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勝利管道
SHENGLI PIPE

SHENGLI OIL & GAS PIPE HOLDINGS LIMITED

勝利油氣管道控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1080)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014

FINANCIAL HIGHLIGHTS

- Revenue was RMB938,582,000, representing a decrease of approximately 30.0% when compared to the corresponding period in 2013.
- Gross profit margin was approximately 3.7%, representing an increase of 0.7 percentage points when compared to the corresponding period in 2013.
- Loss attributable to the owners of the Company amounted to RMB58,607,000, while profit attributable to the owners of the Company for the corresponding period in 2013 amounted to RMB11,614,000.
- Basic loss per share attributable to the owners of the Company amounted to RMB2.36 cents, while earnings per share attributable to the owners of the Company for the corresponding period in 2013 were RMB0.47 cents.
- The Board does not recommend the declaration of any interim dividend for the six months ended 30 June 2014.

The board (the “Board”) of directors (the “Directors”) of Shengli Oil & Gas Pipe Holdings Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2014 (the “Period under Review”) prepared in accordance with the International Financial Reporting Standards as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

For the six months ended 30 June 2014

	<i>Notes</i>	Six months ended 30 June	
		2014	2013
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
REVENUE	4	938,582	1,341,413
Cost of sales and services		(903,784)	(1,301,834)
Gross profit		34,798	39,579
Other income and gains	5	24,286	65,686
Selling and distribution costs		(8,712)	(15,308)
Administrative expenses		(47,027)	(42,043)
Other expenses		(351)	(994)
Share of results of:			
Joint ventures		(3,963)	(1,541)
Associate		3,272	(1,677)
Gain on acquisition of an associate		3,421	—
Impairment loss recognised on investment in an associate		(33,548)	—
Finance costs	6	(33,871)	(28,918)
(LOSS)/PROFIT BEFORE TAX	7	(61,695)	14,784
Income tax expense	8	(2,822)	(6,855)
(LOSS)/PROFIT FOR THE PERIOD		(64,517)	7,929
Other comprehensive profit/(loss) that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		138	(102)
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD		(64,379)	7,827

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(LOSS)/PROFIT FOR THE PERIOD		
ATTRIBUTABLE TO:		
Owners of the Company	(58,607)	11,614
Non-controlling interests	(5,910)	(3,685)
	<u>(64,517)</u>	<u>7,929</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR		
THE PERIOD ATTRIBUTABLE TO:		
Owners of the Company	(58,469)	11,512
Non-controlling interests	(5,910)	(3,685)
	<u>(64,379)</u>	<u>7,827</u>
(LOSS)/EARNINGS PER SHARE (RMB cents)		
— Basic	9	
	<u>(2.36)</u>	<u>0.47</u>
— Diluted		
	<u>(2.36)</u>	<u>0.47</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Notes	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	1,111,281	1,100,509
Prepaid land lease payments	12	171,862	175,212
Goodwill	22	43,592	9,910
Deposits paid for acquisition of investments		—	33,928
Investment in joint ventures		46,989	50,952
Investment in an associate		48,415	230,270
Available-for-sale investment		—	15,000
Derivative financial instrument	13	—	183,000
Other assets		3,623	941
Deferred tax assets		31,046	31,046
		<u>1,456,808</u>	<u>1,830,768</u>
CURRENT ASSETS			
Inventories		219,500	195,374
Trade and bills receivables	14	1,145,945	1,111,883
Prepayments, deposits and other receivables	15	475,161	435,831
Prepaid land lease payments	12	3,749	3,749
Pledged deposits	16	280,934	591,744
Cash and cash equivalents		222,466	202,720
		<u>2,347,755</u>	<u>2,541,301</u>
Non-current assets held for sale	13	350,000	—
		<u>2,697,755</u>	<u>2,541,301</u>
CURRENT LIABILITIES			
Trade and bills payables	17	537,214	338,487
Other payables and accruals		114,956	78,362
Borrowings	18	1,053,762	1,475,618
Tax payable		10,863	10,511
Deferred income		854	1,058
		<u>1,717,649</u>	<u>1,904,036</u>

	<i>Note</i>	30 June 2014 <i>RMB'000</i> (Unaudited)	31 December 2013 <i>RMB'000</i> (Audited)
NET CURRENT ASSETS		980,106	637,265
TOTAL ASSETS LESS CURRENT LIABILITIES		2,436,914	2,468,033
NON-CURRENT LIABILITIES			
Deferred income		8,539	9,026
Borrowings	18	113,500	84,000
Deferred tax liabilities		32,892	32,909
		154,931	125,935
NET ASSETS		2,281,983	2,342,098
EQUITY			
Equity attributable to owners of the Company			
Issued capital		218,786	218,786
Reserves		1,800,052	1,858,065
		2,018,838	2,076,851
Non-controlling interests		263,145	265,247
Total equity		2,281,983	2,342,098

NOTES:

1. GENERAL INFORMATION

The Company is a limited company incorporated in the Cayman Islands on 3 July 2009. The address of its registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal places of business of the Company in Hong Kong and the People's Republic of China ("the PRC") are located at Room 2111, 21st Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong and Zhongbu Town, Zhangdian District, Zibo City, Shandong province 255082, the PRC, respectively.

The condensed consolidated financial statements are presented in Renminbi (the "RMB"), which is the Company's presentation currency and the functional currency of the principal operating subsidiaries (collectively the "Group") of the Group.

The Company acts as an investment holding company. The principal activities of the Group are the manufacture, processing and sale of welded steel pipes for oil and gas pipelines and other construction and manufacturing applications, trading of metal commodity and exploitation of oil and gas.

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements ("Interim Financial Statements") have been prepared in accordance with International Accounting Standard 34 ("IAS 34") issued by International Accounting Standards Board and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Interim Financial Statements do not include all the information and disclosures required in a full set of financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2013 ("2013 Annual Report").

The accounting policies adopted in the preparation of the Interim Financial Statements are consistent with those followed in the preparation of 2013 Annual Report of the Company.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSS")

In the current period, the Group has adopted all the new and revised IFRSs that are relevant to its operations and effective for its accounting year beginning on 1 January 2014. IFRSs comprise International Financial Reporting Standards; International Accounting Standards and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current and prior periods.

The Group has not applied the new and revised IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised IFRSs but is not yet in a position to state whether these new and revised IFRSs would have a material impact on its results of operations and financial position.

4. REVENUE AND OPERATING SEGMENT INFORMATION

Revenue	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of steel pipes	145,276	472,004
Trading of metal commodity	754,520	867,724
Rendering of services related to pipe business	38,717	1,685
Exploitation of oil and gas business	69	—
	<u>938,582</u>	<u>1,341,413</u>

For management purposes, the Group has four (for the six months ended 30 June 2013: three) reportable segments: spiral submerged arc welded pipe operation (“SSAW Pipes Business”), cold-formed section steel operation (“Cold-formed Section Steel Business”), trading of metal commodity and exploitation of oil and gas business. The trading of metal commodity business mainly involve trading of aluminium ingot and aluminum oxide. The SSAW Pipes Business produces spiral submerged arc welded pipes which are mainly used for the oil industry and the Cold-formed Section Steel Business produces cold-formed section steel which is mainly used for the infrastructure industry. The exploitation of oil and gas business mainly engaged in the investment and development of oil field development projects located in the United States. Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

Segment results represent the profit earned by each segment without allocation of interest income, finance costs, fair value gains of derivative financial instrument, impairment loss recognised on investment in an associate and central administration costs including directors’ fees, share-based payments, foreign currency exchange gains/losses, gain on acquisition of an associate, share of results of joint ventures and an associate and items not directly related to the core business of the segments.

Segment revenue and results

For the six months ended 30 June 2014 (unaudited)

	SSAW Pipes Business RMB’000	Cold-formed Section Steel Business RMB’000	Trading of metal commodity RMB’000	Exploitation of oil and gas RMB’000	Consolidated RMB’000
Segment revenue	<u>183,589</u>	<u>404</u>	<u>754,520</u>	<u>69</u>	<u>938,582</u>
Segment results	<u>(11,415)</u>	<u>601</u>	<u>9,661</u>	<u>(778)</u>	<u>(1,931)</u>
Interest income					11,676
Gain on acquisition of an associate					3,421
Impairment loss recognised on investment in an associate					(33,548)
Unallocated expenses					(7,442)
Finance costs					(33,871)
Loss before tax					<u>(61,695)</u>

For the six months ended 30 June 2013 (unaudited)

	SSAW Pipes Business RMB’000	Cold-formed Section Steel Business RMB’000	Trading of metal commodity RMB’000	Consolidated RMB’000
Segment revenue	<u>470,085</u>	<u>3,604</u>	<u>867,724</u>	<u>1,341,413</u>
Segment results	<u>(2,861)</u>	<u>494</u>	<u>13,293</u>	<u>10,926</u>
Interest income				7,246
Fair value gains of derivative financial instrument				44,000
Unallocated expenses				(18,470)
Finance costs				(28,918)
Profit before tax				<u>14,784</u>

5. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest income	11,676	7,246
Rental income	3,446	4,347
Gain on sales of materials	3,358	5,297
Government grant for achieving energy saving standard	631	427
Gain on disposal of property, plant and equipment, net	109	1,860
Fair value gains of derivative financial instrument	—	44,000
Dividend income received from available-for-sale investments	—	727
Others	5,066	1,782
	<u>24,286</u>	<u>65,686</u>

6. FINANCE COSTS

	For the six months ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest of borrowings wholly repayable within five years:		
— Borrowings	39,115	27,875
— Other loans from a financial institution in the PRC	2,973	3,038
Less: interest capitalised	(8,217)	(1,995)
	<u>33,871</u>	<u>28,918</u>

7. (LOSS)/PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Cost of inventories sold	860,654	1,300,414
Cost of services	43,130	1,420
	<u>903,784</u>	<u>1,301,834</u>
Allowance for inventories	5,734	—
Employees benefits expenses including directors' remunerations	39,601	38,419
Depreciation of property, plant and equipment	42,091	37,293
Amortisation of prepaid land lease payments	1,909	1,812
Operating lease payments	7,546	5,645
Exchange gains, net	(3,576)	(1,447)

8. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current — PRC Enterprise Income Tax		
— Charge for the period	614	280
— Under-provision in prior years	2,225	50
Current — Hong Kong		
— Charge for the period	—	2,054
Deferred tax	(17)	4,471
	<u>2,822</u>	<u>6,855</u>

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for the six months ended 30 June 2014 and 2013. The statutory tax rate of China Petro Equipment Holdings Pte. Ltd., a subsidiary of the Company incorporated in the Republic of Singapore, was 17% for the six months ended 30 June 2014 and 2013. The statutory tax rate of the subsidiaries of the Company established in the PRC was 25%.

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

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share attributable to owners of the Company is based on the loss for the six months ended 30 June 2014 attributable to owners of the Company of approximately RMB58,607,000 (profit for the six months ended 30 June 2013: RMB11,614,000) and the number of 2,480,580,000 (for the six months ended 30 June 2013: 2,480,580,000) ordinary shares in issue during the six months ended 30 June 2014.

(b) Diluted (loss)/earnings per share

No adjustment has been made to the basic (loss)/earnings per share amounts presented for the six months ended 30 June 2014 and 2013 in respect of a dilution as there was no dilutive potential ordinary share.

10. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2014 (for the six months ended 30 June 2013: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2014, the Group acquired property, plant and equipment at a total cost of RMB47,771,000 (for the six months ended 30 June 2013: RMB155,726,000).

Property, plant and equipment with a carrying amount of RMB901,000 (for the six months ended 30 June 2013: RMB12,842,000) were disposed by the Group during the six months ended 30 June 2014.

As at 30 June 2014, the Group was in the process of applying for title certificates for certain buildings with an aggregate carrying amount of approximately RMB133,875,000 (as at 31 December 2013: RMB133,186,000). The directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings in due course, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 30 June 2014.

12. PREPAID LAND LEASE PAYMENTS

As at 30 June 2014, the Group was in the process of applying for title certificates for certain land acquired by the Group with an aggregate carrying amount of approximately RMB11,414,000 (as at 31 December 2013: RMB99,545,000). The directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned land in due course, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 30 June 2014.

13. DERIVATIVE FINANCIAL INSTRUMENT

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Guaranteed Return and Right to Sell of Golden Fortune	—	183,000

Pursuant to the investment agreement in relation to Beijing Golden Fortune Investment Co., Ltd., (the “Golden Fortune”, an associate company of the Group) in 2010, the Group is entitled to a guaranteed return on its investment of RMB300,000,000 at a rate of not less than 5%, 10%, 15%, 20% and 25% for the years ended/ending 31 December 2011, 2012, 2013, 2014 and 2015, respectively, and an average return of not less than 15% over the five years ending 31 December 2015 (the “Guaranteed Return”). The return on the Group's investment for a given year is equal to its pro rata share of Golden Fortune's net profit as shown in its consolidated statement of profit or loss and other comprehensive income for that year divided by the amount of the investment. If the average return on investment falls short of the Guaranteed Return of 15% over the five years ending 31 December 2015, the Group will be compensated by certain shareholders of Golden Fortune. The Group may choose to be compensated for the shortfall in one of the following ways:

- (i) to transfer cash dividend from certain shareholders of Golden Fortune; or
- (ii) to require certain shareholders of Golden Fortune to purchase all or part of the Group's equity interest in Golden Fortune (the “Right to Sell”), in the event that: (1) average return on the Group's investment over the years 2011 to 2015 falls below the Guaranteed Return of 15%; or (2) Golden Fortune experiences any material adverse change, at a price equal to the sum of the cumulative amount of investment made by the Group, any undistributed profit of Golden Fortune and interest on the relevant amount of cumulative investment calculated based on the prevailing bank lending rate.

During the six months ended 30 June 2013, the Group obtained further undertaking from the controlling shareholder of Golden Fortune, guaranteeing the shortfall from the above-mentioned compensation (if any) to meet the Guaranteed Return.

The above-mentioned arrangements are collectively referred to as the “Guaranteed Return and Right to Sell of Golden Fortune”.

At 31 December 2013, the fair value of investment return arrangement was determined by the directors of the Company with reference to the valuation performed by Roma Appraisals Limited, an independent professional valuer to the Group. The valuation was performed based on a 3 years' financial projection provided by the management, using the Monte Carlo simulation method, under which the possible outcomes of the value of Guaranteed Return and Right to Sell of Golden Fortune were simulated.

The key unobservable inputs used in level 3 fair value measurements are disclosed in note 19.

On 28 April 2014, a wholly-owned subsidiary of the Company, entered into the sale and purchase agreement (the “Agreement”) with Mr. Li Zifeng and Golden Fortune, pursuant to which the Group has conditionally agreed to sell and Mr. Li Zifeng has conditionally agreed to purchase the equity interest for the consideration of RMB350 million (the “Disposal”). The Disposal had been approved at the extraordinary general meeting held on 5 June 2014. Please refer to the announcements dated 28 April and 5 June 2014 and the circular dated 20 May 2014 issued by the Company for details of the Disposal. The investment in an associate and derivative financial instrument,

which are expected to be sold within twelve months, have been classified as non-current assets held for sale and are presented separately in the condensed consolidated statement of financial position at 30 June 2014. An impairment loss of approximately RMB33,548,000 has been recognized during the six months ended 30 June 2014.

14. TRADE AND BILLS RECEIVABLES

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Trade receivables	1,035,264	1,099,300
Bills receivable	110,681	12,583
	<u>1,145,945</u>	<u>1,111,883</u>

The Group's trading terms with its customers are mainly on credit generally ranging from 90 to 180 days. All of the bills receivable are due within 90 to 180 days.

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

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Within 3 months	823,487	848,028
3 to 6 months	82,686	126,395
6 months to 1 year	35,165	65,545
1 to 2 years	59,840	54,233
2 to 3 years	34,086	5,099
	<u>1,035,264</u>	<u>1,099,300</u>

Included in the trade receivables of RMB51,736,000 (2013: RMB72,506,000) ranging from 6 months to 3 years are qualify guarantee deposits from customers.

Certain trade receivables of 31 December 2013 were pledged to secure general banking facilities granted to the Group as set out in note 18 below.

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Details of the prepayments, deposits and other receivables are as follows:

		30 June 2014	31 December 2013
		RMB'000	RMB'000
	<i>Notes</i>	(Unaudited)	(Audited)
Advance to suppliers	(a)	61,845	56,805
Trade deposits paid to metal commodity suppliers	(b)	219,366	251,366
Advance to a joint venture	(c)	80,450	35,516
Advance to an associate	(d)	30,587	—
Loan to employees	(e)	11,881	1,730
Deposit paid for acquisition of an investment		—	7,500
Tender deposits to customers		—	3,444
Other tax receivables	(f)	48,227	37,210
Rent prepaid to a related company		4,055	8,110
Others		18,750	34,150
		475,161	435,831

Notes:

- (a) The advance is paid to suppliers to secure the supply of raw materials and sub-contracting services as at the end of the reporting period. The advance is interest-free and refundable within one year.
- (b) These trade deposits were paid to metal commodity suppliers to secure trade payables of approximately RMB218,402,000 (2013: RMB249,380,000) as at the end of the reporting period. The deposits are interest-free and refundable within one year. These metal commodity suppliers are independent third parties of the Group.
- (c) Included in the advance to a joint venture is a loan of RMB29,826,000 (2013: RMB28,848,000) which is unsecured, bears an interest rate of 3% per annum and repayable within one year. The remaining balance is unsecured, non-interest bearing and repayable within one year. An advance of RMB40,000,000 is paid to the joint venture for the supply of raw materials during the six months ended 30 June 2014.
- (d) Included in the advance to an associate is a loan of RMB30,000,000 (2013: nil) which is unsecured, bears an interest rate of 8% per annum and repayable within one year. The remaining balance is unsecured, non-interest bearing and repayable within one year.
- (e) Loans to employee are secured by cash guarantee deposits of RMB710,000 (2013: RMB920,000), bearing interests at 6% (2013: 6%) per annum and have no fixed repayment term.
- (f) The Group's other tax receivables mainly represent value-added tax receivable.

16. PLEDGED DEPOSITS

The Group's deposits are pledged to banks for issue of bills payable to suppliers for acquisition of property, plant and equipment and raise of bank loans.

17. TRADE AND BILLS PAYABLES

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Trade payables	329,914	338,487
Bills payables	207,300	—
	<u>537,214</u>	<u>338,487</u>

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

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Within 3 months	278,091	301,424
3 to 6 months	25,086	23,525
6 months to 1 year	23,046	10,493
1 to 2 years	3,040	2,204
2 to 3 years	630	390
3 to 4 years	21	451
	<u>329,914</u>	<u>338,487</u>

The trade payables are non-interest-bearing. The payment terms with suppliers are normally on credit ranging from 90 to 180 days from the time when goods are received from suppliers.

18. BORROWINGS

	Notes	As at 30 June 2014 (Unaudited)			As at 31 December 2013 (Audited)		
		Effective interest rate (%)	Maturity (Year)	RMB'000	Effective interest rate (%)	Maturity (Year)	RMB'000
Bank loans — Unsecured		6.00%–6.30%	2014–2015	665,000	2.27%–6.88%	2014	635,000
Bank loans — Secured	(a)	2.27%–6.40%	2014–2018	418,262	2.76%–6.00%	2014	542,240
Current portion of long-term bank loans —							
Unsecured	(b)	—	—	—	3.20%–3.70%	2014	98,378
Other loan — Unsecured	(c)	—	—	—	5.88%	2014	200,000
Bank loans — Guaranteed	(d)	6.40%	2015–2018	84,000	6.40%	2015–2018	84,000
				<u>1,167,262</u>			<u>1,559,618</u>

The borrowings are repayable as follows:

	<i>RMB'000</i>	<i>RMB'000</i>
On demand of within one year	1,053,762	1,475,618
In the second year	25,000	27,500
In the third to fifth years, inclusive	88,500	56,500
	1,167,262	1,559,618
Less: Amount due for settlement within 12 months (shown under current liabilities)	(1,053,762)	(1,475,618)
Amount due for settlement after 12 months	113,500	84,000

Notes:

- (a) At 30 June 2014, the Group's bank loans were secured by pledge of certain of the Group's bank deposits of RMB280,934,000. At 31 December 2013, the Group's bank loans were secured by pledge of certain of the Group's trade receivables amounting to RMB105,767,000 and bank deposits of RMB582,681,000 .
- (b) In 2013, the Group was found in breach of certain financial covenants and thereon triggered an event of default in respect of this unsecured loan. The Group had also received a waiver by providing a lodgment of an unpledged bank deposit. During the six months ended 30 June 2014, the Group made an request in early termination of this loan and repaid in full of the respective loan.
- (c) The loan is borrowed from a financial institution in the PRC.
- (d) As at 30 June 2014 and 31 December 2013, an amount of RMB48,400,000 out of bank loans of RMB84,000,000 were guaranteed by a minority shareholder of a subsidiary.

19. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate their respective fair values, except for its available-for-sale investment, which is measured at cost less impairment losses.

(a) Disclosures of level in fair value hierarchy

The Group's financial asset involving recurring fair value measurements represents its derivative financial instrument for the Guaranteed Return and Right to Sell of Golden Fortune, details of which are set out in Note 13. The fair value of the derivative financial instrument is measured using Level 3 inputs and there was no transfer in or transfer out of the measurement level. The fair values of the derivative financial instrument as at the end of the reporting periods are as follows:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Fair values of the derivative financial instrument	<u>—</u>	<u>183,000</u>

(b) Reconciliation of assets measured at fair value based on level 3

	Derivative financial instrument RMB'000
At 1 January 2013	94,000
Total gain recognised in profit or loss for the period (included in assets held at end of reporting period)	<u>44,000</u>
At 30 June 2013	138,000
Total gain recognised in profit or loss for the period (included in assets held at end of reporting period)	<u>45,000</u>
At 31 December 2013	183,000
Reclassified to non-current assets held for sale	<u>(183,000)</u>
At 30 June 2014	<u>—</u>

The total gains recognised in profit or loss were presented in other income and gains in the statement of profit or loss and other comprehensive income.

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements

The Group's financial controller is responsible for the fair value measurements of assets required for financial reporting purposes, including level 3 fair value measurements. The financial controller reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Board of Directors at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Key unobservable inputs used in level 3 fair value measurements are mainly:

- weighted average cost of capital (estimated based on Capital Asset Pricing Model of 15.25%)
- long-term revenue growth rate (estimated based on average historical inflation rate in China)
- discount for lack of marketability (estimated based on market research study in the median discount for lack of marketability of restricted stocks of 21%)

Description	Valuation Technique	Unobservable inputs	Effect on fair value for increase of input	Fair value as at 31 December 2013 RMB'000
Derivative financial instrument in respect of Guaranteed Return and Right to Sell of Golden Fortune	Monte Carlo Simulation	Long-term revenue growth rate 2.86%	Decrease	
		Weighted average cost of capital 15.25%	Decrease	
		Discount of lack of marketability 21%	Increase	
				<u>183,000</u>

20. COMMITMENTS

(a) Commitments under operating leases

As lessor

The Group leases its factory properties under an operating lease arrangement for four years.

At 30 June 2014, the Group had future minimum lease receivable under non-cancellable operating leases with its tenant, a related party of the Group, falling due as follows:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Within one year	7,062	6,732
In the second to fifth years, inclusive	<u>16,830</u>	<u>20,196</u>
	<u>23,892</u>	<u>26,928</u>

Operating lease receivable as at 31 December 2013 mainly represent rental receivable by the Group from a related party for factory premises in Shandong Province, the PRC. Leases are negotiated for a term of four years.

As lessee

At each end of reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
Within one year	1,838	2,024
In the second to fifth years, inclusive	<u>3,334</u>	<u>4,204</u>
	<u>5,172</u>	<u>6,228</u>

Operating lease commitments as at 31 December 2013 mainly represent rental payable by the Group to a related party for factory premises in Shandong Province, the PRC. Dates of this arrangement were disclosed in the announcement of the company dated 29 April 2011 and 20 December 2011.

Leases are negotiated for lease terms of three years, and the Group has prepaid the lease payments for the three financial years from 2012 to 2014 during the year ended 31 December 2012.

(b) Capital commitments

The Group had the following capital commitments for acquisition of property, plant and equipment and prepaid land lease payments as at the end of the reporting period:

	30 June 2014 <i>RMB'000</i> (Unaudited)	31 December 2013 <i>RMB'000</i> (Audited)
Contracted, but not provided for	<u>97,014</u>	<u>109,215</u>

21. RELATED PARTY TRANSACTIONS

(a) Related parties of the Group

The directors of the Company consider that the following entities are related parties of the Group:

Name of related party	Relationship with the Company
Shengli Steel Pipe Co., Ltd. ("Shengli Steel Pipe")	A company jointly controlled by a Director of the Company
Prodigy Dome Integration Housing Production (Shandong) Co., Ltd.# (普帝龍哆咪集成房屋製造(山東)有限公司) ("Dome Shandong")	A wholly owned subsidiary of Dome Integration Housing Industrial Holding Co. Ltd., a joint venture of the Group
Gaoqing Xian Minfu Microfinance Co., Ltd. # (高青縣民福小額貸款有限公司) ("Minfu Microfinance")	An associate of the Company

The English name is for identification only

(b) Significant related party transactions

During the period ended 30 June 2014 and 2013, the Group had the following material transactions with related parties:

	For the six months ended 30 June 2014 <i>RMB'000</i> (Unaudited)	2013 <i>RMB'000</i> (Unaudited)
Rental expense paid to Shengli Steel Pipe	4,055	4,055
Rental income received from Dome Shandong	3,346	3,177
Proceeds from disposal of property, plant and equipment to Dome Shandong	—	14,636
Interest income from Dome Shandong	442	184
Interest income from Minfu Microfinance	<u>497</u>	<u>—</u>

The rental expenses paid to Shengli Steel Pipe constitutes continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(c) **Key management compensation**

The remuneration of Directors and other members of key management for the reporting period is as follows:

	For the six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fees	674	650
Salaries, allowances and other benefits in kind	2,734	3,382
Social security contributions	45	49
Equity-settled share option expense	109	436
	3,562	4,517

22. ACQUISITION OF A SUBSIDIARY

On 27 May 2014 (United States (Houston) time), the Group acquired 67.3% of the issued share capital of Ever Growing Energy Service, LLC (“Ever Growing”) for the total consideration of US\$6.73 million, which includes a cash consideration of US\$5 million and deposits paid to be set off of US\$1,730,000. Ever Growing was engaged in the exploitation of oil and gas resources in the United States during the period. The acquisition is for the purpose of enabling the Group to expand into overseas markets for its oil and gas pipelines and the related products.

The fair value of the identifiable assets and liabilities of Ever Growing acquired as at its date of acquisition (determined on a provisional basis) is as follows:

	(Unaudited)
	RMB'000
Net assets acquired:	
Property, plant and equipment	5,993
Other receivables	5,986
Bank and cash balances	961
Trade and other payables	(1,292)
	11,648
Non-controlling interests, provisional	(3,808)
	7,840
Goodwill	33,682
Consideration	41,522
Satisfied by:	
Consideration Payable	30,094
Deposits paid for acquisition of investments	11,428
Total consideration transferred	41,522
Net cash inflow arising on acquisition:	
Cash and cash equivalents acquired	961

The fair value of the acquired net assets of RMB11,648,000 is provisional pending receipt of the final valuations for those assets.

The goodwill arising on the acquisition of Ever Growing is attributable to the anticipated profitability of the distribution of the Group's products in the new markets and the anticipated future operating synergies from the combination.

Ever Growing contributed approximately RMB69,000 and profit for the period of RMB32,000 to the Group's revenue and loss for the period respectively for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2014, total Group revenue for the period would have been RMB921,876,000, and loss for the period would have been RMB66,700,000. The proforma information is for illustrative purposes only and is not necessarily an indication of the revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2014, nor is intended to be a projection of future results.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of Shengli Oil & Gas Pipe Holdings Limited, I would like to present the unaudited interim results of the Group for the six months ended 30 June 2014 to the shareholders.

During the first half of 2014, China experienced an economic slowdown as compared with the corresponding period last year with a year-on-year GDP growth of 7.4% for the first quarter, which indicated an increasing downward pressure on the economy. Despite the favourable development prospects of the oil and gas pipeline industry brought by more and more unveiled domestic and overseas pipeline plans, China National Petroleum Corporation (hereinafter referred to as “CNPC”) and China Petrochemical Corporation (hereinafter referred to as “Sinopec”) had not commenced any significant pipeline development during the first half of the year. Accordingly, the Group strove to optimise its business portfolio, further invested in technology innovation and tightened cost control in order to maximise its revenue notwithstanding a flat sales volume of its principal pipeline business as compared with the corresponding period last year.

OPTIMISING BUSINESS PORTFOLIO AND EXPANDING INTO OVERSEAS MARKETS

The Group has always focused on enhancing the production capacity of its oil and gas pipeline operations, diversifying the product and service mix, expanding into overseas markets actively and seeking new business horizons related to its principal pipeline business proactively at the same time. On 27 May 2014 (United States (Houston) time), the Group entered into a purchase agreement and an operating agreement through Shengli Investment Company, a wholly-owned subsidiary, for the acquisition of 67.3% membership interests in an upstream company in the oil and energy sector. The Group will make appropriate investment in the development, exploration and commercialisation of the oil field development project located in Grayson County, Texas, the United States, with an aim of entering into overseas upstream oil and gas resources market. The Group is of the view that the investment in the United States is conducive to its development in the US oil field development market, while creating favourable conditions for the Group to gradually expand into overseas markets for its oil and gas pipelines and related products.

Furthermore, having analysed the historical operation and future development of Beijing Golden Fortune Investment Co., Ltd.* (北京慧基泰展投資有限公司) (hereinafter referred to as “Golden Fortune”), in which the Group has shares, and taken into consideration the current industry trend in China and the uncertainties about the future of the natural gas distribution sector, the Group disposed of its 25% interest in Golden Fortune at a suitable price on 28 April 2014. The Directors unanimously considered that this is part of the Group's optimisation initiative and is expected to bring additional working capital to the Company.

SPEEDING UP TECHNOLOGY INNOVATION AND STAFF TRAINING

As a key factor of production, technology innovation has been the Group's utmost concern for years. Since the first half of the year, the Group has accelerated the development of the pre-welding and precision-welding technologies in order to become a leader in the Chinese pre-welding and precision-welding sectors. On the other hand, it continued to carry out trial production and research and development of spiral submerged arc welded pipes (hereinafter referred to as “SSAW pipes”) with high quality and improved specifications using traditional technique while modernising the production technology thereof. During the first half of 2014, Shandong Shengli Steel Pipe Co., Ltd.* (山東勝利鋼管有限公司) applied for three utility model patents, for which the State Intellectual Property Office of the People's Republic of China has granted approval.

During the first half of the year, Xinjiang Shengli Steel Pipe Co., Ltd.* (新疆勝利鋼管有限公司) manufactured 40 km of Φ920 steel pipelines and provided anti-corrosion service for the key water supply project in Changji. A new coating, namely liquid ceramic epoxy resin coating, is applied for the first time to pipelines in the Group's anti-corrosion production line, and its anti-corrosion property has yielded positive feedback from the clients, thereby helping the Group secure more orders in the future.

With the aim of enriching the product offerings of longitudinal submerged arc welded pipes (hereinafter referred to as "LSAW pipes") and enhancing its market competitiveness, Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) has actively carried out small-scale modifications to the production line of LSAW pipes to increase the product mix from pipes of Φ711~Φ1422 mm to those of Φ508~Φ1422 mm. The technology team has been strengthened during the modifications and the Group will be in the position to take up local pipeline and national branch pipeline projects.

GRASPING MARKET OPPORTUNITY AND INCREASING MARKETING EFFORT

As one of the largest oil and gas pipeline manufacturers in the country, the Company has participated in the development of nearly all long-distanced petroleum and gas transmission pipeline projects and cross-border pipeline projects in China. China is experiencing rapid development in oil and gas pipeline construction. Considerable economic and social benefits have been brought by the First and Second West to East Natural Gas Pipeline (西氣東輸) projects and the First, Second and Third Shaanxi-to-Beijing Gas Pipeline (陝京管線) projects. The Third West to East Natural Gas Pipeline is currently in progress, and the preparation of the Fourth and Fifth West to East Natural Gas Pipeline and the Fourth Shaanxi-to-Beijing Gas Pipeline is also underway. The preparation works of the new Guangdong-to-Zhejiang Pipeline (粵浙管線) have been speeded up and the project is progressing smoothly. The developments of the Tianjin LNG Pipeline (天津LNG管線) and Line D of the Central Asia-China Gas Pipeline (中亞D線) will soon commence. Furthermore, in May 2014, China and Russia entered into an agreement regarding natural gas pipelines. The two nations have planned to tighten their energy cooperation in the future. These projects will certainly serve as a significant boost to the Chinese energy sector and hence the economy, and will also provide enormous potential for the Group's development.

Last November, a major oil leakage and explosion occurred in Qingdao Economic and Technological Development Zone, Shandong. Following the accident, a rigorous inspection of oil, gas and dangerous chemical pipelines has been carried out across the nation, in which the urgent need to replace certain old oil and gas pipelines has been highlighted. In June 2014, the General Office of the State Council issued the Guiding Opinions on Strengthening the Management of Urban Underground Pipeline Construction (《關於加強城市地下管線建設管理的指導意見》) to express certain opinions on the planning and reconstruction of urban infrastructures such as water supply, drainage, gas and steam systems. It requires the completion of general underground pipeline planning by the end of next year, reconstruction of old urban underground pipeline network within 5 years and establishment of a better urban underground pipeline system within around 10 years. As the central government has placed higher importance on the quality and risk management of pipelines, it is expected that market competition will intensify, and the strengths of the leading players in terms of technology, quality and performance stability will command higher attention.

To grasp such market opportunities, the Group has established headquarters of sales to head all its sales teams in, among others, Shandong, Xinjiang and Hunan, in order to actively follow up on operation data, increase sales effort, obtain more orders and thus, secure sustainable and healthy growth for the Group.

Finally, I would like to take this opportunity to express thanks to the shareholders and customers, and to extend heartfelt gratitude to the management and staff for their hard work. As time and tide wait for no man, the Group will act on every favourable opportunity and continue to create greater value for the shareholders.

Zhang Bizhuang

Chairman of the Board & Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

In view of the promising prospects of the oil and gas pipeline industry, the Group, being one of the largest oil and gas pipeline manufacturers in China with leading product quality and safety standards, has been expanding its SSAW pipes capacity in recent years, and has completed the preparation works for the LSAW pipe production line. As at the end of June 2014, the Group's SSAW pipe capacity reached 1.45 million tonnes per annum, and the capacity of LSAW pipes was 200,000 tonnes per annum. The Group's expanded capacity and superior product quality have further consolidated its leading position in the market.

The Group's revenue for the six months ended 30 June 2014 amounted to RMB938,582,000 (for the six months ended 30 June 2013: RMB1,341,413,000). During the first half of the year, the Group's core business, namely the SSAW pipes business (including the operations of sale of pipes, processing service and anti-corrosion service), reported a turnover of RMB183,589,000 (for the six months ended 30 June 2013: RMB470,085,000). To capture the synergy among its internal resources, the Group also engages in metal commodity trading business, which recorded a turnover of RMB754,520,000 (for the six months ended 30 June 2013: RMB867,724,000) for the period ended 30 June 2014.

To optimise its business structure, the Group has discontinued its cold-formed section steel operation. During the six months ended 30 June 2014, an insignificant amount of sales revenue amounted to RMB404,000 was generated solely from the disposal of obsolete inventories of this operation.

Pipe Business

Being one of the largest oil and gas pipelines manufacturers in China, the Group is also one of the few domestic SSAW pipe suppliers that can offer large diameter pipes which can sustain the high pressure of long-distanced transportation of, among others, crude oil, refined petroleum products and natural gas. It is also among a handful of domestic manufacturers in China who are qualified and authorised to supply oil and gas pipelines ("Authorised Manufacturer").

The Group's major clients include large state-owned oil and gas companies such as CNPC and Sinopec and their joint ventures. The Group focuses on the design, manufacture, anti-corrosion processing and servicing of pipes (including SSAW pipes and LSAW pipes) which are used to transport crude oil, refined petroleum products and natural gas.

As at 30 June 2014, SSAW pipes of the Group comprised approximately 24,300 km of the total length of the world's major oil and gas pipelines, of which 94.1% were installed in China and the remaining 5.9% were installed overseas. During the Period under Review, the Group took part in the production of pipes for a number of national SSAW pipeline projects, including the Second Jinan-to-Qingdao Gas Pipeline (濟南 — 青島輸氣管線二線), the Western Guangdong Branch (粵西支線) of the Guangxi LNG Project Pipeline (廣西LNG項目輸氣管線), the third batch of the Shandong LNG Project Main Pipeline (山東LNG項目輸氣幹線), the Daniudi Gas Field (大牛地氣田), the Zhongtianhechuang Water Supply Project (中天合創輸水工程) and Guangxi LNG Pipeline (廣西LNG管線). For regional pipeline projects, the Group participated in the production of pipes for projects such as Lanxian-to-Taiyuan Gas Pipeline (嵐縣 — 太原輸氣管道), Licheng-to-Dongyangguan Gas Pipeline (黎城 — 東陽關輸氣管道), Huairan-to-Zuoyun-to-Youyu Gas Pipeline (懷仁 — 左雲 — 右玉輸氣管道) and Towngas China's project in Jinan (濟南港華燃氣). For pipeline anti-corrosion services, there were the Second Jinan-to-Qingdao Gas Pipeline, Licheng-to-Dongyangguan Gas Pipeline, Huairan-to-Zuoyun-to-Youyu Gas Pipeline and Towngas China's project in Jinan.

For the six months ended 30 June 2014, the total turnover of the SSAW pipe business was RMB183,589,000 (for the six months ended 30 June 2013: RMB470,085,000), accounting for approximately 19.6% (for the six months ended 30 June 2013: approximately 35.0%) of the Group's total turnover. The SSAW pipe business is mainly divided into (1) sales of SSAW pipes; (2) SSAW pipe processing services; and (3) anti-corrosion processing services.

Due to the general depression in the industry during the Period under Review, turnover for sales of pipes amounted to RMB118,253,000, representing a year-on-year decrease of RMB317,955,000. Turnover from anti-corrosion processing services amounted to RMB13,550,000, representing a year-on-year decrease of RMB18,642,000. Meanwhile, thanks to an increase in the share of processing services for national pipeline projects as compared with the corresponding period last year, turnover for pipe processing services during the reporting period rose to RMB51,786,000, representing a year-on-year increase of RMB50,101,000.

The Group's LSAW pipe production line was completed in April 2014 and enables the Group to take up large-scale national pipeline projects, regional pipeline projects and export sales.

Metal Commodity Trading Business

In order to fully utilise the business potential of its existing clientele and other available resources, the Group also engages in metal commodity trading business and the turnover therefrom for the six months ended 30 June 2014 amounted to RMB754,520,000. The metal trading business consolidates, expands and deepens the cooperation among the Group, the clients of the pipe business and domestic and international financial institutions. It also helps the Group capture the synergy among its internal resources by establishing a well-organised sales platform for future external sales of pipes so as to maximise the shareholders' return.

Other Businesses

Besides focusing on enhancing the quality and production capacity of its oil and gas pipes, the Group has also been diversifying its product, service and market mix in relation to its principal pipe business. In May 2014, the Group entered into a purchase agreement and an operating agreement through Shengli Investment Company, a wholly-owned subsidiary, to make appropriate investment in the development, exploration and commercialisation of the oil field development project located in Grayson County, Texas, the United States for the total consideration of US\$6.73 million (which includes a cash consideration of US\$5 million and deposits paid in the form of the secured convertible promissory notes of an aggregate amount of US\$1.73 million issued by Ever Growing to Shengli Investment Company on 9 September 2011 as further disclosed in the Company's announcement dated 28 May 2014), enabling the Group to expand into overseas upstream oil and gas resources market.

On the other hand, having analysed the historical operation and future development of Golden Fortune, in which the Group has shares, and taken into consideration the current industry trend in China and the uncertainties about the future of the natural gas distribution sector, the Group disposed of its 25% interest in Golden Fortune at a suitable price in April 2014.

FUTURE PROSPECTS

As one of the largest oil and gas pipeline manufacturers in the country, the Company has participated in the development of nearly all long-distanced petroleum and gas transmission pipeline projects and cross-border pipeline projects in China. China is experiencing rapid development in oil and gas pipeline construction, as evidenced by the large-scale national pipeline construction projects in

preparation such as the Fourth and Fifth West to East Natural Gas Pipeline, the Fourth Shaanxi-to-Beijing Gas Pipeline, the new Guangdong-to-Zhejiang Pipeline, the Tianjin LNG Pipeline, Line D of the Central Asia-China Gas Pipeline and the Sino-Russian Pipeline (中俄管線). On the other hand, subsequent to a major oil leakage and explosion occurred in Qingdao Economic and Technological Development Zone, Shandong last November, a rigorous inspection of oil, gas and dangerous chemical pipelines has been carried out across the nation, in which the urgent need to replace certain old oil and gas pipelines has been highlighted. In June 2014, the General Office of the State Council issued the Guiding Opinions on Strengthening the Management of Urban Underground Pipeline Construction (《關於加強城市地下管線建設管理的指導意見》) clearly requiring the completion of the reconstruction of old urban underground pipeline network within 5 years and the establishment of a better urban underground pipeline system within around 10 years. As the central government has placed higher importance on the quality and risk management of pipelines, it is expected that market competition will intensify, and the strengths of the leading players in terms of technology, quality and performance stability will command higher attention.

The Group will make all efforts to innovate new technologies and increase domestic production and replacements. It will also maintain its advantages in terms of production capacity, advanced pre-welding and precision-welding techniques and geographic location, bravely take up more large-scale pipe production projects, and secure stable revenue in the future. Given the acceleration in the construction of national pipeline projects and the Group's edges over its peers in terms of production capacity and technology, the Group is confident in holding its lead in the SSAW pipe industry and expanding into the LSAW pipe market in order to diversify its product mix and meet the differing requirements of the existing clientele.

FINANCIAL REVIEW

Revenue

The Group's unaudited turnover for the six months ended 30 June 2014 was RMB938,582,000, representing a decrease of approximately 30.0% when compared to that of RMB1,341,413,000 for the corresponding period last year. The decrease was mainly due to a substantial increase in the share of the pipe processing business (which contributed less revenue) in the SSAW pipe business for the Period under Review and a decrease in sales from the metal commodity trading business for the Period under Review when compared to the corresponding period last year. However, sales (in terms of tonnes) (including pipe sales and pipe processing services) of the Group's core business, namely the SSAW pipe business, remained relatively stable when compared to that of the corresponding period last year. For the six months ended 30 June 2014, amongst the Group's two major business segments, (1) the SSAW pipe business recorded a revenue of RMB183,589,000 (for the six months ended 30 June 2013: RMB470,085,000), representing a decrease of approximately 60.9% when compared to the corresponding period last year; (2) the metal commodity trading business recorded a revenue of RMB754,520,000 (for the six months ended 30 June 2013: RMB867,724,000).

Cost of sales

The Group's cost of sales decreased by approximately 30.6% from RMB1,301,834,000 for the six months ended 30 June 2013 to RMB903,784,000 for the six months ended 30 June 2014 mainly due to the significant increase in the share of the pipe processing business (which had a lower cost of sales per unit) in the SSAW pipe business for the Period under Review and a decrease in sales from the metal commodity trading business for the Period under Review when compared to the corresponding period last year.

Gross profit

Gross profit for the six months ended 30 June 2014 was RMB34,798,000. However, the Group's gross profit margin rose from approximately 3.0% for the six months ended 30 June 2013 to approximately 3.7% for the six months ended 30 June 2014, which was attributable to the increase in the share of the pipe processing business, which commanded a higher gross profit margin, in the SSAW pipe business for the period.

Other income and gains

The Group's other income and gains for the six months ended 30 June 2014 amounted to RMB24,286,000, representing a decrease of approximately 63.0% when compared to the corresponding period last year, which was mainly due to the fact that as the Group has entered into a disposal agreement in respect of its investment in Golden Fortune as further particularised in the announcement and circular issued by the Company on 28 April 2014 and 20 May 2014 respectively, the fair value change in the relevant derivative financial instrument no longer affects the Company.

Selling and distribution costs

The Group's selling and distribution costs decreased from RMB15,308,000 for the six months ended 30 June 2013 to RMB8,712,000 for the six months ended 30 June 2014, which was mainly attributable to the increase in contribution from the pipe processing business and a drop in transportation expenses borne by the Company.

Administrative expenses

The Group's administrative expenses increased by approximately 11.9% from RMB42,043,000 for the six months ended 30 June 2013 to RMB47,027,000 for the six months ended 30 June 2014, which was mainly attributable to an increase in administrative expenses of the high-grade petroleum and gas transmission project of Hunan Shengli Xianggang Steel Pipe Co., Ltd* (湖南勝利湘鋼鋼管有限公司).

Finance costs

The Group's finance costs increased by approximately 17.1% from RMB28,918,000 for the six months ended 30 June 2013 to approximately RMB33,871,000 for the six months ended 30 June 2014, which was mainly due to an increase in interest on bank loans for the period.

Profit

The Group's profit decreased from RMB7,827,000 for the six months ended 30 June 2013 to a loss of RMB64,379,000 for the six months ended 30 June 2014, which was mainly due to an impairment loss of RMB33,548,000 resulted from the disposal of 25% equity interest in Golden Fortune, an increase in administrative expenses of the high-grade petroleum and gas transmission project of Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司), and a decrease in profit contributed by the metal commodity trading business.

Assets and liabilities

As at 30 June 2014, the Group's total assets amounted to RMB4,154,563,000 (31 December 2013: RMB4,372,069,000) and the Group's net assets amounted to RMB2,281,983,000 (31 December 2013: RMB2,342,098,000). Net assets per share amounted to approximately RMB0.92, representing a

decrease of RMB2 cents when compared to that of 31 December 2013. As at 30 June 2014, the Group's total liabilities amounted to RMB1,872,580,000 (31 December 2013: RMB2,029,971,000). The drop in total liabilities was attributable to the decrease in interest-bearing banking facilities.

Liquidity and financial resources

As at 30 June 2014, the Group's cash and cash equivalents amounted to RMB222,466,000 (31 December 2013: RMB202,720,000). As at 30 June 2014, the Group had borrowings of RMB1,167,262,000 (31 December 2013: RMB1,559,618,000).

The gearing ratio is defined as net debt (represented by borrowings, trade payables and other payables and accruals net of cash and cash equivalents and pledged deposits) divided by total equity plus net debt. As at 30 June 2014, the Group's gearing ratio was approximately 32.7% (31 December 2013: approximately 31.9%).

Financial management and fiscal policy

For the six months ended 30 June 2014, most of the Group's turnover, expenses, assets and liabilities were denominated in Renminbi. The Directors believe that the current foreign exchange risk exposure of the Group is limited and have not entered into any hedging arrangement to mitigate the foreign exchange risk. The Group closely monitors the changes in foreign exchange and will evaluate whether it is necessary to take any measure against the foreign exchange risk from time to time.

Interim Dividend

The Board does not recommend the declaration of any interim dividend for the six months ended 30 June 2014 (for the six months ended 30 June 2013: nil).

SUBSEQUENT EVENTS

Saved as disclosed herein, there was no other significant event subsequent to the end of the Period under Review which may affect the Group.

CORPORATE GOVERNANCE CODE

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability to the shareholders as a whole. The Board strove to uphold good corporate governance and adopt sound corporate governance practices. Save as disclosed below, the Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Corporate Governance Code and Corporate Governance Report (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the Period under Review.

Currently, Mr. Zhang Bizhuang serves as the Chairman and Chief Executive Officer of the Company. This deviates from the code provision A.2.1 of the CG Code, which provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. In view of the relative uniqueness of the Group's oil and gas pipeline business, especially our business in Mainland China, our Chairman and Chief Executive Officer must be familiar with and sensitive to relevant policies and market changes, in order to guide the Group to promptly react to the ever-changing environment. The Board considers that the segregation of the roles of the Chairman and Chief Executive Officer may result in unnecessary costs in the daily operation of the Company. Besides, all major decisions are made in consultation with the members of the Board and appropriate

committees, as well as the senior management team. Key management officers and senior executives are invited to attend Board meetings from time to time to make presentations and answer the Board's enquiries. In addition, the Directors are encouraged to participate actively in all meetings of the Board and the committee(s) of which they are members, and the Chairman ensures that adequate time is available for the discussion for all items. The Chairman and the non-executive Directors (including the independent non-executive Directors) have been maintaining direct communication. The non-executive Directors have put forward ideas in diversified perspectives to the Chairman from time to time. The Board is therefore of the view that there are adequate balance of power and safeguards in place. Nevertheless, the Board will continue to monitor and review the Company's current structure and to make necessary changes as and when appropriate.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the required standard for securities transactions by the Directors. The Company has made specific enquiries of all Directors and all Directors have confirmed that for the six months ended 30 June 2014, they have complied with the required standards set out in the Model Code and the code of conduct regarding directors' securities transactions.

PURCHASE, REDEMPTION OR SALE OF SECURITIES

Neither the Company nor any of its subsidiaries have sold or redeemed any of the Company's listed securities during the Period under Review.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established on 21 November 2009 with written terms of reference in compliance with the Listing Rules. The primary functions of the Audit Committee are to review and monitor the financial reporting procedures. All members of the Audit Committee are appointed by the Board. The Audit Committee currently consists of two independent non-executive Directors, namely Mr. Chen Junzhu and Mr. Wang Xueyou, and one non-executive Director, namely Mr. Yan Tangfeng, with Mr. Chen Junzhu as chairman of the Audit Committee.

The Audit Committee has reviewed the Group's unaudited financial statements for the six months ended 30 June 2014 as well as the internal control system and its implementation.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters, including the review of the unaudited interim financial statements for the Period under Review, with the management and external auditor. The external auditor has reviewed the interim financial information for the Period under Review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

APPRECIATION AND PLEDGE

Last but not least, on behalf of all the Directors, I would like to take this opportunity to express my gratitude to all shareholders, customers and employees of the Company for their continuous support and encouragement for the Company to overcome difficulties and flourish. The Company is positioned in the oil and gas and related equipment and pipeline industry and has a close connection with the economic and strategic development of the country. With the highest quality and technical standards, unwavering efforts and unswerving dedication to our corporate philosophy, we are committed to capturing each and every opportunity, with a view to becoming the leader in the global pipeline industry, thereby creating maximum values and returns for our shareholders.

By order of the Board
SHENGLI OIL & GAS PIPE HOLDINGS LIMITED
Zhang Bizhuang
Chairman

Zibo, Shandong, 10 August 2014

As at the date of this announcement, the Directors of the Company are:

<i>Executive Directors:</i>	<i>Mr. Zhang Bizhuang, Mr. Jiang Yong, Mr. Liu Yaohua, Ms. Han Aizhi and Mr. Song Xichen</i>
<i>Non-executive Director:</i>	<i>Mr. Yan Tangfeng</i>
<i>Independent non-executive Directors:</i>	<i>Mr. Guo Changyu, Mr. Wang Xueyou and Mr. Chen Junzhu</i>

* for identification purposes only