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

2016

Interim Report

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Ji Rongdi (alias Jee Rongdee)
(Chairman) (appointed on 12 April 2016)
Mr. Zhang Bizhuang
(Chief Executive Officer)
(resigned as Chairman on 12 April 2016)
Mr. Jiang Yong *(Vice President)*
Mr. Wang Kunxian *(Vice President)*
Ms. Han Aizhi *(Vice President)*
Mr. Song Xichen *(Vice President)*

Independent non-executive Directors

Mr. Chen Junzhu *ACCA , CICPA*
Mr. Wu Geng
Mr. Qiao Jianmin (appointed on 12 April 2016)
Mr. Guo Changyu (resigned on 12 April 2016)

AUDIT COMMITTEE

Mr. Chen Junzhu *(Chairman) ACCA , CICPA*
Mr. Wu Geng
Mr. Qiao Jianmin (appointed as member of the Audit Committee on 12 April 2016)
Mr. Guo Changyu (resigned as member of the Audit Committee on 12 April 2016)

REMUNERATION COMMITTEE

Mr. Wu Geng *(Chairman)*
Mr. Zhang Bizhuang
Mr. Chen Junzhu *ACCA , CICPA*

NOMINATION COMMITTEE

Mr. Ji Rongdi (alias Jee Rongdee) *(Chairman)* (appointed as Chairman of the Nomination Committee on 12 April 2016)
Mr. Zhang Bizhuang
Mr. Wu Geng
Mr. Guo Changyu (resigned as Chairman of the Nomination Committee on 12 April 2016)

COMPANY SECRETARY

Mr. Hong Kam Le

AUTHORISED REPRESENTATIVES

Ms. Han Aizhi
Mr. Hong Kam Le

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1–1111
Cayman Islands

HEADQUARTERS IN CHINA

Zhongbu Town
Zhangdian District, Zibo City
Shandong Province
the PRC
Postal Code: 255082

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2111, 21st Floor, Wing On Centre,
111 Connaught Road Central,
Hong Kong

PRINCIPAL BANKERS

China Construction Bank
Bank of China
Agricultural Bank of China
Industrial & Commercial Bank of China
The Hongkong and Shanghai Banking Corporation Limited
Industrial and Commercial Bank of China (Asia)
China Construction Bank Macau Branch

LEGAL ADVISER AS TO HONG KONG LAW

Li & Partners

AUDITORS

ZHONGHUI ANDA CPA Limited
Unit 701, Citicorp Centre,
18 Whitfield Road,
Causeway Bay, Hong Kong

SHARE REGISTRARS

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company (Cayman) Limited

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited

LISTING EXCHANGE INFORMATION

Main Board

The Stock Exchange of Hong Kong Limited

STOCK CODE

1080

COMPANY WEBSITE

www.slogp.com

Financial Highlights

- Revenue was approximately RMB879,316,000, representing a decrease of approximately 20.1% when compared to the corresponding period in 2015.

- Gross profit margin was approximately 3.0%, representing an increase of approximately 1.7 percentage points when compared to the corresponding period in 2015.

- Loss attributable to owners of the Company amounted to approximately RMB102,463,000, while loss attributable to owners of the Company for the corresponding period in 2015 amounted to approximately RMB108,514,000.

- Basic loss per share attributable to owners of the Company amounted to approximately RMB3.45 cents, while basic loss per share attributable to owners of the Company for the corresponding period in 2015 amounted to approximately RMB3.98 cents.

- The Board does not recommend the declaration of any interim dividend for the six months ended 30 June 2016.

Chief Executive Officer's Statement

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Shengli Oil & Gas Pipe Holdings Limited (the "Company"), I would like to present the unaudited results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2016 (the "Period under Review") to the shareholders.

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

DEVELOPING LOCAL MARKETS AMID SLUGGISH PROGRESS IN MAJOR PIPELINE PROJECTS

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

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

FOCUSING ON TECHNOLOGICAL R&D AS WELL AS MODIFICATION OF EQUIPMENT TO UPHOLD MARKET LEADERSHIP

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

OPTIMIZING POSTS ALLOCATION TO MAXIMIZE PRODUCTION EFFICIENCY

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

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

ENHANCING TRADE RECEIVABLES MANAGEMENT, CONDUCTING CENTRALIZED PURCHASE OF RAW MATERIALS AND PURSUING COST REDUCTION

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

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

ESTABLISHING A WHOLLY-OWNED SUBSIDIARY IN SHANGHAI TO ENJOY FINANCIAL BENEFITS AND EXPAND INTO NEW BUSINESS

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

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

WELL-PREPARED TO EMBRACE NEW UPWARD INDUSTRY CYCLE

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

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

Zhang Bizhuang
Chief Executive Officer

* *For identification purpose only*

Management Discussion and Analysis

BUSINESS REVIEW

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

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

Pipes Business

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

Major customers of the Group include large state-owned oil and gas companies such as CNPC and Sinopec, and their subsidiaries. The Group focuses on the design, manufacturing, anti-corrosion processing and servicing of pipes (including SAWH pipes and SAWL pipes) which are used to transport crude oil, refined petroleum products and natural gas.

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

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

Metal Commodity Trading Business

In order to fully utilize the business network of its current customers and other existing resources, the Group also engages in the metal commodity trading business. For the six months ended 30 June 2016, revenue of this business was approximately RMB686,034,000 (for the six months ended 30 June 2015: approximately RMB887,276,000).

FUTURE PROSPECT

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

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

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

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

In addition to developing oil and gas pipeline products, the Group has been actively exploring opportunities to form new partnership. On 29 March 2015, the Group entered into an agreement through Gold Apple Holdings Limited to acquire 56% of the allotted and issued share capital of Blossom Time Group Limited (the "Acquisition"). At present, detailed exploration work and assessment work have been completed and the mining license is pending final approval. The capital commitments to the aforesaid Acquisition will be funded by the Group's internal resources and the proceeds of the subscriptions under general mandate on 12 April 2016.

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

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

FINANCIAL REVIEW

Revenue

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

Cost of sales and services

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

Gross profit

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

Other income and gains

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

Selling and distribution costs

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

Administrative expenses

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

Finance costs

The Group's finance costs decreased by approximately 28.6% from approximately RMB30,207,000 for the six months ended 30 June 2015 to approximately RMB21,573,000 for the six months ended 30 June 2016. All the finance costs came from interests on bank loans.

Total comprehensive loss for the period

The Group's total comprehensive loss for the period decreased from a loss of approximately RMB134,644,000 for the six months ended 30 June 2015 to a loss of approximately RMB111,498,000 for the six months ended 30 June 2016.

Assets and liabilities

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

Liquidity and financial resources

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

The gearing ratio is defined as net debt (represented by borrowings, trade payables and other payables and accruals, net of cash and cash equivalents and pledged deposits) divided by total equity plus net debt. As at 30 June 2016, the gearing ratio of the Group was approximately 36.2% (31 December 2015: approximately 34.0%).

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

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

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

Financial management and fiscal policy

During the six months ended 30 June 2016, the Group's revenue, expenses, assets and liabilities were primarily denominated in Renminbi. The Directors consider that the Group currently has limited foreign exchange exposure and has not entered into any hedging arrangement for its foreign exchange risk. The Group will closely monitor the foreign currency movement and will assess the need to adopt any measures in relation to foreign exchange risk from time to time.

Interim dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2016 (for the six-month period ended 30 June 2015: nil).

* *For identification purpose only*

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2016, the interests or short positions of the Directors or chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(i) Interests in issued shares and underlying shares

Name of Director	Capacity	Number of issued ordinary shares held	Number of shares subject to options granted under the Share Option Scheme	Percentage of the number of issued Shares of the Company as at 30 June 2016
Ji Rongdi (alias Jee Rongdee)	Interest in controlled corporation[1]	620,000,000		18.935%
Zhang Bizhuang	Interest in controlled corporation[2]	153,130,224		4.677%
	Beneficial owner	79,800,000[3]	18,300,000[7]	2.996%
Jiang Yong	Beneficial owner		1,200,000[7]	0.037%
Wang Kunxian	Interest in controlled corporation[4]	26,708,760		0.816%
	Beneficial owner		10,260,000[7]	0.313%
Han Aizhi	Interest in controlled corporation[5]	26,708,760		0.816%
	Beneficial owner		12,000,000[7]	0.366%
Song Xichen	Interest in controlled corporation[6]	26,708,760		0.816%
	Beneficial owner		10,260,000[7]	0.313%
Chen Junzhu	Beneficial owner		1,200,000[7]	0.037%
Wu Geng	Beneficial owner		1,200,000[7]	0.037%
Qiao Jianmin	Beneficial owner		1,200,000[7]	0.037%

Notes:

(1) MEFUN GROUP LIMITED acquired 620,000,000 shares of the Company (representing 18.935% of the issued shares of the Company) held by Zhongheng International Investment Limited at an average price of HK$0.295 on 2 February 2016. Mr. Ji Rongdi owns 88% of the issued share capital of RXJ HOLDING LIMITED, which in turn owns 42.5% of the issued share capital of MEFUN GROUP LIMITED. Accordingly, Mr. Ji Rongdi is deemed to be interested in the shares of the Company held by MEFUN GROUP LIMITED by virtue of the SFO.

(2) Goldmics Investments Limited ("Goldmics Investments") holds 153,130,224 shares of the Company, representing 4.677% of the issued shares of the Company. Mr. Zhang Bizhuang holds 40% interest of the issued share capital of Goldmics Investments, and Ms. Du Jichun, his spouse, holds the remaining 60% interest. Therefore, Mr. Zhang Bizhuang is deemed to be interested in the shares of the Company held by Goldmics Investments by virtue of the SFO.

(3) On 17 September, 2015, Mr. Zhang Bizhuang acquired 79,800,000 shares of the Company at an average consideration of HK$0.25 per Share from the market and is therefore deemed to be interested in the above 79,800,000 Shares by virtue of the SFO.

(4) Glad Sharp Limited ("Glad Sharp") holds 26,708,760 shares of the Company, representing 0.816% of the issued shares of the Company. Mr. Wang Kunxian owns the entire issued share capital of Glad Sharp and is therefore deemed to be interested in the shares of the Company held by Glad Sharp by virtue of the SFO.

(5) Crownova Limited ("Crownova") holds 26,708,760 shares of the Company, representing 0.816% of the issued shares of the Company. Ms. Han Aizhi owns the entire issued share capital of Crownova and is therefore deemed to be interested in the shares of the Company held by Crownova by virtue of the SFO.

(6) Winfun Investments Limited ("Winfun") holds 26,708,760 shares of the Company, representing 0.816% of the issued shares of the Company. Mr. Song Xichen holds 50% interest of the issued share capital of Winfun, and Ms. Xu Li, his spouse, holds the remaining 50% interest. Therefore, Mr. Song Xichen is deemed to be interested in the shares of the Company held by Winfun by virtue of the SFO.

(7) Underlying shares subject to the share options issued pursuant to the Share Option Scheme (as defined below).

Save as disclosed above, as at 30 June 2016, none of the Directors or chief executives of the Company had or were deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Save as disclosed above, at no time during the Period under Review was the Company, or any of its holding companies, its subsidiaries or its fellow subsidiaries a party to any arrangement to enable the Directors and chief executives of the Company (including their spouses and minor children) to hold any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO).

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2016, the Group did not have bank loan which was secured by pledge of bank deposits (31 December 2015: bank loans of approximately RMB173,036,000 were secured by pledge of bank deposits of RMB179,000,000).

As at 30 June 2016, the Group's bank loans were secured by pledge of certain of the Group's properties, plant and equipment amounting to approximately RMB310,483,000 (31 December 2015: approximately RMB323,575,000) and an amount of RMB57,200,000 (31 December 2015: RMB52,000,000) out of bank loans of RMB130,000,000 (31 December 2015: RMB130,000,000) were guaranteed by a non-controlling shareholder of a subsidiary.

As at 30 June 2016, an amount of RMB30,250,000 (31 December 2015: RMB58,300,000) out of bank loans of RMB118,750,000 (31 December 2015: RMB132,500,000) were guaranteed by a non-controlling shareholder of a subsidiary.

CONTINGENT LIABILITIES

As at 30 June 2016, the Group did not have any contingent liabilities (31 December 2015: Nil).

FOREIGN EXCHANGE RISK

As at 30 June 2016, the Group's businesses have been mainly transacted and settled in functional currency of subsidiaries, 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 2016, the Group has employed a work force of 1,223 employees (including Directors). The total salaries and related costs (including the Directors' fees) amounted to approximately RMB31,524,000 (30 June 2015: approximately RMB38,005,000).

SHARE OPTION SCHEME

At the extraordinary general meeting held on 20 May 2016, the shareholders of the Company approved and adopted a new share option scheme (the "New Scheme") and terminated the then existing share option scheme (the "Old Scheme"). The Old Scheme was adopted on 21 November 2009, which was valid for a period of 10 years from the date of adoption. The Company has granted all share options under the Old Scheme, and all outstanding share options granted prior to the termination of the Old Scheme will remain in force.

The purpose of the New Scheme is to give the Eligible Persons (as defined in the New Scheme) an opportunity to have a personal stake in the Company and help motivate them to optimize their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and in the case of executives, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Participants referred to below are the "Eligible Persons" under the New Scheme, which include:

(a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group ("Executive"), any full-time or part-time employee, or any person for the time being seconded to work full-time or part-time for any member of the Group ("Employee");

(b) a director or proposed director (including an independent non-executive director) of any member of the Group;

(c) a direct or indirect shareholder of any member of the Group;

(d) a supplier of goods or services to any member of the Group;

(e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group;

(f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and

(g) an associate (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) of any of the persons referred to in paragraphs (a) to (c) above.

The principal terms of the New Scheme are summarized as follows:

The New Scheme was adopted for a period of 10 years commencing from 20 May 2016 and will remain in force until 19 May 2026. The Company may at any time terminate the operation of the New Scheme by resolution in general meeting. Upon termination of the New Scheme as aforesaid, no further options shall be granted but the provisions of the New Scheme shall remain in force and effect in all other respects. All options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the New Scheme. An offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1.0 in total by the grantee. The exercise period of the share options granted is determined by the Board, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options. The subscription price in respect of any particular share option shall be such price as the Board may in its discretion determine at the time of grant of the relevant share option (and shall be stated in the letter containing the offer of the grant of the share option) but shall not be less than whichever is the highest of:

(a) the nominal value of a Share;

(b) the closing price of a Share as stated in the Stock Exchange's daily quotations sheet on the date of offer; and

(c) the average closing price of a Share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the New Scheme and any other schemes of the Group shall not in aggregate exceed 327,436,560 Shares, being 10% of the Shares in issue as of the date of adoption (the "Scheme Mandate Limit"), provided that:

(a) The Company may at any time as the Board may think fit seek approval from the shareholders of the Company to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the New Scheme and any other schemes of the Company shall not exceed 10% of the Shares in issue as of the date of approval by shareholders in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the New Scheme and any other schemes of the Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the New Scheme or any other schemes of the Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. The Company shall send to our shareholders a circular containing the details and information required under the Listing Rules.

(b) The Company may seek separate approval from its shareholders in general meeting for granting options beyond the Scheme Mandate Limit, provided that the options in excess of the Scheme Mandate Limit are granted only to the Eligible Person(s) specified by the Company before such approval is obtained. The Company shall send to our shareholders a circular containing the details and information required under the Listing Rules.

(c) The maximum number of Shares which may be issued upon full exercise of outstanding options granted under the New Scheme and any other schemes of the Group shall not exceed 30% of the Company's issued share capital from time to time. No options may be granted under the New Scheme and any other share option schemes of the Company if this will result in such limit being exceeded.

No option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of options granted and to be granted to that person in any 12-month period exceeds 1% of the Company's issued share capital from time to time. Where any further grant of options to such an Eligible Person would result in the Shares issued and to be issued upon exercise of all options granted and to be granted to such Eligible Person in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be separately approved by the shareholders of the Company in general meeting with such Eligible Person and his/her/its associate(s) abstaining from voting. The Company shall send a circular to our shareholders disclosing the identity of the Eligible Person, the number and terms of the options to be granted (and options previously granted) to such Eligible Person, and containing the details and information required under the Listing Rules. The number and terms (including the subscription price) of the options to be granted to such Eligible Person must be fixed before the approval of the shareholders of the Company and the date of the Board meeting proposing such grant shall be taken as the offer date for the purpose of calculating the subscription price of those options.

On 10 February 2010, the Board granted 24,000,000 share options to 19 directors and senior management of the Company and its subsidiaries and other personnel approved by the Board, including three Directors, at an exercise price of HK$2.03 per Share under the Old Scheme. 1,500,000 share options held by a member of the senior management were lapsed following his departure in 2011.

On 3 January 2012, the Board granted 24,000,000 share options to 81 directors and senior management of the Company and its subsidiaries and other personnel approved by the Board, including four Directors, at an exercise price of HK$0.80 per Share under the Old Scheme. 1,260,000 share options held by three members of the management were lapsed following their departure in 2013. 300,000 share options held by two employees were lapsed following their departure in 2014. 300,000 share options held by two employees were lapsed following their departure in 2015. 150,000 share options held by an employee were lapsed following his departure in 2016.

On 23 September 2014, the Board granted 74,400,000 share options to 57 directors and senior management of the Company and its subsidiaries and other personnel approved by the Board, including four Directors, at an exercise price of HK$0.50 per Share under the Old Scheme. 840,000 share options held by two employees were lapsed following their departure in 2015. 420,000 share options held by an employee were lapsed following his departure in 2016.

On 28 January 2015, the Board granted 60,000,000 share options to 24 directors and senior management of the Company and its subsidiaries and other personnel approved by the Board, including four Directors, at an exercise price of HK$0.40 per Share under the Old Scheme.

On 26 April 2016, the Board granted 57,600,000 share options to 36 directors and senior management of the Company and its subsidiaries and other personnel approved by the Board, including four Directors at an exercise price of HK$0.40 per Share under the Old Scheme.

For the six months ended 30 June 2016, movements of options granted under the Old Scheme are set out below:

Name	Capacity	Exercise price	Outstanding as at 1 January 2016	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30 June 2016	Approximate percentage of the number of issued Shares of the Company as at 30 June 2016	Notes
Directors									
Zhang Bizhuang	Beneficial owner	HK$2.03	7,200,000	0	0	0	7,200,000	0.220%	(1)
Zhang Bizhuang	Beneficial owner	HK$0.80	1,200,000	0	0	0	1,200,000	0.037%	(2)
Zhang Bizhuang	Beneficial owner	HK$0.50	5,700,000	0	0	0	5,700,000	0.174%	(3)
Zhang Bizhuang	Beneficial owner	HK$0.40	4,200,000	0	0	0	4,200,000	0.128%	(4)
Jiang Yong	Beneficial owner	HK$0.40	0	1,200,000	0	0	1,200,000	0.037%	(5)
Wang Kunxian	Beneficial owner	HK$2.03	1,500,000	0	0	0	1,500,000	0.046%	(1)
Wang Kunxian	Beneficial owner	HK$0.80	960,000	0	0	0	960,000	0.029%	(2)
Wang Kunxian	Beneficial owner	HK$0.50	4,500,000	0	0	0	4,500,000	0.137%	(3)
Wang Kunxian	Beneficial owner	HK$0.40	3,300,000	0	0	0	3,300,000	0.101%	(4)
Han Aizhi	Beneficial owner	HK$2.03	3,000,000	0	0	0	3,000,000	0.092%	(1)
Han Aizhi	Beneficial owner	HK$0.80	1,200,000	0	0	0	1,200,000	0.037%	(2)
Han Aizhi	Beneficial owner	HK$0.50	4,500,000	0	0	0	4,500,000	0.137%	(3)
Han Aizhi	Beneficial owner	HK$0.40	3,300,000	0	0	0	3,300,000	0.101%	(4)
Song Xichen	Beneficial owner	HK$2.03	1,500,000	0	0	0	1,500,000	0.046%	(1)
Song Xichen	Beneficial owner	HK$0.80	960,000	0	0	0	960,000	0.029%	(2)
Song Xichen	Beneficial owner	HK$0.50	4,500,000	0	0	0	4,500,000	0.137%	(3)
Song Xichen	Beneficial owner	HK$0.40	3,300,000	0	0	0	3,300,000	0.101%	(4)
Chen Junzhu	Beneficial owner	HK$0.40	0	1,200,000	0	0	1,200,000	0.037%	(5)
Wu Geng	Beneficial owner	HK$0.40	0	1,200,000	0	0	1,200,000	0.037%	(5)
Qiao Jianmin	Beneficial owner	HK$0.40	0	1,200,000	0	0	1,200,000	0.037%	(5)
Employees									
Employees	Beneficial owner	HK$2.03	9,300,000	0	0	0	9,300,000	0.284%	(1)
Employees	Beneficial owner	HK$0.80	17,820,000	0	0	150,000	17,670,000	0.540%	(2)
Employees	Beneficial owner	HK$0.50	54,360,000	0	0	420,000	53,940,000	1.647%	(3)
Employees	Beneficial owner	HK$0.40	45,900,000	0	0	0	45,900,000	1.402%	(4)
Employees	Beneficial owner	HK$0.40	0	52,800,000	0	0	52,800,000	1.613%	(5)
Total			178,200,000	57,600,000	0	570,000	235,230,000	7.184%	

Notes:

(1) The share options granted by the Company are exercisable for 10 years. The grantees may exercise up to one-third, two-thirds and 100% of the respective total share options granted from the first, second and third anniversaries of the date of grant (i.e. 10 February 2010), respectively. These share options are exercisable at HK$2.03 each according to the rules of the Old Scheme during the period from 10 February 2010 to 9 February 2020.

(2) The share options granted by the Company are exercisable for 10 years. The grantees may exercise up to one-third, two-thirds and 100% of the respective total share options granted from the first, second and third anniversaries of the date of grant (i.e. 3 January 2012), respectively. These share options are exercisable at HK$0.80 each according to the rules of the Old Scheme during the period from 3 January 2012 to 2 January 2022.

(3) The share options granted by the Company are exercisable for 6 years. The grantees may exercise up to one-third, two-thirds and 100% of the respective total share options granted from the first, second and third anniversaries of the date of grant (i.e. 23 September 2014), respectively. These share options are exercisable at HK$0.50 each according to the rules of the Old Scheme during the period from 23 September 2014 to 22 September 2020.

(4) The share options granted by the Company are exercisable for 6 years. The grantees may exercise up to one-third, two-thirds and 100% of the respective total share options granted from the first, second and third anniversaries of the date of grant (i.e. 28 January 2015), respectively. These share options are exercisable at HK$0.40 each according to the rules of the Old Scheme during the period from 28 January 2015 to 27 January 2021.

(5) The share options granted by the Company are exercisable for 5 years. The grantees may exercise up to one-third, two-thirds and 100% of the respective total share options granted from the first, second and third anniversaries of the date of grant (i.e. 26 April 2016), respectively. These share options are exercisable at HK$0.40 each according to the rules of the Old Scheme during the period from 26 April 2016 to 26 April 2021.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2016, the following persons (other than Directors or chief executives of the Company) were interested in 5% or more of the issued share capital of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or required to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules:

Name of shareholder	Capacity	Number of issued ordinary shares/ underlying shares held	Percentage of the number of issued Shares of the Company
MEFUN GROUP LIMITED	Beneficial owner(1)	620,000,000	18.935%
HZJ Holding Limited	Interest in controlled corporation(2)	620,000,000	18.935%
RXJ Holding Limited	Interest in controlled corporation(2)	620,000,000	18.935%
Waynew Investments Limited	Beneficial owner(3)	248,058,000	7.576%

Notes:

(1) MEFUN GROUP LIMITED acquired 620,000,000 shares of the Company (representing 18.935% of the issued shares of the Company) held by Zhongheng International Investment Limited at an average price of HK$0.295 on 2 February 2016.

(2) HZJ Holding Limited and RXJ Holding Limited hold 42.5% and 42.5% of the issued share capital of MEFUN GROUP LIMITED respectively. These two companies are therefore deemed to be interested in the shares of the Company held by MEFUN GROUP LIMITED.

(3) On 3 November 2014, the Company issued shares to Waynew Investments Limited under general mandate. Waynew Investments Limited holds 248,058,000 shares of the Company, representing 7.576% of the issued shares of the Company.

Save as disclosed above, as at 30 June 2016, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance had been entered into between the Company and the controlling shareholders or any of their subsidiaries during the six months ended 30 June 2016.

COMPETING BUSINESS

During the period and up to the date of this report, none of the Directors and controlling shareholders of the Company has any interest in business which competes, either directly or indirectly, with the business of the Group under the Listing Rules.

PUBLIC FLOAT

Based on the information that is available to the Company and within the knowledge of the Directors, as at 30 June 2016, the Company has maintained a public float of not less than 25% as required under the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, its holding companies, or any of its subsidiaries was a party, and in which a Director had a material interest, subsisted at the end of the period or at any time during the period.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2016.

By order of the Board
Zhang Bizhuang
Chief Executive Officer

9 September 2016

Corporate Governance

OVERVIEW

The Directors recognize the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability to the shareholders as a whole. The Board strives to uphold good corporate governance and adopts sound corporate governance practices. The Company has adopted the principles and complied with all code provisions and, where applicable, the recommended best practices of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules during the period from 1 January 2016 to 30 June 2016.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the required standard for securities transactions by Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that for the six months ended 30 June 2016, they have complied with the required standards set out in the Model Code and the code of conduct regarding directors' securities transactions.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established on 21 November 2009 with written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process. All members of the Audit Committee are appointed by the Board. The Audit Committee currently consists of three independent non-executive Directors, namely Mr. Chen Junzhu, Mr. Wu Geng and Mr. Qiao Jianmin (appointed on 12 April 2016). Mr. Chen Junzhu currently serves as the chairman of the Audit Committee.

The Audit Committee has reviewed the Group's unaudited condensed consolidated interim financial statements for the six months ended 30 June 2016 as well as the risk management and internal control system and its implementation.

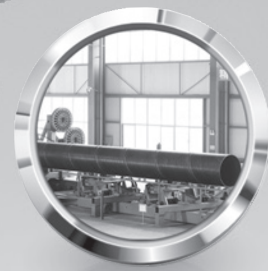
REVIEW OF ACCOUNTS

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters, including the review of the unaudited condensed consolidated interim financial statements for the Period under Review with the management and external auditor. The external auditor has reviewed the interim financial information for the six months ended 30 June 2016 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED 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.

Independent Review Report



TO THE BOARD OF DIRECTORS OF
SHENGLI OIL & GAS PIPE HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 26 to 40 which comprises the condensed consolidated statement of financial position of Shengli Oil & Gas Pipe Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as at 30 June 2016 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our 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. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Fong Tak Ching
Practising Certificate Number P06353
Hong Kong
20 August 2016

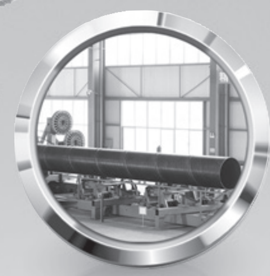
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2016

	Notes	Six months ended 30 June 2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
REVENUE	4	879,316	1,100,757
Cost of sales and services		(852,643)	(1,086,716)
Gross profit		26,673	14,041
Other income and gains		13,410	28,326
Selling and distribution costs		(9,697)	(11,197)
Administrative expenses		(116,458)	(67,367)
Allowance for trade receivables		(3,752)	(44,391)
Other expenses		(362)	(1,563)
Share of results of:			
Joint ventures		(4,551)	(5,424)
Associate		(70)	91
Impairment loss recognized on goodwill		—	(7,385)
Impairment loss recognized on investment in a joint venture		(3,271)	—
Finance costs	5	(21,573)	(30,207)
LOSS BEFORE TAX	6	(119,651)	(125,076)
Income tax expense	7	(1,075)	(6,273)
LOSS FOR THE PERIOD		(120,726)	(131,349)
Other comprehensive income/(loss) that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		9,228	(3,295)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(111,498)	(134,644)
LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		(102,463)	(108,514)
Non-controlling interests		(18,263)	(22,835)
		(120,726)	(131,349)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		(93,235)	(111,809)
Non-controlling interests		(18,263)	(22,835)
		(111,498)	(134,644)
LOSS PER SHARE (RMB cents)	8		
— Basic		(3.45)	(3.98)
— Diluted		(3.45)	(3.98)

Condensed Consolidated Statement of Financial Position

As at 30 June 2016



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

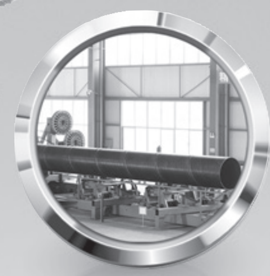
Condensed Consolidated Statement of Financial Position (cont'd)

As at 30 June 2016

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

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2016



	Attributable to owners of the Company									
	Issued capital RMB'000	**Share premium*** RMB'000	**Statutory surplus reserve*** RMB'000	**Share option reserve*** RMB'000	**Other reserve*** RMB'000	**Foreign currency translation reserve*** RMB'000	**Retained profits*** RMB'000	**Total** RMB'000	**Non-controlling interests** RMB'000	**Total equity** RMB'000
At 1 January 2015 (Audited)	238,438	1,148,255	62,484	30,937	(9)	174	466,699	1,946,978	244,678	2,191,656
Total comprehensive loss for the period (Unaudited)	—	—	—	—	—	(3,295)	(108,514)	(111,809)	(22,835)	(134,644)
Share-based payment (Unaudited)	—	—	—	4,207	—	—	—	4,207	—	4,207
At 30 June 2015 (Unaudited)	238,438	1,148,255	62,484	35,144	(9)	(3,121)	358,185	1,839,376	221,843	2,061,219
At 1 January 2016 (Audited)	**238,438**	**1,148,255**	**62,484**	**43,328**	**(9)**	**9,002**	**164,569**	**1,666,067**	**192,878**	**1,858,945**
Issue of shares (Unaudited)	**45,473**	**81,851**	**—**	**—**	**—**	**—**	**—**	**127,324**	**—**	**127,324**
Total comprehensive loss for the period (Unaudited)	**—**	**—**	**—**	**—**	**—**	**9,228**	**(102,463)**	**(93,235)**	**(18,263)**	**(111,498)**
Share-based payment (Unaudited)	**—**	**—**	**—**	**4,762**	**—**	**—**	**—**	**4,762**	**—**	**4,762**
At 30 June 2016 (Unaudited)	**283,911**	**1,230,106**	**62,484**	**48,090**	**(9)**	**18,230**	**62,106**	**1,704,918**	**174,615**	**1,879,533**

* These reserve accounts comprise the consolidated reserves in the unaudited condensed consolidated statement of financial position.

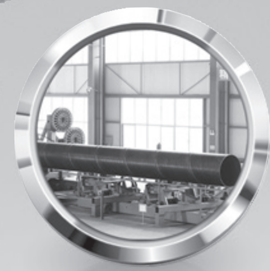
Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

	For the six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
NET CASH USED IN OPERATING ACTIVITIES	**(162,253)**	(115,178)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of an associate	**—**	250,000
Change in pledged deposits	**175,062**	(92,167)
Deposits paid for acquisition of investments	**—**	(36,781)
Purchase of property, plant and equipment	**(8,308)**	(21,902)
Other investing cash flows	**11,536**	(3,263)
NET CASH GENERATED FROM INVESTING ACTIVITIES	**178,290**	95,887
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	**127,324**	—
New borrowings	**490,000**	737,036
Repayment of loans	**(750,786)**	(604,157)
Other financing cash flows	**(21,573)**	(30,207)
NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES	**(155,035)**	102,672
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(138,998)**	83,381
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**393,881**	216,007
EFFECT OF FOREIGN EXCHANGE	**9,228**	(4,196)
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**264,111**	295,192

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2016



1. GENERAL INFORMATION

The Company is a limited company incorporated in the Cayman Islands on 3 July 2009. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal places of business of the Company in Hong Kong and the People's Republic of China (the "PRC") are located at Room 2111, 21st Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, Zhongbu Town, Zhangdian District, Zibo City, Shandong Province 255082, the PRC, and 8 Binjiang Road, Gaoxin District, Xiangtan City, Hunan Province 411101, the PRC, respectively.

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

The Company acts as an investment holding company. The principal activities of the Group are the manufacture, processing and sale of welded steel pipes for oil and gas pipelines and other construction and manufacturing applications and trading of metal commodity.

2. BASIS OF PREPARATION

The condensed consolidated interim financial statements ("Interim Financial Statements") have been prepared in accordance with International Accounting Standard 34 ("IAS 34") issued by International Accounting Standards Board and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Interim Financial Statements do not include all the information and disclosures required in a full set of financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2015 ("2015 Annual Report").

The accounting policies adopted in the preparation of the Interim Financial Statements are consistent with those followed in the preparation of 2015 Annual Report of the Company.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current period, the Group has adopted all the new and revised IFRSs that are relevant to its operations and effective for its accounting year beginning on 1 January 2016. IFRSs comprise International Financial Reporting Standards, International Accounting Standards and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current and prior periods.

The Group has not applied the new IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new IFRSs but is not yet in a position to state whether these new IFRSs would have a material impact on its results of operations and financial position.

4. SEGMENT INFORMATION

Segment revenue and results

For the six months ended 30 June 2016 (Unaudited)

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

For the six months ended 30 June 2015 (Unaudited)

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

4. SEGMENT INFORMATION (continued)

Segment assets

As at 30 June 2016 (Unaudited)

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

As at 31 December 2015 (Audited)

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

Segment liabilities

As at 30 June 2016 (Unaudited)

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

As at 31 December 2015 (Audited)

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

5. FINANCE COSTS

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

6. LOSS BEFORE TAX

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

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

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

7. INCOME TAX EXPENSE

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

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for the six months ended 30 June 2016 and 2015. The statutory tax rate of China Petro Equipment Holdings Pte. Ltd., a subsidiary of the Company incorporated in the Republic of Singapore, was 17% for the six months ended 30 June 2016 and 2015. Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the subsidiaries of the Company established in the PRC was 25% for the six months ended 30 June 2016 and 2015.

8. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

(a) Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the six months ended 30 June 2016 attributable to owners of the Company of approximately RMB102,463,000 (for the six months ended 30 June 2015: approximately RMB108,514,000) and the weighted average number of 2,968,518,000 (for the six months ended 30 June 2015: 2,728,638,000) ordinary shares in issue during the six months ended 30 June 2016.

(b) Diluted loss per share

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2016 and 2015 in respect of a dilution as there was no dilutive potential ordinary shares for the Company's outstanding options.

9. DIVIDEND

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

10. PROPERTY, PLANT AND EQUIPMENT

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

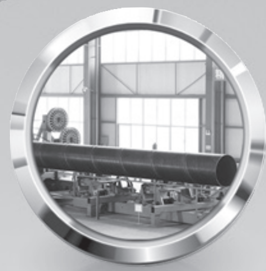
Property, plant and equipment with a carrying amount of approximately RMB30,000 (for the six months ended 30 June 2015: approximately RMB160,000) were disposed by the Group during the six months ended 30 June 2016.

11. TRADE AND BILLS RECEIVABLES

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

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

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



12. TRADE AND BILLS PAYABLES

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

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

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

13. SHARE CAPITAL

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

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

Note:

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

14. COMMITMENTS

(a) Capital commitments

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

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

(b) Investment commitments

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

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

15. RELATED PARTY TRANSACTIONS

(a) Related parties of the Group

The directors of the Company consider that the following entities are related parties of the Group:

Name of related party	Relationship with the Company
Shengli Steel Pipe Co., Ltd. ("Shengli Steel Pipe")	A company jointly controlled by a Director during the six months ended 30 June 2015
Prodigy Dome Integration Housing Production (Shandong) Co., Ltd.# ("Dome (Shandong)") (普帝龍哆咪集成房屋製造(山東)有限公司)	A wholly owned subsidiary of Dome Integration Housing Industrial Holding Co. Ltd., a joint venture of the Group

The English name is for identification only

15. RELATED PARTY TRANSACTIONS (continued)

(b) Significant related party transactions

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

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

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

(c) Key management compensation

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

	For the six months ended 30 June	
	2016 RMB'000 (Unaudited)	2015 RMB'000 (Unaudited)
Fees	**537**	499
Salaries, allowances and other benefits in kind	**1,868**	1,652
Social security contributions	**123**	54
Equity-settled share option expense	**1,781**	1,836
	4,309	4,041

16. APPROVAL OF INTERIM FINANCIAL STATEMENTS

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