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 2023

FINANCIAL HIGHLIGHTS

- Revenue for the six months ended 30 June 2023 (the "**Period under Review**") was approximately RMB322,269,000, representing a decrease of approximately 27.3% when compared to the corresponding period in 2022.

- Gross profit margin for the Period under Review was approximately 4.2%, representing a decrease of approximately 4.3 percentage points when compared to the corresponding period in 2022.

- Loss attributable to owners of the Company for the Period under Review amounted to approximately RMB57,348,000, while profit attributable to owners of the Company for the corresponding period in 2022 amounted to approximately RMB38,410,000.

- Basic loss per share attributable to owners of the Company for the Period under Review amounted to approximately RMB1.48 cents, while basic earnings per share attributable to owners of the Company for the corresponding period in 2022 amounted to approximately RMB0.99 cents.

- The Board does not recommend the declaration of any interim dividend for the six months ended 30 June 2023 (for the six months ended 30 June 2022: Nil).

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 2023 (the "**Period under Review**") prepared in accordance with the International Financial Reporting Standards, together with the comparative figures for the corresponding period of 2022 as follows:

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

For the six months ended 30 June 2023

		Six months ended 30 June	
		2023	2022
		RMB'000	*RMB'000*
	Notes	**(Unaudited)**	(Unaudited)
Revenue	*4*	**322,269**	443,281
Cost of sales and services		**(308,592)**	(405,655)
Gross profit		**13,677**	37,626
Other income, gains and losses	*5*	**12,223**	85,658
Selling and distribution expenses		**(13,844)**	(15,428)
Administrative expenses		**(48,913)**	(67,572)
Other expenses		**(979)**	(402)
Share of results of associates		**15,401**	3,663
Provision for impairment loss on investment in an associate	*12*	**(28,722)**	–
Reversal of impairment loss on trade receivables, net		**54**	1,336
Finance costs	*6*	**(6,821)**	(9,909)
(Loss) Profit before tax	*7*	**(57,924)**	34,972
Income tax expense	*8*	**(20)**	(99)
(Loss) Profit for the period		**(57,944)**	34,873
Other comprehensive loss:			
Item that maybe reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**–**	(137)
Total comprehensive (loss) income for the period		**(57,944)**	34,736

		Six months ended 30 June	
		2023	2022
		RMB'000	*RMB'000*
	Notes	**(Unaudited)**	(Unaudited)
(Loss) Profit for the period attributable to:			
Owners of the Company		**(57,348)**	38,410
Non-controlling interests		**(596)**	(3,537)
		(57,944)	34,873
Total comprehensive (loss) income for the period attributable to:			
Owners of the Company		**(57,348)**	38,273
Non-controlling interests		**(596)**	(3,537)
		(57,944)	34,736
(Loss) Earnings per share			
Basic (RMB cents)	*9*	**(1.48)**	0.99
Diluted (RMB cents)	*9*	**(1.48)**	0.99

UNAUDITED CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Notes	30 June 2023 RMB'000 (Unaudited)	31 December 2022 RMB'000 (Audited)
Non-current assets			
Property, plant and equipment	*11*	**217,568**	220,823
Right-of-use assets	*11*	**175,339**	177,938
Investments in associates	*12*	**213,743**	227,064
Deposits paid for acquisition of property, plant and equipment		**2,438**	2,703
Deferred tax assets		**523**	560
		609,611	629,088
Current assets			
Inventories		**176,380**	111,265
Trade and bills receivables	*13*	**83,746**	95,530
Contract assets		**51,592**	52,910
Prepayments, deposits and other receivables	*14*	**131,052**	88,986
Pledged deposits		**275**	19,843
Cash and cash equivalents		**38,159**	158,776
		481,204	527,310
Current liabilities			
Trade payables	*15*	**75,228**	52,260
Other payables and accruals		**22,825**	29,976
Contract liabilities		**110,202**	129,691
Lease liabilities		**916**	831
Borrowings	*16*	**225,210**	321,310
Deferred income		**854**	854
Tax payable		**15,308**	15,308
		450,543	550,230
Net current assets (liabilities)		**30,661**	(22,920)
Total assets less current liabilities		**640,272**	606,168

	Notes	**30 June 2023** *RMB'000* **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
Non-current liabilities			
Lease liabilities		**1,469**	1,933
Borrowings	*16*	**92,600**	–
Deferred income		**1,239**	1,385
Deferred tax liabilities		**243**	260
		95,551	3,578
NET ASSETS		**544,721**	602,590
Capital and reserves			
Issued capital	*17*	**334,409**	334,409
Reserves		**201,856**	259,129
Equity attributable to owners of the Company		**536,265**	593,538
Non-controlling interests		**8,456**	9,052
TOTAL EQUITY		**544,721**	602,590

NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2023

1. GENERAL INFORMATION

Shengli Oil & Gas Pipe Holdings Limited (the "**Company**", together with its subsidiaries collectively referred to as the "**Group**") is a limited liability company incorporated in the Caymans Islands on 3 July 2009. The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 18 December 2009. The address of the Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands, and its principal places of business in Hong Kong and the People's Republic of China (the "**PRC**") are located at Room 2111, 21st Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong and Zhongbu Town, Zhangdian District, Zibo City, Shandong Province 255082, the PRC, respectively.

The Group is principally engaged in the manufacture, processing and sale of welded steel pipes for oil and gas pipelines and other construction and manufacturing applications and trading of commodities.

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements have been prepared in accordance with the International Accounting Standard ("**IAS**") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board (the "**IASB**") and the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). The Group has prepared the unaudited condensed consolidated interim financial statements on the basis that it expects to operate as a going concern.

The preparation of the unaudited condensed consolidated interim financial statements in conformity with IAS 34 requires the management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year-to-date basis. Actual results may differ from these estimates.

The unaudited condensed consolidated interim financial statements include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since 31 December 2022, and therefore, do not include all of the information required for full set of financial statements prepared in accordance with the International Financial Reporting Standards ("**IFRSs**") which collective term includes all applicable individual IFRSs, IASs and Interpretations issued by the IASB. The unaudited condensed consolidated interim financial statements should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2022.

The unaudited condensed consolidated interim financial statements are presented in Renminbi ("**RMB**") which is also the Company's functional currency and all amounts have been rounded to the nearest thousand ("**RMB'000**"), unless otherwise indicated.

The measurement basis used in the preparation of the unaudited condensed consolidated interim financial statements is historical cost.

2. BASIS OF PREPARATION (Continued)

The accounting policies and methods of computation used in the preparation of the unaudited condensed consolidated interim financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2022.

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 period beginning on 1 January 2023. 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 interim financial statements and amounts reported for the current period and prior periods.

At the date of authorisation of the unaudited condensed consolidated interim financial statements, the IASB has issued a number of new/revised IFRSs that are not yet effective for the current period, which the Group has not early adopted. The directors of the Company do not anticipate that the future adoption of new/revised IFRSs will have any material impact on the results and the financial position of the Group.

3. SEGMENT INFORMATION

The Group has two reportable segments which comprise of (i) production of submerged-arc helical welded pipes (the "**SAWH pipes**") and submerged-arc longitudinal welded pipe (the "**SAWL pipes**") and the related services which are mainly used for the oil and infrastructure industry (the "**Pipes Business**") and (ii) trading of commodities (the "**Trading Business**"). Management monitors the results of the Group's operating segments separately for the purpose of making decisions on resource allocation and performance assessment.

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

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

Segment results represent the loss resulted by each segment without taking into account the allocation of interest income, rental income, finance costs, central administration costs including directors' and chief executive's fees, gain on disposal of equity interests in a subsidiary, loss on partial disposal of equity interests in an associate, provision for impairment loss on investment in an associate, equity-settled share-based payment expenses, share of result of an associate and items not directly related to the core business of the segments.

3. **SEGMENT INFORMATION (Continued)**

The followings are analysis of the Group's revenue and results regarding the reportable and operating segments:

Segment revenue and results

For the six months ended 30 June 2023 (Unaudited)

	Pipes Business *RMB'000*	Trading Business *RMB'000*	Total *RMB'000*
Segment revenue:			
Sales to external customers	**322,269**	**–**	**322,269**
Segment results	**(16,781)**	**(3,675)**	**(20,456)**
Interest income			**292**
Rental income			**787**
Share of result of an associate			**2,460**
Provision for impairment loss on investment in an associate			**(28,722)**
Equity-settled share-based payment expenses			**(75)**
Unallocated expenses			**(5,389)**
Finance costs			**(6,821)**
Loss before tax			**(57,924)**
Income tax expense			**(20)**
Loss for the period			**(57,944)**

3. **SEGMENT INFORMATION (Continued)**

Segment revenue and results (Continued)

For the six months ended 30 June 2022 (Unaudited)

	Pipes Business *RMB'000*	Trading Business *RMB'000*	Total *RMB'000*
Segment revenue:			
Sales to external customers	435,785	7,496	443,281
Segment results	(28,564)	(1,360)	(29,924)
Interest income			247
Rental income			304
Share of result of an associate			668
Gain on disposal of equity interests in a subsidiary			83,723
Loss on partial disposal of equity interests in an associate			(4,397)
Unallocated expenses			(5,572)
Equity-settled share-based payment expenses			(168)
Finance costs			(9,909)
Profit before tax			34,972
Income tax expense			(99)
Profit for the period			34,873

3. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

An analysis of the Group's assets and liabilities by operating segments is set out below:

As at 30 June 2023 (Unaudited)

	Pipes Business *RMB'000*	**Trading Business** *RMB'000*	**Unallocated** *RMB'000*	**Total** *RMB'000*
Segment assets	**940,887**	**12,749**	**137,179**	**1,090,815**
Segment liabilities	**(245,724)**	**(256)**	**(300,114)**	**(546,094)**

As at 31 December 2022 (Audited)

	Pipes Business *RMB'000*	Trading Business *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Segment assets	956,489	25,833	174,076	1,156,398
Segment liabilities	(251,092)	(98)	(302,618)	(553,808)

Geographical Information

The geographical location of the Group's revenue from external customers is presented based on the location of the customers. No geographical analysis of revenue from external customers is provided as substantially all of the Group's revenue is principally attributable to the PRC.

The geographical location of the Group's non-current assets, other than investments in associates and deferred tax assets, is presented based on the location of the assets as follows:

Non-current assets

	30 June 2023 *RMB'000* **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
The PRC	**393,055**	398,717
Hong Kong	**2,290**	2,747
	395,345	401,464

3. SEGMENT INFORMATION (Continued)

Information about major customers

Revenue from major customers, each of whom accounted for 10% or more of the total revenue is set out below:

		Six months ended 30 June	
		2023	2022
		RMB'000	*RMB'000*
	Segment	**(Unaudited)**	(Unaudited)
Customer A	Pipes Business	***(Note)***	45,552
Customer B	Pipes Business	**59,457**	*(Note)*
Customer C	Pipes Business	**46,493**	*(Note)*

Note:

The customers contributed less than 10% of the total revenue of the Group for the six months ended 30 June 2023 or 2022, respectively.

4. REVENUE

Disaggregation of revenue from contracts with customers within IFRS 15

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Types of goods or service		
Pipes Business		
Sales of pipes	**305,226**	395,014
Rendering of services related to Pipes Business	**17,043**	40,771
	322,269	435,785
Trading Business		
Trading of commodities	**–**	7,496
	322,269	443,281

4. REVENUE (Continued)

For the six months ended 30 June 2023 (Unaudited)

	Pipes Business ***RMB'000***	**Trading Business** ***RMB'000***	**Total** ***RMB'000***
Geographical markets			
The PRC	**322,269**	**–**	**322,269**
Timing of revenue recognition			
At a point in time	**322,269**	**–**	**322,269**

For the six months ended 30 June 2022 (Unaudited)

	Pipes Business *RMB'000*	Trading Business *RMB'000*	Total *RMB'000*
Geographical markets			
The PRC	435,785	7,496	443,281
Timing of revenue recognition			
At a point in time	435,785	7,496	443,281

5. OTHER INCOME, GAINS AND LOSSES

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Other income		
Interest income	**292**	247
Government grants *(Note)*	**146**	600
Rental income	**787**	304
Exchange gain, net	**91**	–
Others	**241**	915
	1,557	2,066
Other gains and losses		
Gain on sales of materials	**10,670**	4,267
Loss on disposal of property, plant and equipment, net	**(4)**	(1)
Gain on disposal of equity interests in a subsidiary	**–**	83,723
Loss on partial disposal of equity interests in an associate	**–**	(4,397)
	10,666	83,592
	12,223	85,658

Note:

In the opinion of the directors of the Company, there was no unfulfilled condition or contingency relating to the government grants.

6. FINANCE COSTS

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Interest on bank loans	**5,845**	9,887
Interest on other loans	**905**	–
Interest on lease liabilities	**71**	22
	6,821	9,909

7. (LOSS) PROFIT BEFORE TAX

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

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold *(Note)*	**296,752**	373,246
Cost of services	**11,840**	32,409
	308,592	405,655
Employees benefits expenses (including directors' remunerations)	**34,932**	32,188
Depreciation of property, plant and equipment	**8,550**	29,133
Depreciation of right-of-use assets	**2,599**	2,874
Loss on disposal of property, plant and equipment, net	**4**	1
Reversal of impairment loss on trade receivables, net	**(54)**	(1,336)
Short term lease payments	**691**	9

Note:

Included in the cost of inventories sold is an amount of approximately RMB589,000 (six months ended 30 June 2022: RMB5,069,000) related to the write-down of inventories for the six months ended 30 June 2023.

8. INCOME TAX EXPENSE

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax	**–**	–
Deferred tax	**20**	99
Income tax expense	**20**	99

For the six months ended 30 June 2023 and 2022, the assessable profits of Hong Kong incorporated subsidiaries of the Group are entitled to a two-tiered profits tax rates regime (the "**Hong Kong Profits Tax**") that the first HK$2,000,000 of assessable profits of qualifying corporations will be taxed at 8.25%, and assessable profits above HK$2,000,000 will be taxed at 16.5%. The assessable profits of corporations in the Group not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Hong Kong Profits Tax has not been provided as the Group had no assessable profits in Hong Kong for the six months ended 30 June 2023 and 2022.

Singapore Corporate Income Tax ("**CIT**") is calculated at 17% of the assessable profits for the six months ended 30 June 2023 and 2022. Singapore CIT has not been provided as the Group had no assessable profits in Singapore for the six months ended 30 June 2023 and 2022.

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of subsidiaries of the Company in the PRC was 25% for the six months ended 30 June 2023 and 2022. PRC Enterprise Income Tax has not been provided for the six months ended 30 June 2023 and 2022 as the Group's entities in the PRC incurred a loss for taxation purpose.

9. (LOSS) EARNINGS PER SHARE

The calculation of basic and diluted (loss) earnings per share is based on the following data:

	Six months ended 30 June	
	2023	2022
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
(Loss) Profit:		
(Loss) Profit attributable to the owners of the Company, used in basic (loss) earnings per share calculation	**(57,348)**	38,410

	Six months ended 30 June	
	2023	2022
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic (loss) earnings per share	**3,874,365,600**	3,874,365,600

The computation of diluted loss per share does not assume the exercise of the outstanding share options since the assumed conversion would result in a decrease in loss per share for the six months ended 30 June 2023 and the exercise price per share option was higher than the average share price of the Company for the six months ended 30 June 2023.

The computation of diluted earnings per share does not assume the exercise of the outstanding share options since the assumed conversion would result in an increase in earnings per share for the six months ended 30 June 2022 and the exercise price per share option was higher than the average share price of the Company for the six months ended 30 June 2022.

The diluted (loss) earnings per share is the same as the basic (loss) earnings per share for the six months ended 30 June 2023 and 2022, respectively.

10. INTERIM DIVIDEND

The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2023 (six months ended 30 June 2022: Nil).

11. PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the six months ended 30 June 2023, the Group acquired property, plant and equipment at a total cost of approximately RMB5,310,000 (six months ended 30 June 2022: RMB18,474,000).

Property, plant and equipment with a carrying amount of approximately RMB15,000 (six months ended 30 June 2022: RMB1,000) were disposed of by the Group during the six months ended 30 June 2023.

12. INVESTMENTS IN ASSOCIATES

	At 30 June 2023 *RMB'000* **(Unaudited)**	At 31 December 2022 *RMB'000* (audited)
Unlisted investments in the PRC:		
Share of net assets	**251,035**	235,634
Less: Impairment losses *(Note)*	**(37,292)**	(8,570)
	213,743	227,064

	For the six months ended 30 June 2023 *RMB'000* **(Unaudited)**	For the six months ended 30 June 2022 *RMB'000* (Unaudited)
Share of results of associates:		
Xinfeng Energy Enterprise Group Co., Ltd. ("**Xinfeng Energy**")	**2,460**	668
Hunan Shengli Xianggang Steel Pipe Co., Ltd.	**12,941**	2,995
	15,401	3,663

Note:

The movement in the impairment losses of investments in associates during the reporting period is summarised below:

	For the six months ended 30 June 2023 *RMB'000* **(Unaudited)**	For the year ended 31 December 2022 *RMB'000* (Audited)
At the beginning of the reporting period	**8,570**	–
Impairment loss charged to profit or loss	**28,722**	8,570
At the end of the reporting period	**37,292**	8,570

12. INVESTMENTS IN ASSOCIATES (Continued)

Considering the adversity faced by Xinfeng Energy during post-COVID-19 period, resulting in deteriorating operation performance of certain investments of Xinfeng Energy, the investment in Xinfeng Energy as at 30 June 2023 may be impaired. In view of this, the Group estimated its recoverable amount as at 30 June 2023 with reference to the fair value less cost of disposal calculation using the assets approach based on annual expected equity market return that is not supported by observable market prices or rates.

Based on the assessment, the recoverable amount of investment in Xinfeng Energy based on the fair value less cost of disposal with an amount of approximately RMB118,238,000 which is lower than its net carrying amount of approximately RMB146,960,000 and therefore an impairment loss of approximately RMB28,722,000 was recognised in respect of investment in Xinfeng Energy for the six months ended 30 June 2023.

The fair value of the investment in Xinfeng Energy was categorised into the level 3 fair value hierarchy as defined in IFRS13, "Fair Value Measurement".

13. TRADE AND BILLS RECEIVABLES

	Notes	**30 June 2023** *RMB'000* **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
Trade receivables from third parties	*13(a)*	**82,476**	95,648
Less: Loss allowance		**(64)**	(118)
		82,412	95,530
Bills receivables	*13(b)*	**1,334**	–
		83,746	95,530

13(a) Trade receivables

The Group's trading terms with its customers are mainly on credit generally ranging from 90 to 180 days (31 December 2022: 90 to 180 days). All bills receivables are due within 90 to 180 days.

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

	30 June 2023 *RMB'000* **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
Within 3 months	**63,083**	79,610
3 to 6 months	**5,663**	15,251
6 months to 1 year	**13,302**	–
1 to 2 years	**–**	–
Over 2 years	**364**	669
	82,412	95,530

13. TRADE AND BILLS RECEIVABLES (Continued)

13(a) Trade receivables (Continued)

The Group applies the simplified approach under IFRS 9 "Financial Instruments" to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward-looking information.

	Current *RMB'000*	Within 1 year past due *RMB'000*	1 to 2 years past due *RMB'000*	Over 2 years past due *RMB'000*	Total *RMB'000*
At 30 June 2023 (Unaudited)					
Weighted average expected loss rate (%)	**0.0%**	**0.0%**	**0.0%**	**15.0%**	**0.1%**
Gross Amount	**68,746**	**13,302**	**–**	**428**	**82,476**
Loss allowance	**–**	**–**	**–**	**(64)**	**(64)**
Net amount	**68,746**	**13,302**	**–**	**364**	**82,412**
At 31 December 2022 (Audited)					
Weighted average expected loss rate (%)	0.0%	0.0%	0.0%	15.0%	0.1%
Gross Amount	94,861	–	–	787	95,648
Loss allowance	–	–	–	(118)	(118)
Net amount	94,861	-	-	669	95,530

13(b) Bills receivables

As at 30 June 2023, all bills receivables are interest-free and guaranteed by banks in the PRC and have maturities of less than six months. The bills receivables have been subsequently settled in July 2023.

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2023 *RMB'000* **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
Advances to suppliers *(Note)*	**75,465**	47,138
Value-added tax recoverables	**4,735**	1,388
Prepayments	**275**	1,048
Deposits	**17,294**	17,496
Tender deposits to customers	**1,573**	2,341
Security deposits in respect of sales contract with customers	**25,198**	16,516
Others	**6,512**	3,059
	131,052	88,986

Note:

The advances are paid to suppliers to secure the supply of raw materials and sub-contracting services at the end of the reporting period. The advances are interest-free and refundable within one year.

15. TRADE PAYABLES

	30 June 2023 *RMB'000* **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
Trade payables to third parties	**75,228**	52,260

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

	30 June 2023 *RMB'000* **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
Within 3 months	**56,417**	42,520
3 to 6 months	**6,170**	1,737
6 months to 1 year	**5,273**	6,511
1 to 2 years	**5,881**	5
Over 2 years	**1,487**	1,487
	75,228	52,260

The trade payables are non-interest bearing. The payment terms with suppliers are normally on credit ranging from 90 to 180 days (31 December 2022: 90 to 180 days) since the goods are received from suppliers.

16. BORROWINGS

	At 30 June 2023			At 31 December 2022		
	Effective interest rate (%)	**Maturity (year)**	***RMB'000* (Unaudited)**	Effective interest rate (%)	Maturity (year)	*RMB'000* (Audited)
Bank loans						
Secured *(Note (i))*	**3.95%-4.44%**	**2024-2026**	**281,500**	4.00%–4.44%	2023	281,500
Other loans						
Unsecured *(Note (ii))*	**5.00%**	**2023**	**36,310**	5.00%	2023	39,810
			317,810			321,310

Borrowings are repayable as follows:	***RMB'000* (Unaudited)**	*RMB'000* (Audited)
On demand or within one year	**225,210**	321,310
One to two years	**400**	–
Two to three years	**92,200**	–
	317,810	321,310

Notes:

(i) The bank loans were secured by pledge of certain property, plant and equipment of the Group amounting to approximately RMB104,306,000 (31 December 2022: RMB110,855,000) and right-of-use assets amounting to approximately RMB71,014,000 (31 December 2022: RMB71,981,000).

(ii) The other loans represented the advance from directors of the Company and employees of approximately RMB36,310,000 (31 December 2022: RMB39,810,000) which are unsecured, bear a fixed interest rate of 5% per annum and are repayable within one year.

17. SHARE CAPITAL

	At 30 June 2023		At 31 December 2022	
	No. of shares	***HK$'000*** **(Unaudited)**	No. of shares	*HK$'000* (Audited)
Ordinary share of Hong Kong dollars ("**HK$**") 0.1 each				
Authorised:				
At the beginning of and **at the end of the reporting period**	**5,000,000,000**	**500,000**	5,000,000,000	500,000

	No. of shares	Issued Capital *HK$'000*	Issued Capital *RMB'000*
Issued and fully paid:			
At 31 December 2022 (Audited), 1 January 2023 (Audited) and 30 June 2023 (Unaudited)	3,874,365,600	387,437	334,409

18. COMMITMENTS

Capital commitments

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

	30 June 2023 ***RMB'000*** **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
Contracted, but not provided for, net of deposits paid (if any)	**2,183**	2,735

19. RELATED PARTY TRANSACTIONS

(a) Significant related party transactions

During the six months ended 30 June 2023 and 2022, the Group had the following significant transactions with related parties:

	Six months ended 30 June	
	2023 ***RMB'000*** **(Unaudited)**	2022 *RMB'000* (Unaudited)
Disposal of a subsidiary to a non-controlling shareholder of that subsidiary	**–**	17,296
Interest on other loans paid to directors of the Company	**37**	–

19. RELATED PARTY TRANSACTIONS (Continued)

(b) Significant related party balances

At the end of the reporting period, the Group had the following balances with its related parties:

	30 June 2023 *RMB'000* **(Unaudited)**	31 December 2022 *RMB'000* (Audited)
Other loans from directors, chief executive and other members of key management	**2,100**	2,100

(c) Key management compensation

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

	Six months ended 30 June	
	2023 *RMB'000* **(Unaudited)**	2022 *RMB'000* (Unaudited)
Directors' fees	**971**	945
Salaries, wages, allowances and other benefits in kind	**2,889**	2,719
Retirement benefit scheme contributions	**345**	238
	4,205	3,902

CO-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 2023 (the "**Period under Review**").

In the first half of 2023, the global economy made progress despite facing numerous challenges and uncertainties. According to the most recent edition of the World Economic Situation and Prospects Report published by the United Nations, prolonged sluggish economic growth across nations is expected. This can be attributed to factors such as increasing inflation, rising interest rates, uncertain international conditions, and the deteriorating impact of climate change. In terms of the industrial sector, there has been a notable increase in energy consumption in the domestic market. This can be attributed to the strong recovery of China's economy from the beginning of the year, and a rise in domestic energy demand resulting from the recent high temperatures experienced in certain regions. In order to ensure a stable energy supply for economic development and daily activities, energy enterprises in China continued to take proactive steps to guarantee supply and stabilize prices, expedited the utilization of the advanced production capabilities in an orderly manner, achieving steady growth in the production of coal, oil, gas and electricity, underpinned by rapid growth in import and achieved further progress in enhancing energy supply capacity and quality, contributing to an overall balance in supply and demand. During the first half of 2023, crude oil and natural gas produced by major industry players reached 105 million tonnes and 115.5 billion cubic metres, representing a year-on-year increase of 2.1% and 5.4%, respectively.

From the beginning of 2023, China Oil & Gas Pipeline Network Corporation* (國家石油天然氣管網集團有限公司) ("**PipeChina**") maintained steady production and admitted 113 new pipeline shippers, with its gas, oil and LNG businesses outperforming the broad market. During the first half of the year, pipes welded by PipeChina reached a total mileage of 2,083 kilometres, marking a significant acceleration in realisation of the "One Pipeline Network Nationwide* (全國一張網)" vision. At the meeting of the Central Finance and Economics Committee held on 5 May 2023, it was emphasized that "speeding up the construction of a modern industrial system with the real economy as the pillar plays a critical role in gaining strategic advantages in both future growth and international competition. Therefore, we should retain and enhance our strengths with respect to a complete industrial system and strong service offerings, efficiently accommodate global innovative elements, promote smart, green and integrated oriented industrial development, and establish a complete, advanced and safe modern industrial system". As such, the domestic oil and gas market is showing strong resilience and is on an upward trend. The Group is also well-positioned to seek quality growth capitalizing on its advantages in production, techniques, economies of scale and management, as well as its strong foundations.

CEMENTING TIES WITH PIPECHINA, THE THREE BARRELS* (三桶油) AND OTHER MAJOR CUSTOMERS WHILE PURSUING OPPORTUNITIES IN THE GENERAL MARKET

During the Period under Review, the Group continued to focus on maintaining ties with major customers such as PipeChina, China Petroleum & Chemical Corporation ("**SINOPEC**"), China National Petroleum Corporation ("**CNPC**"), China National Offshore Oil Corporation ("**CNOOC**") and China Petroleum Technology and Development Corporation, steering towards new successes in China's major pipeline construction projects. Alongside its ongoing efforts to establish a business presence in China's high-end oil and gas pipeline market, the Group has also taken proactive steps to venture into the general market as evidenced by a significant year-on-year increase in orders secured from the local market during the Period under Review, and it was recognized by its customers for product quality and after-sales services. While diversifying into the thermal pipeline market, the Group also reached strategic partnerships with domestic insulation enterprises, coating processing plants and other substantial players with profound resources in the market. By leveraging its abundant production lines, advanced technologies and equipment, the Group has efficiently processed customer-supplied materials orders, which not only saved funds for the purchase of steel coils and plates, but also maximized the processing profit and optimized the overall order structure.

SUCCESSFULLY FULFILLING PRODUCTION AND DELIVERY RESPONSIBILITIES LEVERAGING RATIONAL PLANNING AND SHREWD ARRANGEMENT AND REFINING AFTER-SALES SERVICES

During the first half of 2023, production branches of Shandong Shengli Steel Pipe Co., Ltd.* (山東勝利鋼管有限公司) ("**Shandong Shengli Steel Pipe**") successfully completed production of welded and anti-corrosion pipelines used for the transmission of oil, gas and water, including, among other things, major pipeline projects such as the PipeChina Nanning-Pingxiang Branch Line (Nanning-Chongzuo Section) Natural Gas Pipeline Project* (國家管網集團南寧－憑祥支線(南寧－崇左段)天然氣管道工程) (the "**PipeChina Nanning-Pingxiang Branch Line Project**"), PipeChina Jinzhou-Zhengzhou Oil Pipeline Project* (國家管網集團錦州－鄭州成品油管道工程), PipeChina Sichuan-to-East No. 2 Natural Gas Pipeline Project Sichuan-Chongqing-Hubei Section* (國家管網集團川氣東送二線天然氣管道工程川渝鄂段工程) (the "**PipeChina Sichuan-to-East No. 2 Project**") and PipeChina Tianjin Liquefied Natural Gas (LNG) Export Pipeline Double-track Project* (國家管網集團天津液化天然氣(LNG)外輸管道復線項目) (the "**PipeChina Tianjin LNG Project**"), and local projects such as the Southeast Cangzhou Natural Gas Pipeline and Beijing Gas Pipeline Project. The Group rationalized arrangement based on specific orders and raw materials, and optimized the working process to maximize efficiency and guarantee scheduled delivery in the agreed quality and quantity.

After-sales services guarantee the sustainability and reflect the brand value of an enterprise. Since becoming one of the major suppliers of PipeChina last year, the Company has made timely adjustments to its after-sales service team by arranging high-caliber business staff, enabling customers to "enjoy after-sales services prior to receipt of products". Prior to product delivery, members of the after-sales service team would visit the project site to reach out to the representatives of project owners, onsite supervisors and construction units, aiming to get the site well-prepared for the smooth delivery of products. With a secure footing in the construction site, the after-sales service team delivered remarkable onsite services to facilitate product hand-over, and won wide recognition from the project owners, onsite supervisors and construction units.

ENHANCING INTERNAL CORPORATE GOVERNANCE TO BOOST FUNDAMENTAL MANAGEMENT

During the Period under Review, the Group carried forward its efforts to improve the management framework to support the enhancement of management efficiency and employee quality. In response to the shift in responsibilities across departments, the corporate management department revised and distributed the 10 regulations of Shandong Shengli Steel Pipe. To ensure that all staff members are well-versed in and strictly adhere to the management rules of the Company, all staff members were required to join comprehensive trainings and learning sessions. This initiative aims to promote smooth operations of the Company.

Furthermore, during the Period under Review, Shandong Shengli Steel Pipe launched, for the first time, quantitative performance appraisal for senior management members through vesting the Company's operating targets for each individual based on their responsibilities at the beginning of the year and determining specific quantitative appraisal indicators. Besides, it collected the results of quantitative appraisals on a monthly basis and communicated the feedback to senior management members in a timely manner to facilitate their rectifications and improvements and guarantee the accomplishment of annual performance targets. In addition, a comprehensive contract model has been implemented in the five major primary units of Shandong Shengli Steel Pipe, which boosted the initiative of front-line staff leveraging the workload-based remuneration allocation system and the healthy competition among different shifts, thereby contributing to fresh breakthroughs in pipeline production efficiency and a remarkable improvement in ex-factory qualification rate.

BOOSTING QUALITY MANAGEMENT THROUGH MAINTAINING VALID QUALIFICATION CERTIFICATES

During the Period under Review, Shandong Shengli Steel Pipe launched an internal audit of the quality, environmental, occupational health and safety management system and the pressure pipe component manufacturing quality assurance system, and successfully renewed the API 5L and API Spec Q1 certification. Besides, it completed the annual supervision and audit of quality, environmental and occupational health and safety management systems. It also successfully passed the CNAS (China National Accreditation Service for Conformity Assessment) on-site audit and renewed the accreditation, thereby maintaining valid quality, environmental, occupational health and safety management system certificate, API certificates and CNAS laboratory certificate, and providing effective guarantee for the Group in customer maintenance and market exploration.

INTENSIFYING MANAGEMENT ON ENERGY CONSUMPTION TO STRIVE FOR ENERGY CONSERVATION AND EMISSION REDUCTION

During the Period under Review, the Group intensified efforts on energy consumption management and supervision and achieved energy conservation and emission reduction.

Despite a modest year-on-year increase in the output of welded pipes, the Group achieved a decline in power consumption per tonne of products to varying degrees, as evidenced by a decrease in power consumption per tonne of products by 15.32%, 6.72% and 9.43% in the pipeline production branch, 1# anti-corrosion production line and 2# anti-corrosion production line, respectively, from the corresponding period of last year. During the Period under Review, the Group conserved a total of 883,200 kWh of electricity. In addition, the Group also stepped up efforts in the supervision, inspection and assessment of energy consumption, and facilitated the energy conservation and emission reduction initiative of the Company, in an endeavour to protect the ecological environment, rein in production costs and reinforce the Company’s competitiveness.

Moreover, in a move to proactively fulfill its social responsibilities, the Group introduced photovoltaic power generation projects on the roofs of the production plants and building rooftops, which generated a total of approximately 2.7 million kWh of electricity, and can be translated into RMB2.16 million electric bill savings and removal of CO_2 by 2.65 kilotonnes (equivalent to emission reduction achieved by 1,500 green plants). At present, all power generation equipment operates in a sound condition with high efficiency. While striving to reduce power costs, the Group will also contribute to the “carbon peaking and neutrality” initiative proposed in China’s 14th five-year plan.

STEADILY EXPEDITING TECHNOLOGICAL AND EQUIPMENT UPGRADE TO FURTHER IMPROVE PRODUCTION AUTOMATION

Strengthening technological innovation and improving automation has been regarded as a core mission of the Group. During the Period under Review, Shandong Shengli Steel Pipe had 5 technological projects under implementation, and 6 out of the 11 contemplated equipment upgrade projects have been carried out. In particular, the pipe end grinding dust collector and 1# anti-corrosion line interior spraying equipment upgrade project have been completed and passed acceptance inspection, and the other projects were in smooth progress. Furthermore, the Group also introduced 10 technological innovations, including the speed-up of the construction inspection rotating roller in the 3rd branch which has completed installation and commissioning, and the 1,000T hydraulic press pipe inlet platform pipe pushing device in the 2nd branch which is under preparation for installation and commissioning. Upon completion, such projects are expected to effectively improve production efficiency and product quality, enhance automation level and reduce labour intensity.

FUTURE PROSPECTS

In the course of its 2023 work promotion assembly, the National Energy Administration underscored the imperative to intensify efforts in oil and gas exploration and development. The administration sets higher benchmarks with the objective of making considerable advancements in oil and gas reserves and production. The emphasis was on achieving annual production and supply targets by giving priority to key projects. Over the last half-decade, China has witnessed a notable increase in its output of crude oil and natural gas, increasing from 189 million tonnes to 205 million tonnes, and increasing from 160.2 billion cubic metres to 220.1 billion cubic metres, respectively. At present, the domestic energy industry is entering an accelerated phase of constructing a new energy system. In this system, oil and gas resources play a pivotal role as an integral part and serve as the cornerstone for both immediate and long-term safety measures. Renowned oil fields such as Daqing and Shengli Oil Fields have continually made significant strides in exploration, leaving no stone unturned in their effort to ensure stability in production volume. In the past year, China's oil and gas self-sufficiency ratio recorded a year-on-year surge of approximately 2 percentage points. This growth indicates that the demand for pipeline construction is poised to increase in the forthcoming years.

During the State Council executive meeting convened at the beginning of the year, a range of tasks were assigned to ensure the efficient implementation of measures for energy supply assurance and price stabilization. These objectives encompassed safeguarding the supply of energy for daily activities and production, strengthening energy distribution, formulating gas supply plans for peak periods, securing household energy consumption, and bolstering supply guarantees for key regions, industries, and enterprises. In the pursuit of these goals, state-owned enterprises, such as PipeChina, are expected to intensify their efforts and accelerate project construction.

In view of PipeChina's 2023 framework biding launched at the beginning of August, the Group remains positive in securing new success in the bid invitation, and meanwhile, it will deliver on the existing orders from PipeChina without any compromise on quality or quantity. The Group believes that it is well-positioned to secure more construction projects in the future. It will keep close track of the oil and gas network construction progress, and strive to engage in large-scale pipeline projects, with an aim to create value for the society and broaden revenue streams of the Group.

Moreover, the Group will also strengthen internal trainings, pool concerted efforts, unleash the potentials of the sales force, increase marketing efforts and maintain its focus on cultivating quality customers, especially in the insulation pipeline processing market, with a view to boosting its core profitability.

The Company will also proactively assess the performance of each business segment, assets and investment, and conduct a thorough streamlining and review on the residual value of its investment portfolio other than the pipes business at an appropriate timing to refine its operations, and remain focused on its principal businesses, in an endeavour to enhance its core profitability and sustainability in the long term.

Last but not least, I would like to take this opportunity to express gratitude to our shareholders, customers and stakeholders, and our management and staff for their dedication. By making timely moves to seize business opportunities and proactive planning, the Group, while strengthening and optimizing oil and gas transmission products, will continue to venture into new business fields with a vision towards sustainable growth, thereby delivering long-term value to our shareholders.

Zhang Bizhuang
Executive Director & Co-Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

During the first half of 2023, despite the challenging and complicated international situation, China gradually cast off the downsides from COVID-19 attributable to its effective anti-pandemic measures, and the domestic economic growth stabilized and experienced a growth rally, underpinned by improving market expectations and strong growth drivers. During the first half of the year, China's GDP registered a year-on-year increase of 5.5% amid rebounding market demands as regions and departments at all levels strove to stabilize growth, employment and prices. The central government reinforced guidance and support for socioeconomic development, which is picking up momentum and on track for a recovery. Under the leadership of the Board, the management of the Company remained committed to strategic expenditures and proactively addressed changes in the market environment, securing sustained and steady progress in the business operations of the Group.

During the first half of 2023, the broad economic landscape contributed to a rebound in the oil and gas industry. Crude oil and natural gas produced by major industry players reached 105 million tonnes and 115.5 billion cubic metres, representing a year-on-year increase of 2.1% and 5.4%, respectively. At its 2023 work promotion assembly with a focus on intensifying oil and gas exploration and development efforts, the National Energy Administration stated that the energy system and oil and gas industry shall adhere to the decisions made by the 20th National Congress of the Communist Party of China regarding "pressing ahead with the energy reform" and "intensifying oil and gas exploration and development efforts and increasing reserve and production", in a drive to guarantee China's oil and gas supply. During the first half of the year, branches of Shandong Shengli Steel Pipe, a subsidiary of the Group, completed the production of welded and anti-corrosion pipes used for the transmission of oil, gas and water across several regions of the nation, enhanced internal management and gained steady progress in technological and equipment upgrade to further improve production automation.

Pursuant to the 2023 Guiding Opinions on Energy Assignments* (《2023年能源工作指導意見》) issued by the National Energy Administration in April, under the guiding principle of "regarding prioritizing energy supply guarantee and price stabilization as the fundamentals", consolidating the production and supply foundations of fossil fuel and strengthening the exploration and development, reserve and output of energy resources in the domestic market shall be key tasks that require sustained efforts, and the target set for total energy output in China is approximately 4.75 billion tonnes of standard coal. The Group believes that there remains great potential in the domestic oil and gas market, and drawing upon the constant increase in oil and gas demand due to economic development, the Group will endeavor to engage in a growing number of projects, improve corporate governance standards, proactively fulfill the social responsibility of energy supply, and maximize values for the Group and the investors.

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 qualified suppliers which are capable of providing, among other things, large-diameter pipes designed to sustain the high pressure in long distance transportation of crude oil, refined petroleum and natural gas for major oil and gas pipeline projects in China.

Major customers of the Group comprise PipeChina and large-scale state-owned oil and gas enterprises and their subsidiaries such as the Three Barrels (including SINOPEC, CNPC and CNOOC). The Group focuses on the design, manufacturing, anti-corrosion processing, insulation processing and servicing of submerged-arc helical welded pipes (the "**SAWH pipes**") and submerged-arc longitudinal welded pipes (the "**SAWL pipes**") used for the transport of crude oil, refined petroleum, natural gas and other related products.

As of 30 June 2023, the annual production capacity of the SAWH pipes, ancillary anti-corrosion production line and insulation pipe production line of Shandong Shengli Steel Pipe, one of the Group's subsidiaries, reached approximately 800,000 tonnes, 4.80 million square meters and 110 kilometres, respectively.

As of 30 June 2023, the annual production capacity of the SAWL pipes, SAWH pipes and ancillary anti-corrosion production line of Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) ("**Hunan Shengli Steel Pipe**"), one of the Group's associates, reached approximately 300,000 tonnes, 200,000 tonnes and 4.80 million square meters, respectively.

As of 30 June 2023, pipes manufactured by the Group's subsidiaries and associates were used in the world's major oil and gas pipelines with a cumulative total length of approximately 34,984 kilometres, of which 94.8% were installed in China while the remaining 5.2% were installed outside China.

During the Period under Review, large-scale pipeline projects using SAWH pipes manufactured by the Group's subsidiaries and/or associates included: the PipeChina Sichuan-to-East No. 2 Project, PipeChina Nanning-Pingxiang Branch Line Project, PipeChina Jinzhou-Zhengzhou Oil Pipeline Project, Inner Mongolia Toktor Power Plant-Hohhot Long-distance Heat Supply Pipeline Network Project* (內蒙古托克托電廠至呼和浩特市長輸供熱管網工程), Hubei Xiaogan Downtown Water Supply System Raw Water Relocation and Reconstruction Project* (湖北孝感城區供水系統原水遷改工程), Henan Natural Gas Pipeline Network Luoyang Yichuan-Zhengzhou Xuedian (Phase I) Natural Gas Transmission Pipeline Project* (河南省天然氣管網洛陽伊川－鄭州薛店(一期)天然氣輸氣管道工程), Tianjin Eco-city Heat Supply Project* (天津生態城供熱項目), Weihai Downtown Heat Supply Pipeline Network Project* (威海市中心城區供熱管網工程) and Hunan Zhongnan Water Affairs Leifeng Waterworks Raw Water Pipeline Project* (湖南中南水務雷鋒水廠原水管線項目).

Large-scale pipeline projects using SAWL pipes manufactured by Hunan Shengli Steel Pipe, one of the Group's associates, included: the Zhongwei-Zaoyang (Shaanxi Section) Project of PipeChina West-East Gas Pipeline No. 3 Mid-section Project (Zhongwei-Ji'an)* (國家管網集團西氣東輸三線中段(中衛－吉安)項目中衛－棗陽(陝西段)工程), PipeChina West-East Gas Pipeline No. 4 (Turpan-Zhongwei) Project Xinjiang Section and Ganning Section* (國家管網集團西氣東輸四線(吐魯番－中衛)項目新疆段和甘寧段工程), PipeChina Sichuan-to-East No. 2 Project, Hebei Qinhuangdao-Fengnan Coastal Area Gas Transmission Pipeline Project* (河北省秦皇島－豐南沿海輸氣管道工程), Dongguan Ningzhou Gas and Electricity-Huancheng North Road Sangcha Line Project of Natural Gas Supply Pipeline Project* (東莞寧洲氣電－環城北路桑茶線項目天然氣供應管道工程) and Qingdao Bridgehead International Business District and Western Area Current Long-distance Oil and Gas Pipeline Relocation and Reconstruction Project* (青島橋頭堡國際商務區及以西區域現狀長輸油氣管道遷改工程).

Large-scale pipeline projects using anti-corrosion pipes manufactured by the Group's subsidiaries and/or associates included: the PipeChina West-East Gas Pipeline No. 4 (Turpan-Zhongwei) Project Xinjiang Section and Ganning Section, PipeChina Sichuan-to-East No. 2 Project, Zhongwei-Zaoyang (Shaanxi Section) Project of PipeChina West-East Gas Pipeline No. 3 Mid-section Project (Zhongwei-Ji'an), PipeChina Jinzhou-Zhengzhou Oil Pipeline Project, PipeChina Nanning-Pingxiang Branch Line Project, PipeChina Tianjin LNG Project, Hebei Qinhuangdao-Fengnan Coastal Area Gas Transmission Pipeline Project, Hunan Zhongnan Water Affairs Leifeng Waterworks Raw Water Pipeline Project, Shandong Yantai Port Crude Oil Pipeline Double-track Shouguang Branch Line Project* (山東煙台港原油管道復線壽光支線工程), Henan Natural Gas Pipeline Network Luoyang Yichuan-Zhengzhou Xuedian (Phase I) Natural Gas Transmission Pipeline Project and Qingdao Bridgehead International Business District and Western Area Current Long-distance Oil and Gas Pipeline Relocation and Reconstruction Project.

FINANCIAL REVIEW

Revenue

The Group's unaudited revenue for the Period under Review was approximately RMB322,269,000, which was mainly generated from the Group's core business segment, the pipes business, and represented a decrease of approximately 27.3% when compared to that of approximately RMB443,281,000 for the corresponding period of 2022. In particular, (1) sales revenue from SAWH pipes reached approximately RMB305,226,000 (the corresponding period of 2022: approximately RMB235,628,000), representing a year-on-year increase of approximately 29.5%; (2) sales revenue from SAWL pipes was nil (the corresponding period of 2022: approximately RMB159,386,000); (3) sales revenue from anti-corrosion processing business reached approximately RMB16,973,000 (the corresponding period of 2022: approximately RMB27,129,000), representing a year-on-year decrease of approximately 37.4%; (4) revenue from the insulation processing business reached approximately RMB70,000 (the corresponding period of 2022: approximately RMB13,642,000); and (5) revenue from the trading business was nil (the corresponding period of 2022: approximately RMB7,496,000). The Group recorded a decline in revenue during the Period under Review as compared with the corresponding period of 2022 despite a year-on-year increase in revenue achieved by Shandong Shengli Steel Pipe, a subsidiary of the Group, primarily attributable to the fact that Hunan Shengli Steel Pipe ceased to be a subsidiary of the Group after the Group's equity interest in it decreased to 48% from 21 February 2022 and its financial results were no longer consolidated into the financial statements of the Group, and therefore, the Group did not record revenue from sales of SAWL pipes during the Period under Review. Besides, sales revenue from the anti-corrosion processing business also recorded a decline from the corresponding period last year, leading to a decrease in revenue of the Group during the Period under Review as compared with the corresponding period of 2022.

Cost of sales and services

The Group's cost of sales and services decreased year-on-year by approximately 23.9% from approximately RMB405,655,000 for the six months ended 30 June 2022 to approximately RMB308,592,000 during the Period under Review, primarily attributable to the fact that Hunan Shengli Steel Pipe ceased to be a subsidiary of the Group after the Group's equity interest in it decreased to 48% from 21 February 2022 and its financial results were no longer consolidated into the financial statements of the Group.

Gross profit

Gross profit for the Period under Review was approximately RMB13,677,000, as compared to approximately RMB37,626,000 for the corresponding period of 2022, representing a decrease of approximately 63.7%. The Group's gross profit margin decreased by approximately 4.3 percentage points from approximately 8.5% for the six months ended 30 June 2022 to approximately 4.2% for the Period under Review. The decrease in gross profit and gross profit margin was primarily attributable to an increase in projects secured from the general market with lower gross profit during the Period under Review as compared with the corresponding period of 2022, a decrease in revenue from anti-corrosion processing business with higher gross profit, and no revenue generated from the SAWL pipes business with higher gross profit during the Period under Review since Hunan Shengli Steel Pipe ceased to be a subsidiary of the Group after the Group's equity interest in it decreased to 48% from 21 February 2022 and its financial results were no longer consolidated into the financial statements of the Group. The Group has entered into several contracts with PipeChina, which are expected to be completed in the second half of 2023 and will improve gross profit.

Other income and gains

Other income and gains of the Group decreased year-on-year from approximately RMB85,658,000 for the six months ended 30 June 2022 to approximately RMB12,223,000 for the Period under Review. Such decrease was primarily due to the one-off net gains recorded by the Group from the disposal of 8.9% equity interest in Hunan Shengli Steel Pipe during the first half of 2022, while no such gains were recorded during the Period under Review.

Selling and distribution expense

Selling and distribution expense of the Group decreased from approximately RMB15,428,000 for the six months ended 30 June 2022 to approximately RMB13,844,000 for the Period under Review. The decrease was principally due to the fact that the financial results of Hunan Shengli Steel Pipe were no longer consolidated into the financial statements of the Group commencing from 21 February 2022.

Administrative expenses

The Group's administrative expenses decreased from approximately RMB67,572,000 for the six months ended 30 June 2022 to approximately RMB48,913,000 for the Period under Review. Such decrease was mainly attributable to the fact that the financial results of Hunan Shengli Steel Pipe were no longer consolidated into the financial statements of the Group commencing from 21 February 2022, leading to a year-on-year decrease in the Group's administrative expenses during the Period under Review.

Share of results of associates

During the Period under Review, the Group recorded share of results of associates of approximately RMB15,401,000, as compared to share of results of associates of approximately RMB3,663,000 for the corresponding period of 2022. Such increase was primarily attributable to a significant increase in profit achieved by Hunan Shengli Steel Pipe, an associate of the Group, during the Period under Review as compared with the corresponding period of last year since the completion of change of the Group's shareholding in Hunan Shengli Steel Pipe.

Impairment loss

The Group recorded impairment loss of approximately RMB28,722,000 for the Period under Review, mainly representing impairment loss incurred on investment in an associate, Xinfeng Energy Enterprise Group Co., Ltd* (新鋒能源集團有限公司) ("**Xinfeng Energy**").

Considering the adversity faced by Xinfeng Energy during post-COVID-19 period, the Group conducted a thorough review of its investment in Xinfeng Energy after analysing and assessing the investment based on its historical operating results and policies and future development of the new energy industry. The Group considered that the investment in Xinfeng Energy may be impaired as at 30 June 2023, and accordingly, the Group recognised impairment loss on the investment in Xinfeng Energy with reference to the valuation report issued by an independent professional valuer, while no impairment loss on investment in associates was provided during the corresponding period last year.

Finance costs

The Group's finance costs decreased from approximately RMB9,909,000 for the six months ended 30 June 2022 to approximately RMB6,821,000 for the Period under Review. The finance costs were mainly incurred on the interest of bank loans. Such decrease was due to a decline in interest rates of bank borrowings during the Period under Review as compared with the corresponding period last year, and the fact that the financial results of Hunan Shengli Steel Pipe were no longer consolidated into the financial statements of the Group commencing from 21 February 2022, leading to a year-on-year decrease in the Group's finance costs during the Period under Review.

Income tax expenses

Hong Kong profits tax is calculated at the rate of 16.5% (six months ended 30 June 2022: 16.5%) on the estimated assessable profit for the six months ended 30 June 2023. The profits tax rate of China Petro Equipment Holdings Pte. Ltd., a subsidiary of the Company incorporated in the Republic of Singapore, is 17% (six months ended 30 June 2022: 17%) for the six months ended 30 June 2023. Under the Enterprise Income Tax ("**EIT**") Law and Implementation Regulation of the EIT Law, the income tax rate of the Company's subsidiaries in the PRC for the Period under Review is 25% (six months ended 30 June 2022: 25%). Income tax for the six months ended 30 June 2023 was approximately RMB20,000 (six months ended 30 June 2022: income tax of approximately RMB99,000), the fluctuations of which were primarily due to impact of deferred tax.

Total comprehensive (loss) income for the Period under Review

The Group recorded a turnaround from total comprehensive income of approximately RMB34,736,000 for the six months ended 30 June 2022 to total comprehensive loss of approximately RMB57,944,000 during the Period under Review.

Assets and liabilities

As of 30 June 2023, the Group's total assets amounted to approximately RMB1,090,815,000 (31 December 2022: approximately RMB1,156,398,000); the Group's net assets amounted to approximately RMB544,721,000 (31 December 2022: approximately RMB602,590,000); net assets per share amounted to approximately RMB0.14, representing a decrease of approximately RMB2 cents when compared to that of 31 December 2022; and the Group's total liabilities amounted to approximately RMB546,094,000 (31 December 2022: approximately RMB553,808,000).

Net current assets/(liabilities)

As of 30 June 2023, the Group's net current assets amounted to approximately RMB30,661,000, as compared to net current liabilities of approximately RMB22,920,000 as of 31 December 2022. Such turnaround from net current liabilities to net current assets was primarily attributable to the change in maturities of certain bank borrowings of the Group from short term to mid-to-long term, leading to a decrease in current liabilities.

Capital expenditure

The Group incurred capital expenditure for the acquisition of property, plant and equipment, expansion of production facilities and purchase of machinery for the manufacture of steel pipe products. Capital expenditure during the six months ended 30 June 2023 and 2022 was primarily related to the purchase of property, plant and equipment.

The following table sets forth the capital expenditure of the Group:

	Six months ended 30 June 2023	Six months ended 30 June 2022
	RMB'000	*RMB'000*
Purchase of property, plant and equipment	**5,310**	18,474

Indebtedness

Borrowings

As at 30 June 2023, the borrowings of the Group amounted to approximately RMB317,810,000 (31 December 2022: approximately RMB321,310,000).

The following table sets forth information of the loans of the Group:

	As at 30 June 2023	As at 31 December 2022
	RMB'000	*RMB'000*
Loans:		
Bank loans – Secured	**281,500**	281,500
Other loans – Unsecured	**36,310**	39,810
	317,810	321,310

The amount of loans of approximately RMB225,210,000 shall be repayable within one year. The following table sets forth the annual interest rates of the Group's bank loans:

	As at 30 June 2023	As at 31 December 2022
	%	*%*
Effective interest rate per annum	**3.95 to 4.44**	4.00 to 4.44

The other loans carried a fixed annual interest rate of 5% during the six months ended 30 June 2023.

The following discussion should be read in conjunction with the Group's financial information and its notes, which are included in this announcement.

Financial management and fiscal policy

During the Period under Review, 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.

Liquidity and financial resources and capital structure

As of 30 June 2023, cash and cash equivalents of the Group amounted to approximately RMB38,159,000 (31 December 2022: approximately RMB158,776,000). The significant decrease in cash and cash equivalents from 31 December 2022 was primarily attributable to the surge in the Group's inventories and prepayments, deposits and other receivables as of 30 June 2023 as compared with 31 December 2022, resulting in cash outflows and in turn a significant decrease in cash and cash equivalents from 31 December 2022. The Group had borrowings of approximately RMB317,810,000 (31 December 2022: approximately RMB321,310,000).

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 the sum of total equity and net debt. As of 30 June 2023, the gearing ratio of the Group was approximately 47.2% (31 December 2022: approximately 37.0%).

Contingent liabilities

For the six months ended 30 June 2023, the Group did not have any material contingent liabilities (31 December 2022: Nil).

Capital commitments

The Group has a capital commitment of approximately RMB2,183,000 (31 December 2022: approximately RMB2,735,000) in respect of acquisition of property, plant and equipment as at 30 June 2023.

Pledge of assets

As at 30 June 2023, the bank loans were secured by pledge of certain of the Group's property, plant and equipment amounting to approximately RMB104,306,000 and right-of-use assets amounting to approximately RMB71,014,000.

Foreign exchange risk

During the Period under Review, the Group's businesses have been mainly transacted and settled in functional currency of subsidiaries of the Company, so the Group has had minimal exposure to foreign currency risk. The Group did not utilise any forward contracts or other means to hedge its foreign exchange exposure. However, the management will closely monitor the exchange rate fluctuations to ensure sufficient precautionary measures against any adverse impacts are in place.

Human resources and remuneration policies

The Group reviews its human resources and remuneration policies periodically with reference to local legislations, market conditions, industry practices and assessments of the performance of the Group and individual employees. As at 30 June 2023, the Group has employed a work force of 539 employees (including the Directors). The total salaries and related costs (including the Directors' fees) amounted to approximately RMB34,932,000 (30 June 2022: approximately RMB32,188,000).

Interim dividend

The Board does not recommend the declaration of any interim dividend for the Period under Review (for the six-month period ended 30 June 2022: 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 adopted the principles of the Corporate Governance Code (the "**Code**") as set out in Part 2 of Appendix 14 to the Listing Rules, and has complied with all code provisions of the Code and, where applicable, the recommended best practices.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the required standard for securities transactions by the Directors. The Company has made specific enquiries of all Directors and all Directors 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.

SUFFICIENT PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Board confirmed that the Company had maintained sufficient public float as required under the Listing Rules throughout 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 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, who has conducted certain agreed-upon procedures on the interim financial information for the Period under Review in accordance with Hong Kong Standard on Related Services 4400 "Agreed-Upon Procedures Engagements" issued by the Hong Kong Institute of Certified Public Accountants.

APPRECIATION AND STRIVING FOR THE GOALS

Last but not least, on behalf of the Board, I would like to take this opportunity to express my gratitude to all shareholders, customers, stakeholders 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 high quality and technical standards, unwavering efforts and unswerving dedication to our corporate philosophy, we are committed to capturing each and every opportunity. While maintaining stable growth for the existing pipes principal business and strengthening and optimising oil and gas transportation products, we will continue to exploit new business opportunities with a vision towards sustainable growth, thereby delivering long-term value to our shareholders.

* *For identification purpose only*

By Order of the Board
Shengli Oil & Gas Pipe Holdings Limited
Zhang Bizhuang
Executive Director and Co-Chief Executive Officer

Zibo, Shandong, 20 August 2023

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

Executive Directors:	*Mr. Zhang Bizhuang, Mr. Wang Kunxian, Ms. Han Aizhi, Mr. Zhang Danyu and Mr. Zhang Bangcheng*
Non-executive Director:	*Mr. Wei Jun*
Independent non-executive Directors:	*Mr. Chen Junzhu, Mr. Wu Geng and Mr. Qiao Jianmin*