures are required for non-current liabilities that are subject to the entity complying with future covenants within 12 months after the reporting period.

The Group has reassessed the terms and conditions of its liabilities as at 1 January 2023 and 1 January 2024 and concluded that the classification of its liabilities as current or non-current remained unchanged upon initial application of the amendments. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

3. Changes in Accounting Policies and Disclosures (Continued)

Adoption of amended IFRSs – effective on 1 January 2024 (Continued)

- (c) Amendments to IAS 7 and IFRS 7 clarify the characteristics of supplier finance arrangements and require additional disclosure of such arrangements. The disclosure requirements in the amendments are intended to assist users of financial statements in understanding the effects of supplier finance arrangements on an entity's liabilities, cash flows and exposure to liquidity risk. The disclosure of relevant information for supplier finance arrangements is not required for any interim reporting period during the first annual reporting period in which an entity applies the amendments. As the Group does not have supplier finance arrangements, the amendments did not have any impact on the interim condensed consolidated financial information of the Group.

4. Operating Segment Information

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

- (a) the 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.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

4. Operating Segment Information (Continued)

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

There were no intersegment sales during the six months ended 30 June 2024 and 2023.

Six months ended 30 June 2024 (unaudited)	Property development and investment		Total RMB'000
	Steel pipes RMB'000	investment RMB'000	
Segment revenue:			
Sales to external customers	1,637,661	480	1,638,141
Segment results:	129,885	(35,491)	94,394
<i>Reconciliation:</i>			
Corporate and other unallocated income			1
Corporate and other unallocated expenses			(2,618)
Unallocated finance costs			(5,112)
Profit before tax			86,665
Segment assets:	3,282,078	3,332,574	6,614,652
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(391,859)
Corporate and other unallocated assets			246,923
Total assets			6,469,716
Segment liabilities:	3,435,194	2,095,692	5,530,886
<i>Reconciliation:</i>			
Elimination of intersegment payables			(391,859)
Corporate and other unallocated liabilities			137,835
Total liabilities			5,276,862
Other segment information:			
Depreciation and amortisation	(43,640)	(4)	(43,644)
Capital expenditure*	33,926	–	33,926

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

4. Operating Segment Information (Continued)

Six months ended 30 June 2023 (unaudited)	Steel pipes RMB'000	Property development and investment RMB'000	Total RMB'000
Segment revenue:			
Sales to external customers	1,194,465	167	1,194,632
Segment results:	203,817	(43,138)	160,679
<i>Reconciliation:</i>			
Corporate and other unallocated income			113
Corporate and other unallocated expenses			(2,342)
Unallocated finance costs			(4,132)
Profit before tax			154,318
Segment assets:	3,300,551	3,954,416	7,254,967
<i>Reconciliation:</i>			
Elimination of intersegment receivables			(662,950)
Corporate and other unallocated assets			321,771
Total assets			6,913,788
Segment liabilities:	3,811,237	2,540,724	6,351,961
<i>Reconciliation:</i>			
Elimination of intersegment payables			(662,950)
Corporate and other unallocated liabilities			148,578
Total liabilities			5,837,589
Other segment information:			
Depreciation and amortisation	(46,814)	(8)	(46,822)
Capital expenditure*	42,970	–	42,970

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

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

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	
	2024 (Unaudited) RMB'000	2023 (Unaudited) RMB'000
Manufacture and sale of steel pipes:		
LSAW steel pipes	1,364,809	715,802
SSAW steel pipes	171,891	357,663
ERW steel pipes	2,181	–
Steel pipe manufacturing services:		
LSAW steel pipes	21,494	81,192
SSAW steel pipes	18,758	12,111
Others*	58,528	27,697
	1,637,661	1,194,465
Sale of properties	480	167
	1,638,141	1,194,632

* Others mainly included the manufacture and sales of steel fittings, screw-thread steels and scrape materials, and the trading of equipment and steel plates.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

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	
	2024 (Unaudited) RMB'000	2023 (Unaudited) RMB'000
Sales to external customers:		
Mainland China	342,145	477,375
Africa	947,460	110,028
Other Asian countries	221,845	162,860
Middle East	73,037	348,050
Europe	2,345	–
South America	8,303	96,319
North America	43,006	–
	1,638,141	1,194,632

- (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 2024 and 2023 are as follows:

	Six months ended 30 June	
	2024 (Unaudited) RMB'000	2023 (Unaudited) RMB'000
Customer A	N/A [#]	223,912
Customer B	874,528	N/A [*]
Customer C	191,981	N/A [*]

[#] Each of the revenue from Customer A for the six months ended 30 June 2024 did not contribute over 10% of the total revenue of the Group for that period.

^{*} Each of the revenue from Customer B and C for the six months ended 30 June 2023 did not contribute over 10% of the total revenue of the Group for that period.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

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	
	2024 (Unaudited) RMB'000	2023 (Unaudited) RMB'000
Revenue from contracts with customers		
Manufacture and sale of welded steel pipes and the provision of related manufacturing services	1,637,661	1,194,465
Sale of properties	–	–
	1,637,661	1,194,465
Revenue from lease contracts		
Rental income	480	167
	1,638,141	1,194,632
Other income and gains		
Bank interest income	77	135
Subsidy income from the PRC government*	13,577	2,966
Others	17,716	2,870
	31,370	5,971

* The subsidy income represented subsidies granted by the local finance bureaus in the PRC 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.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

5. Revenue, Other Income and Gains (Continued)

Revenue from contracts with customers:

(i) Disaggregated revenue information:

Six months ended 30 June 2024 (unaudited)	Property development and investment		Total RMB'000
	Steel pipes RMB'000	investment RMB'000	
Sales of goods/properties	1,597,409	–	1,597,409
Rendering of services	40,252	–	40,252
Total revenue from contracts with customers	1,637,661	–	1,637,661
Geographical markets			
Mainland China	341,665	–	341,665
Africa	947,460	–	947,460
Other Asian countries	221,845	–	221,845
Middle East	73,037	–	73,037
Europe	2,345	–	2,345
South America	8,303	–	8,303
North America	43,006	–	43,006
Total revenue from contracts with customers	1,637,661	–	1,637,661
Timing of revenue recognition			
Goods/properties transferred at a point in time	1,597,409	–	1,597,409
Services transferred over time	40,252	–	40,252
Total revenue from contracts with customers	1,637,661	–	1,637,661

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

5. Revenue, Other Income and Gains (Continued)

(i) Disaggregated revenue information: (Continued)

Six months ended 30 June 2023 (unaudited)	Steel pipes RMB'000	Property development and investment RMB'000	Total RMB'000
Sales of goods/properties	1,101,162	–	1,101,162
Rendering of services	93,303	–	93,303
Total revenue from contracts with customers	1,194,465	–	1,194,465
Geographical markets			
Mainland China	477,208	–	477,208
Africa	110,028	–	110,028
Other Asian countries	162,860	–	162,860
Middle East	348,050	–	348,050
South America	96,319	–	96,319
Total revenue from contracts with customers	1,194,465	–	1,194,465
Timing of revenue recognition			
Goods/properties transferred at a point in time	1,101,162	–	1,101,162
Services transferred over time	93,303	–	93,303
Total revenue from contracts with customers	1,194,465	–	1,194,465

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

5. Revenue, Other Income and Gains (Continued)

(ii) Performance obligations:

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

Sale of steel pipes

Revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location (delivery). Transportation and handling activities that occur before customer obtain control are considered as fulfilment activities. Following the delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. Payment is generally due 30 days to 90 days 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 of the completed property is obtained by the purchasers.

Manufacturing services

Such services are recognised as a performance obligation satisfied over time as the Group creates or enhances an asset that the customer controls as the asset is created or enhanced. Revenue is recognised for these manufacturing services based on the stage of completion of the contract using input method. 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 (continued)

For the six months ended 30 June 2024

6. Other Expenses, Net

	Six months ended 30 June	
	2024 (Unaudited) RMB'000	2023 (Unaudited) RMB'000
Compensation	3,022	2,685
Loss on disposal of property, plant and equipment	–	46
Loss on deregistration of subsidiaries	4,056	–
Write-off of other receivables	46,341	–
Provision of claim arising from litigations	2,020	1,614
Inventories written off	–	3,812
Write-off of property, plant and equipment	88	2
Impairment of other receivables	27,593	25,162
Others	310	180
	83,430	33,501

7. Finance Costs

An analysis of finance costs is as follows:

	Six months ended 30 June	
	2024 (Unaudited) RMB'000	2023 (Unaudited) RMB'000
Interest on bank and other borrowings (including bonds and notes)	57,563	35,458
Interest on discounted bills	510	353
Interest on lease liabilities	49	15
Total interest expenses	58,122	35,826

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

8. Profit Before Tax

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

	Six months ended 30 June	
	2024 (Unaudited) RMB'000	2023 (Unaudited) RMB'000
Cost of inventories sold	1,330,865	898,107
Cost of properties sold	–	–
Depreciation of property, plant and equipment	35,688	37,690
Depreciation of right-of-use assets	7,956	9,132
Loss on disposal of property, plant and equipment	–	46

9. 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.

Pursuant to the rules and regulations of the Cayman Islands and British Virgin Islands, the Group's subsidiaries incorporated in the Cayman Islands and British Virgin Islands are not subject to any income tax. The Group's subsidiaries incorporated in Hong Kong are not liable for income tax as they did not have any assessable profit currently arising in Hong Kong for the Period.

All subsidiaries of the Group operating in Mainland China are taxed in accordance with the Corporate Income Tax Law. There were three types of tax rates during the Period for the Group, including the 25% tax rate, the 15% tax rate for the High and New Technology Enterprise, and the preferential tax rate policy for small and low-profit enterprises.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

9. Income Tax (Continued)

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

	Six months ended 30 June	
	2024 (Unaudited) RMB'000	2023 (Unaudited) RMB'000
Current – Mainland China:		
PRC CIT charge for the Period	21,031	11,425
PRC CIT over-provision in prior period	(63,882)	(15,138)
Total tax credit for the Period	(42,851)	(3,713)

10. Earnings Per Share Attributable to Owners of the Company

The calculation of basic earnings per share amounts is based on the profit for the Period attributable to owners of the Company and the weighted average number of ordinary shares of 1,011,142,000 (at 30 June 2023: 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 2024 and 2023.

11. Property, Plant and Equipment

	30 June 2024 (Unaudited) RMB'000	31 December 2023 (Audited) RMB'000
At beginning of the period/year	1,839,427	1,769,994
Additions	33,926	96,260
Disposals	–	(944)
Depreciation	(35,688)	(25,881)
Write-off	(88)	(2)
At end of the period/year	1,837,577	1,839,427

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

11. Property, Plant and Equipment (Continued)

The Group's property, plant and equipment with a net carrying amount of approximately RMB673,053,000 (31 December 2023: RMB696,393,000) were pledged to secure the Group's bank loans and other borrowings, as further detailed in note 17.

12. Investment Properties

	30 June 2024 (Unaudited) RMB'000	31 December 2023 (Audited) RMB'000
Commercial properties in Mainland China, the PRC		
Carrying amount at beginning of the period/year	360,000	362,000
Net loss from a fair value adjustment	–	(2,000)
Carrying amount at end of the period/year	360,000	360,000

13. Inventories

	30 June 2024 (Unaudited) RMB'000	31 December 2023 (Audited) RMB'000
Raw materials	288,799	247,949
Work in progress	13,347	72,886
Finished goods	129,931	276,300
	432,077	597,135
Less: Provision against slow-moving and obsolete inventories	(13,661)	(13,661)
	418,416	583,474

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

14. Trade and Bills Receivables

	30 June 2024 (Unaudited) RMB'000	31 December 2023 (Audited) RMB'000
Trade receivables	573,929	371,628
Impairment allowance	(83,159)	(83,159)
Trade receivables, net	490,770	288,469
Bills receivable	4,066	23,484
	494,836	311,953

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 and net of loss allowance, is as follows:

	30 June 2024 (Unaudited) RMB'000	31 December 2023 (Audited) RMB'000
Within 60 days	286,412	140,259
61 to 90 days	35,313	43,639
91 to 180 days	31,401	5,209
181 to 365 days	57,224	31,848
1 to 2 years	31,183	58,664
2 to 3 years	49,237	8,850
	490,770	288,469

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

15. 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 2024 (Unaudited) RMB'000	31 December 2023 (Audited) RMB'000
Trade payables		
Within 90 days	385,970	627,595
91 to 180 days	118,695	55,490
181 to 365 days	71,516	64,566
1 to 2 years	59,437	35,642
2 to 3 years	17,026	31,463
Over 3 years	79,356	68,786
	732,000	883,542
Bills payable	126,461	59,051
	858,461	942,593

The trade payables are non-interest-bearing and are normally settled within a year. The maturity dates of all the bills payable are within 365 days.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

16. Fixed Rate Bonds and Notes

	30 June 2024				31 December 2023			
	Principal at original currency 'million	Contractual interest rate (%) per annum	Maturity	(Unaudited) RMB'000	Principal at original currency 'million	Contractual interest rate (%) per annum	Maturity	(Audited) RMB'000
Current								
2017 Bonds A	N/A	N/A	N/A	-	US\$0.25	7.0	2023	1,867
2020 Notes	HK\$61	12.0	2023	55,674	HK\$61	12.0	2023	55,280
2022 Bonds B	HK\$2	8.0	2025	1,825	HK\$2	8.0	2025	1,812
2022 Bonds C	N/A	N/A	N/A	-	HK\$3	8.0	2024	2,719
				57,499				61,678

US\$3,000,000 7% bonds due in 2023 (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 had been extended to 30 June 2022 and further extended to 31 March 2023 and 30 September 2023 by the Company and the investor. The bonds bore interest at a fixed coupon interest rate of 7% per annum, payable semiannually in arrears commencing on 28 October 2017. The bonds were unsecured. The 2017 Bonds A matured on 30 September 2023 and was not repaid by the Company upon the maturity date. Interest on the 2017 Bonds A carried interest at 7% per annum was recognised in the profit and loss of the Group and the related interests payable were included in other payables and accruals. As at 30 June 2024, the Company had fully redeemed the 2017 Bonds A.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

16. Fixed Rate Bonds and Notes (Continued)

HK\$140,000,000 12% notes due in 2023 (2020 Notes)

On 27 April 2020, the Group issued 12% notes due on 27 April 2022 but the expiry date could be extended to 30 September 2022 with a principal amount of HK\$140,000,000 to an investment fund (the "2020 Notes"). The notes bear interest at a fixed rate of 12% per annum, payable semiannually in arrears. 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. The Company and the noteholder mutually agreed to extend the maturity date to 22 December 2023. The 2020 Notes matured on 22 December 2023 and was not repaid by the Company upon the maturity date. Interest on the 2020 Notes carried interest at 12% per annum was recognised in the profit and loss of the Group and the related interests payable were included in other payables and accruals. As at 30 June 2024, the Company had partially redeemed the 2020 Notes with a principal amount of HK\$79,000,000. At the end of the reporting period, the 2020 Notes with the principal amount of HK\$61,000,000 remained outstanding. Subsequent to 30 June 2024 and up to the date of this report, the Company will continue to actively negotiate with the investor for the extension of the 2020 Notes.

HK\$2,000,000 8% bonds due in 2025 (2022 Bonds B)

On 8 January 2022, the Company issued bonds with a principal amount of HK\$2,000,000 to an individual investor (the "2022 Bonds B"). The bonds should be repayable in full by 9 January 2023 but the expiry date has been extended to 9 January 2024 and further extended to 9 January 2025 and concluded during period by the Company and the investor. The bonds bear interest at a fixed coupon interest rate of 6% per annum, payable monthly in arrears. From 9 January 2023, the interest rate of the 2022 Bonds B increased from 6% per annum to 8% per annum. The bonds are unsecured.

HK\$3,000,000 8% bonds due in 2024 (2022 Bonds C)

On 8 January 2022, the Company issued bonds with a principal amount of HK\$3,000,000 to an individual investor (the "2022 Bonds C"). The bonds should be repayable in full by 9 January 2023 but the expiry date had been extended to 11 April 2024 by the Company and the investor. The bonds bore interest at a fixed coupon interest rate of 6% per annum, payable monthly in arrears. From 9 January 2023, the interest rate of the 2022 Bonds C increased from 6% per annum to 8% per annum. The bonds were unsecured. As at 30 June 2024, the Company had fully redeemed the 2022 Bonds C.

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

17. Interest-Bearing Bank and Other Borrowings

	30 June 2024			31 December 2023		
	Effective interest rate %	Maturity	(Unaudited) RMB'000	Effective interest rate %	Maturity	(Audited) RMB'000
Current						
Lease liabilities	9.13	2024	487	9.13	2024	463
Bank loans						
– secured	4.79–5.66	2024	528,900	4.50–7.00	2024	489,110
– unsecured	3.70–5.44	2024	77,000	4.70–5.44	2024	57,500
Other borrowings						
– secured	5.00–9.09	2024	107,858	5.57–9.09	2024	71,734
– unsecured	0.00–11.20	2024	201,701	0.00–11.20	2024	202,419
Current portion of long term bank loans						
– secured	4.90–5.39	2024	790,134	4.90–5.39	2024	795,634
			<u>1,706,080</u>			<u>1,616,860</u>
Non-current						
Lease liabilities	9.13	2026	287	9.13	2026	532
Bank loans						
– secured	4.90	2025–2028	124,000	4.90	2025–2028	126,000
Other borrowings						
– secured	5.00–9.09	2025	23,218	5.57–9.09	2025	27,284
			<u>147,505</u>			<u>153,816</u>
			<u>1,853,585</u>			<u>1,770,676</u>

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

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

	30 June 2024 (Unaudited) RMB'000	31 December 2023 (Audited) RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	1,396,034	1,342,244
In the second year	4,000	4,000
In the third to fifth years, inclusive	12,000	12,000
Beyond five years	108,000	110,000
	1,520,034	1,468,244
Other borrowings repayable:		
Within one year	309,559	274,153
In the second year	23,218	27,284
	332,777	301,437
Lease liabilities repayable:		
Within one year	487	463
In the second year	287	532
	774	995
	1,853,585	1,770,676

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

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

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

- (a) the pledge of certain of the Group's property, plant and equipment with a net carrying amount of approximately RMB673,053,000 (31 December 2023: RMB696,393,000) as at the end of the Period;
- (b) the pledge of certain of the Group's leasehold land with a net carrying amount of approximately RMB469,448,000 (31 December 2023: RMB481,645,000) as at the end of the Period; and
- (c) the pledge of certain of the Group's completed properties held for sale with an aggregate carrying amount of approximately RMB1,079,608,000 (31 December 2023: RMB1,002,989,000) as at the end of the Period.

Except for the bank loans and other borrowings of approximately RMB421,000 (31 December 2023: RMB2,950,000) as at 30 June 2024, which are denominated in HK\$, all borrowings are denominated in RMB.

The Group had the following undrawn banking facilities:

	30 June 2024 RMB'000	31 December 2023 RMB'000
Floating rate		
– expiring within one year	118,290	103,290
– expiring beyond one year	746,866	738,366
Total undrawn banking facilities	865,156	841,656

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

18. Issued Capital

	30 June 2024 (Unaudited) RMB'000	31 December 2023 (Audited) RMB'000
Authorised:		
10,000,000,000 (31 December 2023: 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 2023: 1,011,142,000) ordinary shares of HK\$0.10 each	88,856	88,856

19. Commitments

The Group had the following capital commitments at the end of the Period:

	30 June 2024 (Unaudited) RMB'000	31 December 2023 (Audited) RMB'000
Contracted, but not provided for:		
Buildings	80,785	80,885
Plant and machinery	30,884	30,230
	111,669	111,115

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

20. Related Party Transactions

- (a) Balances with related parties:

	30 June 2024 (Unaudited) RMB'000	31 December 2023 (Audited) RMB'000
Due to a director – Mr. Chen Chang	9,603	64,353

The outstanding balances with related parties are unsecured, interest-free and repayable on demand.

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

	Six months ended 30 June	
	2024 (Unaudited) RMB'000	2023 (Unaudited) RMB'000
Salaries, allowances and benefits in kind	1,662	1,805
Retirement benefit scheme contributions	38	46
Total compensation paid to key management personnel	1,700	1,851

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

21. Fair Value and Fair Value Hierarchy of Financial Instruments

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2023 and 30 June 2024 except for the following financial instruments, for which their carrying amounts and fair value are disclosed below:

	Carrying amounts		Fair values	
	30 June 2024 (Unaudited) RMB'000	31 December 2023 (Audited) RMB'000	30 June 2024 (Unaudited) RMB'000	31 December 2023 (Audited) RMB'000
Financial liabilities				
Interest-bearing bank and other borrowings (other than lease liabilities)	1,852,811	1,769,681	1,861,082	1,779,139
Fixed rate bonds and notes	57,499	61,678	57,499	61,678
	1,910,310	1,831,359	1,918,581	1,840,817

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

21. 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 2024

	Fair value measurement using			Total (Unaudited) RMB'000
	Quoted prices in active markets (Level 1) (Unaudited) RMB'000	Significant observable input (Level 2) (Unaudited) RMB'000	Significant unobservable inputs (Level 3) (Unaudited) RMB'000	
Interest-bearing bank and other borrowings (other than lease liabilities)	–	1,861,082	–	1,861,082
Fixed rate bonds and notes	–	57,499	–	57,499

As at 31 December 2023

	Fair value measurement using			Total (Audited) RMB'000
	Quoted prices in active markets (Level 1) (Audited) RMB'000	Significant observable input (Level 2) (Audited) RMB'000	Significant unobservable inputs (Level 3) (Audited) RMB'000	
Interest-bearing bank and other borrowings (other than lease liabilities)	–	1,779,139	–	1,779,139
Fixed rate bonds and notes	–	61,678	–	61,678

Notes to the Interim Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2024

21. 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 2024 (31 December 2023: Nil).

The Group did not have any financial liabilities measured at fair value as at 30 June 2024 (31 December 2023: 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 2023: Nil).

22. Approval of Interim Condensed Consolidated Financial Statements

These interim condensed consolidated financial statements were approved and authorised for issue by the Board on 23 August 2024.