SLP
勝利管道
SHENGLI PIPE

SHENGLI OIL & GAS PIPE HOLDINGS LIMITED
勝利油氣管道控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1080

INTERIM REPORT 2018

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Ji Rongdi (alias Jee Rongdee)
(Chairman)
Mr. Zhang Bizhuang
(Chief Executive Officer)
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

AUDIT COMMITTEE

Mr. Chen Junzhu *(Chairman) ACCA , CICPA*
Mr. Wu Geng
Mr. Qiao Jianmin

REMUNERATION COMMITTEE

Mr. Wu Geng *(Chairman)*
Mr. Ji Rongdi (alias Jee Rongdee)
Mr. Chen Junzhu *ACCA , CICPA*

NOMINATION COMMITTEE

Mr. Qiao Jianmin *(Chairman)*
Mr. Zhang Bizhuang
Mr. Wu Geng

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

Corporate Information

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 for the Period under Review was approximately RMB392,973,000, representing a decrease of approximately 66.6% when compared to the corresponding period in 2017.

- Gross profit margin for the Period under Review was approximately 26.9%, representing an increase of approximately 23.1 percentage points when compared to the corresponding period in 2017.

- Loss attributable to owners of the Company for the Period under Review amounted to approximately RMB16,362,000, while loss attributable to owners of the Company for the corresponding period in 2017 amounted to approximately RMB120,262,000.

- Basic loss per share attributable to owners of the Company for the Period under Review amounted to approximately RMB0.5 cents, while basic loss per share attributable to owners of the Company for the corresponding period in 2017 amounted to approximately RMB3.67 cents.

- The Board does not recommend the declaration of any interim dividend for the six months ended 30 June 2018.

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 hereby present to you the unaudited results of the Company and its subsidiaries (collectively the "**Group**") for the six months ended 30 June 2018 (the "**Period under Review**").

The overall global economy remained stable during the Period under Review. China's economy experienced stable development with positive trend, underpinned by prominent outcome achieved in transformation, upgrade and consistent improvement in quality and efficiency. Since 2016, under the impact of factors such as US dollars and geopolitics, international oil prices remained stable and large-scale pipeline projects were under construction, which indicates a return to a growth cycle for the oil and gas industry.

SECURING MORE ORDERS FOR NATIONAL PIPELINES DURING INDUSTRY GROWTH CYCLE

In 2017, driven by a series of policies and plans for national oil and gas pipeline networks, including the respective "13th Five-Year Plan for Petroleum Development"* (《石油發展「十三五」規劃》), "13th Five-Year Plan for Natural Gas Development"* (《天然氣發展「十三五」規劃》) and "Medium-to-Long-Term Oil and Gas Pipeline Network Planning"* (《中長期油氣管網規劃》), the new golden decade for the construction of long-distance oil and gas pipelines in China has commenced, and it is expected that the completion of large-scale pipeline projects will be expedited.

During the Period under Review, relying on our good performance with large-scale pipelines supply, outstanding product quality, superior technological strength, and advanced production equipment, the Group secured certain orders from an independent third party customer, China Petroleum & Chemical Corporation ("**SINOPEC**"), including, amongst others, orders for Qianjiang — Shaoguan Gas Pipeline Project under the Xinjiang Coal Gas Pipeline* (新氣管道潛江－韶關輸氣管道工程), orders for Erdos — Anping — Cangzhou Gas Pipeline Project* (鄂爾多斯－安平－滄州輸氣管道工程) ("**Erdos — Anping — Cangzhou Pipeline**"), and orders for Rizhao — Puyang — Luoyang Crude Oil Pipeline Project* (日照－濮陽－洛陽原油管道工程).

As at 30 June 2018, the Group has obtained pipeline orders in a total amount of approximately 280,000 tonnes, representing approximately 130% of the total annual production of the Group in 2017. Among the pipeline orders, the national large-scale pipeline projects accounted for approximately 61.4% and all orders are expected to be delivered within 2018.

ORGANIZING PRODUCTION PLAN SUPPORTED BY UNITED AND DEDICATED EFFORTS

In view of the tight schedule and high quality standard required by national large-scale pipeline projects, the Group consolidated its resources of production, inspection and technology. Together with the reasonable deployment of manpower and elaborately devised production plan, the Group managed to achieve a win-win outcome on the brand and efficiency.

Shandong Shengli Steel Pipe Co., Ltd.* (山東勝利鋼管有限公司) ("**Shandong Shengli Steel Pipe**"), a wholly-owned subsidiary of the Company, organised national pipeline pre-production meeting and welding quality special meeting, in which it proposed a more stringent quality target than standard technical requirements, and formulated specific measures to improve product acceptance rate and enhance the appearance and welding quality of pipes. The production volume of submerged-arc helical welded pipes ("**SAWH pipes**") in the single month of May 2018 exceeded 33,000 tonnes, which is the highest record for production volume in a single month in the recent six years.

Chief Executive Officer's Statement

Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) ("**Hunan Shengli Steel Pipe**"), a non wholly-owned subsidiary of the Company, gathered its technological strength to assure safe production with centralised strategic planning. The production volume of submerged-arc longitudinal welded pipes ("**SAWL pipes**") in the single month of March 2018 reached approximately 12,000 tonnes, being a new record for production volume in a single month for not only the SAWL Pipe Plant of Hunan Shengli Steel Pipe, but also Hunan Shengli Steel Pipe itself.

On 15 August 2018, the owner of Erdos – Anping – Cangzhou Pipeline, Sinopec Hebei Construction Natural Gas Company Limited* (中石化河北建設天然氣有限公司), issued a commendatory letter to Shandong Shengli Steel Pipe for its spirit of shouldering important missions amid formidable circumstances. It was stated in the letter that, the first phase project of Erdos – Anping – Cangzhou Pipeline was included in the "13th Five-Year Plan for Energy Development"* (《能源發展「十三五」規劃》), "13th Five-Year Plan for Natural Gas Development"* (《天然氣發展「十三五」規劃》),"13th Five-Year Plan for Natural Gas Development of Hebei Province"* (《河北省天然氣發展「十三五」規劃》) and "13th Five-Year Plan for Natural Gas Development of Henan Province"* (《河南省天然氣發展「十三五」規劃》) of the state, being one of the key national projects promoting clean heat production in northern area, coping with atmospheric pollution in Beijing – Tianjin – Hebei, and ensuring natural gas supply. National Development and Reform Commission listed this project as one of the key projects that require regular supervision and inspection. Shandong Shengli Steel Pipe undertook the production of 161 kilometres of SAWH Pipes in the first phase project of Erdos – Anping – Cangzhou Pipeline, from 1 April to 13 August 2018, succeeding in delivering all the pipes with assured quality and quantity to designated site within 135 days as scheduled. It was the first one to complete the production and delivery task out of seven steel pipe manufacturers. This commendatory letter represents full recognition of the Group's capacity in production, quality, and delivery, which enhances the Group's reputation and influence in large-scale pipeline construction, laying a solid foundation for the Group to obtain more orders for national pipeline projects in future.

MAINTAINING LEADING POSITION IN PIPE TECHNOLOGY WITH FOCUS ON TECHNOLOGICAL RESEARCH AND DEVELOPMENT

Technology is the driving force for sustainable development of an enterprise. With the firm belief that core technology is the main factor for an enterprise to maintain leading edge and competitiveness in an industry, the Group has been committed to technological development and corporate innovations over the years.

The technological project initiated by Shandong Shengli Steel Pipe, namely "research on industrialisation of X80 SAWH pipes of high wall thickness used in polar region* (極地服役大壁厚X80 SAWH焊管產業化研究)", was selected to join the 2017 Technology Development Programme of Zibo, Shandong and received a supportive funding of RMB350,000 from the municipal government of Zibo, Shandong during the Period under Review.

During the Period under Review, the Group obtained authorisation from the State Intellectual Property Office for four utility model patents, namely, "plasma smoke recycle and automatic dust disposal device and plasma smoke recycle device* (等離子煙塵回收自動倒灰裝置及等離子煙塵回收裝置)", "strip steel guiding device on plate shearing machine* (剪板機帶鋼導向裝置)", "steel coil fracture end guiding device for SAWH pipes* (SAWH焊管鋼卷斷裂對頭導引裝置)" and "scraper protecting device for SAWH uncoiling machine* (SAWH開卷機鏟刀防護裝置)".

Furthermore, Hunan Shengli Steel Pipe made full use of the opportunities of manufacturing national large-scale pipelines to enhance its technological capability and comprehensive strength, achieving a total acceptance rate of over 99.9% for pipeline production during the Period under Review. It did not only reinforce the social influence and product competitiveness of Hunan Shengli Steel Pipe, but also demonstrated its sophistication in production technology, quality inspection, and equipment maintenance and operation, laying a solid foundation for undertaking national large-scale pipeline and international pipeline projects in the upcoming future.

Chief Executive Officer's Statement

DIVERSIFICATION OF REVENUE SOURCES WHILE ACHIEVING COST REDUCTION TO ENHANCE ECONOMIC EFFICIENCY

During the Period under Review, the Group continued to implement cost-reducing and efficiency-enhancing initiatives to ensure stable economic efficiency.

The Group continued to increase its consumption of rolled coils and steel pipes inventories so as to reduce the costs of procurement of raw materials and expedite the collection of funds. Meanwhile, greater effort was put into the collection of trade receivables to ensure timely capital return and lower finance costs by heightening capital utilisation rate.

With regard to production cost control, the Group adopted various measures, including strict control and assessment of raw material consumption, timely communication with customers and raw material suppliers to avoid adverse impact on pipe quality and material consumption due to raw material issues, as well as the setting up of practical equipment management and assessment system which aims at inspecting major equipment on a regular basis to ensure the efficiency of equipment and reduce unit material consumption.

In adherence to the philosophy of "talents streamlining", the Group has made great efforts in training talents for high-end, precision and advanced technologies. Hunan Shengli Steel Pipe made reasonable staff deployment based on working experience, age and skill level of employees, seeking to optimise and consolidate the structure of working teams and positions. With the emphasis on fostering core and multi-skilled specialists combined with strict control on headcounts, the labour cost was efficiently reduced. Under tight schedule for intermittent production, Shandong Shengli Steel Pipe seconded some of the management staff and technicians to frontline production with an aim to mitigate staff shortage in the short term. This did not only lower the labour cost, but also aroused the production enthusiasm of our frontline workers.

WELL-POSITIONED FOR THE UPCOMING GROWTH CYCLE ON THE BACK OF FLEXIBLE ARRANGEMENTS IN NATIONAL AND LOCAL MARKETS

Looking forward, the oil and gas industry is heading for a promising future as it has transitioned from downturn to the stage of rapid expansion in 2018, during which large-scale pipeline projects commenced construction in a row under the support of favourable national policies. As one of the largest manufacturers of oil and natural gas pipelines with leading product quality in China, the Group made flexible arrangements in national and local markets in line with the industry trend while capturing the market of national pipeline projects and urban pipeline networks, enhancing economic efficiency and brand influence.

While reinforcing its presence in the development of oil and gas transmission pipeline products, the Group also actively explored opportunities of new cooperation projects in accordance with the state industrial policies, in a bid to realise the strategy of the sustainable, stable and healthy development of the Group.

Last but not least, I would like to take this opportunity to express gratitude to our shareholders and customers. Thanks are also owed to our management and staff for their dedication. With timely moves to seize business opportunities and proactive planning, the Group will continue to deliver long-term value to our shareholders.

Zhang Bizhuang
Executive Director & Chief Executive Officer

* *For identification purpose only*

Management Discussion and Analysis

MARKET OVERVIEW

During the Period under Review, global economy remained stable in general with slow recovery, accompanied by an intensified fluctuation in international financial market. China's economy experienced stable development with positive trend, underpinned by prominent outcome achieved in transformation and upgrade and consistent improvement in quality and efficiency. Under the combined effect of geopolitical risks, output reduction of Organisation of Petroleum Exporting Countries, increase in demand for crude oil, and etc., international oil prices continued to ramp up, leading to the return of the oil and gas industry to a recovery stage.

Continuing the trend in 2017, the capital expenditure of global oil and gas industry has been stepping up. For China, the capital expenditure plan of China National Petroleum Corporation ("**CNPC**"), SINOPEC and China National Offshore Oil Corporation ("**CNOOC**") recorded a year-on-year increase in 2018, of which the year-on-year increase for SINOPEC and CNOOC reached 50%. The document entitled "Certain Opinions on the Intensive Reform of the Petroleum and Natural Gas System"* (《關於深化石油天然氣體制改革的若干意見》) has called for efforts in 2018 to actively advance system reforms in relation to pipeline networks and exploration and development, improve the mechanism for impartial access to the oil and gas pipeline network, procure impartial opening of the oil and gas pipeline networks to principals in the third-party market, and rectify the mechanism for competitive disposal and divestiture in relation to oil and gas exploration and development blocks, in order to investigate models for the financing and operation of pipe facilities. Reforms of systems relating to oil and gas exploration and production, import and export management, pipeline network operation, production and processing and product pricing and reforms of state-owned oil and gas enterprises should be intensified to energise the competitive market and key oil and gas enterprises. As oil and gas reforms enters a "peak phase of construction" in 2018, more thorough and fair competition should be introduced to all segments of the industrial chain, so that technically superior private enterprises with outstanding track records will have more opportunities to participate in the business.

BUSINESS REVIEW

Relying on the recovery trend of the industry, the Group put great efforts into the development of principal pipes business. During the Period under Review, the Group's annual production capacity for SAWH pipes, SAWL pipes and the supporting anti-corrosion production line was 1.45 million tonnes, 0.4 million tonnes and 10.80 million square meters, respectively, which stabilized the Group's leading position in the industry in terms of the technology and the production capacity.

During the Period under Review, the loss attributable to owners of the Company amounted to approximately RMB16,362,000 (for the six months ended 30 June 2017: approximately RMB120,262,000), representing a decrease in loss of 86.4% from last year, mainly due to orders for large-scale pipeline projects secured from independent third party customer, SINOPEC, during the year and significant decrease in operating expenses and administrative expenses as compared to the corresponding period of last year.

Pipes business

As one of China's largest oil and gas pipeline manufacturers with top rated facilities, advanced technique and a comprehensive quality inspection and assurance system, the Group is one of the few suppliers of large-diameter pipes designed to sustain the high pressure in long distance transportation of crude oil, refined petroleum and natural gas (including SAWH pipes and SAWL pipes). It is also the only privately-owned enterprise qualified to be a supplier in large-scale oil and natural gas pipeline projects in China.

Management Discussion and Analysis

As at 30 June 2018, a cumulative total length of approximately 29,280 kilometres pipes manufactured by the Group were used in the world's oil and gas pipelines, of which 94.9% were installed in China and the remaining 5.1% were installed overseas.

During the Period under Review, national large-scale SAWH pipes projects that the Group participated in were, amongst others, Erdos — Anping — Cangzhou Pipeline, Qianjiang — Shaoguan Gas Pipeline Project under Xinjiang Coal Gas Pipeline* (新氣管道潛江—韶關輸氣管道工程) and Rizhao — Puyang — Luoyang Crude Oil Pipeline Project* (日照 — 濮陽 — 洛陽原油管道工程). Local SAWH pipes projects were, amongst others, New West Outer Ring, Linyi — Pingyi Gas Pipeline Project* (臨沂新西外環至平邑輸氣管線工程), Heat Supply Project in Yinchuan City* (銀川市供熱工程), and Ganzhou South Branch Line of Natural Gas Pipeline Network Project in Jiangxi Province* (江西省天然氣管網工程贛州南支線項目).

SAWL pipes manufactured by the Group were used in national large-scale pipe projects including Qianjiang — Shaoguan Gas Pipeline Project under Xinjiang Coal Gas Pipeline* (新氣管道潛江—韶關輸氣管道工程) and Erdos — Anping — Cangzhou Pipeline, and local SAWL pipe projects, including Emergency Management Project of Earthquake Fracture Zone in Zhonggui Line Tianshui Section* (中貴線天水段地震斷裂帶應急治理項目), and Rizhao Port Huachen Oil Pipeline Project* (日照港華晨輸油管道項目).

Large-scale anti-corrosion pipeline projects undertaken by the Group included Erdos — Anping — Cangzhou Pipeline, Qianjiang — Shaoguan Gas Pipeline Project under Xinjiang Coal Gas Pipeline* (新氣管道潛江—韶關輸氣管道工程), Rizhao — Puyang — Luoyang Crude Oil Pipeline Project* (日照 — 濮陽 — 洛陽原油管道工程), New West Outer Ring, Linyi — Pingyi Gas Pipeline Project* (臨沂新西外環至平邑輸氣管線工程), and Rizhao Port Huachen Oil Pipeline Project* (日照港華晨輸油管道項目).

For the Period under Review, total revenue of the Group's pipes business amounted to approximately RMB392,973,000 (for the six months ended 30 June 2017: approximately RMB424,659,000), accounting for approximately 100.0% of the Group's total revenue (for the six months ended 30 June 2017: approximately 36.1%). This revenue comprised: (1) revenue from the sale of SAWH pipes of approximately RMB247,723,000 (for the six months ended 30 June 2017: approximately RMB309,775,000), representing a decrease of approximately 20.0% as compared with the corresponding period of last year; (2) revenue from the sale of SAWL pipes of approximately RMB52,548,000 (for the six months ended 30 June 2017: approximately RMB75,597,000), representing a decrease of approximately 30.5% as compared with the corresponding period of last year; (3) revenue from the anti-corrosion processing service of approximately RMB92,434,000 (for the six months ended 30 June 2017: approximately RMB39,244,000), representing an increase of approximately 135.5% as compared with the corresponding period of last year; and (4) revenue from the cold-formed section steel business of approximately RMB268,000 (for the six months ended 30 June 2017: approximately RMB43,000), which was attributable to inventory clearance.

Trading business

Total revenue of the Group's trading business amounted to Nil for the Period under Review due to suspension of business in accordance with the business realignment, as compared to approximately RMB752,641,000 for the corresponding period of last year.

Management Discussion and Analysis

FUTURE PROSPECT

Looking to the second half of the year, with the national large-scale pipeline projects commencing construction and the comprehensive promotion of oil and gas pipeline networks in Shandong Province, the oil and gas industry will enter into a new phase of expansion.

Looking ahead, it is expected that the total investment in trunk line of the oil and gas pipeline networks in China will reach RMB1,600 billion during the period between the 13th Five-Year Plan and the 14th Five-Year Plan, including the construction of more than 100,000 kilometres of new pipelines. CNPC, SINOPEC and CNOOC are likely to continue to step up their investment in capital expenditure, which will drive the growth of the oilfield services. One of the surveys shows that the daily output of CNPC is expected to reach 20,000 barrels of petroleum by 2020, indicating the rapid expansion of CNPC and its market share in overseas petroleum market.

As one of the largest manufacturers of oil and natural gas pipelines in China, the Group will continue to take advantage of its production capacity, the advantageous geographic location of its subsidiaries, its pioneering pre-welding and precision-welding technologies and the proven track record for the supply to national large-scale pipeline projects of CNPC and SINOPEC, in particular its qualification as long-term stable supplier of SINOPEC. By actively seizing business opportunities offered by the rapid industry growth in future, the Group will strive to secure more orders for national large-scale pipeline projects to ensure the stable income in future.

FINANCIAL REVIEW

Revenue

The Group's unaudited revenue for the Period under Review was approximately RMB392,973,000, representing a decrease of approximately 66.6% when compared to that of approximately RMB1,177,300,000 for the corresponding period of last year. For the Period under Review, amongst the Group's two core business segments, (1) the pipes business recorded a revenue of approximately RMB392,973,000 (for the six months ended 30 June 2017: approximately RMB424,659,000), representing a decrease of approximately 7.5% when compared to the corresponding period of last year, mainly due to significant increase in the proportion of raw material processing business despite significant increase in sales of pipes and anti-corrosion processing business during the Period under Review, resulting in slight decrease in revenue as compared to the corresponding period of last year; (2) the trading business recorded a revenue of Nil (for the six months ended 30 June 2017: approximately RMB752,641,000), due to the suspension of trading business in accordance with business realignment during the Period under Review.

Cost of sales and services

The Group's cost of sales and services decreased by approximately 74.6% from approximately RMB1,132,460,000 for the six months ended 30 June 2017 to approximately RMB287,437,000 for the Period under Review.

Management Discussion and Analysis

Gross profit

Gross profit for the Period under Review was approximately RMB105,536,000 while that for the corresponding period of last year was approximately RMB44,840,000. The increase was mainly due to the significant increase in sales of pipes and anti-corrosion processing business in pipes business driven by the orders for certain large-scale pipeline projects secured from independent third party customer, SINOPEC, this year. In addition, for the sales of pipes, the proportion of the sales of large-scale pipelines of SINOPEC with higher revenue contribution increased significantly as compared to the corresponding period of last year. The Group's gross profit margin rose from approximately 3.8% for the six months ended 30 June 2017 to approximately 26.9% for the Period under Review, which was mainly due to the significant increase in the proportion of raw material processing business and anti-corrosion processing business in pipes business which have higher gross profit margin, and the suspension of trading business with lower gross profit margin in accordance with business realignment during the Period under Review.

Other income and gains

Other income and gains of the Group increased from approximately RMB3,356,000 for the six months ended 30 June 2017 to approximately RMB4,387,000 for the Period under Review. The increase was mainly due to the one-off gain from the partial disposal of idle fixed assets during the Period under Review.

Selling and distribution costs

Selling and distribution costs of the Group decreased from approximately RMB31,043,000 for the six months ended 30 June 2017 to approximately RMB19,150,000 for the Period under Review. Such decrease was principally due to the decrease in delivery expenses borne by the Group as compared to the corresponding period of last year and the decrease in related operating expenses as a result of the suspension of trading business during the Period under Review.

Administrative expenses

The Group's administrative expenses decreased from approximately RMB122,581,000 for the six months ended 30 June 2017 to approximately RMB95,890,000 for the Period under Review. The change was mainly attributable to the decrease in shutdown expenses as a result of the increase in production volume of pipes business during the Period under Review, the decrease in depreciation charge of share options, the decrease in foreign exchange loss in respect of current accounts of overseas companies denominated in foreign currencies, and the decrease in depreciation charge during the Period under Review as a result of the partial disposal of idle assets as compared to the corresponding period of last year.

Finance costs

The Group's finance costs increased by approximately 12.5% from approximately RMB22,973,000 for the six months ended 30 June 2017 to approximately RMB25,841,000 for the Period under Review. 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 approximately RMB151,930,000 for the six months ended 30 June 2017 to approximately RMB28,348,000 for the Period under Review, mainly because of the significant increase in sales of pipes and anti-corrosion processing business in pipes business and gross profit during the Period under Review as compared to the corresponding period of last year, the decrease in selling and distribution costs and administrative expenses as compared to the corresponding period of last year, the cessation of loss incurred for several companies with unsatisfactory results during the Period under Review after the disposal of such companies in accordance with business realignment in 2017, and no impairment losses being recognised on property, plant and equipment and advance to a joint venture during the Period under Review as compared to the corresponding period of last year.

Assets and liabilities

As at 30 June 2018, the Group's total assets amounted to approximately RMB2,695,343,000 (31 December 2017: approximately RMB2,717,454,000) and the Group's net assets amounted to approximately RMB1,437,407,000 (31 December 2017: approximately RMB1,462,083,000). Net assets per share amounted to approximately RMB0.44, representing a decrease of approximately RMB1 cent when compared to that of 31 December 2017. As at 30 June 2018, the Group's total liabilities amounted to approximately RMB1,257,936,000 (31 December 2017: approximately RMB1,255,371,000).

Net current liabilities

As at 30 June 2018, the Group had net current liabilities of approximately RMB238,033,000 (31 December 2017: approximately RMB279,569,000). The net current liabilities as at the end of the period decreased by approximately RMB41,536,000 as compared to that as at 31 December 2017. The main reason for the net current liabilities was that the Group made new investments and transferred some of the current assets to non-current assets in accordance with business realignment in 2017. During the Period under Review, the Group made reasonable arrangement to ensure stable production operation in the long term.

Liquidity and financial resources

As at 30 June 2018, cash and cash equivalents of the Group amounted to approximately RMB28,184,000 (31 December 2017: approximately RMB36,065,000). As at 30 June 2018, the Group had borrowings of approximately RMB856,420,000 (31 December 2017: approximately RMB891,883,000).

The gearing ratio is defined as net debt (represented by borrowings, trade payables, contract liabilities and other payables and accruals, net of cash and cash equivalents and pledged deposits) divided by total equity plus net debt. As at 30 June 2018, the gearing ratio of the Group was approximately 44.7% (31 December 2017: approximately 44.2%).

Management Discussion and Analysis

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.

Interim dividend

The Board does not recommend the payment of any interim dividend for the Period under Review (for the six-month period ended 30 June 2017: Nil).

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

As at 30 June 2018, 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 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 issued share capital of the Company as at 30 June 2018
Ji Rongdi (alias Jee Rongdee)	Interest in controlled corporation(1)	620,000,000		18.935%
	Beneficial owner		1,200,000(7)	0.037%
Zhang Bizhuang	Interest in controlled corporation(2)	153,130,224		4.677%
	Beneficial owner	79,800,000(3)	19,500,000(7)	3.033%
Jiang Yong	Beneficial owner		2,400,000(7)	0.073%
Wang Kunxian	Interest in controlled corporation(4)	26,708,760		0.816%
	Beneficial owner		11,460,000(7)	0.350%
Han Aizhi	Interest in controlled corporation(5)	26,708,760		0.816%
	Beneficial owner		13,200,000(7)	0.403%
Song Xichen	Interest in controlled corporation(6)	26,708,760		0.816%
	Beneficial owner		11,460,000(7)	0.350%
Chen Junzhu	Beneficial owner		2,400,000(7)	0.073%
Wu Geng	Beneficial owner		2,400,000(7)	0.073%
Qiao Jianmin	Beneficial owner		2,400,000(7)	0.073%

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 2018, 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 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, the Company, or any of its holding companies, its subsidiaries or its fellow subsidiaries were not 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 at any time during the Period under Review.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2018, the bank loans of approximately RMB402,940,000 (31 December 2017: approximately RMB177,000,000) were secured by pledge of certain of the property, plant and equipment amounting to approximately RMB299,851,000 (31 December 2017: approximately RMB243,274,000), certain of the land use rights amounting to approximately RMB189,807,000 (31 December 2017: approximately RMB170,687,000) and bills receivables amounting to RMB6,600,000 of the Group.

As at 30 June 2018, an amount of approximately RMB129,250,000 (31 December 2017: approximately RMB72,800,000) out of bank loans of the Group of approximately RMB293,750,000 (31 December 2017: approximately RMB307,500,000) was guaranteed by a non-controlling shareholder of a subsidiary. At the same time, the bank loans were secured by pledge of certain of the property, plant and equipment amounting to approximately RMB320,664,000 (31 December 2017: approximately RMB342,077,000) and certain of the land leases amounting to approximately RMB40,778,000 (31 December 2017: approximately RMB41,237,000).

CONTINGENT LIABILITIES

As at 30 June 2018, the Group did not have any contingent liabilities (31 December 2017: Nil).

FOREIGN EXCHANGE RISK

As at 30 June 2018, 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 2018, the Group has employed a work force of 1,152 employees (including Directors). The total salaries and related costs (including the Directors' fees) amounted to approximately RMB48,823,000 (30 June 2017: approximately RMB38,965,000).

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 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 Main Board of The Stock Exchange of Hong Kong Limited ("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 Share Option 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 Share Option 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 Share Option 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 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 Hong Kong 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 of the Company, 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. 300,000 share options held by an employee were lapsed following his departure in 2017.

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 of the Company, 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. 600,000 share options held by four employees were lapsed following their departure in 2016. 420,000 share options held by two employees were lapsed following their departure in 2017.

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 of the Company, 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. 960,000 share options held by two employees were lapsed following their departure in 2016. 2,760,000 share options held by three employees were lapsed following their departure in 2017.

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 of the Company, at an exercise price of HK$0.40 per share under the Old Scheme. 2,700,000 share options held by two employees were lapsed following their departure in 2017.

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 of the Company, at an exercise price of HK$0.40 per share under the Old Scheme.

On 11 October 2016, the Board granted 184,843,500 share options to 58 directors and senior management of the Company and its subsidiaries and other personnel approved by the Board, including nine Directors of the Company, at an exercise price of HK$0.415 per share under the New Scheme. 65,443,500 share options held by two employees were lapsed following their departure in 2017.

For the six months ended 30 June 2018, movements of options granted under the Old Scheme are set out below:

Name	Capacity	Exercise price	Outstanding as at 1 January 2018	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30 June 2018	Approximate percentage of the issued share capital of the Company as at 30 June 2018	Notes
Directors									
Ji Rongdi (alias Jee Rongdee)	Beneficial owner	HK$0.415	1,200,000	0	0	0	1,200,000	0.037%	(6)
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)
Zhang Bizhuang	Beneficial owner	HK$0.415	1,200,000	0	0	0	1,200,000	0.037%	(6)
Jiang Yong	Beneficial owner	HK$0.40	1,200,000	0	0	0	1,200,000	0.037%	(5)
Jiang Yong	Beneficial owner	HK$0.415	1,200,000	0	0	0	1,200,000	0.037%	(6)
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)
Wang Kunxian	Beneficial owner	HK$0.415	1,200,000	0	0	0	1,200,000	0.037%	(6)
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)
Han Aizhi	Beneficial owner	HK$0.415	1,200,000	0	0	0	1,200,000	0.037%	(6)
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)
Song Xichen	Beneficial owner	HK$0.415	1,200,000	0	0	0	1,200,000	0.037%	(6)
Chen Junzhu	Beneficial owner	HK$0.40	1,200,000	0	0	0	1,200,000	0.037%	(5)
Chen Junzhu	Beneficial owner	HK$0.415	1,200,000	0	0	0	1,200,000	0.037%	(6)
Wu Geng	Beneficial owner	HK$0.40	1,200,000	0	0	0	1,200,000	0.037%	(5)
Wu Geng	Beneficial owner	HK$0.415	1,200,000	0	0	0	1,200,000	0.037%	(6)
Qiao Jianmin	Beneficial owner	HK$0.40	1,200,000	0	0	0	1,200,000	0.037%	(5)
Qiao Jianmin	Beneficial owner	HK$0.415	1,200,000	0	0	0	1,200,000	0.037%	(6)
Employees									
Employees	Beneficial owner	HK$2.03	9,000,000	0	0	0	9,000,000	0.275%	(1)
Employees	Beneficial owner	HK$0.80	16,800,000	0	0	0	16,800,000	0.513%	(2)
Employees	Beneficial owner	HK$0.50	50,640,000	0	0	0	50,640,000	1.547%	(3)
Employees	Beneficial owner	HK$0.40	43,200,000	0	0	0	43,200,000	1.319%	(4)
Employees	Beneficial owner	HK$0.40	52,800,000	0	0	0	52,800,000	1.613%	(5)
Employees	Beneficial owner	HK$0.415	108,600,000	0	0	0	108,600,000	3.317%	(6)
Total			347,460,000	0	0	0	347,460,000	10.612%	

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 25 April 2021.

(6) 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. 11 October 2016), respectively. These share options are exercisable at HK$0.415 each according to the rules of the New Scheme during the period from 11 October 2016 to 10 October 2021.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2018, 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 issued share capital 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%
Shandong Peninsula Ocean Blue Economic Investment Company Limited	Interest in controlled corporation(4)	248,058,000	7.576%
Du Jichun	Interest of spouse(5)	99,300,000	3.033%
	Interest in controlled corporation(6)	153,130,224	4.677%

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 by virtue of the SFO.

(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.

(4) Shandong Peninsula Ocean Blue Economic Investment Company Limited holds 100% of the issued share capital of Waynew Investments Limited. It is therefore deemed to be interested in the shares of the Company held by Waynew Investments Limited by virtue of the SFO.

(5) Ms. Du Jichun is the spouse of Mr. Zhang Bizhuang. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SFO, Ms. Du Jichun is deemed to be interested in all the shares in which Mr. Zhang Bizhuang was interested.

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

Save as disclosed above, as at 30 June 2018, 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, including contracts for the provision of services, had been entered into between the Company or any of its subsidiaries and the controlling shareholders during the Period under Review.

COMPETING BUSINESS

During the Period under Review 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 2018, the Company has maintained a public float of not less than 25% as required under the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transaction, arrangement or contract of significance to which the Company, its holding companies, or any of its subsidiaries was a party, and in which a Director or an entity connected with a Director had a material interest, whether directly or indirectly, subsisted at the end of the period or at any time during the Period under Review.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the Period under Review.

By order of the Board
Zhang Bizhuang
Executive Director & Chief Executive Officer

14 September 2018

Corporate Governance

OVERVIEW

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability to the shareholders as a whole. The Board strives to uphold good corporate governance and adopts sound corporate governance practices. During the Period under Review, the Company has applied the principles of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, and has complied with all code provisions and, where applicable, the recommended best practices.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the required standard for securities transactions by Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that for the 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.

AUDIT COMMITTEE

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

The Audit Committee has reviewed the Group's unaudited financial statements for the Period under Review as well as the risk management and internal control system and its implementation.

REVIEW OF ACCOUNTS

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

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

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ZHONGHUI

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 27 to 46 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 2018 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, summary of significant accounting policies 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.

INDEPENDENT REVIEW REPORT

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2 to the interim financial statements which mentions that the Group incurred a loss attributable to owners of the Company of approximately RMB16,362,000 for the six months ended 30 June 2018 and had net current liabilities of approximately RMB238,033,000 as at 30 June 2018. These conditions indicate a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. Our conclusion is not qualified in respect of this matter.

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

25 August 2018

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
REVENUE	4	**392,973**	1,177,300
Cost of sales and services		**(287,437)**	(1,132,460)
Gross profit		**105,536**	44,840
Other income and gains		**4,387**	3,356
Selling and distribution costs		**(19,150)**	(31,043)
Administrative expenses		**(95,890)**	(122,581)
Reversal of allowance for trade receivables		**2,581**	5,490
Other expenses		**(188)**	(839)
Share of profits/(losses) of:			
Joint ventures		**—**	(2,375)
Associates		**1,900**	(4,432)
Impairment loss recognised on property, plant and equipment		**—**	(9,973)
Impairment loss recognised on advance to a joint venture		**—**	(8,943)
Gain on disposal of a joint venture		**—**	1
Gain/(loss) on disposal of a subsidiary	5	**21**	(516)
Finance costs	6	**(25,841)**	(22,973)
LOSS BEFORE TAX	7	**(26,644)**	(149,988)
Income tax (expense)/credit	8	**(945)**	4,696
LOSS FOR THE PERIOD		**(27,589)**	(145,292)
Other comprehensive loss that may be subsequently reclassified to profit or loss:			
Exchange differences reclassified to profit or loss on disposal of subsidiaries		**(1)**	—
Exchange differences on translation of financial statements of foreign operations		**(758)**	(6,638)
		(759)	(6,638)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		**(28,348)**	(151,930)

Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2018

	Notes	Six months ended 30 June 2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		**(16,362)**	(120,262)
Non-controlling interests		**(11,227)**	(25,030)
		(27,589)	(145,292)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		**(17,121)**	(126,900)
Non-controlling interests		**(11,227)**	(25,030)
		(28,348)	(151,930)
LOSS PER SHARE *(RMB cents)*	9		
— Basic		**(0.50)**	(3.67)
— Diluted		**(0.50)**	(3.67)

Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited and restated)
NON-CURRENT ASSETS			
Property, plant and equipment	11	818,718	882,774
Prepaid land lease payments	12	244,695	249,299
Goodwill		2,525	2,525
Deposits paid for acquisition of investments		202,652	203,214
Investment in associates		390,165	386,865
Deferred tax assets		22,193	22,927
		1,680,948	1,747,604
CURRENT ASSETS			
Inventories		206,665	169,906
Trade and bills receivables	13	474,990	428,285
Contract assets		97,809	95,327
Prepayments, deposits and other receivables		187,258	213,978
Prepaid land lease payments		6,193	6,193
Pledged deposits		13,296	20,096
Cash and cash equivalents		28,184	36,065
		1,014,395	969,850
CURRENT LIABILITIES			
Trade and bills payables	14	225,644	152,104
Contract liabilities		58,302	70,348
Other payables and accruals		96,196	119,216
Borrowings	15	856,420	891,883
Tax payable		15,012	15,014
Deferred income		854	854
		1,252,428	1,249,419
NET CURRENT LIABILITIES		(238,033)	(279,569)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,442,915	1,468,035

Condensed Consolidated Statement of Financial Position

As at 30 June 2018

	Notes	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited and restated)
NON-CURRENT LIABILITIES			
Deferred income		5,182	5,609
Deferred tax liabilities		326	343
		5,508	5,952
NET ASSETS		1,437,407	1,462,083
EQUITY			
Equity attributable to owners of the Company			
Issued capital		283,911	283,911
Reserves		1,064,623	1,078,072
		1,348,534	1,361,983
Non-controlling interests		88,873	100,100
Total equity		1,437,407	1,462,083

Condensed Consolidated Statement of Changes In Equity

For The Six Months Ended 30 June 2018

	Attributable to owners of the Company									
	Issued capital	Share premium*	Statutory surplus reserve*	Share option reserve*	Other reserve*	Foreign currency translation reserve*	Accumulated losses*	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2017 (Audited)	283,911	1,230,106	62,484	58,193	(9)	32,041	(45,924)	1,620,802	148,562	1,769,364
Share-based payment (Unaudited)	—	—	—	11,083	—	—	—	11,083	—	11,083
Total comprehensive loss for the period (Unaudited)	—	—	—	—	—	(6,638)	(120,262)	(126,900)	(25,030)	(151,930)
At 30 June 2017 (Unaudited)	283,911	1,230,106	62,484	69,276	(9)	25,403	(166,186)	1,504,985	123,532	1,628,517
At 1 January 2018 (Audited)	**283,911**	**1,230,106**	**62,484**	**70,728**	**(9)**	**16,539**	**(301,776)**	**1,361,983**	**100,100**	**1,462,083**
Share-based payment (Unaudited)	**—**	**—**	**—**	**3,672**	**—**	**—**	**—**	**3,672**	**—**	**3,672**
Total comprehensive loss for the period (Unaudited)	**—**	**—**	**—**	**—**	**—**	**(759)**	**(16,362)**	**(17,121)**	**(11,227)**	**(28,348)**
At 30 June 2018 (Unaudited)	**283,911**	**1,230,106**	**62,484**	**74,400**	**(9)**	**15,780**	**(318,138)**	**1,348,534**	**88,873**	**1,437,407**

* 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 2018

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
NET CASH GENERATED FROM OPERATING ACTIVITIES	**37,694**	30,316
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	—	(42,352)
Additions of prepaid land lease payments	—	(43,734)
Change in pledged deposits	**6,800**	2,492
Other investing cash flows	**8,158**	1,213
Net cash generated from/(used in) investing activities	**14,958**	(82,381)
CASH FLOWS FROM FINANCING ACTIVITIES		
New borrowings	**351,940**	445,473
Repayment of loans	**(387,403)**	(542,750)
Other financing cash flows	**(24,876)**	(22,970)
Net cash used in financing activities	**(60,339)**	(120,247)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(7,687)**	(172,312)
Cash and cash equivalents at beginning of period	**36,065**	228,350
Effect of foreign exchange	**(194)**	(6,455)
Cash and cash equivalents at end of period	**28,184**	49,583

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 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 Group incurred loss attributable to owners of the Company of approximately RMB16,362,000 for the six months ended 30 June 2018 and had net current liabilities of approximately RMB238,033,000 as at 30 June 2018. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Interim Financial Statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the major shareholders, at a level sufficient to finance the working capital requirements of the Group. The major shareholders have agreed to provide adequate funds for the Group to meet its liabilities as they fall due. The directors are therefore of the opinion that it is appropriate to prepare the Interim Financial Statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the Interim Financial Statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

The Interim Financial Statements should be read in conjunction with the 2017 annual consolidated financial statements of the Group. The accounting policies and methods of computation used in the preparation of the Interim Financial Statements are consistent with those used in the annual financial statements for the year ended 31 December 2017 except as stated below.

2. BASIS OF PREPARATION (continued)

(a) Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the timeframe established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets of the Group are classified under the following category:

— Financial assets at amortised cost

(i) Financial assets at amortised cost

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

— the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

— the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

(b) Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost and contract assets. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("lifetime expected credit losses") for trade receivables and contract assets or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables and contract assets) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

2. BASIS OF PREPARATION (continued)

(c) Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

— the customer simultaneously receives and consumes the benefits provided by the Group's performance;

— the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

— the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

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 2018. IFRSs comprise International Financial Reporting Standards; International Accounting Standards and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current period and prior periods.

(a) IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 has been applied retrospectively and resulted in changes in the consolidated amounts reported in the Interim Financial Statements as follows:

	RMB'000
At 31 December 2017:	
Decrease in trade receivables	(95,327)
Increase in contract assets	95,327
Decrease in other payables and accruals	(70,348)
Increase in contract liabilities	70,348

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 2018 (Unaudited)

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:				
Sales to external customers	392,973	—	—	392,973
Intersegment sales	12,478	—	(12,478)	—
Total revenue	405,451	—	(12,478)	392,973
Segment results	22,871	(5,959)		16,912
Interest income				359
Gain on disposal of a subsidiary				21
Unallocated expenses				(18,095)
Finance costs				(25,841)
Loss before tax				(26,644)

4. SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

For the six months ended 30 June 2017 (Unaudited)

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:				
Sales to external customers	424,659	752,641	—	1,177,300
Intersegment sales	8,855	—	(8,855)	—
Total revenue	433,514	752,641	(8,855)	1,177,300
Segment results	(54,048)	(35,622)		(89,670)
Interest income				1,305
Impairment loss recognised on advance to a joint venture				(8,943)
Gain on disposal of a joint venture				1
Loss on disposal of a subsidiary				(516)
Unallocated expenses				(29,192)
Finance costs				(22,973)
Loss before tax				(149,988)

4. SEGMENT INFORMATION (continued)

Disaggregation of revenue from contracts with customers

For the six months ended 30 June 2018 (Unaudited)

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

For the six months ended 30 June 2017 (Unaudited)

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Geographical markets				
Mainland China	419,499	752,641	(8,855)	1,163,285
Other countries	14,015	—	—	14,015
	433,514	752,641	(8,855)	1,177,300
Timing of revenue recognition				
At a point in time	433,514	752,641	(8,855)	1,177,300
	433,514	752,641	(8,855)	1,177,300

4. SEGMENT INFORMATION (continued)

Segment assets

As at 30 June 2018 (Unaudited)

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment assets	**1,988,489**	**33,302**	**—**	**2,021,791**

As at 31 December 2017 (Audited)

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment assets	1,997,203	35,841	—	2,033,044

Segment liabilities

As at 30 June 2018 (Unaudited)

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment liabilities	**381,146**	**3,482**	**—**	**384,628**

As at 31 December 2017 (Audited)

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment liabilities	340,111	3,665	—	343,776

5. GAIN/(LOSS) ON DISPOSAL OF A SUBSIDIARY

Pursuant to an agreement dated 30 April 2018 entered into between a subsidiary of the Company, Gold Apple Holdings Limited ("Gold Apple") and an independent third party (the "Purchaser"), the Group disposed of its 100% interest in a wholly-owned subsidiary, Macao Shengling Commerce & Trade Limited ("Macao Shengli") for a total cash consideration of MOP25,000 resulting in a gain on disposal of a subsidiary of approximately RMB21,000.

6. FINANCE COSTS

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest of borrowings	**25,841**	22,973

7. LOSS BEFORE TAX

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

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Cost of inventories sold*	**224,876**	1,104,324
Cost of services	**62,561**	28,136
	287,437	1,132,460
Employees benefits expenses including directors' remuneration	**48,823**	38,965
Depreciation of property, plant and equipment	**60,865**	58,973
Amortisation of prepaid land lease payments	**3,083**	2,075
Reversal of allowance for trade receivables	**(2,581)**	(5,490)
Operating lease payments	**1,480**	9,193

* Included in the cost of inventories sold is an amount of approximately RMB1,085,000 related to the write down of inventories during the six months ended 30 June 2017.

8. INCOME TAX (EXPENSE)/CREDIT

	For the six months ended 30 June	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current — PRC Enterprise Income Tax ("EIT")		
— Charge for the period	**(227)**	(611)
Current — Hong Kong		
— Charge for the period	**—**	—
— Over-provision in previous year	**—**	3,527
Deferred tax (charge)/credit for the period	**(718)**	1,780
Income tax (expense)/credit	**(945)**	4,696

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for the six months ended 30 June 2018 and 2017. 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 2018 and 2017. 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 2018 and 2017.

9. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

(a) Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the six months ended 30 June 2018 attributable to owners of the Company of approximately RMB16,362,000 (for the six months ended 30 June 2017: approximately RMB120,262,000) and the weighted average number of 3,274,365,600 (for the six months ended 30 June 2017: 3,274,365,600) ordinary shares in issue during the six months ended 30 June 2018.

(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 2018 and 2017 in respect of a dilution as there was no dilutive potential ordinary shares for the Company's outstanding options.

10. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2018 (for the six months ended 30 June 2017: Nil).

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired property, plant and equipment at a total cost of approximately RMB1,907,000 (for the six months ended 30 June 2017: approximately RMB85,168,000).

Property, plant and equipment with a carrying amount of approximately RMB5,097,000 (for the six months ended 30 June 2017: approximately RMB8,000) were disposed by the Group during the six months ended 30 June 2018.

12. PREPAID LAND LEASE PAYMENTS

During the six months ended 30 June 2018, the Group acquired prepaid land lease payments at a total cost of Nil (for the six months ended 30 June 2017: approximately RMB94,799,000).

13. TRADE AND BILLS RECEIVABLES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited and restated)
Trade receivables	569,025	533,916
Less: allowance for impairment of trade receivables	(129,477)	(132,069)
	439,548	401,847
Bills receivables	35,442	26,438
	474,990	428,285

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 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited and restated)
Within 3 months	300,613	314,499
3 to 6 months	58,385	35,101
6 months to 1 year	63,187	20,407
1 to 2 years	9,891	24,311
Over 2 years	7,472	7,529
	439,548	401,847

14. TRADE AND BILLS PAYABLES

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Trade payables	**192,092**	132,104
Bills payables	**33,552**	20,000
	225,644	152,104

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Within 3 months	**124,635**	73,836
3 to 6 months	**30,668**	33,759
6 months to 1 year	**28,951**	17,790
1 to 2 years	**5,003**	4,365
Over 2 years	**2,835**	2,354
	192,092	132,104

The trade payables are non-interest-bearing. The payment terms with suppliers are normally on credit ranging from 90 to 180 days from the time when goods are received from suppliers.

15. BORROWINGS

Borrowings included advances from directors and employees of RMB61,730,000 (31 December 2017: RMB69,380,000) which is unsecured, bears an interest rate of 10% per annum and repayable within one year.

16. COMMITMENTS

(a) Capital commitments

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Contracted, but not provided for	**12,216**	22,834

(b) Investment commitments

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

	30 June 2018 RMB'000 (Unaudited)	31 December 2017 RMB'000 (Audited)
Contracted, but not provided for	**115,720**	117,278

17. RELATED PARTY TRANSACTIONS

(a) Significant related party transactions

During the six months ended 30 June 2018 and 2017, except as disclosed elsewhere in the Interim Financial Statements, the Group had the following material transactions with related parties:

	For the six months ended 30 June	
	2018 RMB'000 (Unaudited)	2017 RMB'000 (Unaudited)
Advances from directors	**2,450**	2,450
Interest expenses to directors	**121**	—

17. RELATED PARTY TRANSACTIONS (continued)

(b) 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	
	2018	2017
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fees	**1,195**	1,149
Salaries, allowances and other benefits in kind	**5,090**	5,720
Social security contributions	**188**	194
Equity-settled share option expense	**1,370**	4,721
	7,843	11,784

18. APPROVAL OF INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 25 August 2018.