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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 2015

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB1,100,757,000, representing an increase of approximately 17.3% when compared to the corresponding period in 2014.
- Gross profit margin was approximately 1.3%, representing a decrease of approximately 2.4 percentage points when compared to the corresponding period in 2014.
- Loss attributable to owners of the Company amounted to approximately RMB108,514,000, while loss attributable to owners of the Company for the corresponding period in 2014 amounted to approximately RMB58,607,000.
- Basic loss per share attributable to owners of the Company amounted to approximately RMB3.98 cents, while basic loss per share attributable to owners of the Company for the corresponding period in 2014 amounted to approximately RMB2.36 cents.
- The Board does not recommend the declaration of any interim dividend for the six months ended 30 June 2015.

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 2015 (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

For the six months ended 30 June 2015

		Six months ended 30 June	
		2015	2014
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
REVENUE	4	1,100,757	938,582
Cost of sales and services		(1,086,716)	(903,784)
Gross profit		14,041	34,798
Other income and gains	5	28,326	24,286
Selling and distribution costs		(11,197)	(8,712)
Administrative expenses		(67,367)	(47,027)
Allowance for trade receivables	15	(44,391)	—
Other expenses		(1,563)	(351)
Share of results of:			
Joint ventures		(5,424)	(3,963)
Associates		91	3,272
Gain on acquisition of an associate		—	3,421
Impairment loss recognized on investment in an associate		—	(33,548)
Impairment loss on goodwill		(7,385)	—
Finance costs	6	(30,207)	(33,871)
LOSS BEFORE TAX	7	(125,076)	(61,695)
Income tax expense	8	(6,273)	(2,822)
LOSS FOR THE PERIOD		(131,349)	(64,517)
<i>Other comprehensive (loss)/profit that may be subsequently reclassified to profit or loss:</i>			
Exchange differences on translation of financial statements of foreign operations		(3,295)	138
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(134,644)	(64,379)

		Six months ended 30 June	
		2015	2014
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company	9	(108,514)	(58,607)
Non-controlling interests		<u>(22,835)</u>	<u>(5,910)</u>
		<u>(131,349)</u>	<u>(64,517)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		(111,809)	(58,469)
Non-controlling interests		<u>(22,835)</u>	<u>(5,910)</u>
		<u>(134,644)</u>	<u>(64,379)</u>
LOSS PER SHARE (<i>RMB cents</i>)			
— Basic	9	<u>(3.98)</u>	<u>(2.36)</u>
— Diluted		<u>(3.98)</u>	<u>(2.36)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2015

		30 June 2015	31 December 2014
	Notes	RMB'000 (Unaudited)	RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	1,074,558	1,107,277
Prepaid land lease payments		169,644	171,408
Goodwill	12	2,525	9,910
Deposits paid for acquisition of investments	13	36,781	—
Investment in joint ventures		24,106	29,530
Investment in associates		48,852	48,761
Available-for-sale investment		11,428	11,428
Other assets		905	3,248
Deferred tax assets	14	17,535	26,522
		<u>1,386,334</u>	<u>1,408,084</u>
CURRENT ASSETS			
Inventories		244,718	176,808
Trade and bills receivables	15	994,213	1,018,694
Prepayments, deposits and other receivables	16	547,991	459,435
Prepaid land lease payments		3,761	3,777
Pledged deposits	17	298,613	206,446
Cash and cash equivalents		295,192	216,007
		<u>2,384,488</u>	<u>2,081,167</u>
Non-current assets held for sale	18	—	350,000
		<u>2,384,488</u>	<u>2,431,167</u>
CURRENT LIABILITIES			
Trade and bills payables	19	334,600	339,891
Other payables and accruals		145,438	186,780
Borrowings	20	1,127,938	982,289
Tax payable		16,895	14,218
Deferred income		854	854
Deferred tax liabilities	14	7,000	—
		<u>1,632,725</u>	<u>1,524,032</u>
NET CURRENT ASSETS		<u>751,763</u>	<u>907,135</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>2,138,097</u>	<u>2,315,219</u>

		30 June 2015	31 December 2014
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Audited)
NON-CURRENT LIABILITIES			
Deferred income		7,744	8,171
Borrowings	20	68,750	82,500
Deferred tax liabilities	14	384	32,892
		76,878	123,563
NET ASSETS			
		2,061,219	2,191,656
EQUITY			
Equity attributable to owners of the Company			
Issued capital		238,438	238,438
Reserves		1,600,938	1,708,540
		1,839,376	1,946,978
Non-controlling interests		221,843	244,678
Total equity		2,061,219	2,191,656

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2015

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 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 and trading of metal commodity.

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 2014 ("2014 Annual Report").

The accounting policies adopted in the preparation of the Interim Financial Statements are consistent with those followed in the preparation of 2014 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 2015. 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 IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new IFRSs but is not yet in a position to state whether these new 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	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Sales of steel pipes	208,857	145,345
Trading of metal commodity	887,276	754,520
Rendering of services related to pipe business	4,624	38,717
	<u>1,100,757</u>	<u>938,582</u>

For management purpose, the Group has two (for the six months ended 30 June 2014: two) reportable segments which comprise of pipes business and trading of metal commodity. The pipes business segment produces spiral submerged arc welded pipes, longitudinal submerged arc welded pipe and cold-formed section steel which are mainly used for the oil and infrastructure industry (“Pipes Business”). The trading of metal commodity business mainly involve trading of non-ferrous metal. Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude borrowings, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

The inter-segment sales were based on agreed selling prices between the parties involved.

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

Segment revenue and results

For the six months ended 30 June 2015 (unaudited)

	Pipes Business	Trading of metal commodity	Consolidated
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Segment revenue	<u>213,481</u>	<u>887,276</u>	<u>1,100,757</u>
Segment results	<u>(65,983)</u>	<u>(11,915)</u>	<u>(77,898)</u>
Interest income			6,069
Impairment loss on goodwill			(7,385)
Unallocated expenses			(15,655)
Finance costs			<u>(30,207)</u>
Loss before tax			<u>(125,076)</u>

For the six months ended 30 June 2014 (unaudited)

	Pipes Business RMB'000	Trading of metal commodity RMB'000	Consolidated RMB'000
Segment revenue	184,062	754,520	938,582
Segment results	(11,592)	9,661	(1,931)
Interest income			11,676
Gain on acquisition of an associate			3,421
Impairment loss recognized on investment in an associate			(33,548)
Unallocated expenses			(7,442)
Finance costs			(33,871)
Loss before tax			(61,695)

Segment assets

As at 30 June 2015 (Unaudited)

	Pipes Business RMB'000	Trading of metal commodity RMB'000	Consolidated RMB'000
Segment assets	2,363,575	662,449	3,026,024
Unallocated assets			744,798
Total consolidated assets			3,770,822

As at 31 December 2014 (Audited)

	Pipes Business RMB'000	Trading of metal commodity RMB'000	Consolidated RMB'000
Segment assets	2,291,828	657,640	2,949,468
Unallocated assets			889,783
Total consolidated assets			3,839,251

Segment liabilities

As at 30 June 2015 (Unaudited)

	Pipes Business RMB'000	Trading of metal commodity RMB'000	Consolidated RMB'000
Segment liabilities	271,579	215,228	486,807
Unallocated liabilities			1,222,796
Total consolidated liabilities			1,709,603

As at 31 December 2014 (Audited)

	Pipes Business RMB'000	Trading of metal commodity RMB'000	Consolidated RMB'000
Segment liabilities	310,583	222,031	532,614
Unallocated liabilities			1,114,981
Total consolidated liabilities			1,647,595

5. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest income	6,069	11,676
Rental income	3,277	3,446
Penalty income (note)	15,084	—
Gain on sales of materials	1,809	3,358
Government grant for achieving energy saving standard	—	631
Gain on disposal of property, plant and equipment, net	—	109
Others	2,087	5,066
	28,326	24,286

Note:

On 28 April 2014, Shandong Shengli Steel Pipe Co., Ltd.[#] (“Shandong Shengli Steel Pipe”) (山東勝利鋼管有限公司), a PRC subsidiary of the Company, entered into the sale and purchase agreement (the “Agreement”) with Mr. Li Zifeng and Beijing Golden Fortune Investment Co., Ltd.[#] (“Golden Fortune”) (北京慧基泰展投資有限公司), pursuant to which the Group has conditionally agreed to sell and Mr. Li Zifeng has conditionally agreed to purchase the equity interest of Golden Fortune for the consideration of RMB350 million (the “Disposal”). Pursuant to a supplemental agreement, it was agreed that the damages incurred up to the date of the supplemental agreement payable by Mr. Li Zifeng for his failure to pay the unsettled amount of the consideration to Shandong Shengli Steel Pipe as scheduled under the Agreement amounts to RMB15,084,000.

[#] The English name is for identification only

6. FINANCE COSTS

	For the six months ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest of		
— Borrowings	30,207	39,115
— Other loans from a financial institution in the PRC	—	2,973
Less: interests capitalized	—	(8,217)
	<u>30,207</u>	<u>33,871</u>

7. LOSS BEFORE TAX

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

	For the six months ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Cost of inventories sold*	1,082,524	860,654
Cost of services	4,192	43,130
	<u>1,086,716</u>	<u>903,784</u>
Employees benefits expenses including directors' remunerations	38,005	39,601
Depreciation of property, plant and equipment	54,621	42,091
Amortisation of prepaid land lease payments	1,780	1,909
Allowance for trade receivables	44,391	—
Operating lease payments	7,285	7,546
Exchange loss/(gains), net	82	(3,576)

* Included in the cost of inventories sold is an amount of approximately RMB5,064,000 (for the six months ended 30 June 2014: approximately RMB5,734,000) related to the write down of inventories during the six months ended 30 June 2015.

8. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current — PRC Enterprise Income Tax (“EIT”)		
— Charge for the period	—	(614)
— Under-provision in prior years	—	(2,225)
Current — Hong Kong		
— Charge for the period	(2,794)	—
Current — PRC dividend withholding tax	(20,000)	—
Deferred tax	16,521	17
	<u>(6,273)</u>	<u>(2,822)</u>

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for the six months ended 30 June 2015 and 2014. 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 2015 and 2014. Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the subsidiaries of the Company established in the PRC was 25% for the six months ended 30 June 2015 and 2014.

9. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

(a) Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the six months ended 30 June 2015 attributable to owners of the Company of approximately RMB108,514,000 (for the six months ended 30 June 2014: approximately RMB58,607,000) and the weighted average number of 2,728,638,000 (for the six months ended 30 June 2014: 2,480,580,000) ordinary shares in issue during the six months ended 30 June 2015.

(b) Diluted loss per share

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2015 and 2014 in respect of a dilution as there was no dilutive potential ordinary shares for the Company’s outstanding options.

10. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2015 (for the six months ended 30 June 2014: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2015, the Group acquired property, plant and equipment at a total cost of approximately RMB21,902,000 (for the six months ended 30 June 2014: approximately RMB47,771,000).

Property, plant and equipment with a carrying amount of approximately RMB160,000 (for the six months ended 30 June 2014: approximately RMB901,000) were disposed by the Group during the six months ended 30 June 2015.

As at 30 June 2015, the Group was in the process of applying for the title certificates of buildings with an aggregate net book value of approximately RMB158,879,000 (as at 31 December 2014: approximately RMB161,986,000). The directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the abovementioned 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 2015.

12. GOODWILL

	30 June 2015	31 December 2014
	RMB’000	RMB’000
	(Unaudited)	(Audited)
Cost		
At 1 January 2014, 31 December 2014, 1 January 2015 and 30 June 2015	9,910	9,910
Accumulated impairment losses		
Impairment loss recognized during the period/year and at 30 June 2015 and 31 December 2014	<u>7,385</u>	<u>—</u>
Carrying amount		
Carrying amount at 30 June 2015 and 31 December 2014	<u>2,525</u>	<u>9,910</u>

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Pipes business	2,525	2,525
Xinjiang business	—	7,385
	<u>2,525</u>	<u>9,910</u>

13. DEPOSITS PAID FOR ACQUISITION OF INVESTMENTS

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Deposit paid for acquisition of the equity interest of:		
— Blossom Time Group Limited (<i>note</i>)	<u>36,781</u>	<u>—</u>

Note:

The amount represented deposits paid for acquisition of 56% equity interest in Blossom Time Group Limited, a company established in the British Virgin Islands, the principal activities of its subsidiaries are mainly engaged in investments and minerals business. As at the end of the reporting period and up to the date of this announcement, the share transfer is still subject to the fulfilment or waiver of the certain conditions.

14. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The movements in deferred tax assets and deferred tax liabilities during the period/year are as follows:

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Deferred tax assets		
As at 1 January	26,522	31,046
Deferred tax charged to the condensed consolidated profit or loss during the period/year	<u>(8,987)</u>	<u>(4,524)</u>
Gross deferred tax assets at 30 June 2015 and 31 December 2014	<u>17,535</u>	<u>26,522</u>
Deferred tax liabilities		
As at 1 January	32,892	32,909
Deferred tax credited to the condensed consolidated profit or loss during the period/year	<u>(25,508)</u>	<u>(17)</u>
Gross deferred tax liabilities at 30 June 2015 and 31 December 2014	<u>7,384</u>	<u>32,892</u>
Net deferred tax assets/(liabilities) at 30 June 2015 and 31 December 2014	<u>10,151</u>	<u>(6,370)</u>

The components of the Group's deferred tax assets and liabilities are as follows:

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Deferred tax assets		
Accrued interest on borrowings	1,299	1,299
Government grants received but not yet recognized as income	2,043	2,043
Excess of carrying value over fair value of identifiable assets and liabilities in acquisition of subsidiaries	1,494	1,494
Tax losses	12,699	21,686
Gross deferred tax assets	17,535	26,522
Deferred tax liabilities		
Excess of fair value of identifiable assets and liabilities over carrying value in acquisition of subsidiaries	384	392
Fair value gains of a derivative financial instrument	—	32,500
PRC dividend withholding tax	7,000	—
Gross deferred tax liabilities	7,384	32,892
Net deferred tax assets/(liabilities)	10,151	(6,370)

15. TRADE AND BILLS RECEIVABLES

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Trade receivables	1,055,394	1,056,992
Less: allowance for impairment of trade receivables	(94,821)	(50,430)
	960,573	1,006,562
Bills receivables	33,640	12,132
	994,213	1,018,694

The Group's trading terms with its customers are mainly on credit generally ranging from 90 to 180 days. All of the bills receivables 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 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Within 3 months	755,211	773,899
3 to 6 months	49,587	48,804
6 months to 1 year	86,580	85,520
More than 1 year	69,195	98,339
	960,573	1,006,562

Included in the trade receivables of approximately RMB112,571,000 (as at 31 December 2014: approximately RMB143,723,000) ranging from 6 months to 3 years are quality guarantee deposits receivable from customers.

Reconciliation of allowance for trade receivables:

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Balance at beginning of the period/year	50,430	—
Allowance for the period/year	44,391	50,430
Balance at the end of period/year	94,821	50,430

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Advance to suppliers (<i>note a</i>)	115,402	55,276
Trade deposits paid to metal commodity suppliers (<i>note b</i>)	218,000	219,366
Advance to a joint venture (<i>note c</i>)	90,187	80,854
Loan to employees (<i>note d</i>)	690	690
Tender deposits to customers	5,253	3,657
Other tax receivables (<i>note e</i>)	65,945	63,451
Rent prepaid to a related company	7,639	7,668
Others	44,875	28,473
	547,991	459,435

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 RMB214,676,000 (as at 31 December 2014: approximately RMB220,537,000) 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 RMB33,064,000 (as at 31 December 2014: approximately RMB26,714,000) 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 at 30 June 2015 and 31 December 2014.
- (d) Loan to employees are unsecured, bearing interests at 5% (2014: 5%) per annum and have no fixed repayment term.
- (e) The Group's other tax receivables mainly represent value-added tax receivable.

17. PLEDGED DEPOSITS

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

18. NON-CURRENT ASSETS HELD FOR SALE

During the period ended 30 June 2015, the amount of RMB350 million was settled and the Disposal was completed.

19. TRADE AND BILLS PAYABLES

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Trade payables	330,138	322,543
Bills payables	<u>4,462</u>	<u>17,348</u>
	<u>334,600</u>	<u>339,891</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 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Within 3 months	291,693	268,909
3 to 6 months	4,064	13,889
6 months to 1 year	15,900	29,429
More than 1 year	<u>18,481</u>	<u>10,316</u>
	<u>330,138</u>	<u>322,543</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.

20. BORROWINGS

	<i>Notes</i>	As at 30 June 2015 (Unaudited)			As at 31 December 2014 (Audited)		
		Effective interest rate (%)	Maturity (year)	RMB'000	Effective interest rate (%)	Maturity (year)	RMB'000
Bank loans — Unsecured		5.35%–6.30%	2015–2016	565,000	6.17%–6.49%	2015	540,000
Bank loans — Secured	(a)	1.18%–6.50%	2015–2016	405,438	2.77%–2.97%	2015	279,789
Bank loans — Guaranteed	(b)	5.89%–6.60%	2015–2019	226,250	6.59%–6.80%	2015–2018	245,000
				1,196,688			1,064,789

The borrowings are repayable as follows:

	<i>RMB'000</i>	<i>RMB'000</i>
On demand or within one year	1,127,938	982,289
In the second year	27,500	27,500
In the third to fifth years, inclusive	41,250	55,000
	1,196,688	1,064,789
Less: Amount due for settlement within 12 months (shown under current liabilities)	(1,127,938)	(982,289)
Amount due for settlement after 12 months	68,750	82,500

Notes:

- (a) The Group's bank loans were secured by pledge of bank deposits of RMB253,850,000 (as at 31 December 2014: RMB173,900,000).
- (b) As at 30 June 2015 and 31 December 2014, an amount of RMB99,550,000 (as at 31 December 2014: RMB83,600,000) out of bank loans of RMB226,250,000 (as at 31 December 2014: RMB245,000,000) were guaranteed by a non-controlling interest of a subsidiary.

21. 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 2015, the Group had future minimum lease receivable under non-cancellable operating leases with its tenant, a related party to the Group, falling due as follows:

	30 June 2015 <i>RMB'000</i> (Unaudited)	31 December 2014 <i>RMB'000</i> (Audited)
Within one year	6,612	6,612
In the second to fifth years, inclusive	9,918	13,224
	16,530	19,836

Operating lease receivable as at 31 December 2014 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 the end of each reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Within one year	1,803	1,813
In the second to fifth years, inclusive	32,294	29,073
After fifth years	65,181	69,016
	<u>99,278</u>	<u>99,902</u>

Operating lease commitments as at 31 December 2014 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, 20 December 2011 and 24 December 2014.

Leases are negotiated for lease terms of 20 years and the lease payment will be adjusted for every 3 years. The Group has prepaid the lease payments for 1.5 financial years from 1 January 2015 to 30 June 2016 during the year ended 31 December 2014.

(b) Capital commitments

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

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Contracted, but not provided for	<u>32,820</u>	<u>49,338</u>

(c) Investment commitments

The Group had the following amounts of investment commitments as at the end of the reporting period:

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Contracted, but not provided for	<u>149,512</u>	<u>29,712</u>

22. 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.# (“Dome Shandong”) (普帝龍哆咪集成房屋製造 (山東) 有限公司)	A wholly owned subsidiary of Dome Integration Housing Industrial Holding Co. Ltd., a joint venture of the Group
Gaoqing Xian Minfu Microfinance Co., Ltd.# (“Minfu Microfinance”) (高青縣民福小額貸款有限公司)	An associate of the Company
Shenzhen Taihe Tiandi Investment Partnership # (“Shenzhen Taihe”) (深圳市泰和天地投資合夥企業)	A joint venture of the Company

The English name is for identification only

(b) Significant related party transactions

During the period ended 30 June 2015 and 2014, the Group had the following material transactions with related parties:

	For the six months ended 30 June	
	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Rental expense paid to Shengli Steel Pipe	3,834	4,055
Rental income received from Dome (Shandong)	2,990	3,346
Interest income from Dome (Shandong)	469	442
Interest income from Minfu Microfinance	—	497

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

(c) Commitments with related parties

Shandong Shengli entered into a lease agreement and the supplemental agreements with Shengli Steel Pipe to rent factory premises for production purposes. The annual rental for year 2014 is approximately RMB8 million. Details of the operating lease arrangements are disclosed in note 21(a) to the financial statements.

(d) Balances with related parties

	30 June 2015 RMB'000 (Unaudited)	31 December 2014 RMB'000 (Audited)
Shengli Steel Pipe	7,639	10,000
Less: Current portion (<i>note 16</i>)	(7,639)	(7,668)
Non-current portion disclosed as other assets	—	2,332

(e) 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	
	2015	2014
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fees	499	674
Salaries, allowances and other benefits in kind	1,652	2,734
Social security contributions	54	45
Equity-settled share option expense	1,836	109
	4,041	3,562

23. APPROVAL OF FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorized for issue by the Board of Directors on 22 August 2015.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of the Company, I would like to present the unaudited results of the Group for the Period under Review to the shareholders.

In the first half of 2015, the PRC economy encountered complicated domestic and global environments as well as rising downward pressure. Meanwhile, international oil prices dropped rapidly under the persistent influence of the drastic changes in the international oil market which arose in the second half of the last year. Nonetheless, crude oil, trading and energy-related enterprises are expected to enjoy more international co-operations in terms of resources thanks to the implementation of the “One Belt, One Road” initiative. This initiative has not only boosted the growth of the cities along the routes, but also stimulated energy demand and opened up promising markets for oil and gas enterprises. Therefore, the long-term demand for oil and gas pipelines remains strong.

BOOSTING GLOBAL SALES AND SEIZING MARKET OPPORTUNITIES

The Group has been striving to diversify its product and service portfolio and expand overseas markets in recent years. During the Period under Review, Shandong Shengli Steel Pipe Co., Ltd.* (山東勝利鋼管有限公司) (“Shandong Shengli Steel Pipe”) completed the production and delivery for the Pakistan Large-Diameter Gas Pipeline Project (巴基斯坦大口徑輸氣管線項目) and took up the entire Venezuela Pipeline Project (委內瑞拉管道工程), which represent the first overseas projects completed by the Group alone and allowed the Company to take solid steps forward in our pursuit of international presence and greater market share. At the same time, following the success of its pipeline project in Venezuela, Shandong Shengli Steel Pipe has been formally listed as a national supplier of the country.

On the other hand, Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) (“Hunan Shengli Steel Pipe”) also actively participated in overseas pipeline tenders, including pipeline projects in Pakistan and Turkmenistan, thereby gaining relevant experience and laying the solid foundation for its future expansion in the overseas market.

SEEKING TECHNOLOGY INNOVATION AND UPHOLDING MARKET LEADERSHIP

As technological advancement is a driving force for the growth of an enterprise and core technologies are vital for an enterprise to maintain its competitiveness, the Group always attaches great importance to technological investment and pursues technology innovation. During the Period under Review, not only has the Group sought to perfect its pre-welding and precision-welding techniques and to master the fabrication and production of spiral submerged arc welded pipes (“SSAW pipes”) with different materials and specifications in order to deliver elegant and quality products, but it also pursued technological breakthroughs persistently.

During the Period under Review, Shandong Shengli Steel Pipe has been granted the invention patent for its high-shear three-ply polyolefin anti-corrosion and insulated steel pipes and the relevant production technique to be applied in the pipeline project in Venezuela. The Group has also successfully mastered the non-solvent epoxy ceramic anti-corrosion technique that allowed the Group to venture into this new technical area.

Hunan Shengli Steel Pipe has also completed the application for 1 invention patent and 4 utility model patents during the Period under Review. In addition, the API 2B certification process has been completed and the API Spec 2B certificate has been granted. This certificate has enhanced its market competitiveness and recognition as well as laid a sound groundwork for it to take up local and national longitudinal submerged arc welded pipes (“LSAW pipes”) projects in the future.

EXPLORING NEW PARTNERSHIPS AND BROADENING INCOME SOURCES

In order to generate stable income and to mitigate the risk of fluctuations in the pipe industry, the Group has, in addition to developing oil and gas pipeline products, been actively exploring opportunities to form new partnership with players from the upstream resources industry. This will realize its strategy for a sustainable, stable and healthy development. In our continual pursuit of opportunities in the natural resources mining and exploitation industry, the Group entered into an agreement to acquire 56% of the share capital of Blossom Time Group Limited (“Blossom Time”) at US\$32,000,000 during the Period under Review. Blossom Time holds certain titanium — zirconium ore deposits in Vietnam. Under the current mineral resources price trough, this acquisition will broaden the revenue source of the Group and create higher returns for the shareholders.

REORGANISING BUSINESS STRUCTURE TO EMBRACE NEW UPWARD INDUSTRY CYCLE

As the government rolled out a series of economic stabilization policies, it is anticipated that the PRC oil and gas pipeline construction industry will maintain a stable growth in the next one to two decades. In particular, gas pipelines and storage will be the future development focus. Being one of the largest oil and gas pipeline manufacturers in the PRC, the Company participated in the construction of nearly all long-distance oil and gas pipelines within and beyond the PRC. The Group will certainly benefit therefrom.

The Group has already reorganised the business in Eastern, South Central and Northwestern China in anticipation of the forthcoming peak of pipeline construction. To grasp the industry-wide opportunities and promote its sustainable and healthy growth, the Group has established a designated sales subsidiary to collect market updates, step up sales efforts and secure more orders by consolidating the sales teams in Zibo and Dezhou of Shandong, Xinjiang, and Hunan. As of late July 2015, product volume under the Group’s outstanding orders exceeded 80,000 tonnes.

Finally, I would like to take this opportunity to express thanks to shareholders and customers, and to extend heartfelt gratitude to the management and staff for their hard work. The Group will vigorously make preparation for capturing future growth opportunities and continue to create long-term value for shareholders.

Zhang Bizhuang

Chairman of the Board & Chief Executive Officer

* For identification purpose only

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, has been expanding its SSAW pipe production capacity in recent years, and has completed the preparation and reconstruction works for the LSAW pipe production line as well as the trial production of steel pipes to various specifications. As at 30 June 2015, the Group's production capacity of SSAW pipes reached 1.45 million tonnes per annum, and that of LSAW pipes was 400,000 tonnes per annum, which have further consolidated the Group's leading position in the market. In order to realize its strategy for a sustainable, stable and healthy development, the Group has, in addition to developing oil and gas pipeline products, been actively exploring opportunities to form new partnership with players from the upstream resources industry.

The Group's revenue for the six months ended 30 June 2015 amounted to approximately RMB1,100,757,000 (for the six months ended 30 June 2014: approximately RMB938,582,000). During the Period under Review, the Group's core business, namely the pipe business (including the sale of pipes, processing services and anti-corrosion services), reported a turnover of approximately RMB213,481,000 (for the six months ended 30 June 2014: approximately RMB183,993,000). To foster greater synergy among our internal resources, the Group also engages in metal commodity trading business, which recorded a turnover of approximately RMB887,276,000 (for the six months ended 30 June 2014: approximately RMB754,520,000) for the six months ended 30 June 2015.

Pipe Business

Being one of the largest oil and gas pipe manufacturers in the PRC with top facilities, advanced technique and a comprehensive quality check and assurance system, the Group is one of the few suppliers of pipes designed with large diameter which can sustain the high pressure in long-distance transportation of, amongst others, crude oil, refined petroleum and natural gas. It is also the only privately-owned enterprise among the handful of suppliers in the PRC who were qualified to supply to major oil and natural gas pipeline projects.

Major customers of the Group include large state-owned oil and gas companies such as China National Petroleum Corporation ("CNPC") and China Petrochemical Corporation ("Sinopec"), and their subsidiaries. The Group focuses on the design, manufacturing, 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 2015, the total length of the world's major oil and gas pipelines using pipes produced by the Group was approximately 25,700 kilometers, of which 94.2% have been installed in the PRC and the remaining 5.8% have been installed overseas. During the Period under Review, national pipeline projects using the Group's SSAW pipes included, amongst others, the Zhongyuan-Kaifeng Gas Pipeline Project (Dongming section) (中原 — 開封輸氣管道 (東明段) 工程), the Pakistan Large-Diameter Gas Pipeline Project (巴基斯坦大口徑輸氣管線項目), the Venezuela Pipeline Project (委內瑞拉管道工程) and the Yizheng-Changling Dual Crude Oil Pipeline Project (儀徵 — 長嶺原油管道複線工程). Major regional pipeline projects that the Group participated in were, amongst others, the Heat Supply Pipeline Network Project for the Combined Heat and Power Project of Shandong Xingda New Energy (山東興達新能源熱電聯產項目熱力管網工程), the Westbound Pipeline Project for Combined Heat and Power of the Shengli Oilfield Base (勝利油田基地熱電聯供西骨幹工程), the

300,000-tonne Crude Oil Port Project at the West Port section of Yantai Port (煙台港西港區30萬噸級原油碼頭工程), the Dongguan Oil Depot Project (東莞油庫工程), the Pipeline Network Project Covering 10 Provinces and Cities in Hebei (冀中十縣管網工程) and the Jinan Thermal Power Project (濟南熱電). Major anti-corrosion projects it undertook were, amongst others, the Zhongyuan-Kaifeng Gas Pipeline Project (Dongming section) (中原 — 開封輸氣管道 (東明段) 工程), the Venezuela Pipeline Project (委內瑞拉管道工程), the Yizheng-Changling Dual Crude Oil Pipeline Project (儀徵 — 長嶺原油管道複線工程) and the Heat Supply Pipeline Network Project for the Combined Heat and Power Project of Shandong Xingda New Energy (山東興達新能源熱電聯產項目熱力管網工程). Projects using LSAW pipelines produced by the Group were, amongst others, the Huaneng Suzhou Natural Gas Pipeline Project (華能蘇州天然氣管道專線工程), the Xinchu Qingtian Plaza Project (新楚擎天廣場項目), the Exhibition Center Project in Changsha (長沙會展中心項目), the Xiangtan North Station Project (湘潭北站項目), the First-grade Hydropower Station at Lishiluo River in Fugong County (福貢縣力士洛河一級水電站項目) and the Water Supply Project at Diaodong Reservoir in Danzhai County, Guizhou (貴州丹寨縣吊洞水庫供水工程項目).

During the Period under Review, total turnover of the Group's pipe business was approximately RMB213,481,000 (for the six months ended 30 June 2014: approximately RMB183,993,000), accounting for approximately 19.4% (for the six months ended 30 June 2014: approximately 19.6%) of the Group's total turnover. This turnover comprised the followings: (1) revenue from the sale of SSAW pipes of approximately RMB202,752,000 (for the six months ended 30 June 2014: approximately RMB170,039,000), representing an increase of approximately 19.2% as compared with the corresponding period last year; (2) revenue from the sale of LSAW pipes for the period of approximately RMB6,085,000 subsequent to the completion and operation of the LSAW pipe production line; (3) revenue from the anti-corrosion processing service of approximately RMB4,624,000 (for the six months ended 30 June 2014: approximately RMB13,550,000), representing a decrease of approximately 65.9% as compared with the corresponding period last year; and (4) revenue from the cold-formed section steel business of approximately RMB20,000 (for the six months ended 30 June 2014: approximately RMB404,000), representing a decrease of approximately 95.1% as compared with the corresponding period last year.

Metal Commodity Trading Business

In order to fully utilize the business network of its current customers and other existing resources, the Group also engages in the metal commodity trading business. For the six months ended 30 June 2015, turnover of this business was approximately RMB887,276,000 (for the six months ended 30 June 2014: approximately RMB754,520,000).

FUTURE PROSPECT

According to available information, the PRC section of the Eastern Sino-Russian Natural Gas Pipeline (中俄東線天然氣管道) has started work from Heihe on 29 June 2015, marking the full-scale commencement of the construction of this land energy gateway linking the PRC and Russia. The eastern natural gas pipeline project represents the largest co-operation between the two nations in practice and will be conducive to the energy diversification strategy and security of both parties as well as the social and economic development of the regions along the route. The Russian section of the Sino-Russian Natural Gas Pipeline will have a length of 4,000 kilometers spanning from Irkutsk Oblast in the west to Vladivostok, Russia's costal city in the Far East. The PRC section will start from the Sino-Russian border in Heihe, Heilongjiang and ends at Shanghai. It will run through 9 provinces and municipalities such as Heilongjiang, Jilin, Inner Mongolia, Liaoning, Hebei, Tianjin, Shandong, Jiangsu and Shanghai. The new pipeline is proposed to run 3,170 kilometers while 1,800 kilometers of existing pipeline will be converted and used under this project. It has a diameter of

1422/1219 millimeters, a designed pressure of 12/10 MPa and a designed gas transportation capacity of 38 billion cubic meters per year. There will also be associate underground gas storage facilities to be built. Under the current plan, the 1,422-millimeter trial pipeline of the PRC section will be completed in December 2015, while the Heihe-Changling Line (黑河 — 長嶺段幹線) and the Changling-Changchun Link (長嶺 — 長春聯絡線) will be completed and will commence gas transportation in 2018.

As the latest update, the Ministry of Environmental Protection of the PRC issued the Reply to the Environmental Impact Assessment Report of the Outbound Synthetic Natural Gas Pipeline from Xinjiang (the “Xinjiang-Guangdong-Zhejiang Pipeline”) of Sinopec (《關於中國石化新疆煤制氣外輸管道工程(「新粵浙管道」)環境影響報告書的批復》) on its website. The Group believes that following the issuance of the reply to the environmental impact assessment report of the Xinjiang-Guangdong-Zhejiang Pipeline, the construction of this project will be accelerated, and the Group will be among the first group of enterprises to benefit therefrom. The Xinjiang-Guangdong-Zhejiang Pipeline will be comprised of 1 main pipeline and 6 branches with an aggregate length of 8,372 kilometers. The main line will span from Mori, Xinjiang to Shaoguan, Guangdong with a total length of 4,159 kilometers and a designed annual gas transmission capacity of 30 billion cubic meters made of pipes with a diameter of 1,219 kilometers. The 6 branches are the Zhundong Branch (準東支幹線), the Ili Branch (伊犁支幹線), the Southern Xinjiang Branch (南疆支幹線), the Henan and Shandong Branch (豫魯支幹線), the Jiangxi, Fujian and Zhejiang Branch (贛閩浙支幹線) and the Guangxi Branch (廣西支幹線). The total investment of the project is RMB139.9 billion.

Being one of the largest oil and gas pipeline manufacturers in the PRC, the Company participated in the construction of nearly all long-distance oil and gas pipelines within and beyond the PRC. Looking ahead, the Group will continue to proactively seize business opportunities arising from the rapid future growth of the industry by leveraging its superior production capacity, the geographic advantage of its subsidiaries as well as its strengths in new pre-welding and precision-welding techniques, in order to ensure stable income in the future.

In order to generate stable income and to mitigate the risk of fluctuations in the pipe industry, the Group has, in addition to developing oil and gas pipeline products, been actively exploring opportunities to form new partnership with players from the upstream resources industry. This will realize the Group’s strategy for a sustainable, stable and healthy development. Under the current mineral resources price trough, the Company entered into an agreement through Gold Apple Holdings Limited, a wholly owned subsidiary of the Company, on 29 March 2015 to acquire 56% of the allotted and issued share capital of Blossom Time (the “Acquisition”) after extensive visits and negotiations. Blossom Time indirectly holds a titanium — zirconium ore mine in Vietnam. The investment commitment in relation to the Acquisition will be financed by the internal resources of the Group and/or external banking facilities, if applicable. For the time being, exploration and assessment in relation to the project is currently well underway as scheduled. The Group believes that Vietnam enjoys a promising investment environment and ample natural resources. In view of the current mineral resources price trough, the Acquisition will present new business impetus to the Company in the future. Coupled with the all-round economic expansion brought by the “One Belt, One Road” initiative, the active market atmosphere in the regions covered by this initiative will provide more opportunities for the Group to diversify its source of revenue and bring better returns to the shareholders through the Acquisition.

FINANCIAL REVIEW

Revenue

The Group's unaudited turnover for the six months ended 30 June 2015 was approximately RMB1,100,757,000, representing an increase of approximately 17.3% when compared to that of approximately RMB938,582,000 for the corresponding period last year. The increase was mainly due to: an increase in revenue from the metal commodity trading business attributable to the cyclical fluctuation in trading, while in respect of the pipe business, the proportion of revenue from pipe sales, which had a greater contribution to the revenue, increased during the period though sales stood at a similar level as compared to the corresponding period last year. For the six months ended 30 June 2015, amongst the Group's two core business segments, (1) the pipe business recorded a revenue of approximately RMB213,481,000 (for the six months ended 30 June 2014: approximately RMB183,993,000), representing an increase of approximately 16% when compared to the corresponding period last year; (2) the metal commodity trading business recorded a revenue of approximately RMB887,276,000 (for the six months ended 30 June 2014: approximately RMB754,520,000).

Cost of sales and services

The Group's cost of sales and services increased year-on-year by approximately 20.2% from approximately RMB903,784,000 for the six months ended 30 June 2014 to approximately RMB1,086,716,000 for the six months ended 30 June 2015.

Gross profit

Gross profit for the six months ended 30 June 2015 was approximately RMB14,041,000. The Group's gross profit margin dropped from approximately 3.7% for the six months ended 30 June 2014 to approximately 1.3% for the six months ended 30 June 2015, which was due to the facts that while sales of the pipe business stood at a similar level as compared to the corresponding period last year, sales of anti-corrosion processing and servicing of pipes, which had higher gross profit margin for the period, declined substantially as compared to the corresponding period last year; although being fully operative during the period, Hunan Shengli Steel Pipe could not achieve economies of scale in terms of both production and sales, and has made impairment provisions cautiously in view of the risk of impairment of certain inventories due to a substantial drop in steel prices at the end of the period as compared to the beginning of the period.

Other income and gains

The Group's other income and gains for the six months ended 30 June 2015 amounted to approximately RMB28,326,000, representing an increase of approximately 16.6% when compared to the corresponding period last year, which was mainly due to the compensation paid by the purchaser to the Group pursuant to a supplemental agreement in respect of the disposal of equity interests in Beijing Golden Fortune Investment Co., Ltd.* (北京慧基泰展投资有限公司).

Selling and distribution costs

Selling and distribution costs of the Group increased from approximately RMB8,712,000 for the six months ended 30 June 2014 to approximately RMB11,197,000 for the six months ended 30 June 2015. Such increase was principally due to an increase in the transportation fee for pipes of the pipe business during the period.

Administrative expenses

The Group's administrative expenses increased from approximately RMB47,027,000 for the six months ended 30 June 2014 to approximately RMB111,758,000 for the six months ended 30 June 2015. The increase was mainly attributable to the cessation costs incurred by the subsidiaries of the pipe business as their production capacities were not fully utilized, and the provision for impairment made in respect of trade receivables in accordance with the relevant accounting policies.

Finance costs

The Group's finance costs decreased by approximately 10.8% from approximately RMB33,871,000 for the six months ended 30 June 2014 to approximately RMB30,207,000 for the six months ended 30 June 2015. All the finance costs came from interests on bank loans.

Total comprehensive loss for the period

The Group's total comprehensive loss for the period increased from a loss of approximately RMB64,379,000 for the six months ended 30 June 2014 to a loss of approximately RMB134,644,000 for the six months ended 30 June 2015, which was mainly due to the facts that (1) while sales of the pipe business stood at a similar level as compared to the corresponding period in 2014, sales of anti-corrosion processing and servicing of pipes, which has a higher profit margin compared to the other segments of the Group, declined substantially as compared to the corresponding period in 2014 due to the delay in progress of major pipe construction projects across the industry, resulting in a drop in profit contributed by this business segment; (2) although being fully operative and after incurring significant operating expenses during the period, Hunan Shengli Steel Pipe could not achieve economies of scale in terms of both production and sales; (3) provision for asset impairment has been made in accordance with the relevant accounting policies during the six months ended 30 June 2015; and (4) Shandong Shengli Steel Pipe incurred one-off taxation expense due to the distribution of accumulated profits from previous years.

Assets and liabilities

As at 30 June 2015, the Group's total assets amounted to approximately RMB3,770,822,000 (31 December 2014: approximately RMB3,839,251,000) and the Group's net assets amounted to approximately RMB2,061,219,000 (31 December 2014: approximately RMB2,191,656,000). Net assets per share amounted to approximately RMB0.76, representing a decrease of approximately RMB11 cents when compared to that of 31 December 2014. As at 30 June 2015, the Group's total liabilities amounted to approximately RMB1,709,603,000 (31 December 2014: approximately RMB1,647,595,000). The increase in total liabilities was attributable to the increase in borrowings.

Liquidity and financial resources

As at 30 June 2015, cash and cash equivalents of the Group amounted to approximately RMB295,192,000 (31 December 2014: approximately RMB216,007,000). As at 30 June 2015, the Group had borrowings of approximately RMB1,196,688,000 (31 December 2014: approximately RMB1,064,789,000).

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 2015, the gearing ratio of the Group was approximately 34.4% (31 December 2014: approximately 33.1%).

Use of Subscription Proceeds from the Issue of Shares under General Mandate

As at the date of this announcement, the actual use of proceeds from the issue of shares under general mandate carried out by the Company in November 2014 is as follows:

Date of announcement	Fund raising activity	Intended use of proceeds		
		Net proceeds	as announced	Actual use of proceeds
3 November 2014	Subscription in relation to the issue of 248,058,000 shares at the subscription price of HK\$0.45 per share under the general mandate to Waynew Investments Limited (維新投資有限公司) as the subscriber. The completion of the subscription took place on 14 November 2014 and 248,058,000 subscription shares had been issued to the subscriber.	Approximately HK\$111.28 million	For the operating expenses for dome integration houses projects operated by Dome Integration Housing Industrial Holding Co. Ltd, a joint venture company of the Group (as disclosed in the announcement of the Company dated 17 September 2012), the operating expenses for oil field development projects operated by Ever Growing Energy Service, LLC (as disclosed in the announcement of the Company dated 28 May 2014) and general working capital of the Group.	As at the date of this announcement, approximately HK\$68 million was used for general working capital of the Group and approximately HK\$43 million is not yet utilized and is deposited at a bank account and is reserved to be used for the intended purpose as set out in the announcement dated 3 November 2014.

Financial management and fiscal policy

During the six months ended 30 June 2015, the Group's turnover, expenses, assets and liabilities were primarily denominated in Renminbi. The Directors consider that the Group currently has limited foreign exchange exposure and has not entered into any hedging arrangement for its foreign exchange risk. The Group will closely monitor the foreign currency movement and will assess the need to adopt any measures in relation to foreign exchange risk from time to time.

Interim dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2015 (for the six-month period ended 30 June 2014: nil).

CORPORATE GOVERNANCE CODE

The Directors recognize 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 strives to uphold good corporate governance and adopts sound corporate governance practices. Save as disclosed below, the Company has adopted, and complied with all code provisions and, where applicable, the recommended best practices of, the

Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) during the period from 1 January 2015 to 30 June 2015 .

Currently, Mr. Zhang Bizhuang serves as the Chairman and Chief Executive Officer of the Company. This deviates from 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 the business in the PRC, our Chairman and Chief Executive Officer must be particularly familiar with and sensitive to relevant policies and market changes, in order to guide the Group to 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 for 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 representations 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 about all items. The Chairman and the non-executive Directors (including the independent non-executive Directors) have been maintaining direct communication, and 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 to the Listing Rules as the required standard for securities transactions by Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that for the six months ended 30 June 2015, 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 has purchased, sold or redeemed any listed securities of the Company 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 duties of the Audit Committee are to review and supervise the financial reporting process. All members of the Audit Committee are appointed by the Board. The Audit Committee currently consists of three independent non-executive Directors, namely Mr. Guo Changyu, Mr. Chen Junzhu and Mr. Wu Geng. Mr. Chen Junzhu currently serves as the chairman of the Audit Committee.

The Audit Committee has reviewed the Group’s unaudited financial statements for the six months ended 30 June 2015 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 six months ended 30 June 2015 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, 23 August 2015

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

Executive Directors: *Mr. Zhang Bizhuang, Mr. Jiang Yong, Mr. Wang Kunxian, Ms. Han Aizhi and Mr. Song Xichen*

Independent non-executive Directors: *Mr. Guo Changyu, Mr. Chen Junzhu and Mr. Wu Geng*