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 2016

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB879,316,000, representing a decrease of approximately 20.1% when compared to the corresponding period in 2015.
- Gross profit margin was approximately 3.0%, representing an increase of approximately 1.7 percentage points when compared to the corresponding period in 2015.
- Loss attributable to owners of the Company amounted to approximately RMB102,463,000, while loss attributable to owners of the Company for the corresponding period in 2015 amounted to approximately RMB108,514,000.
- Basic loss per share attributable to owners of the Company amounted to approximately RMB3.45 cents, while basic loss per share attributable to owners of the Company for the corresponding period in 2015 amounted to approximately RMB3.98 cents.
- The Board does not recommend the declaration of any interim dividend for the six months ended 30 June 2016.

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 2016 (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 2016

		Six months ended 30 June	
		2016	2015
	Notes	***RMB'000***	*RMB'000*
		(Unaudited)	(Unaudited)
REVENUE	4	**879,316**	1,100,757
Cost of sales and services		**(852,643)**	(1,086,716)
Gross profit		**26,673**	14,041
Other income and gains		**13,410**	28,326
Selling and distribution costs		**(9,697)**	(11,197)
Administrative expenses		**(116,458)**	(67,367)
Allowance for trade receivables		**(3,752)**	(44,391)
Other expenses		**(362)**	(1,563)
Share of results of:			
Joint ventures		**(4,551)**	(5,424)
Associate		**(70)**	91
Impairment loss recognized on goodwill		**—**	(7,385)
Impairment loss recognized on investment in a joint venture		**(3,271)**	—
Finance costs	5	**(21,573)**	(30,207)
LOSS BEFORE TAX	6	**(119,651)**	(125,076)
Income tax expense	7	**(1,075)**	(6,273)
LOSS FOR THE PERIOD		**(120,726)**	(131,349)
Other comprehensive income/(loss) that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**9,228**	(3,295)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(111,498)**	(134,644)

	Notes	Six months ended 30 June **2016** **RMB'000** **(Unaudited)**	2015 *RMB'000* (Unaudited)
LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		**(102,463)**	(108,514)
Non-controlling interests		**(18,263)**	(22,835)
		(120,726)	(131,349)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		**(93,235)**	(111,809)
Non-controlling interests		**(18,263)**	(22,835)
		(111,498)	(134,644)
LOSS PER SHARE ***(RMB cents)***	8		
— Basic		**(3.45)**	(3.98)
— Diluted		**(3.45)**	(3.98)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2016

	Notes	**30 June 2016** *RMB'000* **(Unaudited)**	31 December 2015 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	**987,072**	1,036,606
Prepaid land lease payments		**164,571**	167,824
Goodwill		**2,525**	2,525
Deposits paid for acquisition of investments		**152,655**	152,655
Investment in joint ventures		**10,111**	17,934
Investment in an associate		**48,700**	48,770
Other assets		**—**	827
Deferred tax assets		**15,880**	16,116
		1,381,514	1,443,257
CURRENT ASSETS			
Inventories		**220,762**	158,949
Trade and bills receivables	11	**836,003**	775,914
Prepayments, deposits and other receivables		**540,664**	461,794
Prepaid land lease payments		**3,767**	3,767
Pledged deposits		**32,527**	207,589
Cash and cash equivalents		**264,111**	393,881
		1,897,834	2,001,894
CURRENT LIABILITIES			
Trade and bills payables	12	**352,343**	310,222
Other payables and accruals		**181,299**	149,699
Borrowings		**797,500**	1,044,536
Tax payable		**19,312**	18,202
Deferred income		**854**	854
		1,351,308	1,523,513
NET CURRENT ASSETS		**546,526**	478,381
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,928,040**	1,921,638

	Notes	30 June 2016 RMB'000 (Unaudited)	31 December 2015 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred income		**6,890**	7,317
Borrowings		**41,250**	55,000
Deferred tax liabilities		**367**	376
		48,507	62,693
NET ASSETS		**1,879,533**	1,858,945
EQUITY			
Equity attributable to owners of the Company			
Issued capital	13	**283,911**	238,438
Reserves		**1,421,007**	1,427,629
		1,704,918	1,666,067
Non-controlling interests		**174,615**	192,878
Total equity		**1,879,533**	1,858,945

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, Zhongbu Town, Zhangdian District, Zibo City, Shandong Province 255082, the PRC, and 8 Binjiang Road, Gaoxin District, Xiangtan City, Hunan Province 411101, the PRC, respectively.

The condensed consolidated interim financial statements are presented in Renminbi (the "RMB"), which is the Company's presentation currency and the functional currency of the principal operating subsidiaries 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 2015 ("2015 Annual Report").

The accounting policies adopted in the preparation of the Interim Financial Statements are consistent with those followed in the preparation of 2015 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 2016. 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. SEGMENT INFORMATION

Segment revenue and results

For the six months ended 30 June 2016 (unaudited)

	Pipes Business *RMB'000*	Trading of metal commodity *RMB'000*	Consolidated *RMB'000*
Segment revenue	**193,282**	**686,034**	**879,316**
Segment results	**(71,476)**	**8,790**	**(62,686)**
Interest income			**4,655**
Impairment loss recognized on investment in a joint venture			**(3,271)**
Unallocated expenses			**(36,776)**
Finance costs			**(21,573)**
Loss before tax			**(119,651)**

For the six months ended 30 June 2015 (unaudited)

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

Segment assets

As at 30 June 2016 (Unaudited)

	Pipes Business *RMB'000*	**Trading of metal commodity** *RMB'000*	**Total** *RMB'000*
Segment assets	**2,116,863**	**605,694**	**2,722,557**

As at 31 December 2015 (Audited)

	Pipes Business *RMB'000*	Trading of metal commodity *RMB'000*	Total *RMB'000*
Segment assets	2,016,026	575,743	2,591,769

Segment liabilities

As at 30 June 2016 (Unaudited)

	Pipes Business *RMB'000*	**Trading of metal commodity** *RMB'000*	**Total** *RMB'000*
Segment liabilities	**317,982**	**221,900**	**539,882**

As at 31 December 2015 (Audited)

	Pipes Business *RMB'000*	Trading of metal commodity *RMB'000*	Total *RMB'000*
Segment liabilities	240,598	224,944	465,542

5. FINANCE COSTS

	For the six months ended 30 June	
	2016 *RMB'000* **(Unaudited)**	2015 *RMB'000* (Unaudited)
Interest on borrowings	**21,573**	30,207

6. LOSS BEFORE TAX

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

	For the six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold*	**838,750**	1,082,524
Cost of services	**13,893**	4,192
	852,643	1,086,716
Employees benefits expenses including directors' remunerations	**31,524**	38,005
Depreciation of property, plant and equipment	**57,836**	54,621
Amortisation of prepaid land lease payments	**3,253**	1,780
Allowance for trade receivables	**3,752**	44,391
Impairment loss recognized on other receivables	**2,431**	—
Operating lease payments	**8,205**	7,285

* Included in the cost of inventories sold is an amount of approximately RMB1,500,000 (for the six months ended 30 June 2015: approximately RMB5,064,000) related to the write down of inventories during the six months ended 30 June 2016.

7. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current — PRC Enterprise Income Tax ("EIT")		
— Charge for the period	**—**	—
Current — Hong Kong		
— Charge for the period	**(848)**	(2,794)
Current — PRC dividend withholding tax	**—**	(20,000)
Deferred tax (charge)/credit for the period	**(227)**	16,521
	(1,075)	(6,273)

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for the six months ended 30 June 2016 and 2015. 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 2016 and 2015. 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 2016 and 2015.

8. 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 2016 attributable to owners of the Company of approximately RMB102,463,000 (for the six months ended 30 June 2015: approximately RMB108,514,000) and the weighted average number of 2,968,518,000 (for the six months ended 30 June 2015: 2,728,638,000) ordinary shares in issue during the six months ended 30 June 2016.

(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 2016 and 2015 in respect of a dilution as there was no dilutive potential ordinary shares for the Company's outstanding options.

9. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2016 (for the six months ended 30 June 2015: Nil).

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired property, plant and equipment at a total cost of approximately RMB8,308,000 (for the six months ended 30 June 2015: approximately RMB21,902,000).

Property, plant and equipment with a carrying amount of approximately RMB30,000 (for the six months ended 30 June 2015: approximately RMB160,000) were disposed by the Group during the six months ended 30 June 2016.

11. TRADE AND BILLS RECEIVABLES

	30 June 2016 *RMB'000* **(Unaudited)**	31 December 2015 *RMB'000* (Audited)
Trade receivables	**974,632**	918,558
Less: allowance for impairment of trade receivables	**(162,829)**	(159,077)
	811,803	759,481
Bills receivables	**24,200**	16,433
	836,003	775,914

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 2016 *RMB'000* **(Unaudited)**	31 December 2015 *RMB'000* (Audited)
Within 3 months	**691,310**	607,480
3 to 6 months	**36,651**	38,124
6 months to 1 year	**29,559**	46,749
1 to 2 years	**27,042**	47,302
Over 2 years	**27,241**	19,826
	811,803	759,481

12. TRADE AND BILLS PAYABLES

	30 June 2016 *RMB'000* **(Unaudited)**	31 December 2015 *RMB'000* (Audited)
Trade payables	**345,090**	310,222
Bills payables	**7,253**	—
	352,343	310,222

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

	30 June 2016 *RMB'000* **(Unaudited)**	31 December 2015 *RMB'000* (Audited)
Within 3 months	**303,680**	257,804
3 to 6 months	**20,965**	26,746
6 months to 1 year	**16,131**	6,759
1 to 2 years	**923**	15,859
Over 2 years	**3,391**	3,054
	345,090	310,222

13. SHARE CAPITAL

Ordinary shares of HK$0.1 each	**Number of shares**	*HK$'000*
Authorised:		
At 30 June 2016 and 31 December 2015	5,000,000,000	500,000

	Number of shares	*RMB'000*
Issued and fully paid:		
At 31 December 2015 and at 1 January 2016	2,728,638,000	238,438
Issue of shares *(note)*	545,727,600	45,473
At 30 June 2016	3,274,365,600	283,911

Note:

Pursuant to the Company's announcement dated 23 March 2016, the Company and the subscriber entered into a subscription agreement in relation to the issue of 545,727,600 subscription shares to the subscriber at a subscription price of HK$0.28 per subscription share. The issue of shares was completed on 12 April 2016 and the premium on the issue of subscription shares, amounting to approximately RMB81,851,000 was credited to the Company's share premium account.

14. COMMITMENTS

(a) 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 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Contracted, but not provided for	**15,033**	20,594

(b) Investment commitments

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

	30 June 2016	31 December 2015
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Contracted, but not provided for	**38,024**	38,024

15. 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 during the six months ended 30 June 2015
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

The English name is for identification only

(b) Significant related party transactions

During the period ended 30 June 2016 and 2015, the Group had the following material transactions with related parties:

	For the six months ended 30 June	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Rental expense paid to Shengli Steel Pipe	**—**	3,834
Rental income received from Dome (Shandong)	**2,972**	2,990
Interest income received from Dome (Shandong)	**547**	469

The rental expenses paid to Shengli Steel Pipe constitutes continuing connected transactions as defined in Chapter 14A of the Listing Rules for the six months ended 30 June 2015.

(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	
	2016	2015
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Fees	**537**	499
Salaries, allowances and other benefits in kind	**1,868**	1,652
Social security contributions	**123**	54
Equity-settled share option expense	**1,781**	1,836
	4,309	4,041

16. APPROVAL OF INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the Board on 20 August 2016.

CHIEF EXECUTIVE OFFICER'S STATEMENT

Dear shareholders,

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

In the first half of 2016, in face of the complicated domestic and global environments as well as longstanding downward pressure of the economy, the PRC implemented effective macro-economic measures to maintain stable economy. While the crude oil market regained its upward momentum in a gradual manner in the first half of 2016, the drop in production volume of crude oil and the number of wells drilled in the US, the wildfire in Canada, turmoil situations in places like Nigeria, together with the withdrawal of the United Kingdom from the European Union have casted shadow on the development of the oil and gas pipeline industry. In view of this, the Group made timely adjustment to its business focus, establishing professional sales teams which targeted local pipeline projects and made pleasant progress during the Period under Review. Apart from broadening income sources, the Group simultaneously adopted various internal measures in order to reduce costs and maximize efficiency, which included focusing on technological research and development ("R&D") as well as modification of equipment, integrating business units, optimizing posts allocation, enhancing trade receivables management, and centralizing purchase of raw materials.

Developing local markets amid sluggish progress in major pipeline projects

On the backdrop of high inventory level and prolonged price slump of crude oil around the globe, major pipeline projects of the Group's major customers, comprising large state-owned oil and gas companies such as China National Petroleum Corporation ("CNPC") and China Petrochemical Corporation ("Sinopec") and their subsidiaries, achieved slow progress, resulting in a decrease in profits for market participants. Thus, the Group shifted its business focus to local markets in the PRC during the Period under Review by establishing professional sales teams and stepping up sales efforts. During the Period under Review, the Group made profound progress in securing orders for local pipeline projects, which recorded a significant growth of 75% as compared to the same period of last year. As of the end of June 2016, product volume under the Group's outstanding orders almost reached 140,000 tonnes, 60% of which were attributable to local markets.

The Group slowed down its pace of overseas expansion during the Period under Review, primarily due to the hindrance on global major oil and gas projects by international oil price. However, the Group believes that there is still enormous demand for oil and gas pipelines underpinned by the implementation of the "One Belt, One Road" initiative. With its quality products and state-of-the-art technology, the Group is confident that it is well-positioned to capture the tremendous opportunities in the countries covered by the initiative, so as to enjoy more opportunities for international co-operations in terms of resources.

Focusing on technological R&D as well as modification of equipment to uphold 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. While the Group continued to put effort into strengthening the economies of scale of its main products, with the committed dedication of all staff members, the testing laboratory of Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) ("Hunan Shengli Steel Pipe") of the Group was awarded the Certificate for Approved Laboratory by China National Accreditation Service for Conformity Assessment during the Period under Review, and was qualified as a state-level R&D platform, which greatly enhanced the R&D capabilities of the Group. In addition, the Group obtained two national utility model patents, namely "piston rod of lifting carrier roller in hydraulic press" (水壓機升降托輥導向桿) and "automatic stabilizing mechanism for inner welding arm of pre-welding and precision-welding" (預精焊內焊臂自動穩定機構). This fully illustrates that the quality of the Group's products is stable and reliable, and that the welded pipe of the Group is at the cutting edge of the industry.

Optimizing posts allocation to maximize production efficiency

Considering the recession in the industry as a result of the sluggish progress attained in major pipeline projects, Shangdong Shengli Steel Pipe Co., Ltd.* (山東勝利鋼管有限公司) ("Shangdong Shengli Steel Pipe"), the largest subsidiary of the Group in the PRC, carried out optimization of posts allocation based on production process, personnel structure and skills level. The streamlined staff structure began to take effect in the first half of the year, through which higher operation efficiency and lower staff costs were achieved. With a view to tightening the supervision, control, assessment and business guidance on its subsidiaries, the Group reorganized its business units by functions, refined its internal control and risk management system, and procured its subsidiaries to enhance resource allocation to boost efficiency.

The Group believes that reasonable arrangement for job positions can not only allow employees to develop their individual abilities, but also foster corporate growth through increasing the operational and management efficiency of the Group to alleviate the impact of shrinkage in orders for major pipelines in the industry.

Enhancing trade receivables management, conducting centralized purchase of raw materials and pursuing cost reduction

To achieve cost reduction, the Group strived to sharpen the competitive edge of its products, while introducing a wide range of measures to strengthen internal management and promote efficiency. During the Period under Review, the Group devoted more effort to collecting trade receivables by setting up a responsible business department equipped with sales, legal and corporate management professionals, performing centralized investigation and clearing up of overdue trade receivables, and initiating effective communication and negotiation with customers. This enabled the Group to collect receivables in time and enhance the operation efficiency of cash flows.

On the other hand, with an aim to lower production costs, the Group's responsible department performed centralized purchase and deployment of raw materials instead of making separate procurements by respective subsidiaries during the Period under Review. As purchase price is directly pegged with purchase volume, bulk purchase can allow the Group to enjoy greater discounts. Therefore, the price of raw materials purchased by the Group reduced accordingly after it adjusted the procurement method, which further lowered the operation costs for the Group.

Establishing a wholly-owned subsidiary in Shanghai to enjoy financial benefits and expand into new business

In recent years, in order to generate stable income and to mitigate the risk of fluctuations in the welded pipe industry, the Group has, in addition to developing oil and gas pipeline products, been actively exploring opportunities in the industries and fields encouraged by the PRC government in line with the national development plan for the industry. This realized the strategy for a sustainable, stable and healthy development of the Company.

Shanghai Shengguan New Energy Technology Co., Ltd* (上海勝管新能源科技有限公司) ("Shanghai Shengguan") was incorporated in Shanghai in the first half of this year, which is principally engaged in the new energy business and the trading of fuel oil. Meanwhile, the Group selected Shanghai as another onshore place of business, which will be conducive to business exploration and expansion, talents attraction and retention, and also benefit from sound financial services and related favourable policies.

Well-prepared to embrace new upward industry cycle

Looking ahead, despite uncertainty in the progress of major pipeline projects, the Group, as one of the largest pipeline equipment manufacturers in the PRC, has been well-prepared to embrace new upward industry cycle. The Group believes that it can handle the orders properly and yield stable profits after the orders for major pipeline projects get back on track in the near future.

Finally, I would like to take this opportunity to express thanks to shareholders and customers, to extend heartfelt gratitude to the management and staff for their dedication and support to the Company during difficult time. The Group will vigorously make preparation for capturing future growth opportunities, driving the Group's profitability and delivering better returns to shareholders.

Zhang Bizhuang
Chief Executive Officer

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is one of the largest oil and gas pipeline manufacturers in the PRC with leading product quality. In spite of the promising prospects of the oil and gas pipeline industry, major pipeline projects of CNPC and Sinopec to be constructed made sluggish progress in the first half of 2016. Accordingly, the Group shifted its business focus to local markets in the PRC during the Period under Review by establishing professional sales teams and stepping up sales efforts, and made profound progress in securing orders for local pipeline projects. During the Period under Review, the Group succeeded in securing orders for local pipeline projects with product volume of 175,000 tonnes, representing a significant increase of 75% as compared to 100,000 tonnes in the same period of last year. As at 30 June 2016, product volume under outstanding orders was approximately 140,000 tonnes.

As at 30 June 2016, the Group's production capacity of submerged-arc helical welded pipes ("SAWH pipes") reached 1.45 million tonnes per annum, and that of submerged-arc longitudinal welded pipes ("SAWL pipes") was 400,000 tonnes per annum, and that of a supporting anti-corrosion production line was 10.80 million square meters, which have continued to consolidate the Group's leading position in respect of technology and production capacity in the industry.

Pipes 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 crude oil, refined petroleum and natural gas. It is also the only privately-owned enterprise among the handful of suppliers in the PRC who are 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 CNPC and Sinopec, and their subsidiaries. The Group focuses on the design, manufacturing, anti-corrosion processing and servicing of pipes (including SAWH pipes and SAWL pipes) which are used to transport crude oil, refined petroleum products and natural gas.

As at 30 June 2016, the total length of the world's major oil and gas pipelines using pipes produced by the Group was approximately 26,100 kilometers, of which 94.3% have been installed in the PRC and the remaining 5.7% have been installed overseas. In the first half of 2016, the Group took part in the production of a number of national SAWH pipeline projects, including, amongst others, the Tianjin LNG transportation trunk Project (天津液化天然氣(LNG)項目輸氣幹線工程), the Yizheng-Changling Dual Crude Oil Pipeline Project (Section II of Yizheng-Jiujiang section) (儀徵 — 長嶺原油管道複線儀徵至九江段第二標段工程), and the rectification of potential risk issues of the Luning Oil Pipeline Project Phase II (魯寧線安全隱患整治二期工程). Major regional SAWH pipeline projects that the Group participated in were, amongst others, the Centralized Heat Supply Pipeline Network Project in Yangcheng County, Shanxi (山西陽城縣城鎮集中供熱管網工程), the Zhangze Electric-heated Pipeline Project in Huairen County, Shanxi (山西懷仁縣漳澤電力保溫管項目), the Wantong Fossil Fuel Oil And Refined Oil Transportation Project in Dongying Port (東營港 — 萬通石化燃料油成品油輸油工程), Zhaohua Bridge Project (昭華大橋工程), the Yuxi-Pu'er Natural Gas Branch Pipeline Project (玉溪 — 普洱天然氣支線管道工程), Fuzhou-Pingtan Strait Rail/Road Bridge Project (福州至平潭海峽公鐵兩用大橋工程), and the Sanmen Bay Bridge Project (三門灣大橋工程). Major anti-corrosion projects it undertook were, amongst others, the Tianjin LNG transportation trunk Project (天津液化天然氣(LNG)項目輸氣幹線工程), the Wantong Fossil Fuel Oil And Refined Oil Transportation Project in Dongying Port (東營港 — 萬通石化燃料油成品油輸油工程), the rectification of potential risk issues of the Luning Oil Pipeline Project Phase II (魯寧線安全隱患整治二期工程), and the Yizheng-Changling Dual Crude Oil Pipeline Project (Section II of Yizheng-Jiujiang section) (儀徵 — 長嶺原油管道複線儀徵至九江段第二標段工程). Projects using SAWL pipelines were, amongst others, the Wenchuan-Tibet Bridge Project (汶川至西藏公路大橋項目), the Wantong Fossil Fuel Oil And Refined Oil Transportation Project in Dongying Port (東營港 — 萬通石化燃料油成品油輸油工程), the Huaneng Suzhou Natural Gas Pipeline Project (華能蘇州天然氣管道專線工程), the Tailings Transportation System Project in Pulang Copper Mine (普朗銅礦尾礦輸送系統工程), and the Xinchu Qingtian Plaza Project (新楚擎天廣場項目).

During the Period under Review, total revenue of the Group's pipes business was approximately RMB193,282,000 (for the six months ended 30 June 2015: approximately RMB213,481,000), accounting for approximately 22.0% (for the six months ended 30 June 2015: approximately 19.4%) of the Group's total revenue. This revenue comprised the followings: (1) revenue from the sale of SAWH pipes of approximately RMB148,014,000 (for the six months ended 30 June 2015: approximately RMB202,752,000), representing a decrease of approximately 27.0% as compared with the corresponding period last year; (2) revenue from the sale of SAWL pipes of approximately RMB21,801,000 (for the six months ended 30 June 2015: approximately RMB6,085,000); (3) revenue from the anti-corrosion processing service of approximately RMB23,195,000 (for the six months ended 30 June 2015: approximately RMB4,624,000), representing an increase of approximately 401.6% as compared with the corresponding period last year; and (4) revenue from the cold-formed section steel business of approximately RMB272,000 (for the six months ended 30 June 2015: approximately RMB20,000).

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 2016, revenue of this business was approximately RMB686,034,000 (for the six months ended 30 June 2015: approximately RMB887,276,000).

FUTURE PROSPECT

The tender for Line 2 of the Sino-Russian Crude Oil Pipeline (中俄原油管道二線工程) to be built in parallel to the constructed Mohe-Daqing Pipeline commenced on 13 May 2016, in which the SAWH pipes of Shangdong Shengli Steel Pipe of the Group won 12.27% of the total tender volume. The pipeline will run 941.8 kilometers through Heilongjiang Province and Inner Mongolian Autonomous Region, with a diameter of 813mm. Having 43 pipeline block valve stations all along, it will traverse 4 large-scale rivers, 7 medium-scale rivers, 16 railways and 4 second grade or above highways. Line 2 of the Sino-Russian Crude Oil Pipeline, upon completion, together with the Mohe-Daqing Pipeline, will deliver an annual transmission capacity of 30 million tonnes in total.

Recently, the construction of No. 4 Shaanxi-Beijing Gas Pipeline Project (陝京四線輸氣管道工程) has been fully commenced. The project includes 1 main pipeline and 3 straight pipelines, out of which 1 main pipeline and 1 straight pipeline with an aggregate length of 1,114 kilometers and a designed annual gas transmission capacity of 25 billion cubic meters will be constructed during the current period. The main pipeline will start from Jingbian in Shaanxi Province, running through Inter Mongolia and Hebei Province, and end at Gaoliying, Beijing. The Group will undertake part of the production of the pipelines in the second half of the year.

While the date of commencement of major pipeline projects such as the New Gas Pipeline and the Sino-Russian Eastern Natural Gas Pipeline is still uncertain, preliminary works have been underway. The Group believes that the major pipeline projects will get back on the right track in the near future in which time the Group, being one of the largest oil and gas pipeline manufacturers in the PRC, will strive to receive more orders given its advantages in terms of production capacity, geographical locations of subsidiaries as well as pre-welding and precision-welding technology.

Moreover, the Group will continue to explore opportunities of local pipeline projects in the PRC, which the Group considers to be in great demand for oil and gas pipelines in consequence of the implementation of the "One Belt, One Road" initiative. Leveraging on its quality products and cutting edge technology, the Group is confident that it can seize the tremendous opportunities in the countries covered by the initiative and secure more overseas orders.

In addition to developing oil and gas pipeline products, the Group has been actively exploring opportunities to form new partnership. On 29 March 2015, the Group entered into an agreement through Gold Apple Holdings Limited to acquire 56% of the allotted and issued share capital of Blossom Time Group Limited. At present, detailed exploration work and assessment work have been completed and the mining license is pending final approval.

Besides, possessing the advantages of upstream resources and favourable geographical location, the Group has been actively expanding into the market of bulk transaction of fuel oil and refined oil through drawing on the experience of metal trading in recent years and fully exploiting and capitalizing on bank credit resources of domestic subsidiaries. The Group has thereby broadened its income sources and continued to generate stable revenue. Domestic subsidiaries have been actively carrying out the preparation work for the new business, and Shanghai Shengguan has conducted its first transaction in July 2016. It is expected that the new business will serve as another crucial income source and profit driver for the Group.

Looking ahead, the Group will continue to make full use of its advantages in terms of production capacity, geographical locations of subsidiaries as well as pre-welding and precision-welding technology. Under the implementation of the "One Belt, One Road" initiative, the Group will endeavour to grasp the rapid growth opportunities emerging in the regions covered by the initiative in connection with local infrastructure construction, resource development as well as industrial and financial cooperation. This will ensure stable income in the future and realize the strategy for a sustainable, stable and healthy development of the Group, hence bringing better returns to shareholders.

FINANCIAL REVIEW

Revenue

The Group's unaudited revenue for the six months ended 30 June 2016 was approximately RMB879,316,000, representing a decrease of approximately 20.1% when compared to that of approximately RMB1,100,757,000 for the corresponding period last year. For the six months ended 30 June 2016, amongst the Group's two core business segments, (1) the pipes business recorded a revenue of approximately RMB193,282,000 (for the six months ended 30 June 2015: approximately RMB213,481,000), representing a decrease of approximately 9.5% when compared to the corresponding period last year. The revenue decreased as a result of a decrease in the price of steel plates, the major material of pipes, leading to a corresponding decrease in selling price, with similar sales recorded in the current year as compared to the corresponding period last year; (2) the metal commodity trading business recorded a revenue of approximately RMB686,034,000 (for the six months ended 30 June 2015: approximately RMB887,276,000). The revenue of the Period under Review recorded a year-on-year decrease due to the market fluctuation.

Cost of sales and services

The Group's cost of sales and services decreased year-on-year by approximately 21.5% from approximately RMB1,086,716,000 for the six months ended 30 June 2015 to approximately RMB852,643,000 for the six months ended 30 June 2016.

Gross profit

Gross profit for the six months ended 30 June 2016 was approximately RMB26,673,000. The Group's gross profit margin rose from approximately 1.3% for the six months ended 30 June 2015 to approximately 3.0% for the six months ended 30 June 2016, which was mainly due to the facts that the anti-corrosion services which have a higher gross profit recorded a significant year-on-year increase in the Period under Review. In addition, the cost of the major material of pipes decreased while the processing fee income remained relatively stable.

Other income and gains

The Group's other income and gains for the six months ended 30 June 2016 amounted to approximately RMB13,410,000, representing a decrease of approximately 52.7% when compared to the corresponding period last year, which was mainly due to the fact that one-off compensation was received in connection with the disposal of Beijing Golden Fortune Investment Co., Ltd.* (北京慧基泰展投資有限公司) in the corresponding period last year, while there was no such income in the Period under Review.

Selling and distribution costs

Selling and distribution costs of the Group decreased from approximately RMB11,197,000 for the six months ended 30 June 2015 to approximately RMB9,697,000 for the six months ended 30 June 2016. Such decrease was principally due to a decrease in the transportation fee for pipes in the pipes business in the Period under Review.

Administrative expenses

The Group's administrative expenses increased from approximately RMB67,367,000 for the six months ended 30 June 2015 to approximately RMB116,458,000 for the six months ended 30 June 2016. The increase was mainly attributable to the shutdown expenses incurred by the lack of production of our pipes business, together with the difference and loss incurred from the translation between local and foreign currencies in the Period under Review.

Finance costs

The Group's finance costs decreased by approximately 28.6% from approximately RMB30,207,000 for the six months ended 30 June 2015 to approximately RMB21,573,000 for the six months ended 30 June 2016. 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 decreased from a loss of approximately RMB134,644,000 for the six months ended 30 June 2015 to a loss of approximately RMB111,498,000 for the six months ended 30 June 2016.

Assets and liabilities

As at 30 June 2016, the Group's total assets amounted to approximately RMB3,279,348,000 (31 December 2015: approximately RMB3,445,151,000) and the Group's net assets amounted to approximately RMB1,879,533,000 (31 December 2015: approximately RMB1,858,945,000). Net assets per share amounted to approximately RMB0.57, representing a decrease of approximately RMB11 cents when compared to that of 31 December 2015. As at 30 June 2016, the Group's total liabilities amounted to approximately RMB1,399,815,000 (31 December 2015: approximately RMB1,586,206,000). The decrease in total liabilities was mainly attributable to a decrease in borrowings.

Liquidity and financial resources

As at 30 June 2016, cash and cash equivalents of the Group amounted to approximately RMB264,111,000 (31 December 2015: approximately RMB393,881,000). As at 30 June 2016, the Group had borrowings of approximately RMB838,750,000 (31 December 2015: approximately RMB1,099,536,000).

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 2016, the gearing ratio of the Group was approximately 36.2% (31 December 2015: approximately 34.0%).

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

As at 30 June 2016, the actual use of proceeds from the issue of shares under general mandate carried out and completed by the Company in April 2016 is as follows:

Date of announcement	Fund raising activity	Net proceeds	Intended use of proceeds as announced	Actual use of proceeds
23 March 2016	Subscription in relation to the issue of 545,727,600 shares at the subscription price of HK$0.28 per share under the general mandate to not less than six subscribers. The completion of the subscription took place on 12 April 2016 and 545,727,600 subscription shares had been issued to the subscribers.	Approximately HK$152,400,000	Approximately 60% will be used for expansion of the Group's businesses, in particular, new-energy business development; and approximately 40% will be used for capital commitment for the acquisition of 56% of the allotted and issued share capital of Blossom Time Group Limited as disclosed in the announcements of the Company dated 29 March 2015 and 29 September 2015.	As at 30 June 2016, approximately HK$60,500,000 was used for expansion of the Group's business, being new-energy business development, and the acquisition of the related share capital of Blossom Time Group Limited and approximately HK$91,900,000 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 of the Company dated 23 March 2016.

Financial management and fiscal policy

During the six months ended 30 June 2016, the Group's revenue, 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 2016 (for the six-month period ended 30 June 2015: 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. 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 2016 to 30 June 2016.

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 2016, 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. Chen Junzhu, Mr. Wu Geng and Mr. Qiao Jianmin (appointed on 12 April 2016). Mr. Chen Junzhu currently serves as the chairman of the Audit Committee.

The Audit Committee has reviewed the Group's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2016 as well as the risk management and 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 condensed consolidated 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 2016 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, thereby creating maximum values and returns for our shareholders.

By order of the Board
SHENGLI OIL & GAS PIPE HOLDINGS LIMITED
Zhang Bizhuang
Chief Executive Officer

Zibo, Shandong, 21 August 2016

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

Executive Directors:	*Mr. Ji Rongdi (alias Jee Rongdee), Mr. Zhang Bizhuang, Mr. Jiang Yong, Mr. Wang Kunxian, Ms. Han Aizhi and Mr. Song Xichen*
Independent non-executive Directors:	*Mr. Chen Junzhu, Mr. Wu Geng and Mr. Qiao Jianmin*