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PCK

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)

ANNOUNCEMENT OF UNAUDITED ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021 AND DELAY IN PUBLICATION OF AUDITED ANNUAL RESULTS

CONSOLIDATED FINANCIAL RESULTS

The board (the "Board") of directors (the "Directors") of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "Company") announces the unaudited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2021 (the "Consolidated Financial Statements") together with the comparative figures of the previous financial year as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

	Notes	**2021** ***RMB'000*** **(unaudited)**	2020 *RMB'000* (audited)
REVENUE	*5*	**1,813,370**	1,141,807
Cost of sales		**(1,617,854)**	(935,120)
Gross profit		**195,516**	206,687
Other income and gains	*5*	**1,582,770**	1,911,272
Selling and distribution expenses		**(52,906)**	(34,808)
Administrative expenses		**(263,635)**	(287,638)
Exchange loss, net		**(33,476)**	(120,098)
Finance costs	*7*	**(144,253)**	(475,384)
Fair value loss on investment properties		**(17,000)**	(20,000)
Impairment of property, plant and equipment		**(596,765)**	–
Other expenses	*8*	**(368,831)**	(300,702)
Share of loss of a joint venture		**(15,020)**	(2,668)
PROFIT BEFORE TAX	*6*	**286,400**	876,661
Income tax expense		**(371,579)**	(253,750)
(LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**(85,179)**	622,911

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Notes	**2021** **RMB'000** **(unaudited)**	2020 RMB'000 (audited)
(LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**(85,179)**	622,911
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**67,149**	189,906
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**67,149**	189,906
Other comprehensive 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		**(3,974)**	(11,091)
Net other comprehensive loss that will not be reclassified to profit or loss in subsequent periods		**(3,974)**	(11,091)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**63,175**	178,815
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**(22,004)**	801,726
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY			
Basic and diluted	*9*	**RMB(0.08)**	RMB0.62

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2021 *RMB'000* (unaudited)	2020 *RMB'000* (audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**1,874,309**	2,530,037
Investment properties		**370,000**	387,000
Right-of-use assets		**661,172**	1,031,276
Long term prepayments and deposits		**61,494**	75,679
Investment in a joint venture		**–**	10,510
Total non-current assets		**2,966,975**	4,034,502
CURRENT ASSETS			
Properties under development		**2,255,293**	2,064,560
Completed properties held for sale		**385,203**	365,422
Inventories		**408,977**	415,709
Trade and bills receivables	*10*	**512,281**	511,538
Prepayments, other receivables and other assets		**1,118,584**	1,003,330
Due from a related party		**–**	84,522
Pledged and restricted bank balances		**249,719**	22,712
Cash and cash equivalents		**20,588**	19,466
		4,950,645	4,487,259
Assets classified as held for sale		**–**	19,767
Total current assets		**4,950,645**	4,507,026
CURRENT LIABILITIES			
Trade and bills payables	*11*	**1,291,278**	614,511
Other payables and accruals		**725,986**	782,666
Contract liabilities		**1,273,094**	1,286,986
Fixed rate bonds and notes		**88,930**	33,903
Interest-bearing bank and other borrowings		**881,394**	2,178,336
Due to a director		**465,037**	80,768
Tax payable		**25,777**	417,928
Provision		**30,488**	54,579
		4,781,984	5,449,677
Liabilities directly associated with the assets classified as held for sale		**–**	7,552
Total current liabilities		**4,781,984**	5,457,229
NET CURRENT ASSETS/(LIABILITIES)		**168,661**	(950,203)

	Notes	**2021**	2020
		RMB'000	*RMB'000*
		(unaudited)	(audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,135,636**	3,084,299
NON-CURRENT LIABILITIES			
Due to a director		**–**	50,000
Fixed rate bonds and notes		**–**	114,608
Interest-bearing bank and other borrowings		**839,905**	1,373,109
Deferred tax liabilities		**349,578**	353,876
Long term tax payable		**781,255**	–
Government grants		**330,207**	336,011
Total non-current liabilities		**2,300,945**	2,227,604
Net assets		**834,691**	856,695
EQUITY			
Equity attributable to owners of the Company			
Issued capital		**88,856**	88,856
Reserves		**745,835**	767,839
Total equity		**834,691**	856,695

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE AND GROUP INFORMATION

Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "Company") was incorporated in the Cayman Islands on 9 January 2008 as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's registered office address is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

The Company and its subsidiaries (together, the "Group") are involved in the following principal activities:

- manufacture and sale of welded steel pipes and the provision of related manufacturing services

- property development and investment

In the opinion of the directors, the holding company and the ultimate holding company of the Company is Bournam Profits Limited ("Bournam"), which was incorporated in the British Virgin Islands.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with IFRSs issued by the IASB, International Accounting Standards and Standing Interpretations Committee Interpretations approved by the International Accounting Standards Committee that remain in effect, and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and a derivative financial instrument which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

3. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised IFRSs for the first time for the current year's financial statements.

Amendments to IFRS 9, IAS 39, IFRS7, IFRS 4 and IFRS 16	Interest Rate Benchmark Reform – Phase 2
Amendment to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021 (early adopted)

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

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

    The Group had certain interest-bearing bank and other borrowings denominated in Hong Kong dollars based on the Hong Kong Interbank Offered Rate ("HIBOR") and United States dollars based on the London Interbank Offered Rate ("LIBOR") as at 31 December 2021. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply the above-mentioned practical expedient upon the modification of these instruments provided that the "economically equivalent" criterion is met.

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

The Group has early adopted the amendment on 1 January 2021. However, the Group has not received COVID-19 related rent concessions and plans to apply the practical expedient when it becomes applicable within the allowed period of application.

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) the property development and investment segment engages in development of properties for sale 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 resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that head office and corporate expenses are excluded from such measurement.

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

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

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

Year ended 31 December 2021

	Steel pipes *RMB'000* (unaudited)	Property development and investment *RMB'000* (unaudited)	Total *RMB'000* (unaudited)
Segment revenue: (note 5)			
Sales to external customers	**1,802,568**	**10,802**	**1,813,370**
Segment results	**409,464**	**(70,843)**	**338,621**
Reconciliation:			
Corporate and other unallocated expenses			**(9,486)**
Finance costs (other than interest on lease liabilities)			**(42,735)**
Profit before tax			**286,400**
Segment assets	**3,055,655**	**6,117,547**	**9,173,202**
Reconciliation:			
Elimination of intersegment receivables			**(1,607,400)**
Corporate and other unallocated assets			**351,818**
Total assets			**7,917,620**
Segment liabilities	**4,603,119**	**3,897,520**	**8,500,639**
Reconciliation:			
Elimination of intersegment payables			**(1,607,400)**
Corporate and other unallocated liabilities			**189,690**
Total liabilities			**7,082,929**

Year ended 31 December 2020

	Steel pipes *RMB'000* (audited)	Property development and investment *RMB'000* (audited)	Total *RMB'000* (audited)
Segment revenue: (note 5)			
Sales to external customers	1,125,851	15,956	1,141,807
Segment results	987,220	(67,910)	919,310
Reconciliation:			
Corporate and other unallocated expenses			(14,056)
Finance costs (other than interest on lease liabilities)			(28,593)
Profit before tax			876,661
Segment assets	4,831,520	5,701,932	10,533,452
Reconciliation:			
Elimination of intersegment receivables			(2,553,323)
Corporate and other unallocated assets			561,399
Total assets			8,541,528
Segment liabilities	6,479,771	3,415,310	9,895,081
Reconciliation:			
Elimination of intersegment payables			(2,553,323)
Corporate and other unallocated liabilities			343,075
Total liabilities			7,684,833

Information about steel pipe products and services

The revenue from the major products and services is analysed as follows:

	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Manufacture and sale of steel pipes:		
LSAW steel pipes	**1,351,040**	655,108
SSAW steel pipes	**129,359**	121,354
Steel pipe manufacturing services:		
LSAW steel pipes	**158,640**	152,322
SSAW steel pipes	**90,617**	131,981
Others*	**72,912**	65,086
	1,802,568	1,125,851
Sale of properties	**10,802**	15,956
	1,813,370	1,141,807

* Others mainly include the manufacture and sale of steel fittings, screw-thread steels and scrap materials, and the trading of equipment and steel plates.

Geographical information

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

	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Sales to external customers:		
Mainland China	**965,305**	1,014,108
Africa	**490,831**	–
Europe	**46,967**	–
Middle East	**78,924**	3,249
Asia and other Asian countries	**159,515**	124,450
South America	**71,828**	–
	1,813,370	1,141,807

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

Information about major customers

Revenue of approximately RMB490,831,000 (2020: RMB105,246,000) was derived from sales by the steel pipe segment to a single customer, including sales to a group of entities which are known to be under common control with that customer.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the invoiced value of goods sold and services rendered, net of value-added tax ("VAT") and other sales taxes, after allowances for returns and discounts during the year.

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

	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Revenue from contracts with customers		
Manufacture and sale of seam welded steel pipes and the provision of related manufacturing services	**1,802,568**	1,125,851
Sale of properties	**10,802**	15,956
	1,813,370	1,141,807
Other income and gains		
Bank interest income	**2,576**	715
Subsidy income from the PRC government*	**13,193**	14,092
Gain on resumption of land use rights to the local authorities**	**1,540,336**	1,864,709
Reversal of impairment of trade receivables, net	**1,992**	12,884
Gain on disposal of a subsidiary	**11,728**	–
Gain on disposal of property, plant and equipment	**1,210**	–
Rental income	**2,690**	–
Others	**9,045**	18,872
	1,582,770	1,911,272

* The subsidy income represents subsidies granted by the local finance bureaus to PCKSP, Lianyungang Kaidi Heavy Equipment Technology Co. Ltd*（連雲港凱帝重工科技有限公司）, Nanjing Rongyu Group Co.Ltd*（南京鎔裕集團有限公司）and PCKSP (Zhuhai) as awards for their products. There are no unfulfilled conditions or contingencies relating to such subsidies.

** During the year ended 31 December 2020, a piece of land held by PCKSP located at Qinghe East Road, Shiji Town in Panyu District of Guangzhou, the PRC, was resumed by the local authority with a compensation amount received or receivable of RMB2,072 million and a net gain of RMB1,864 million was recognised during the year ended 31 December 2020. The remaining compensation amount of RMB2,072 million and a net gain of RMB1,540 million was recognised during the year ended 31 December 2021.

6. PROFIT BEFORE TAX

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

	Notes	**2021** ***RMB'000*** **(unaudited)**	2020 *RMB'000* (audited)
Cost of inventories sold		**1,608,617**	921,216
Cost of properties sold		**9,237**	13,904
Auditor's remuneration		**1,064**	2,227
Employee benefit expenses (including directors' remuneration):			
Wages and salaries		**140,789**	114,704
Research and development costs		**64,526**	44,050

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2021 ***RMB'000*** **(unaudited)**	2020 *RMB'000* (audited)
Interest on bank and other borrowings (including bonds and notes, excluding lease liabilities)	**205,320**	543,808
Interest on lease liabilities	**109**	654
Interest on discounted bills	**3,427**	1,388
Total interest expense on financial liabilities not at fair value through profit or loss	**208,856**	545,850
Less: Interest capitalised	**(64,603)**	(70,466)
	144,253	475,384

8. OTHER EXPENSES

	Note	2021 *RMB'000* (unaudited)	2020 *RMB'000* (audited)
Compensation*		**9,746**	204,377
Loss on disposal of right-of-use assets		**292,780**	–
Loss on disposal of property, plant and equipment		**10,635**	11,962
Provision of claim arising from litigation		**29,290**	54,579
Write-down of inventories to net realisable value		**11,443**	–
Impairment of other receivables		**–**	27,222
Others		**14,937**	2,562
		368,831	300,702

* Compensation in 2020 represented a compensation fee paid or payable to Yuecai Trust pursuant to the PCKSP Disposal Supplemental Agreements.

9. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

The calculation of the basic (loss)/earnings per share is based on the (loss)/profit for the year attributable to owners of the Company and the weighted average number of ordinary shares of 1,011,142,000 (2020: 1,011,142,000) in issue during the year.

The Group had no potentially dilutive ordinary shares in issue during the years ended 31 December 2021 and 2020.

10. TRADE AND BILLS RECEIVABLES

	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables	**508,402**	506,570
Impairment	**(4,341)**	(6,333)
Trade receivables, net	**504,061**	500,237
Bills receivable	**8,220**	11,301
	512,281	511,538

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 30 days 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. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 60 days	**248,838**	343,253
61 to 90 days	**10,810**	11,429
91 to 180 days	**24,499**	19,290
181 to 365 days	**105,091**	28,418
1 to 2 years	**25,019**	10,642
2 to 3 years	**11,490**	14,333
Over 3 years	**78,314**	72,872
	504,061	500,237

The movements in the loss allowance for impairment of trade receivables are as follows:

	2021 *RMB'000* (unaudited)	2020 *RMB'000* (audited)
At 1 January	**6,333**	19,434
Impairment losses recognised	**9,957**	–
Transferred to assets classified as held for sale	**–**	(217)
Reversal of impairment	**(11,949)**	(12,884)
At 31 December	**4,341**	6,333

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

11. TRADE AND BILLS PAYABLES

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

	2021 *RMB'000* (unaudited)	2020 *RMB'000* (audited)
Trade payables		
Within 90 days	**729,282**	423,131
91 to 180 days	**45,093**	33,100
181 to 365 days	**34,126**	19,192
1 to 2 years	**56,669**	56,746
2 to 3 years	**75,642**	29,517
Over 3 years	**63,796**	47,882
	1,004,608	609,568
Bills payable	**286,670**	4,943
	1,291,278	614,511

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

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Chu Kong Petroleum and Natural Gas Steel Pipe Holdings Limited (the "Company"), I would like to present to you the consolidated unaudited annual results of the Group for the year ended 31 December 2021.

Despite the continuing outbreak of COVID-19 in 2021, the global economy grew by 5.5% in 2021 compared with that of last year, and China's economy grew by 8.1% compared with that of last year, which led to the improvement in unemployment rates with continuous increase in prices of crude oil and natural gas. The Group recorded a turnover of approximately RMB1,813.4 million (2020: RMB1,141.8 million), representing an increase of approximately 58.8% compared with that of 2020. The Group recorded a loss of approximately RMB85.2 million (2020: profit of RMB622.9 million). Loss per share attributable to ordinary equity holders was approximately RMB0.08 (2020: earnings per share was RMB0.62). The Board did not recommend the payment of a final dividend for the year ended 31 December 2021.

In 2021, under the COVID-19 epidemic, the Group delivered a total of 458,000 tons of steel pipes and received orders for a total of 390,000 tons of steel pipes, including, among others, projects of three large oil companies, the Huangzeshan-Yushan Crude Oil Submarine Pipeline Project, Yuanba-Deyang Natural Gas Transmission Pipeline Project, and Huizhou LNG Receiving Terminal External Transmission Pipeline Project.

During the year, the Group successfully delivered the 45-meter-long piling pipes for an offshore pipeline rack project in the Philippines, which is located in the eastern part of Batangas Bay, Batangas City, Philippines, to construct a LNG terminal at the Batangas Port. The terminal will be the main channel for LNG imports in Luzon Island. The Group undertook the production of 15 pallet jacket structures and pallet top platforms with a total of 14,000 tons, of which included 140 piling pipes for the terminal with a single length of 45 meters, highlighting the strong technology capability of the Group.

The terminal for Zhuhai Base is located in Gaolan Port, Zhuhai, and the Group had been approved to upgrade the berthing standard from the original 5,000-ton berth to a 20,000-ton berth during the year, which, together with two 150-ton gantry cranes in Zhuhai, has a total lifting capacity of 300 tons, making it the strongest gantry crane combination in Zhuhai. This marked a development direction of manufacturing larger and heavier steel pipes for Zhuhai Base of Chu Kong Steel Pipe, and also provided a strong guarantee to enter into new energy, offshore wind power and other key development projects in the 14th Five-Year Plan, thus expanding the market share in the future.

In December 2021, the Group announced the sale of the land held by Panyu Chu Kong Steel Pipe (Lianyungang) Co Ltd. ("PCKSP (Lianyungang)") to the government at a consideration of RMB102.1 million. The undeveloped land with a total site area of approximately 1,400,000 sq.m. is situated at North of Zhongtong Road and East of 226 Sheng Road, Xuwei New Area, Lianyungang City, Jiangsu Province, the PRC（中國江蘇省連雲港市徐圩新區226省道東及中通道北）. The sale of the land will not have any material impact on the business and operations of the Group and can also generate cash flow for the Group, so as to save cost of idled land and enhance the utilization of the assets.

PROSPECT

In the face of the ongoing COVID-19 epidemic, supply chain shortages, rising raw material costs, rising inflation and tensions in Ukraine, it is expected that there will be fluctuation of prices of crude oil and natural gas in 2022, however, China will continue to promote the development of the natural gas industry. In China, the construction of oil and gas pipeline facilities will be accelerated during the 14th Five-Year Plan period. In addition, in order to implement the "dual carbon" policy, natural gas has been a key clean energy for carbon emission reduction, but the construction of natural gas pipelines still has fallen short of the goals as set out in the Medium and Long-Term Oil and Gas Pipeline Network Plan (《中長期油氣管網規劃》), and the next five years will still be a peak period for pipeline construction. As such, the Group will continue to benefit from the increase in demand for pipelines.

With unremitting efforts, the Group is very confident that, it will overcome any hardships, adjust its strategic direction, build up its strength and lay a solid foundation to guard the Group with fearless spirit, as well as improve and strengthen its technologies, actively expand new product areas, and expand its product range from originally only supplying oil and gas transmission pipeline to offering steel pipes for infrastructure and high-end construction projects such as bridges, wind power generation, offshore platforms and water pipes so as to meet the diversified demands of domestic and foreign markets for high-performance steel pipe products, and expand product use and increase its market share.

APPRECIATION

On behalf of the Group, I would like to thank all our staff for performing their tasks diligently in such a challenging year. I am also grateful to our shareholders for their continuous support to the Group during this consolidation stage where it is accumulating strength for a prosperous future.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group mainly (i) manufactures and sells longitudinal welded steel pipes, as well as provides manufacturing service for processing raw materials into steel pipes; and (ii) engages in property development and investment.

Our welded steel pipe products can be broadly categorised into LSAW steel pipes, SSAW steel pipes and ERW steel pipes. We are the largest LSAW steel pipe manufacturer and exporter in the PRC, and are capable of producing LSAW steel pipes that meet the X100 standard. We are also accredited with 13 international quality certifications such as Det Norske Veritas ("DNV") and American Petroleum Institute ("API"). In addition, we are the first and the only PRC manufacturer that has successfully produced and developed deep sea welded pipes for use at 3,500m under water. Our products are widely applicable to major oil and gas pipeline projects (both onshore and offshore) and infrastructure projects domestically and internationally.

Our Group is capable of manufacturing subsea pipes and drilling platforms for offshore projects, and is being classified as a member of the Offshore Engineering Equipment Industry*（海洋工程裝備製造業）.

Panyu Land Development

In 2013, the Group has converted a piece of land in Panyu into commercial use. The total land area of such piece of land is 125,000m^2 which accounted for 25% of the total area of the parcels of land owned by the Group in Panyu (the "Panyu Land"). The total construction area of the Panyu Land is 550,000 m^2. The Panyu Land was divided into three phases for development.

Project name:
Golden Dragon City Fortune Plaza* ("GDC")

Address: Qinghe Road, Shiji Town, Panyu District, Guangzhou City, Guangdong, PRC

Usage: large scale of integrated commercial complex of offices, shops, service apartments and villas

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

Most of the units under Phase I of GDC have been sold. The Group had pre-sold the units under Phase II of GDC and the total contracted sales were approximately RMB1,062 million as at 31 December 2021. Shops of Phase I are leased for rental income. Such rental income was reflected as revenue under property development and investment sector. Phase III of GDC was sold to Guangzhou City Panyu District Land Development Centre*（廣州市番禺區土地開發中心）in 2019.

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

Proposed change of land use in Panyu from "industrial" to "residential and commercial"

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

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

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

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

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

* Unofficial transliteration from Chinese name for identification purpose only

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

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

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

Order Status

In 2021, the Group received new orders of approximately 389,000 tonnes of welded steel pipes and most orders were received from domestic customers. The Group has received some sizeable orders like orders from Huizhou LNG Receiving Station External Pipeline Project and Huangzeshan-Yushan Crude Oil Subsea Pipeline Project. The Group delivered approximately 458,000 tonnes of welded steel pipes during 2021.

LSAW Steel Pipes

The Group is one of the largest LSAW steel pipe manufacturers and exporters in the PRC. LSAW steel pipe was the largest source of revenue of the Group and accounted for approximately 83.8% of our total steel pipe revenue for the year ended 31 December 2021. For the year ended 31 December 2021, revenue from the sales and manufacturing service of LSAW steel pipes amounted to approximately RMB1,351.0 million and RMB158.6 million, respectively, representing an increase of approximately 106.2% and 4.1%, respectively, as compared to that for the year ended 31 December 2020. The increase in sales of LSAW steel pipes was mainly due to major oil and gas projects as well as construction projects in the PRC and overseas have been recovered during the year.

SSAW Steel Pipes

Our SSAW steel pipes produced in our plant in Lianyungang use the pre-welding and precision welding SSAW technique, which is the most advanced standard among all SSAW technologies. Revenue from the sales and manufacturing service of SSAW steel pipes amounted to approximately RMB129.4 million and RMB90.6 million respectively. The total revenue from SSAW steel pipes accounted for approximately 12.2% of the total steel pipe revenue for the year ended 31 December 2021, representing a decrease of approximately 13.2% as compared to that for the year ended 31 December 2020. The decrease in sales of SSAW steel pipes was mainly due to the decrease in construction projects during the year.

FINANCIAL REVIEW

Revenue and gross profit

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

For the year ended 31 December 2021, our revenue was approximately RMB1,813.4 million, representing an increase of approximately RMB671.6 million or 58.8% as compared with that of 2020. The increase in revenue was mainly due to the increase in both domestic and overseas orders received by the Group. Major oil and gas projects as well as construction projects in the PRC and overseas have been recovered.

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

	2021		2020	
	RMB'000 **(unaudited)**	***% to total***	*RMB'000* (audited)	*% to total*
Revenue				
Steel pipes	**1,802,568**	**99.4**	1,125,851	98.6
Property development and investment	**10,802**	**0.6**	15,956	1.4
	1,813,370	**100.0**	1,141,807	100.0

Steel pipes

	2021 Revenue		2020 Revenue	
	RMB'000 **(unaudited)**	***% to total***	*RMB'000* (audited)	*% to total*
Sales of steel pipes				
LSAW steel pipes	**1,351,040**	**75.0**	655,108	58.2
SSAW steel pipes	**129,359**	**7.2**	121,354	10.8
Subtotal	**1,480,399**	**82.2**	776,462	69.0
Manufacturing services				
LSAW steel pipes	**158,640**	**8.8**	152,322	13.5
SSAW steel pipes	**90,617**	**5.0**	131,981	11.7
Subtotal	**249,257**	**13.8**	284,303	25.2
Others	**72,912**	**4.0**	65,086	5.8
Grand total	**1,802,568**	**100.0**	1,125,851	100.0

Steel pipes

	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Sales	**1,802,568**	1,125,851
Cost of sales	**(1,608,617)**	(921,216)
Gross profit	**193,951**	204,635

The revenue generated from the sales of steel pipes accounted for approximately 82.2% of our total steel pipe revenue in 2021 as compared with approximately 69.0% in 2020. Steel pipe manufacturing services accounted for approximately 13.8% of our total steel pipe revenue in 2021 as compared with approximately 25.2% in 2020. The revenue classified as "Others" mainly represented the trading of steel plates, sales of steel fittings and sales of scrap materials which accounted for approximately 4.0% of our total steel pipe revenue in 2021 as compared with approximately 5.8% in 2020.

Gross profit of steel pipe sales for 2021 was approximately RMB194.0 million as compared with approximately RMB204.6 million in 2020, representing a decrease of approximately 5.2% or RMB10.7 million. Gross profit margin for 2021 was approximately 10.8% which was lower than that of 18.2% in 2020. The decrease in gross profit was due to the drop in gross profit margin. Overseas sales increased significantly during the year which led to increase in freight charges. Decrease in gross profit margin was due to increase in freight charges in relation to overseas sales. In addition, overseas sales were denominated in USD while costs were denominated in RMB. Appreciation of RMB against USD during the year further dragged down the gross profit margin.

Our domestic sales accounted for approximately 53.0% of our total steel pipe revenue in 2021, as compared with approximately 88.7% in 2020.

Sales by Geographical Areas – Steel Pipes

	2021		2020	
	Revenue		Revenue	
	RMB'000	***% to total***	*RMB'000*	*% to total*
	(unaudited)		(audited)	
Overseas sales	**848,065**	**47.0**	127,699	11.3
Domestic sales	**954,503**	**53.0**	998,152	88.7
Total steel pipes and manufacturing services	**1,802,568**	**100.0**	1,125,851	100.0

Property development and investment

	2021	2020
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Revenue	**10,802**	15,956
Cost of sales	**(9,237)**	(13,904)
Gross profit	**1,565**	2,052

Revenue under property development and investment mainly comprises sales of property of GDC and rental income from shops in Phase I of GDC. Revenue under property development and investment was approximately RMB10.8 million in 2021 as compared with approximately RMB16.0 million in 2020, representing a decrease of approximately 32.3% or RMB5.2 million. Most of the units under Phase I of GDC had been sold in 2018 and 2019.

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 cost of properties sold, which includes the direct costs of construction and the costs of obtaining land use rights. Cost of sales was approximately RMB9.2 million in 2021 as compared with approximately RMB13.9 million in 2020, representing a decrease of 33.6% or RMB4.7 million.

Gross profit of property sales was approximately RMB1.6 million in 2021 as compared with approximately RMB2.1 million in 2020, representing a decrease of 23.7% or RMB0.5 million.

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

CHANGE IN FAIR VALUES OF INVESTMENT PROPERTIES

The Group has adopted the accounting policy of measuring investment properties by using fair values. Accordingly, gains or losses arising from the changes in the fair values of investment properties are reflected as profit or loss for the reporting period. The investment properties as at 31 December 2021 were the shops of Phase I of GDC. The Group has engaged RHL Appraisal Limited, an independent valuer, to value the investment properties as at 31 December 2021. According to the valuation report as at 31 December 2021 issued by RHL Appraisal Limited, the market value of the investment properties as at 31 December 2021 was RMB370 million. Loss in fair values of the investment properties in 2021 was approximately RMB17 million (2020: loss of RMB20 million).

OTHER INCOME AND GAINS

Other income and gains in 2021 mainly represented gain on resumption of land use rights, bank interest income and subsidy income from government. Other income and gains decreased by approximately 17.2% or RMB328.5 million from approximately RMB1,911.3 million in 2020 to approximately RMB1,582.8 million in 2021. Other income and gains was mainly net gain on resumption of land-use-rights from local authority in 2021 pursuant to the land resumption agreement dated 15 September 2020, details of which were disclosed in the circular of the Company dated 8 October 2020.

SELLING AND DISTRIBUTION EXPENSES

Selling and distribution expenses increased by approximately 52.0% or RMB18.1 million from approximately RMB34.8 million in 2020 to approximately RMB52.9 million in 2021. The increase was mainly due to the increase in sales during the year.

ADMINISTRATIVE EXPENSES

Administrative expenses decreased by approximately 8.3% or RMB24.0 million from approximately RMB287.6 million in 2020 to approximately RMB263.6 million in 2021. The decrease in administrative expenses was mainly due to decrease in office expenses during the year.

FINANCE COSTS

The finance costs for 2021 was approximately RMB144.3 million as compared with that of 2020 of approximately RMB475.4 million, representing a decrease of RMB331.1 million or 69.7%. The effective interest rate in 2021 was approximately 8.0% (2020: 10.2%). Decrease in finance costs was due to decrease in average loan balance during the year.

OTHER EXPENSES

Other expenses increased by approximately 22.7% or RMB68.1 million from approximately RMB300.7 million in 2020 to approximately RMB368.8 million in 2021. The increase was mainly due to loss on disposal of land in Lianyungang during the year.

EXCHANGE LOSS, NET

The Group recorded exchange loss of approximately RMB33.5 million in 2021 as compared with exchange loss of approximately RMB120.1 million in 2020. The exchange loss was mainly due to depreciation of HKD against RMB. Payables to inter-companies denominated in HKD held by the Group's Hong Kong subsidiaries that led to unrealised exchange losses of approximately RMB33.3 million (2020: unrealised exchange loss RMB120.4 million).

INCOME TAX EXPENSE

The Group recorded income tax expense of RMB371.6 million in 2021 as compared with income tax expense of RMB253.8 million in 2020.

Income tax expense in 2021 was mainly because the Group sold the land in Panyu during the year and there was tax provision on the gain on resumption of land use right.

(LOSS)/PROFIT FOR THE YEAR

As a result of the reasons discussed above, the Group recorded a loss of approximately RMB85.2 million in 2021 (2020: profit of RMB622.9 million).

EXCHANGE RISK EXPOSURE

The Group mainly operates in the PRC and most of its operating transactions are settled in Renminbi except for export sales and overseas borrowings which are mostly denominated in US dollar and HK dollar. Most of the Group's assets and liabilities are denominated in Renminbi. Although the Group may be exposed to foreign currency exchange risks, the Board does not expect that future currency fluctuations would materially impact the Group's operations. The Group did not adopt formal hedging policies nor instruments of foreign currency for managing the exchange risk exposure during the year ended 31 December 2021.

FINANCIAL GUARANTEE

As at 31 December 2021, the Group guaranteed RMB73.7 million (2020: RMB99.5 million) to certain purchasers of the Group's properties for mortgage facilities.

As at 31 December 2021, the Group guaranteed RMB514.1 million (2020: RMB512.5 million) to a joint venture company for banking facilities in Saudi Arabia of which RMB514.1 million (2020: RMB416.6 million) was utilised by the joint venture company.

PLEDGE OF ASSETS

The Group pledged certain property, plant and equipment, leasehold lands, deposits, certain properties under development, completed properties held for sale, trade receivables and prepayments, other receivables as at 31 December 2021 to secure bank loans granted to the Group.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

The Group's gearing ratio is calculated based on the sum of bank loans, other borrowings and fixed rate bonds and notes divided by total assets. The gearing ratio of the Group as at 31 December 2021 and 2020 were approximately 22.9% and 43.3%, respectively. Decrease in gearing ratio in 2021 as compared with that of 2020 was due to the Group's repayment of borrowings during the year.

On 27 April 2020, the Company entered into a subscription agreement (the "Subscription Agreement") with an investment fund, pursuant to which the Company agreed to issue, and the investment fund agreed to subscribe for HK$140,000,000 12% bonds due in April 2022 (the "Bonds"). Mr. Chen Chang ("Mr. Chen"), an executive director and the controlling shareholder of the Company, undertakes and covenants that for so long as any of the Bonds remain outstanding, he shall remain as (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 (the "Specific Performance Obligations"). Any breach of the Specific Performance Obligations may constitute an event of default under the Bonds, 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 31 December 2021, the Group's total borrowings amounted to approximately RMB1,810.2 million, of which approximately 46% (2020: 40%) were long term borrowings and approximately 54% (2020: 60%) were short term borrowings. The total borrowings included, (i) a loan of RMB850 million in relation to the Group's property development business; (ii) net borrowings under steel pipe business of around RMB960.2 million. The Group had to finance its working capital of steel pipe business by short term borrowings as around 90% of the cost of sales was incurred on the procurement of steel plates and steel coils. Once the Group received sales proceeds from its customers, it would then repay the short term borrowings. Taking into account the Group's cash in hand, the Group has sufficient liquidity and is in a strong financial position to repay its short term borrowings.

As at 31 December 2021, approximately 80% (2020: 56%) of the total borrowings were denominated in Renminbi, which carried interest rates linked to the benchmark lending rate published by the People's Bank of China; approximately 15% (2020: 37%) of the total borrowings were denominated in Renminbi which carried fixed interest rate; and approximately 5% (2020: 7%) of the total borrowings were denominated in US dollar and HK dollar which carried fixed interest rate.

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

On 9 December 2020, the Group has entered into the agreement (the "Agreement") with National East, Central and West Regional Cooperation Demonstration Zone (Lianyungang Xuwei New District) Management Committee* ("CECW")（國家東中西區域合作示範區（連雲港徐圩新區）管理委員會）, pursuant to which CECW has agreed to purchase, and PCK (Lianyungang) has agreed to sell, the Land for a consideration of RMB102.1 million. Details of the above were disclosed in the Company's announcement and circular dated 9 December 2021 and 30 December 2021 respectively.

Except for the above, the Group had no other material acquisitions or disposals during the year.

LITIGATION

As at 31 December 2021, the Group has an outstanding lawsuit in which Jiangsu Binxin Iron and Steel Group Company Limited（江蘇省鑌鑫鋼鐵集團有限公司）("Jaingsu Binxin") alleged Nanjing Rongyu Group Company Limited（南京鎔裕集團有限公司）("Nanjing Rongyu") having breached a contract to purchase goods for a claim of RMB34.3 million. The purchase contract was executed prior to the Group's acquisition of Nanjing Rongyu in May 2013. The Group was not informed of such purchase contract at the time of acquisition. According to the second instance judgement made by the Jiangsu Province Lianyungang Intermediate People's Court, Nanjing Rongyu has to pay compensatory amount of RMB34.3 million and related interest to Jiangsu Binxin. As of the date of this announcement, the Group has fully settled the claim.

EMPLOYEE AND REMUNERATION POLICY

For the year ended 31 December 2021, staff costs (including Directors' remuneration in the form of salaries) were approximately RMB140.8 million (2020: RMB114.7 million).

The Group remunerates its employees based on their performance, experience and prevailing industry practice. The emoluments of the Directors are recommended by the Remuneration Committee and are decided by the Board, having regard to the Group's operating results, individual performance and comparable market statistics. Competitive remuneration package is offered to retain elite employees. Our package includes salaries, medical insurance, discretionary bonuses, on-job training, other benefits as well as mandatory provident funds schemes for employees in Hong Kong and state-managed retirement benefit schemes for employees in the PRC. Pursuant to the Company's share option scheme and share award scheme, options to subscribe respectively for shares in the Company or share awards of the Company may be granted to eligible employees. No share option or share award was granted under the share option scheme or share award scheme during the year ended 31 December 2021.

As at 31 December 2021, the Group had a total of 862 full time employees (2020: 821 employees). The following sets forth the total number of our staff by functions:

	2021	2020
Management	**59**	74
Production and logistics	**347**	336
Sales and marketing	**66**	67
Finance	**45**	41
Quality control	**83**	64
R&D	**94**	80
Procurement	**19**	17
General administration and others	**149**	142
Total	**862**	821

PROSPECT

With the resumption of business activities, the worldwide demand for oil and natural gas has been growing, and prices of oil and natural gas have rebounded sharply from the lows in 2020. However, the global prolonged pandemic of COVID-19 and slow economic recovery have laid uncertainties on the world economy and reduced the demand for oil and natural gas. The Group expects that 2022 will remain a challenging year for the oil and natural gas industry.

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.

During the 14th Five-Year Plan period, in terms of crude oil pipelines, it is expected that construction of many pipelines under construction will be completed, such as Dongjiakou-Dongying and Rizhao-Puyang – Luoyang pipelines under construction, and the construction of trunk pipelines such as Lianyungang-Yizheng pipeline. It mainly target the construction of crude oil pipelines, focusing on areas such as Liaoning, Hebei and Shandong, to promote the supply of oil via crude oil pipelines to local refineries. In terms of refined oil pipelines, we will proceed with the construction of coast-inland evacuation pipelines, including Changxing Island, Dalian – Jinzhou refined oil pipeline, Dongming, Heze – Zhengzhou refined oil pipeline, Zhoushan – Huzhou refined oil pipeline and other external transmission pipelines supported by refineries; and improve the service coverage scope of refined oil pipelines in central and eastern area by focusing on the interconnection and interoperability construction with the construction of Jiangsu-Anhui, Jiangxi-Hunan, Guangdong-Jiangxi connecting lines and Lanzhou – Zhengzhou – Changsha refined oil pipeline, Jinzhou – Zhengzhou refined oil pipeline and pipelines between North China, East China, Central China, Southwest and other regions, as well as the pipeline interconnection construction within the Southwest refined oil pipeline. In terms of natural gas pipelines, it targets the construction projects of the Yongqing-Shanghai section of the China-Russia Eastern Natural Gas Pipeline, the fourth line of the West-East Gas Transmission Pipeline, the middle section of the Western Third Line, the second line of the Sichuan-East Gas Transmission Pipeline, the duplicate line of the External Transmission Pipeline of Tianjin LNG and the External Transmission Pipeline of the Coastal LNG, to improve the transmission capacity of the truck pipelines. In addition, a number of cities, such as Guangzhou, Jiangsu, Zhejiang, Shaanxi, Jilin, have initiated more specific plans on pipelines. Among them, the People's Government of Guangdong Province announced to promote the construction of the Guangdong-Hunan-Jiangxi refined oil pipeline to promote the interconnection and interoperability of refined oil pipelines and to form a refined oil pipelines connecting major refineries and oil depots, covering the Pearl River Delta, connecting the east, west and north of Guangdong and covering the surrounding provinces. The construction of natural gas trunk pipelines will be accelerated, such as Maoming – Yangjiang pipeline, Yunfu – Xinxing pipeline, Huizhou – Haifeng pipeline, Zhuhai-Zhongshan-Jiangmen Pipeline and Hainan-Guangdong pipeline, to improve the level of usage of natural gas in the whole Guangdong province. The construction of natural gas trunk pipeline under "county – county interconnection projects" will also be accelerated.

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 five 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.

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.

CODE OF CORPORATE GOVERNANCE PRACTICES

Save as disclosed below, the Company has complied with all the code provisions set out in the Corporate Governance Code (the "CG Code") set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the financial year ended 31 December 2021.

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 separately have any officer with the title of "chief executive". Mr. Chen Chang, the chairman and founder of the Group, is also responsible for the leadership and effective running of the Board, 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 complement the role of the chairman and chief executive. 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 shall nevertheless review the structure from time to time to ensure appropriate measures would be taken should suitable circumstance arise.

NON-COMPETITION UNDERTAKINGS

The independent non-executive Directors have also reviewed the confirmations given by Mr Chen Chang and Bournam, being controlling shareholders of the Company, in respect of each of their compliance with the non-competition undertakings as disclosed in the prospectus of the Company dated 28 January 2010. The independent non-executive Directors are satisfied that the controlling shareholders have fully complied with the terms of the non-competition undertakings and no new competing business was reported by the controlling shareholders throughout the year ended 31 December 2021.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2021, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 to the Listing Rules. Following a specific enquiry, all the Directors confirmed that they have complied with the Model Code throughout the year ended 31 December 2021.

AUDIT COMMITTEE

The audit committee of the Board (the "Audit Committee") consists of three independent non-executive Directors, namely Mr Chen Ping, Mr Au Yeung Kwong Wah and Mr Tian Xiao Ren. Mr Au Yeung Kwong Wah is the Chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise the financial reporting process and the internal control and risk management procedures and systems of our Group. The Audit Committee has reviewed the Company's unaudited consolidated financial statements for the year ended 31 December 2021 and the condensed unaudited consolidated interim financial statements for the six months ended 30 June 2021, including the accounting principles and practices adopted by the Company and the Group.

REVIEW OF UNAUDITED ANNUAL RESULTS

The auditing process for the annual results for the year ended 31 December 2021 has not been completed due to travel restrictions and quarantine policies enforced in the PRC and Hong Kong resulting from the COVID-19 outbreak, and the surge of confirmed cases and the strict requirements of quarantine had limited the ability of the Company's auditors to perform its audit procedures. As a result of the above, the Company's auditors are continuing with their auditing work as of the date of this announcement. The unaudited annual results for the year ended 31 December 2021 contained herein have been reviewed by the Company's audit committee and approved for its publication herein, but have not yet been agreed with the Company's auditors as required under Rule 13.49(2) of the Listing Rules. An announcement relating to the audited results will be made when the auditing process has been completed in accordance with Hong Kong Standards on Auditing issued by Hong Kong Institute of Certified Public Accountants, which is expected to be by the end of April 2022.

FURTHER ANNOUNCEMENT(S)

Following the completion of the auditing process, the Company will issue further announcement(s) in relation to (i) the audited results for the year ended 31 December 2021 as agreed with the Company's auditors and the material differences (if any) as compared with the unaudited annual results contained herein; (ii) the proposed final dividend of the Company for the year ended 31 December 2021 (if any); (iii) the payment date of any proposed final dividend (if applicable); (iv) the proposed date on which the forthcoming annual general meeting will be held; (v) the period during which the register of members will be closed in order to ascertain shareholders' eligibility to attend and vote at the said meeting; and (vi) the period during which the registers of members will be closed in order to determine entitlement to receive the proposed final dividend (if applicable). The audited final results of the Group for the year ended 31 December 2021, which have been agreed with the Company's auditor, is expected to be announced by the end of April 2022.

The financial information contained herein are derived from the consolidated management accounts of the Group and have not been audited or agreed with the Company's auditors. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

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

Hong Kong, 30 March 2022

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

* *The English translation of the Chinese names or words in this announcement, where indicated, is included for identification purpose only, and should not be regarded as the official English translation of such Chinese names or words.*