

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2020

FINANCIAL HIGHLIGHTS

- Revenue for the Period under Review was approximately RMB229,279,000, representing a decrease of approximately 46.7% when compared to the corresponding period in 2019.
- Gross profit margin for the Period under Review was approximately 3.5%, representing a decrease of approximately 13.3 percentage points when compared to the corresponding period in 2019.
- Loss attributable to owners of the Company for the Period under Review amounted to approximately RMB75,216,000, while loss attributable to owners of the Company for the corresponding period in 2019 amounted to approximately RMB55,358,000.
- Basic loss per share attributable to owners of the Company for the Period under Review amounted to approximately RMB2.30 cents, while basic loss per share attributable to owners of the Company for the corresponding period in 2019 amounted to approximately RMB1.69 cents.
- The Board does not recommend the declaration of any interim dividend for the six months ended 30 June 2020.

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 2020 (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 2020

	Notes	Six months ended 30 June 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
REVENUE	3	229,279	430,441
Cost of sales and services		(221,318)	(358,274)
Gross profit		7,961	72,167
Other income and gains		6,740	6,489
Selling and distribution costs		(15,358)	(9,663)
Administrative expenses		(75,680)	(80,773)
Reversal of allowance/(Allowance) for trade receivables		3,695	(1,587)
Other expenses		(1,264)	(785)
Share of losses of associates		(143)	(4,511)
Gain on disposal of subsidiaries	4	–	10,429
Impairment loss on non-current assets held for sale	12	–	(24,468)
Finance costs	5	(20,799)	(23,353)
LOSS BEFORE TAX	6	(94,848)	(56,055)
Income tax expense	7	(909)	(1,333)
LOSS FOR THE PERIOD		(95,757)	(57,388)
Other comprehensive income/(loss) that may be subsequently reclassified to profit or loss:			
Exchange differences reclassified to profit or loss on disposal of subsidiaries		–	(10,677)
Exchange differences on translation of financial statements of foreign operations		3,174	234
		3,174	(10,443)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(92,583)	(67,831)

	<i>Notes</i>	Six months ended 30 June	
		2020	2019
		<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Unaudited)
LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		(75,216)	(55,358)
Non-controlling interests		(20,541)	(2,030)
		<u>(95,757)</u>	<u>(57,388)</u>
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		(72,042)	(65,801)
Non-controlling interests		(20,541)	(2,030)
		<u>(92,583)</u>	<u>(67,831)</u>
LOSS PER SHARE (<i>RMB cents</i>)			
– Basic	8	<u>(2.30)</u>	<u>(1.69)</u>
– Diluted		<u>(2.30)</u>	<u>(1.69)</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

	Notes	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	603,665	648,820
Deposits paid for acquisition of investments		219,723	216,549
Investment in an associate		187,010	187,153
Right-of-use assets		236,740	239,097
Deferred tax assets		5,338	6,192
		<u>1,252,476</u>	<u>1,297,811</u>
CURRENT ASSETS			
Inventories		387,901	182,931
Trade and bills receivables	11	189,123	326,194
Contract assets		40,841	48,426
Prepayments, deposits and other receivables		277,309	229,410
Pledged deposits		47,727	27,312
Cash and cash equivalents		64,572	99,535
		<u>1,007,473</u>	<u>913,808</u>
Non-current assets held for sale	12	<u>200,000</u>	<u>200,000</u>
		<u>1,207,473</u>	<u>1,113,808</u>
CURRENT LIABILITIES			
Trade and bills payables	13	380,260	246,768
Other payables and accruals		82,498	64,214
Contract liabilities		108,188	53,553
Lease liabilities		1,220	1,184
Borrowings		712,600	777,205
Tax payable		15,308	15,308
Deferred income		1,583	1,583
		<u>1,301,657</u>	<u>1,159,815</u>
NET CURRENT LIABILITIES		<u>(94,184)</u>	<u>(46,007)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,158,292</u>	<u>1,251,804</u>

	<i>Notes</i>	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred income		5,530	5,958
Lease liabilities		1,768	2,287
Deferred tax liabilities		309	309
		7,607	8,554
NET ASSETS		1,150,685	1,243,250
EQUITY			
Equity attributable to owners of the Company			
Issued capital		283,911	283,911
Reserves		824,225	896,249
		1,108,136	1,180,160
Non-controlling interests		42,549	63,090
Total equity		1,150,685	1,243,250

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

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 2019 annual consolidated financial statements. The accounting policies and methods of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2019.

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 2020. IFRSs comprise International Financial Reporting Standard; 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 condensed consolidated interim financial statements and amounts reported for the current period and prior periods.

The Group has not applied the new IFRSs that have been issued but are not yet effective. The application of these new IFRSs will not have material impact on the condensed consolidated interim financial statements of the Group.

3. SEGMENT INFORMATION

Segment revenue and results

For the six months ended 30 June 2020 (Unaudited)

	Pipes Business RMB'000	Trading business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:				
Sales to external customers	229,279	–	–	229,279
Intersegment sales	–	6,368	(6,368)	–
Total revenue	<u>229,279</u>	<u>6,368</u>	<u>(6,368)</u>	<u>229,279</u>
Segment results	<u>(61,118)</u>	<u>(3,671)</u>		(64,789)
Interest income				374
Unallocated expenses				(9,634)
Finance costs				<u>(20,799)</u>
Loss before tax				<u>(94,848)</u>

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	22	24,038	(24,060)	–
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
Impairment loss on non-current assets held for sale				(24,468)
Gain on disposal of a subsidiary				10,429
Unallocated expenses				(13,035)
Finance costs				<u>(23,353)</u>
Loss before tax				<u>(56,055)</u>

Disaggregation of revenue from contracts with customers

For the six months ended 30 June 2020 (Unaudited)

	Pipes Business RMB'000	Trading business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Geographical markets				
Mainland China	<u>229,279</u>	<u>6,368</u>	<u>(6,368)</u>	<u>229,279</u>
Timing of revenue recognition				
At a point in time	<u>229,279</u>	<u>6,368</u>	<u>(6,368)</u>	<u>229,279</u>

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>

Segment assets

As at 30 June 2020 (Unaudited)

	Pipes Business RMB'000	Trading business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment assets	<u>1,712,907</u>	<u>19,466</u>	<u>–</u>	<u>1,732,373</u>

As at 31 December 2019 (Audited)

	Pipes Business RMB'000	Trading business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment assets	<u>1,660,057</u>	<u>10,802</u>	<u>–</u>	<u>1,670,859</u>

Segment liabilities

As at 30 June 2020 (Unaudited)

	Pipes Business RMB'000	Trading business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment liabilities	<u>533,101</u>	<u>44,126</u>	<u>–</u>	<u>577,227</u>

As at 31 December 2019 (Audited)

	Pipes Business RMB'000	Trading business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment liabilities	<u>367,992</u>	<u>1,181</u>	<u>–</u>	<u>369,173</u>

4. 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 recognized for the six months ended 30 June 2019.

5. FINANCE COSTS

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest of borrowings	20,737	23,324
Lease interest	<u>62</u>	<u>29</u>
	<u>20,799</u>	<u>23,353</u>

* For identification purpose only

6. LOSS BEFORE TAX

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

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	204,211	339,519
Cost of services	17,107	18,755
	221,318	358,274
Employees benefits expenses including directors' remuneration	32,001	33,138
Depreciation of property, plant and equipment	48,574	55,529
(Reversal of allowance)/Allowance for trade receivables	(3,695)	1,587
Depreciation of right-of-use assets	2,572	3,919
Short term lease payments	156	575

7. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current – PRC Enterprise Income Tax (“EIT”)		
– Charge for the period	(55)	(587)
Current – Hong Kong		
– Charge for the period	–	–
Deferred tax charge	(854)	(746)
Income tax expense	(909)	(1,333)

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for the six months ended 30 June 2020 and 2019. 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 2020 and 2019. 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 2020 and 2019.

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 2020 attributable to owners of the Company of approximately RMB75,216,000 (for the six months ended 30 June 2019: approximately RMB55,358,000) and the weighted average number of 3,274,365,600 (for the six months ended 30 June 2019: 3,274,365,600) ordinary shares in issue during the six months ended 30 June 2020.

(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 2020 and 2019 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 2020 (for the six months ended 30 June 2019: Nil).

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired property, plant and equipment at a total cost of approximately RMB3,985,000 (for the six months ended 30 June 2019: approximately RMB4,926,000).

Property, plant and equipment with a carrying amount of approximately RMB566,000 (for the six months ended 30 June 2019: approximately RMB161,000) were disposed by the Group during the six months ended 30 June 2020.

11. TRADE AND BILLS RECEIVABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade receivables	153,597	341,365
Less: allowance for impairment of trade receivables	(4,331)	(20,061)
	149,266	321,304
Bills receivables	39,857	4,890
	189,123	326,194

An aging 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 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 3 months	94,880	148,569
3 to 6 months	12,386	28,706
6 months to 1 year	11,548	48,045
1 to 2 years	27,234	72,700
Over 2 years	3,218	23,284
	149,266	321,304

12. 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 dispose of 45% equity interests 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 investment in the associate has been reclassified as a non-current assets held for sale, resulting in an impairment loss on non-current assets held for sale of approximately RMB24,468,000 recognized for the six months ended 30 June 2019. In this connection, the Group has received a request from the purchaser for a three-month extension for payment of consideration and has consented to the same. As at the date of this announcement, the transaction has yet to proceed to completion.

* For identification purpose only

13. TRADE AND BILLS PAYABLES

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Trade payables	329,060	246,568
Bills payables	51,200	200
	<u>380,260</u>	<u>246,768</u>

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Within 3 months	250,920	206,763
3 to 6 months	41,016	12,896
6 months to 1 year	17,776	17,993
1 to 2 years	11,417	7,192
over 2 years	7,931	1,724
	<u>329,060</u>	<u>246,568</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.

14. 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 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Contracted, but not provided for	<u>13,394</u>	<u>8,667</u>

(b) Investment commitments

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

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Contracted, but not provided for	103,778	103,686

15. RELATED PARTY TRANSACTIONS

(a) Significant related party transactions

During the six months ended 30 June 2020 and 2019, the Group had the following material transactions with related parties:

	For the six months ended 30 June 2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
Purchases from related companies	73,860	2,112
Interest expenses to directors and their spouses	91	308

Related companies are wholly-owned subsidiaries of non-controlling shareholder of the Company's subsidiary.

(b) Significant related party balances

As at 30 June 2020 and 31 December 2019, the Group had the following material balances with related parties:

	30 June 2020 RMB'000 (Unaudited)	31 December 2019 RMB'000 (Audited)
Advances from directors and their spouses	–	7,280

(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	
	2020	2019
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Fees	1,044	975
Salaries, allowances and other benefits in kind	1,508	2,824
Social security contributions	69	139
Share-based payment	–	219
	<u>2,621</u>	<u>4,157</u>

16. APPROVAL OF INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 22 August 2020.

CHIEF EXECUTIVE OFFICER’S STATEMENT

Dear shareholders,

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of the Company, I hereby present to you the unaudited results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2020 (the “**Period under Review**”).

During the first half of 2020, the COVID-19 pandemic drove global economic growth to trend downwards. In March 2020, the US stock market suffered four circuit breakers and the market was turbulent. The threat of financial crisis far exceeded than that in 2008. The global oil and gas market was also subject to headwinds from multiple sources, where several oil and gas giants in the United States filed for bankruptcy protection. Likewise, the Chinese economy had been under pressure, with its GDP for the first quarter witnessing a year-on-year decline of 6.8%. Attributed to the containment measures implemented by the PRC government, the greatest adversities had been navigated through in the second quarter and it is expected that the economic situation will gradually improve in the second half of the year.

On 1 May 2020, the “Opinions on Promoting the Reform of Mineral Resources Management (Trial)”* (《關於推進礦產資源管理改革若干事項的意見(試行)》) issued by the Ministry of Natural Resources was formally implemented, allowing private, foreign-funded or other industries to gain access to oil and gas exploration, which broke the monopoly over oil and gas mining rights from the upper stream and achieved all-round market reform integrating the upper, middle and downstream from the whole industry chain. In addition, subsequent initiatives are steadily carried out upon establishment of China Oil & Gas Pipeline Network Corporation* (國家石油天然氣管網集團有限公司) (“**PipeChina**”* (國家管網集團)). Disposal of major oil and gas pipeline assets to PipeChina by China National Offshore Oil Corporation (“**CNOOC**”), China National Petroleum Corporation (“**CNPC**”) and China Petroleum & Chemical Corporation (“**SINOPEC**”) in tandem in late July 2020 accelerated the development pace of PipeChina. In the future, as the marketisation of the oil and gas industry continues to advance, it will offer more opportunities to private enterprises with remarkable performance, extensive experience and solid expertise like the Group.

GUARANTEEING PRODUCTION RESUMPTION LEVERAGING LOCAL MARKET EXPLORATION AMID IMPACT OF THE PANDEMIC ON LARGE-SCALE PROJECTS

During the Period under Review, the major national pipeline projects had been operated under capacity since PipeChina had been operating at an initial stage. Particularly, as affected by the COVID-19 pandemic, the bid-winning Niger-Benin Pipeline Project* (尼貝管道項目) of China Petroleum Technology Development Company (“**CPTDC**”) (the “**CPTDC Niger-Benin Pipeline Project**”), West Inner Mongolia Coal-based Gas Transmission Pipeline Project of CNOOC* (中海油蒙西煤製氣天然氣外輸管道項目) (the “**West Inner Mongolia Pipeline Project of CNOOC**”) and CNOOC Shenmu-Anping Coal-bed Methane Pipeline Project* (中海油神木—安平煤層氣管道工程) (the “**CNOOC Shenmu Pipeline Project**”) suffered a delay in shipment after production. Besides, certain SINOPEC pipeline projects also lagged behind schedule.

In response to the call of the government, the Group encouraged work and production resumption on the precondition of all-round pandemic containment. To increase sales volume, in addition to guaranteeing production of the secured CPTDC Niger-Benin Pipeline Project and CNOOC Shenmu Pipeline Project, 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, proactively explored the social pipeline market and strengthened its cash spot sales business. While keeping track of local high-pressure and sub-high-pressure gas and natural gas pipeline projects, it expanded into the thermal projects and thermal insulation projects. With concerted efforts, it secured a number of cash spot customers in the first half of the year with trading volume reaching approximately 13,700 tonnes.

Focusing on the large-scale pipeline market to earnestly expand into the international market, Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) (“**Hunan Shengli Steel Pipe**”), a non-wholly-owned subsidiary of the Company, on one hand captured the social pipeline market and consolidated the existing gas market and, on the other hand, actively designated personnels to explore the water conservancy market and set up a water management sales team, striving to make breakthroughs in the water conservancy market in 2020.

REMAINING COMMITTED TO SCIENTIFIC RESEARCH AND DEVELOPMENT AND UPGRADING AND TRANSFORMATION

The Group upholds the belief that technology is key for maintaining competitiveness. In recent years, in order to bring into play the advantages of pre-welding processes, the Group has been constantly committed to research and development and equipment upgrading and transformation regarding its pre-welding unit which is the first in the PRC to attain internationally advanced level.

During the Period under Review, the Group’s five major research and development projects proceeded smoothly, including the R&D project of the main engine centralised control system of the pre-welding factory, the 2nd and 3rd plant of the Group, the R&D project of the steel pipe information management system of the 1# anti-corrosion line, the research project of ultrasonic testing technology for steel pipes conducted by the 2nd plant, the research project of the arc extinguishing plate removal process of the pre-welding steel pipe and the research project of the anti-corrosion steel pipe identification process, which, upon completion, will boost the automation level; improve the working environment; strengthen product quality; and enhance efficiency through reduction of manual work. At present, the installation and debugging process of the majority projects has been completed and the equipment is under trial operation.

In addition, the Group’s 13 equipment upgrading and transformation projects have been gradually completed, including the upgrading and transformation projects of cabinet of pre-welding electric welding machine, epoxy powder recycling equipment of anti-corrosion 1# line and internal and external welding flux recycling equipment of 3# unit, thereby improving the automation operating level, data accuracy and work efficiency, and providing workers with a safer and more environmentally friendly working environment.

STRENGTHENING SITE MANAGEMENT TO STREAMLINE INVENTORY AND REVITALISE CAPITAL

Shandong Shengli Steel Pipe launched the 6S (SEIRI, SEITON, SEISO, SEIKETSU, SHITSUKE and SECURITY) site management to strengthen site management, optimise environmental quality and create a comfortable workplace and office space with clean and well-equipped hardware facilities for the staff; as well as to improve the quality of employees, enhance work efficiency, ensure safe production, and build a high-quality workforce, so as to build up a sound corporate image.

Shandong Shengli Steel Pipe has established a cost control team while implementing 6S site management to refine cost management. It controls labor cost, water and electricity consumption and procurement cost, formulates cost control schemes and optimisation measures, and makes continuous improvements and refinements, so as to achieve the purpose of cost reduction and efficiency enhancement.

In view of the substantial quantities of idle, overstock and obsolete coils, steel pipes, equipment and inventory materials, Shandong Shengli Steel Pipe designated personnels to manage dead stock and dispose of the same by category, thereby recovering approximately RMB10 million, which reduced inventory level and revitalised capital. Besides, such dead stock management improved material, equipment purchase and stock management system and achieved normalisation of inventory and material management at a low cost.

IMPROVING INTERNAL MANAGEMENT AND CONTROL TO BOOST MANAGEMENT EFFICIENCY

During the Period under Review, the Group established the Customer Credit Management System in order to strengthen credit risk control over customers, reduce operational risks and ensure safety of funds. At present, Shandong Shengli Steel Pipe has completed the verification of credit ratings and credit limits of all customers. In addition, Shandong Shengli Steel Pipe revised the job responsibilities of management personnel and technical staff at different levels and tried to quantify performance assessment. It also modified the financial management system and accounts receivable management system to strengthen the financial management level, and accelerate the capital recovery process. Furthermore, it issued new editions of company system to standardise various management processes.

Shandong Shengli Steel Pipe also implemented the production plant contracting system, and specified the contract responsibility indicators. During the Period under Review, based on the contracting experience of the original logistics center and anti-corrosion plant, it launched the contracting scheme of production plant. The overall capacity has been greatly improved after two months' operation, and the efficiency of steel pipes of the same specification under contracting has increased by 1.8%.

FUTURE PROSPECTS

Looking into the second half of 2020, we will brace for challenges and capitalise on market opportunities. Pursuant to the “Medium and Long Term Oil and Gas Pipeline Network Planning”* (《中長期油氣管網規劃》), it is estimated that substantial investments will be made in domestic long-distance oil and gas pipelines by 2025 and mileage will reach 240,000 kilometres. At present, the existing scale of long-distance oil and gas pipelines in the PRC does not match the increasing oil and gas consumption demand and the mileage of long-distance oil and gas pipelines only accounts for one fifth of that of the United States, leaving huge construction potential.

The establishment of PipeChina is expected to speed up the construction progress of long-distance oil and gas pipelines. Since the establishment of PipeChina in December 2019 with an aim to break away from monopoly and usher in the competitive mechanism, there has been a consensus to promote the market-oriented reform of the energy system. PipeChina recorded sluggish progress at the beginning of the year due to the pandemic. In July 2020, PipeChina acquired gas and pipeline assets from CNPC and SINOPEC, such that there was significant development in the process of marketisation reform. In the future, with the development of PipeChina, it is believed that we will turn a new leaf featuring impartiality, openness and inter-connected pipelines, where private and state-owned enterprises will cooperate and compete with each other in a more fair market environment.

Keeping pace with the advancement of PipeChina, the Group will capitalise on opportunities arising from the long-term development of the national large-scale pipeline market and map out in advance leveraging its leading position and remarkable performances in domestic large-scale pipeline and cross-border pipeline market. It will explore external market and enhance internal management and technology, vigorously expand market share in the domestic, international and social pipeline markets, and tap into its edges in capacity, geographical location and technical skills, in a bid to secure better performance. In addition, with a focus on its existing pipes and anti-corrosion business, the Group will proactively expand the upper stream and downstream industrial chains, seize the opportunities of large-scale pipeline projects, and sharpen the pipes products and services with higher premium, so as to diversify its revenue sources.

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 timely moves to seize business opportunities and proactive planning, the Group will strengthen and optimise oil and gas transportation products and 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 first half of 2020, COVID-19 pandemic spread across the globe, leading to plunge of bulk commodity prices and pressure to economic growth. In the first quarter, the pandemic struck the heaviest blow to domestic economy since the Reform and Opening up, and in the second quarter, global economy experienced a deep recession far severer than the financial crisis in 2008. However, significant achievements on pandemic containment were made by the PRC in the second quarter, when resumption of business operation and production proceeded steadily and the “Six Guarantees” policy was introduced, contributing to the gradual recovery of national economy.

From the perspective of the oil and gas industry, COVID-19 pandemic significantly affected the global oil and gas market, resulting in over supply in the international oil market and continuous fluctuations in international oil prices, with Brent oil price in the first quarter dropping to the lowest level for the latest year. Meanwhile, oil and gas enterprises in the PRC resorted to cost reduction and efficiency enhancement to navigate through the economic downturn. Substantial decline in oil demand and production volume of CNPC, SINOPEC and CNOOC (collectively, the “**Three Barrels**”* (三桶油)) during the first quarter caused a delay to oil and gas pipeline projects. However, the shock triggered by the pandemic is believed to be temporary and it is believed that the oil and gas industry will deliver sound performance with healthy development in the long run.

Looking into the second half of the year, it is expected that the national economy will continue to pick up. Despite uncertain challenges such as pandemic rebound, mounting difficulties confronted with small and medium enterprises during production and operation and unrelieved pandemic situation across the globe, optimistically, the PRC government has introduced favorable macroeconomic policies to stabilise employment, support small and medium enterprises and safeguard people’s livelihood as well as to loose monetary policies. Meanwhile, the Group is also prepared for potential challenges, it will diligently implement pandemic containment measures and actively adjust strategies to ensure smooth production.

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, among other things, large-diameter pipes designed to 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 a limited number 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 submerged-arc helical welded pipes (“SAWH Pipes”) and submerged-arc longitudinal welded pipes (“SAWL Pipes”)) used for the transport of crude oil, refined petroleum products, natural gas and other related products. During the first half of the year, due to the construction delay in projects with CNPC, SINOPEC and CNOOC and little progress made in the international market as affected by the COVID-19 pandemic, orders were primarily secured from the social market.

As of 30 June 2020, annual production volume of the Group's SAWH Pipes, SAWL Pipes and ancillary anti-corrosion production line reached 1.00 million tonnes, 300,000 tonnes and 9.60 million square metres, respectively in 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.

As of 30 June 2020, pipes manufactured by the Group were used in the world's oil and gas pipelines with a cumulative total length of approximately 31,638 kilometres, of which 95% were installed in China while the remaining 5% were installed outside China.

During the Period under Review, large-scale pipe projects using SAWH Pipes manufactured by the Group included: CNOOC Shenmu Pipeline Project, Yinchuan Intelligent Central Heating Project* (銀川市智能化集中供熱項目), CPTDC Niger-Benin Pipeline Project, Shouguang High Temperature Water Heating Pipe Network Interconnection Project* (壽光市高溫水供熱管網互聯互通工程) and Shuozhou Obsolete Heating Pipe Network Reconstruction Project* (朔州市老舊供熱管網改造建設項目).

Large-scale pipe projects using SAWL Pipes manufactured by the Group included: CNOOC Shenmu Pipeline Project, Changsha Huangqiao Avenue High Pressure Gas Pipeline Project* (長沙黃橋大道高壓燃氣管道項目), Shaoguan – Guangzhou Line of the North Guangdong Natural Gas Trunk Pipeline Network* (粵北天然氣主幹管網韶關－廣州幹線項目), Zhejiang Lishui Longyou Natural Gas Transmission Pipeline Project* (浙江麗水龍游天然氣輸氣管道工程) and Haixi Natural Gas Pipeline Network Dehua Line Project* (海西天然氣管網德化支線工程).

Large-scale pipeline projects using anti-corrosion pipes manufactured by the Group included: CNOOC Shenmu Pipeline Project, Dongjiakou to Dongying Crude Oil Pipeline Project* (董家口至東營原油管道工程), CPTDC Niger-Benin Pipeline Project, Haixi Natural Gas Pipeline Network Dehua Line Project* (海西天然氣管網德化支線工程), Qiandongnan Prefecture County-to-county Project* (黔東南通縣縣通項目), Shaoguan – Guangzhou Line of the North Guangdong Natural Gas Trunk Pipeline Network* (粵北天然氣主幹管網韶關－廣州幹線項目) and Zhejiang Lishui Longyou Natural Gas Transmission Pipeline Project* (浙江麗水龍游天然氣輸氣管道工程).

During the Period under Review, as PipeChina operated at the initial stage, there was limited number of domestic large-scale pipeline construction projects. In addition, although production volume of the pipes business and anti-corrosion processing business of the Group recorded a slight decrease in the Period under Review from the same period of 2019, products of several projects suffered a delay in shipment due to COVID-19 pandemic, thereby resulting in a substantial decline in sales volume of the pipes business and anti-corrosion processing business comparing with the same period 2019. Moreover, the pipes processing business secured from SINOPEC, which had a higher gross profit, recorded a decrease of approximately 80% in sales volume as compared to the same period of 2019, contributing to a significant drop in the gross profit of the pipes business of the Group. During the Period under Review, loss for the period attributable to owners of the Company amounted to approximately RMB75,216,000, as compared to approximately RMB55,358,000 for the same period of last year, representing an increase of approximately 35.9%.

FINANCIAL REVIEW

Revenue

The Group's unaudited revenue for the six months ended 30 June 2020 was approximately RMB229,279,000, which was solely attributable to the revenue from the Group's core business segment, the pipes business, representing a decrease of approximately 46.7% when compared to that of approximately RMB430,441,000 for the corresponding period last year. In particular, (1) sales revenue from SAWH Pipes reached approximately RMB125,299,000 (the corresponding period last year: approximately RMB147,024,000), representing a year-on-year decrease of approximately 14.8%; (2) sales revenue from SAWL Pipes reached approximately RMB82,026,000 (the corresponding period last year: approximately RMB232,890,000), representing a year-on-year decrease of approximately 64.8%; and (3) sales revenue from anti-corrosion processing business reached approximately RMB21,954,000 (the corresponding period last year: approximately RMB50,527,000), representing a year-on-year decrease of approximately 56.5%. Such decrease was mainly due to a significant decline in sales volume of the pipes business and anti-corrosion processing business of the Group during the Period under Review comparing with the same period of last year, owing to (i) a relatively small number of large-scale national pipeline construction projects for the Period under Review as PipeChina operated at the initial stage; and (ii) the delay in shipment of the Group's products for certain projects during the Period under Review because measures such as quarantine, lockdown, travel restrictions and closure were imposed by the governmental authorities in the PRC to combat the COVID-19 pneumonia epidemic.

Cost of sales and services

The Group's cost of sales and services decreased year-on-year by approximately 38.2% from approximately RMB358,274,000 for the six months ended 30 June 2019 to approximately RMB221,318,000 for the six months ended 30 June 2020, primarily attributable to the significant decline in sales volume of the Group's pipes business and anti-corrosion processing business comparing with the same period last year, leading to a corresponding decrease in cost of sales and services.

Gross profit

Gross profit for the Period under Review was approximately RMB7,961,000, while that for the corresponding period last year amounted to approximately RMB72,167,000. Such decrease was mainly attributable to a significant decline in sales volume of the pipes business and anti-corrosion processing business of the Group comparing with the same period last year. The Group's gross profit margin dropped from approximately 16.8% for the six months ended 30 June 2019 to approximately 3.5% for the Period under Review, which was mainly due to a significant decline in the pipes business and anti-corrosion processing business secured from SINOPEC, which had a higher gross profit margin.

Other income and gains

Other income and gains of the Group increased year-on-year from approximately RMB6,489,000 for the six months ended 30 June 2019 to approximately RMB6,740,000 for the Period under Review.

Selling and distribution costs

Selling and distribution costs of the Group increased from approximately RMB9,663,000 for the six months ended 30 June 2019 to approximately RMB15,358,000 for the Period under Review. The increase was principally due to lessened transportation expenses recognised during the corresponding period last year comparing with the Period under Review as a result of change in transportation conditions.

Administrative expenses

The Group's administrative expenses decreased from approximately RMB80,773,000 for the six months ended 30 June 2019 to approximately RMB75,680,000 for the Period under Review. Such decrease was mainly attributable to a reduction in labor insurance contributions of micro, small and medium-sized businesses by the government due to COVID-19 pandemic during the Period under Review.

Gain from the disposal of subsidiaries

During the Period under Review, the Group did not derive gains from disposal of subsidiaries, compared to a gain of approximately RMB10,429,000 from disposal of subsidiaries for the corresponding period last year, which was primarily attributable to disposal of the entire equity interests of Shengli Enterprise Holdings Limited* (勝利實業控股有限公司) and two of its domestic wholly-owned subsidiaries to independent third parties during the six months ended 30 June 2019.

Non-current assets held for sale

During the Period under Review, the Group did not make material equity investments nor divestments. The non-current assets held for sale of approximately RMB200 million as at 30 June 2020 represents the reclassification of the Group's investment in Shanghai Guoxin Industrial Co., Ltd* (上海國心實業有限公司) (“**Shanghai Guoxin**”) as non-current assets held for sale as a result of the Group's conditional disposal of 45% equity interest in Shanghai Guoxin during the year ended 31 December 2019. In this connection, the Group has received a request from the purchaser for a three-month extension for payment of consideration and has consented to the same. As at the date of this announcement, the transaction has yet to proceed to completion. The Company will keep track of the progress of the transaction and keep shareholders informed of any material development.

Finance costs

The Group's finance costs decreased from approximately RMB23,353,000 for the six months ended 30 June 2019 to approximately RMB20,799,000 for the Period under Review. The finance costs mainly came from interest on bank loans.

Total comprehensive loss for the period

The Group's total comprehensive loss for the period increased from a loss of approximately RMB67,831,000 for the six months ended 30 June 2019 to a loss of approximately RMB92,583,000 for the Period under Review.

Assets and liabilities

As at 30 June 2020, the Group's total assets amounted to approximately RMB2,459,949,000 (31 December 2019: approximately RMB2,411,619,000) and the Group's net assets amounted to approximately RMB1,150,685,000 (31 December 2019: approximately RMB1,243,250,000). Net assets per share amounted to approximately RMB0.35, representing a decrease of approximately RMB3 cents when compared to that of 31 December 2019. As at 30 June 2020, the Group's total liabilities amounted to approximately RMB1,309,264,000 (31 December 2019: approximately RMB1,168,369,000). The increase in total liabilities was mainly attributable to the increase in trade and bills payables as of 30 June 2020 comparing with 31 December 2019.

Net current liabilities

As at 30 June 2020, the Group had net current liabilities of approximately RMB94,184,000, as compared to approximately RMB46,007,000 as at 31 December 2019. The main reason for the increase in net current liabilities for the Period under Review was that although there was a slight decrease in borrowings as at 30 June 2020 as compared to 31 December 2019, trade and bills payables and contract liabilities recorded an increase.

Leveraging the establishment of PipeChina and its continued development, the Group will endeavour to grasp the development opportunities in the pipes industry and proactively secure more pipes orders. Through reasonable allocation of funds and meticulous operation, the Group has confidence in ensuring on-going stability of its production and operations and gradually minimising its net current liabilities.

Liquidity and financial resources

For the six months ended 30 June 2020, cash and cash equivalents of the Group amounted to approximately RMB64,572,000 (31 December 2019: approximately RMB99,535,000). For the six months ended 30 June 2020, the Group had borrowings of approximately RMB712,600,000 (31 December 2019: approximately RMB777,205,000).

The gearing ratio is defined as net debt (represented by borrowings, trade payables, contract liabilities and other payables and accruals, net of cash and cash equivalents and pledged deposits) divided by total equity plus net debt. For the six months ended 30 June 2020, the gearing ratio of the Group was approximately 49.3% (31 December 2019: approximately 44.9%).

Financial management and fiscal policy

During the six months ended 30 June 2020, 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 2019: nil).

EVENTS OCCURRING AFTER THE PERIOD UNDER REVIEW

Up to the date of this announcement, there was no significant event relevant to the business or financial performance of the Company that comes to the attention of the Directors after the Period under Review.

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. During the Period under Review, the Company has applied the principles of the Corporate Governance Code (the “**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 during the Period under Review, 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, including Mr. Chen Junzhu, Mr. Wu Geng and Mr. Qiao Jianmin. Mr. Chen Junzhu serves as the chairman.

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 and Chief Executive Officer

Zibo, Shandong, 23 August 2020

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

<i>Executive Directors:</i>	<i>Mr. Zhang Bizhuang, Mr. Wang Kunxian, Ms. Han Aizhi and Mr. Song Xichen</i>
<i>Non-executive Directors:</i>	<i>Mr. Wei Jun and Mr. Jiang Yong</i>
<i>Independent non-executive Directors:</i>	<i>Mr. Chen Junzhu, Mr. Wu Geng and Mr. Qiao Jianmin</i>