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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 2019

FINANCIAL HIGHLIGHTS

- Revenue for the Period under Review was approximately RMB430,441,000, representing an increase of approximately 9.5% when compared to the corresponding period in 2018.
- Gross profit margin for the Period under Review was approximately 16.8%, representing a decrease of approximately 10.1 percentage points when compared to the corresponding period in 2018.
- Loss attributable to owners of the Company for the Period under Review amounted to approximately RMB55,358,000, while loss attributable to owners of the Company for the corresponding period in 2018 amounted to approximately RMB16,377,000.
- Basic loss per share attributable to owners of the Company for the Period under Review amounted to approximately RMB1.69 cents, while basic loss per share attributable to owners of the Company for the corresponding period in 2018 amounted to approximately RMB0.5 cents.
- The Board does not recommend the declaration of any interim dividend for the six months ended 30 June 2019.

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 2019 (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 2019

		Six months ended 30 June	
		2019	2018
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited and restated)
REVENUE	4	430,441	392,973
Cost of sales and services		<u>(358,274)</u>	<u>(287,437)</u>
Gross profit		72,167	105,536
Other income and gains		6,489	4,387
Selling and distribution costs		(9,663)	(19,150)
Administrative expenses		(80,773)	(95,857)
(Allowance)/Reversal of allowance for trade receivables		(1,587)	2,581
Other expenses		(785)	(188)
Share of (losses)/profits of associates		(4,511)	1,900
Gain on disposal of subsidiaries	5	10,429	21
Fair value change of non-current assets held for sale	13	(24,468)	—
Finance costs	6	<u>(23,353)</u>	<u>(25,889)</u>
LOSS BEFORE TAX	7	(56,055)	(26,659)
Income tax expense	8	<u>(1,333)</u>	<u>(945)</u>
LOSS FOR THE PERIOD		(57,388)	(27,604)
<i>Other comprehensive income/(loss) that may be subsequently reclassified to profit or loss:</i>			
Exchange differences reclassified to profit or loss on disposal of subsidiaries		(10,677)	(1)
Exchange differences on translation of financial statements of foreign operations		<u>234</u>	<u>(758)</u>
		<u>(10,443)</u>	<u>(759)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		<u><u>(67,831)</u></u>	<u><u>(28,363)</u></u>

		Six months ended 30 June	
		2019	2018
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited and restated)	
Notes			
LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		(55,358)	(16,377)
Non-controlling interests		<u>(2,030)</u>	<u>(11,227)</u>
		<u>(57,388)</u>	<u>(27,604)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		(65,801)	(17,136)
Non-controlling interests		<u>(2,030)</u>	<u>(11,227)</u>
		<u>(67,831)</u>	<u>(28,363)</u>
LOSS PER SHARE (<i>RMB cents</i>)			
— Basic	9	<u>(1.69)</u>	<u>(0.50)</u>
— Diluted		<u>(1.69)</u>	<u>(0.50)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

		30 June 2019 <i>RMB'000</i> (Unaudited)	31 December 2018 <i>RMB'000</i> (Audited and restated)
	Notes		
NON-CURRENT ASSETS			
Property, plant and equipment	11	698,040	748,805
Deposits paid for acquisition of investments		213,522	213,446
Investment in associates		187,158	416,136
Right-of-use asset		238,300	242,227
Deferred tax assets		15,433	16,196
		<u>1,352,453</u>	<u>1,636,810</u>
CURRENT ASSETS			
Inventories		171,278	208,436
Trade and bills receivables	12	459,647	381,199
Contract assets		53,986	91,492
Prepayments, deposits and other receivables		146,003	163,917
Pledged deposits		108,565	64,283
Cash and cash equivalents		66,676	106,076
		<u>1,006,155</u>	<u>1,015,403</u>
Non-current assets held for sale	13	200,000	—
		<u>1,206,155</u>	<u>1,015,403</u>
CURRENT LIABILITIES			
Trade and bills payables	14	244,498	255,707
Other payables and accruals		62,888	80,545
Contract liabilities		37,036	19,957
Lease liabilities		847	1,468
Borrowings	15	835,385	848,760
Tax payable		15,308	15,301
Deferred income		3,150	2,045
		<u>1,199,112</u>	<u>1,223,783</u>
NET CURRENT ASSETS/(LIABILITIES)		<u>7,043</u>	<u>(208,380)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,359,496</u>	<u>1,428,430</u>

	30 June 2019 <i>Notes</i> RMB'000 (Unaudited)	31 December 2018 <i>RMB'000</i> (Audited and restated)
NON-CURRENT LIABILITIES		
Deferred income	5,518	7,079
Lease liabilities	—	104
Deferred tax liabilities	310	326
	<u>5,828</u>	<u>7,509</u>
NET ASSETS	<u>1,353,668</u>	<u>1,420,921</u>
EQUITY		
Equity attributable to owners of the Company		
Issued capital	283,911	283,911
Reserves	975,335	1,040,558
	<u>1,259,246</u>	<u>1,324,469</u>
Non-controlling interests	<u>94,422</u>	<u>96,452</u>
Total equity	<u>1,353,668</u>	<u>1,420,921</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2019

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 place of business of the Company in Hong Kong is located at Room 2111, 21st Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, and the principal places of business of the Company in the People's Republic of China (the "PRC") are located at Zhongbu Town, Zhangdian District, Zibo City, Shandong Province 255082, the PRC, and 8 Binjiang Road, Gaoxin District, Xiangtan City, Hunan Province 411101, the PRC.

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 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").

These Interim Financial Statements should be read in conjunction with the 2018 annual consolidated financial statements. The accounting policies and methods of computation used in the preparation of these condensed financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2018 except as stated below.

Leases

The Group as lessee

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal annual rates are as follows:

Land use rights	2%
Land and buildings	33%–50%

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US\$5,000.

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 2019. 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 consolidated financial statements and amounts reported for the current period and prior periods except as stated below.

IFRS 16 "Leases"

On adoption of IFRS 16, the Group recognised right-of-use assets and lease liabilities in relation to leases which had previously been classified as 'operating leases' under IAS 17 "Leases."

IFRS 16 has been applied retrospectively and resulted in changes in the consolidated amounts reported in the Interim Financial Statements as follows:

	<i>RMB'000</i>
At 31 December 2018:	
Increase in right-of-use assets	242,227
Increase in lease liabilities	1,572
Decrease in prepaid land lease	(240,705)
Decrease in retained earnings	(50)
For the six months ended 30 June 2018:	
Decrease in administrative expenses	(33)
Increase in lease interest	48
Increase in loss for the period	15
Decrease in loss per share (cents)	—

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 2019 (Unaudited)

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:				
Sales to external customers	430,441	—	—	430,441
Intersegment sales	<u>22</u>	<u>24,038</u>	<u>(24,060)</u>	<u>—</u>
Total revenue	<u>430,463</u>	<u>24,038</u>	<u>(24,060)</u>	<u>430,441</u>
Segment results	<u>(4,834)</u>	<u>(2,008)</u>		(6,842)
Interest income				1,214
Fair value change of non-current assets held for sale				(24,468)
Gain on disposal of subsidiaries				10,429
Unallocated expenses				(13,035)
Finance costs				<u>(23,353)</u>
Loss before tax				<u>(56,055)</u>

For the six months ended 30 June 2018 (Unaudited and restated)

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:				
Sales to external customers	392,973	—	—	392,973
Intersegment sales	<u>12,478</u>	<u>—</u>	<u>(12,478)</u>	<u>—</u>
Total revenue	<u>405,451</u>	<u>—</u>	<u>(12,478)</u>	<u>392,973</u>
Segment results	<u>22,871</u>	<u>(5,959)</u>		16,912
Interest income				359
Gain on disposal of a subsidiary				21
Unallocated expenses				(18,062)
Finance costs				<u>(25,889)</u>
Loss before tax				<u>(26,659)</u>

Disaggregation of revenue from contracts with customers

For the six months ended 30 June 2019 (Unaudited)

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Geographical markets				
Mainland China	<u>430,463</u>	<u>24,038</u>	<u>(24,060)</u>	<u>430,441</u>
Timing of revenue recognition				
At a point in time	<u>430,463</u>	<u>24,038</u>	<u>(24,060)</u>	<u>430,441</u>

For the six months ended 30 June 2018 (Unaudited)

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Geographical markets				
Mainland China	<u>405,451</u>	<u>—</u>	<u>(12,478)</u>	<u>392,973</u>
Timing of revenue recognition				
At a point in time	<u>405,451</u>	<u>—</u>	<u>(12,478)</u>	<u>392,973</u>

Segment assets

As at 30 June 2019 (Unaudited)

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment assets	<u>1,734,687</u>	<u>31,655</u>	<u>—</u>	<u>1,766,342</u>

As at 31 December 2018 (Audited and restated)

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment assets	<u>1,804,572</u>	<u>29,720</u>	<u>—</u>	<u>1,834,292</u>

Segment liabilities

As at 30 June 2019 (Unaudited)

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment liabilities	351,654	1,212	—	352,866

As at 31 December 2018 (Audited and restated)

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment liabilities	361,002	1,728	—	362,730

5. GAIN ON DISPOSAL OF SUBSIDIARIES

Pursuant to an agreement dated 18 June 2019 entered into between a subsidiary of the Company and an independent third party, the Group disposed of 100% interest in a wholly-owned subsidiary, Shengli Enterprise Holdings Limited together with its wholly-owned subsidiaries, namely Guangdong Shengli Trading Co., Ltd.* (廣東勝利貿易有限公司) and Zhuhai Hengqin New Area Hongjie Commerce & Trade Development Co., Ltd.* (珠海市橫琴新區鴻傑商貿發展有限公司) for a total cash consideration of 10,000 Hong Kong Dollars (approximately RMB9,000), resulting in a gain on disposal of subsidiaries of approximately RMB10,429,000.

6. FINANCE COSTS

	For the six months ended 30 June	
	2019	2018
	RMB'000	RMB'000
	(Unaudited)	(Unaudited and restated)
Interest of borrowings	23,324	25,841
Lease interest	29	48
	23,353	25,889

7. LOSS BEFORE TAX

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

	For the six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited and restated)
Cost of inventories sold	339,519	224,876
Cost of services	18,755	62,561
	<u>358,274</u>	<u>287,437</u>
Employees benefits expenses including directors' remuneration	33,138	48,823
Depreciation of property, plant and equipment	55,529	60,865
Allowance/(Reversal of allowance) for trade receivables	1,587	(2,581)
Depreciation of right-of-use assets	3,919	3,689
Short term lease payments	575	836
	<u>90,168</u>	<u>114,693</u>

8. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Current — PRC Enterprise Income Tax (“EIT”)		
— Charge for the period	(587)	(227)
Current — Hong Kong		
— Charge for the period	—	—
Deferred tax charge	(746)	(718)
	<u>(1,333)</u>	<u>(945)</u>
Income tax expense	<u>(1,333)</u>	<u>(945)</u>

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for the six months ended 30 June 2019 and 2018. 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 2019 and 2018. 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 2019 and 2018.

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 2019 attributable to owners of the Company of approximately RMB55,358,000 (for the six months ended 30 June 2018: RMB16,377,000) and the weighted average number of 3,274,365,600 (for the six months ended 30 June 2018: 3,274,365,600) ordinary shares in issue during the six months ended 30 June 2019.

(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 2019 and 2018 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 2019 (for the six months ended 30 June 2018: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired property, plant and equipment at a total cost of approximately RMB4,926,000 (for the six months ended 30 June 2018: approximately RMB1,907,000).

Property, plant and equipment with a carrying amount of approximately RMB161,000 (for the six months ended 30 June 2018: approximately RMB5,097,000) were disposed by the Group during the six months ended 30 June 2019.

12. TRADE AND BILLS RECEIVABLES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Trade receivables	452,056	498,778
Less: allowance for impairment of trade receivables	(4,364)	(122,979)
	447,692	375,799
 Bills receivables	 11,955	 5,400
	459,647	381,199

An ageing 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 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within 3 months	232,615	192,512
3 to 6 months	77,679	45,244
6 months to 1 year	4,053	90,892
1 to 2 years	130,710	43,588
Over 2 years	2,635	3,563
	447,692	375,799

13. NON-CURRENT ASSETS HELD FOR SALE

Pursuant to an agreement dated 15 August 2019 entered into between a subsidiary of the Company and an independent third party, the Group will, subject to the fulfillment of certain conditions as set out in the agreement, dispose of 45% equity interest in an associate, Shanghai Guoxin Industrial Co., Ltd.* (上海國心實業有限公司) for a total cash consideration of RMB200,000,000. The associate has been reclassified as a non-current assets held for sale, resulting in a loss from fair value change of non-current assets held for sale of approximately RMB24,468,000.

14. TRADE AND BILLS PAYABLES

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Trade payables	206,863	245,185
Bills payables	37,635	10,522
	244,498	255,707

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

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Within 3 months	152,258	172,778
3 to 6 months	30,729	32,872
6 months to 1 year	21,340	28,046
1 to 2 years	630	10,219
Over 2 years	1,906	1,270
	<u>206,863</u>	<u>245,185</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.

15. BORROWINGS

Borrowings included advances from directors and employees of approximately RMB84,385,000 (31 December 2018: RMB61,260,000) which is unsecured, bears an interest rate of 10% per annum and repayable within one year.

16. COMMITMENTS

(a) Capital commitments

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

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Contracted, but not provided for	<u>14,176</u>	<u>15,673</u>

(b) Investment commitments

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

	30 June 2019 RMB'000 (Unaudited)	31 December 2018 RMB'000 (Audited)
Contracted, but not provided for	<u>101,671</u>	<u>87,610</u>

17. RELATED PARTY TRANSACTIONS

(a) Significant related party transactions

During the six months ended 30 June 2019 and 2018, the Group had the following material transactions with related parties:

	For the six months ended	
	30 June	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Purchases from a related company	369	—
Interest expenses to directors and their spouses	308	287

The related company is an entity in which a director of the Company, Mr. Wei Jun, has control.

(b) Significant related party balances

As at 30 June 2019 and 31 December 2018, the Group had the following material balances with related parties:

	30 June	31 December
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Loan to a related company	1,000	—
Advances from directors and their spouses	8,680	5,780

The related company is an entity in which a director of the Company, Mr. Wei Jun, has control.

(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	
	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Fees	975	1,195
Salaries, allowances and other benefits in kind	2,824	5,090
Social security contributions	139	188
Equity-settled share option expense	219	1,370
	4,157	7,843

18. APPROVAL OF INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 24 August 2019.

CHIEF EXECUTIVE OFFICER'S STATEMENT

Dear shareholders,

On behalf of the Board, I hereby present to you the unaudited results of the Group for the Period under Review.

In the second quarter of 2019, the pace of global economic recovery slowed down as investments in international trade further slackened, growth in manufacturing sector diminished and financial markets again experienced fluctuation. Slackening global economic growth led to slump in demand for crude oil, resulting in uncertain and complicated global economic situation in the long term. In the first half of the year, despite greater uncertainty confronting the external environment of China's economic development, the overall economy remained stable under the "six stabilities* (六穩)" policy. Such policy featured lagged economic growth, rising inflation, stable employment and improved international balance of payments position. China's GDP growth for the second quarter was expected to be around 6.2%. Under the impact of increasing downside pressure on global economy, petroleum will continue to face lagging demand.

CONSOLIDATING NATIONAL PIPELINE MARKET WHILE EXPANDING LOCAL PIPELINE MARKET UNDERPINNED BY SATISFACTORY SALES OF SUBMERGED-ARC LONGITUDINAL WELDED PIPES

In light of the policy that contemplated the establishment of a national pipeline company, the commencement of major national pipeline projects slowed down in the first half of the year as compared to last year. As such, the Group formulated the sales strategy of "prioritising major pipeline projects followed by quality local pipeline projects". Leveraging on its advantages in terms of brand, results, technology and production capacity, the Group not only won the tender of orders for large-scale national pipelines from China National Offshore Oil Corporation ("CNOOC") and China Petroleum & Chemical Corporation ("SINOPEC"), but also endeavoured to expand its shares in local markets.

Shandong Shengli Steel Pipe Co., Ltd.* (山東勝利鋼管有限公司) ("**Shandong Shengli Steel Pipe**"), a wholly-owned subsidiary of the Company, won the tender of the construction of the entire 52.8 km submerged-arc helical welded pipes ("**SAWH Pipes**") in a total amount of 22,000 tonnes of the first phase project of West Inner Mongolia Coal-based Gas Transmission Pipeline Project of CNOOC* (中海油蒙西煤制氣天然氣外輸管道項目一期工程) (the "**West Inner Mongolia Pipeline Project of CNOOC**") in May 2019. After opening up the market with CNOOC, the Group had full coverage of pipeline construction for the three leading oil companies, namely China National Petroleum Corporation ("CNPC"), SINOPEC and CNOOC (the "**Three Barrels**").

In addition, the Group expanded the geographical markets for local pipelines this year as it undertook large-scale local pipeline projects including Phase IV of the Guangzhou Natural Gas Utilisation Project* (廣州市天然氣利用工程四期工程), Natural Gas Pipeline Reroute Project of Eastern Urban Area of Jinan* (濟南東部城區天然氣管道改線工程), and High-pressure Ring Pipeline Network in Nanchang* (南昌市環城高壓管網項目), which generated remarkable revenue for the Group.

During the Period under Review, as the production line of submerged-arc longitudinal welded pipes (“SAWL Pipes”) of Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) (“Hunan Shengli Steel Pipe”) entered into stable and normal operation, the sales market for SAWL pipes was gradually opened up, recording a growth in sales of over 70% as compared to the corresponding period of last year, which augurs well for future sales. Meanwhile, Hunan Shengli Steel Pipe secured the order of SAWL pipes for Hong Kong water works from Will Pak Engineering Limited, which has been the first export order of Hunan Shengli Steel Pipe since its establishment.

INCREASING INVESTMENT IN TECHNOLOGICAL RESEARCH AND DEVELOPMENT TO PROCURE AUTOMATION, INFORMATIONISATION AND INTELLIGENTISATION

In adherence to the philosophy of “technology is the life of an enterprise”, the Group has been making incessant effort to step up research and development and strengthen technological innovations over the years. On 30 April 2019, the patent application entitled “pre-welding and precision-welding craftsmanship for high grade oil and gas transmission pipelines”* (高鋼級油氣輸送管線的預精焊焊接工藝) of Shandong Shengli Steel Pipe was granted registration as a national invention patent. It is the most challenging invention patent that the Group has ever applied for, but it also evidences that the Group’s pre-welding and precision-welding craftsmanship has attained a leading position in China. So far, the Group has owned 5 invention patents and 37 utility model patents.

During the Period under Review, the Group made greater investment and effort in the research and development in automation, informationisation and intelligentisation with forward-looking decision-making, so as to address the need of modern technology and competitive market. A batch of automation and intelligentisation projects were planned and implemented with a focus on the optimisation and upgrade of pre-welding and precision-welding equipment and technology, which applied robotic system to the relevant production and examination processes. This not only enhanced the product quality and production efficiency, measuring accuracy and quality control of high grade steel pipes, but also lowered the labour cost to achieve the purpose of reducing headcounts and heightening efficiency.

STRENGTHENING INTERNAL CORPORATE MANAGEMENT BY IMPROVING MANAGEMENT TEAM

During the Period under Review, the Group made adjustment to the consolidation or division of departmental functions based on the change of production and operation model, enabling streamlined organisation structure and smooth management. Meanwhile, the Company's management team was enhanced and energised by adding management staff of younger age. Based on the adjusted organisation structure, the Group made comprehensive arrangement and amendments to all of its regimes to adapt to the current management model.

Shandong Shengli Steel Pipe continued to carry out cost-reducing and efficiency-enhancing measures. More attention was paid to online purchase and cost comparison in line with actual situation in order to expand the channel of procurement and lower the cost of procurement effectively. Moreover, more stringent energy control was exercised as the Group identified the electricity consumption of equipment in various production plants. Stronger daily management was employed on high electricity-consuming equipment to ensure optimal electricity consumption.

CONSOLIDATING GROUP STRUCTURE BY OPTIMISING GROUP BUSINESS AND TAPPING INTO EMERGING INDUSTRY

During the Period under Review, the Group made timely adjustment to its asset structure and disposed of dormant subsidiaries to reduce administrative expenses based on careful consideration of market developments. The Group disposed of the entire equity of Shengli Enterprise Holdings Limited (“**Shengli Enterprise**”) and two of its domestic wholly-owned subsidiaries to an independent third party. Meanwhile, the Group has been endeavouring to explore new business development and seeking to seize opportunities in aviation leasing industry. During the Period under Review, the Group jointly established Shengli Aviation Leasing Investment Holding Company Limited with an independent third party on a non-controlling basis in Hong Kong in a bid to tap into the aviation leasing business. This investment broadened sources of revenue of the Group and avoided the risk of homogenous principal activities, which was in conformity with the long-term development strategy of the Group. Pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), the aforesaid transactions did not constitute disclosable transactions.

Further, in light of the return on investment and operating condition of Shanghai Guoxin Industrial Co., Ltd.* (上海國心實業有限公司) (“**Shanghai Guoxin**”) in the past, as well as the impact of uncertain economic factors, it is estimated that the business prospect of Shanghai Guoxin would fall below expectation. As such, the Group entered into a sale and purchase agreement on 15 August 2019 to conditionally dispose of its 45% equity interest in Shanghai Guoxin to an independent third party. Pursuant to the Listing Rules, the aforesaid transaction constituted a major transaction and shall be subject to our shareholders' approval.

FUTURE PROSPECT

Looking to the future, China has plans to construct 28,000 kilometres of natural gas trunk pipelines from 2019 to 2020. The 13th Five-Year Plan (“FYP”) for Natural Gas Development* (《天然氣發展「十三五」規劃》) has set out four principal tasks, the second of which is to “step up with the construction of natural gas pipeline networks”, designated the 13th FYP as an important development period for the construction of natural gas pipeline network in China, during which work should be done to match domestic and foreign natural gas resources against requirements for economic development in various regions by means of overall planning, stage-by-stage implementation, combination of distant and nearby resources, making progress ahead of requirements as appropriate and encouraging various types of entities to invest in the construction of natural gas pipelines. The structural reform of the national oil and gas pipeline industry is advancing with steady progress, underpinned by the likely formation of a national pipeline company in 2019. The construction of large-scale pipeline projects will continue in anticipation of a peak period for the construction of important domestic pipelines.

As one of China’s largest private manufacturers of oil and natural gas pipelines, the Group will further explore the local markets in China while cementing its market shares for the Three Barrels oil companies. We will also continue to investigate novel business types to diversify our source of income on top of maintaining our leading position for our core principal business to secure higher return for shareholders.

Last but not least, I would like to take this opportunity to express gratitude to our shareholders and customers, and our management and staff for their dedication. With comprehensive deployment and initiatives to expand principal activities, the Group will continue to deliver long-term value to our shareholders.

Zhang Bizhuang

Executive Director & Chief Executive Officer

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

During the second quarter of 2019, further weakness in international trade and investment, dwindling growth of the manufacturing industry and renewed volatility in the financial market led to a weakened momentum for global economic recovery. Looking ahead, the prolonged nature of international trade tension and diminishing room for manoeuvre in global fiscal and monetary policies will present risks to the global economy. While the external environment of China's economic development was subject to an increasing number of more significant uncertainties during the first half of the year, the nation's economy was generally trending in stability thanks to the effect of the "six stabilities* (六穩)" policy, among others, underpinned by the four main characteristics of slowdown in growth, escalating inflation, stable employment and stronger balance in international payments.

As an important segment in the oil and gas sector, the construction and operation of oil and gas pipeline network facilities is mainly carried out by a few large-scale central enterprises, and the operation of major oil and gas pipe networks is highly monopolised. With a market comprising diversified entities in the upstream and downstream oil and gas sectors gradually coming into shape, the call from parties concerned for market-based reform in the oil and gas sector has become stronger than ever, highlighted in particular by the demand for the fair opening up of oil and gas pipeline network facilities. The drafting of the "Regulatory Measures Governing the Fair Opening-up of Oil and Gas Pipeline Network Facilities"* (油氣管網設施公平開放監管辦法) (the "Regulatory Measures") commenced in August 2017 and was officially published and implemented by the National Development and Reform Commission on 31 May 2019. At the same time, the "Regulatory Measures Governing the Fair Opening-up of Oil and Gas Pipeline Network Facilities (Trial)"* (油氣管網設施公平開放監管辦法(試行)) (Guo Neng Jian Guan [2014] No. 84* (國能監管[2014]84號)) previously announced by the National Energy Administration was annulled. According to The Paper, the finalized, published version of the Regulatory Measures shows greater convergence with the reform of the operating mechanism of oil and gas pipeline networks when compared to the consultation draft issued in last August.

BUSINESS REVIEW

As one of China's largest oil and gas pipeline manufacturers offering superior quality products with top-rated facilities, cutting-edge technologies, advanced technique and a comprehensive quality inspection and assurance system, the Group is one of the few domestic suppliers of large-diameter pipes designed to sustain the high pressure in long distance transportation of crude oil, refined petroleum and natural gas, among others. It is also the only privately-owned enterprise among a minority of qualified suppliers for large-scale oil and natural gas pipeline projects in China. The Group's major customers are large-scale national petroleum and natural gas enterprises such as CNPC, SINOPEC and CNOOC and their subsidiaries. The Group focuses on the design, manufacturing, anti-corrosion processing and servicing of pipes (including SAWH Pipes and SAWL Pipes) used for the transport of crude oil, refined petroleum products and natural gas. During the Period under Review, the Group's production capacities for SAWH Pipes and SAWL Pipes were 1.33 million tonnes per annum and 400,000 tonnes per annum, respectively, while its ancillary anti-corrosion production line had an annual production volume of 10.80 million square metres, with two main production bases located at Zibo, Shandong and Xiangtan, Hunan. Such capabilities have continued to cement the Group's strengths in technology, production capacity and geographical location as compared to its peers.

During the Period under Review, Shandong Shengli Steel Pipe was mainly engaged in the production of SAWH Pipes, as it completed the production of pipelines and anti-corrosion facilities for the Qingdao — Nanjing Gas Pipeline Project of SINOPEC* (中石化青島 — 南京輸氣管道工程) (“**Qingning Gas Pipeline Project of SINOPEC*** (中石化青寧輸氣管道工程)”), Rizhao — Puyang — Luoyang Crude Oil Pipeline Project* (日照 — 濮陽 — 洛陽原油管道工程), Dongjiakou to Dongying Crude Oil Pipeline Project* (董家口至東營原油管道工程) and the West Inner Mongolia Pipeline Project of CNOOC* (中海油蒙西管道工程項目). Following its brilliant completion of the supply of three pipelines for SINOPEC in 2018, Shandong Shengli Steel Pipe debuted for CNOOC in May 2019 that it won the tender of the entire 52.8 km SAWH Pipes in a total amount of 22,000 tonnes of the West Inner Mongolia Pipeline Project of CNOOC. As such, Shandong Shengli Steel Pipe established itself as a provider of pipeline construction service for all of China's Three Barrels oil companies.

During the first half of 2019, the Company adjusted its strategy in a timely manner to develop local pipelines with a major effort. During the Period under Review, Hunan Shengli Steel Pipe commenced large-scale production with the sales of 50,000 tonnes of SAWL Pipes in a 74% growth compared to the same period last year, marking a historic high in SAWL Pipes output volume since the plant came into operation. During the Period under Review, Hunan Shengli Steel Pipe signed up Will Pak Engineering Limited for the supply of SAWL Pipes for the latter's water works in Hong Kong, securing its first export order since establishment.

As at 30 June 2019, pipes manufactured by the Group were used in the world's oil and gas pipelines with a cumulative total length of approximately 30,618 kilometres, of which 95.1% were installed in China while the remaining 4.9% were installed overseas.

During the Period under Review, national large-scale pipe projects using SAWH Pipes manufactured by the Group included: the Qingning Gas Pipeline Project of SINOPEC* (中石化青寧輸氣管道工程), Rizhao — Puyang — Luoyang Crude Oil Pipeline Project* (日照 — 濮陽 — 洛陽原油管道工程), Dongjiakou to Dongying Crude Oil Pipeline Project* (董家口至東營原油管道工程) and West Inner Mongolia Pipeline Project of CNOOC* (中海油蒙西管道工程項目).

National large-scale pipe projects using SAWL Pipes manufactured by the Group included: the Yangjiang — Jiangmen Line of the West Guangdong Natural Gas Trunk Pipeline Network* (粵西天然氣主幹管網陽江 — 江門幹線項目), Xinjiang Coal-based Natural Gas Export Pipeline Project* (新疆煤制天然氣外輸管道工程) and Qingning Gas Pipeline Project of SINOPEC* (中石化青寧輸氣管道工程); while local pipeline projects included: Phase IV of the Guangzhou Natural Gas Utilisation Project* (廣州市天然氣利用工程四期工程), Natural Gas Pipeline Reroute Project of Eastern Urban Area of Jinan* (濟南東部城區天然氣管道改線工程) and High-pressure Ring Pipeline Network in Nanchang* (南昌市環城高壓管網工程).

Large-scale pipeline projects using anti-corrosion pipes manufactured by the Group included: the Yangjiang — Jiangmen Line of the West Guangdong Natural Gas Trunk Pipeline Network* (粵西天然氣主幹管網陽江 — 江門幹線項目), Qingning Gas Pipeline Project of SINOPEC* (中石化青寧輸氣管道工程), Xinjiang Coal-based Natural Gas Export Pipeline Project* (新疆煤制天然氣外輸管道工程), Rizhao — Puyang — Luoyang Crude Oil Pipeline Project* (日照 — 濮陽 — 洛陽原油管道工程), Dongjiakou to Dongying Crude Oil Pipeline Project* (董家口至東營原油管道工程), Phase IV of the Guangzhou Natural Gas Utilisation Project* (廣州市天然氣利用工程四期工程) and Linyi New West Outer Ring to Pingyi Gas Pipeline Project* (臨沂新西外環至平邑輸氣管線工程).

FINANCIAL REVIEW

Revenue

The Group's unaudited revenue for the Period under Review was approximately RMB430,441,000, which was solely attributable to the revenue from the Group's core business segment, the pipes business, representing an increase of approximately 9.5% when compared to that of approximately RMB392,973,000 for the corresponding period last year. Such increase was mainly due to the significant increase in sales of SAWL Pipes with higher unit cost during the Period under Review as compared to that of the corresponding period last year.

Cost of sales and services

The Group's cost of sales and services increased year-on-year by approximately 24.6% from approximately RMB287,437,000 for the six months ended 30 June 2018 to approximately RMB358,274,000 for the Period under Review. Such increase was mainly due to the significant increase in sales of SAWL Pipes with higher unit cost during the Period under Review as compared to that of the corresponding period last year.

Gross profit

Gross profit for the Period under Review was approximately RMB72,167,000, while that for the corresponding period last year amounted to approximately RMB105,536,000. Such decrease was mainly attributable to the significant decrease in orders for long-distance steel pipes of large-diameter during the year as compared to the corresponding period last year, resulting in a significant decrease in sales of the Group's major product, SAWH Pipes, and anti-corrosion processing business during the Period under Review. The Group's gross profit margin dropped from approximately 26.9% for the six months ended 30 June 2018 to approximately 16.8% for the Period under Review, which was mainly due to the decrease in orders and production volume as well as the increase in unit production cost during the Period under Review, resulting in a decrease in gross profit margin; and the decrease in proportion of raw material processing business with higher gross profit margin in the sales of pipes during the Period under Review.

Other income and gains

Other income and gains of the Group increased year-on-year from approximately RMB4,387,000 for the six months ended 30 June 2018 to approximately RMB6,489,000 for the Period under Review. The increase was mainly due to the increase in gain from the sales of raw materials during the Period under Review as compared to the corresponding period last year.

Selling and distribution costs

Selling and distribution costs of the Group decreased from approximately RMB19,150,000 for the six months ended 30 June 2018 to approximately RMB9,663,000 for the Period under Review. The decrease in selling expenses was principally due to the disposal of loss-making subsidiary, Shengli Steel Pipe (Dezhou) Co., Ltd.* (勝利鋼管(德州) 有限公司) (“Dezhou Shengli Steel Pipe”), in order to consolidate steel pipe capacity in 2018, resulting in a decrease in related expenses during the Period under Review; and the decrease in delivery expenses and service fees borne by the Group during the Period under Review as compared to the corresponding period last year.

Administrative expenses

The Group’s administrative expenses decreased from approximately RMB95,857,000 for the six months ended 30 June 2018 to approximately RMB80,773,000 for the Period under Review. The decrease was mainly attributable to the disposal of Dezhou Shengli Steel Pipe, resulting in a decrease in related expenses during the Period under Review; and the decrease in amortisation charge of share option, administrative staff cost and others during the Period under Review as compared to the corresponding period last year.

Gain from the disposal of subsidiaries

The Group’s gain from the disposal of subsidiaries was approximately RMB21,000 for the six months ended 30 June 2018 while that for the Period under Review was approximately RMB10,429,000. Such increase was mainly due to the gain generated from the disposal of the entire equity interest in Shengli Enterprise and two of its domestic wholly-owned subsidiaries to an independent third party.

As the functional currency of Shengli Enterprise was Hong Kong dollar, there was exchange difference arising from the translation of foreign currency denominated financial statements into Renminbi denominated financial statements. Since the Group disposed of the entire equity interest in Shengli Enterprise during the Period under Review, the related foreign currency translation reserve was required to be reclassified to profit or loss, resulting in foreign exchange loss from the reclassification to profit or loss on disposal of subsidiaries of approximately RMB10,677,000.

Investments in associates and fair value change of non-current assets held for sale

As at 30 June 2019, the Group had investments in associates of approximately RMB187,158,000 (31 December 2018: approximately RMB416,136,000). Such change was mainly due to the Group's conditional disposal of 45% of equity interest in Shanghai Guoxin held by it for a total consideration of RMB200,000,000 pursuant to an agreement entered into between a wholly owned subsidiary of the Group and an independent third party on 15 August 2019. The investment in Shanghai Guoxin was reclassified as non-current assets held for sale, resulting in loss from fair value change of non-current assets held for sale of approximately RMB24,468,000. For further details of the conditional disposal of Shanghai Guoxin, please refer to the announcement of the Company dated 15 August 2019.

Finance costs

The Group's finance costs decreased from approximately RMB25,889,000 for the six months ended 30 June 2018 to approximately RMB23,353,000 for the Period under Review. The finance costs mainly 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 RMB28,363,000 for the six months ended 30 June 2018 to a loss of approximately RMB67,831,000 for the Period under Review.

Assets and liabilities

As at 30 June 2019, the Group's total assets amounted to approximately RMB2,558,608,000 (31 December 2018: approximately RMB2,652,213,000) and the Group's net assets amounted to approximately RMB1,353,668,000 (31 December 2018: approximately RMB1,420,921,000). Net assets per share amounted to approximately RMB0.41, representing a decrease of approximately RMB2 cents when compared to that of 31 December 2018. As at 30 June 2019, the Group's total liabilities amounted to approximately RMB1,204,940,000 (31 December 2018: approximately RMB1,231,292,000).

Liquidity and financial resources

As at 30 June 2019, cash and cash equivalents of the Group amounted to approximately RMB66,676,000 (31 December 2018: approximately RMB106,076,000). As at 30 June 2019, the Group had borrowings of approximately RMB835,385,000 (31 December 2018: approximately RMB848,760,000).

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 2019, the gearing ratio of the Group was approximately 41.7% (31 December 2018: approximately 41.9%).

Financial management and fiscal policy

During the six months ended 30 June 2019, 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 Period under Review (for the six-month period ended 30 June 2018: nil).

EVENTS OCCURRING AFTER THE PERIOD UNDER REVIEW

At the date of this announcement, no material event has occurred after the Period under Review except for the conditional disposal of the equity interest in an associate, Shanghai Guoxin as discussed above.

CORPORATE GOVERNANCE CODE

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability to the shareholders as a whole. The Board strives to uphold good corporate governance and adopts sound corporate governance practices. As of 30 June 2019, the Company has applied the Corporate Governance 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**”), and has complied with all code provisions and, where applicable, the recommended best practices.

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 2019, they have complied with the required standards set out in the Model Code and the code of conduct regarding directors’ securities transactions.

PURCHASE, SALE OR REDEMPTION 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. 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 Period under Review 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 interim financial statements for the Period under Review, with the management and external auditor. The external auditor has reviewed the interim financial information for the Period under Review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants.

APPRECIATION AND STRIVING FOR THE GOALS

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 enhancing the strength and precision of oil and gas pipeline products while actively pursuing and developing new business fields, thereby creating maximum values and returns for our shareholders.

* *For identification purpose only*

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

Zibo, Shandong, 25 August 2019

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

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

Non-executive Director: *Mr. Wei Jun*

Independent non-executive Directors: *Mr. Chen Junzhu, Mr. Wu Geng and Mr. Qiao Jianmin*