



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 2020



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Zhang Bizhuang (*Chief Executive Officer*)

Mr. Wang Kunxian (*Vice President*)

Ms. Han Aizhi (*Vice President*)

Mr. Song Xichen (*Vice President*)

### Non-executive Directors

Mr. Wei Jun (*Chairman*)

Mr. Jiang Yong

### 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. Wei Jun

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)

## LEGAL ADVISER AS TO HONG KONG LAW

Chungs Lawyers in association with

DeHeng Law Offices

## AUDITORS

ZHONGHUI ANDA CPA Limited

Unit 701, 7th Floor, Citicorp Centre

18 Whitfield Road

Causeway Bay, Hong Kong

## SHARE REGISTRARS

**Principal Share Registrar and Transfer Office**

SMP Partners (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](http://www.slogp.com)

# FINANCIAL HIGHLIGHTS

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

# CHIEF EXECUTIVE OFFICER'S STATEMENT

Dear shareholders,

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

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

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

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

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

# CHIEF EXECUTIVE OFFICER'S STATEMENT

In response to the call of the government, the Group encouraged work and production resumption on the precondition of all-round pandemic containment. To increase sales volume, in addition to guaranteeing production of the secured CPTDC Niger-Benin Pipeline Project and CNOOC Shenmu Pipeline Project, Shandong Shengli Steel Pipe Co., Ltd.\* (山東勝利鋼管有限公司) (“**Shandong Shengli Steel Pipe**”), a wholly-owned subsidiary of the Company, proactively explored the social pipeline market and strengthened its cash spot sales business. While keeping track of local high-pressure and sub-high-pressure gas and natural gas pipeline projects, it expanded into the thermal projects and thermal insulation projects. With concerted efforts, it secured a number of cash spot customers in the first half of the year with trading volume reaching approximately 13,700 tonnes.

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

## REMAINING COMMITTED TO SCIENTIFIC RESEARCH AND DEVELOPMENT AND UPGRADING AND TRANSFORMATION

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

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

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

# CHIEF EXECUTIVE OFFICER'S STATEMENT

## **STRENGTHENING SITE MANAGEMENT TO STREAMLINE INVENTORY AND REVITALISE CAPITAL**

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

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

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

## **IMPROVING INTERNAL MANAGEMENT AND CONTROL TO BOOST MANAGEMENT EFFICIENCY**

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

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

# CHIEF EXECUTIVE OFFICER'S STATEMENT

## FUTURE PROSPECTS

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

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

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

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

**Zhang Bizhuang**

*Executive Director & Chief Executive Officer*

\* For identification purpose only



# MANAGEMENT DISCUSSION AND ANALYSIS

## MARKET OVERVIEW

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

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

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

## BUSINESS REVIEW

As one of China’s largest oil and gas pipeline manufacturers offering superior quality products with top-rated facilities, cutting-edge technologies, advanced technique and a comprehensive quality inspection and assurance system, the Group is one of the few domestic suppliers of, among other things, large-diameter pipes designed to sustain the high pressure in long distance transportation of crude oil, refined petroleum and natural gas. It is also the only privately-owned enterprise among a limited number of qualified suppliers for large-scale oil and natural gas pipeline projects in China.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group's major customers are large-scale national petroleum and natural gas enterprises such as CNPC, SINOPEC and CNOOC and their subsidiaries. The Group focuses on the design, manufacturing, anti-corrosion processing and servicing of pipes (including submerged-arc helical welded pipes (“**SAWH Pipes**”) and submerged-arc longitudinal welded pipes (“**SAWL Pipes**”)) used for the transport of crude oil, refined petroleum products, natural gas and other related products. During the first half of the year, due to the construction delay in projects with CNPC, SINOPEC and CNOOC and little progress made in the international market as affected by the COVID-19 pandemic, orders were primarily secured from the social market.

As of 30 June 2020, annual production volume of the Group's SAWH Pipes, SAWL Pipes and ancillary anti-corrosion production line reached 1.00 million tonnes, 300,000 tonnes and 9.60 million square metres, respectively in two main production bases located at Zibo, Shandong and Xiangtan, Hunan. Such capabilities have continued to cement the Group's strengths in technology, production capacity and geographical location as compared to its peers.

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

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

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

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

## FINANCIAL REVIEW

### Revenue

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Cost of sales and services

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

## Gross profit

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

## Other income and gains

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

## Selling and distribution costs

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

## Administrative expenses

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Gain from the disposal of subsidiaries

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

## Non-current assets held for sale

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

## Future plans for material investments and capital assets

During the Period under Review and up to the date of this report, the Group does not have any future plans for material investments and capital assets.

## Finance costs

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

## Total comprehensive loss for the period

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

## Assets and liabilities

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## Net current liabilities

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

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

## Liquidity and financial resources and capital structure

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

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

## Financial management and fiscal policy

During the six months ended 30 June 2020, the Group's revenue, expenses, assets and liabilities were primarily denominated in Renminbi. The Directors consider that the Group currently has limited foreign exchange exposure and has not entered into any hedging arrangement for its foreign exchange risk. The Group will closely monitor the foreign currency movement and will assess the need to adopt any measures in relation to foreign exchange risk from time to time.

## Interim dividend

The Board does not recommend the payment of any interim dividend for the Period under Review (for the six-month period ended 30 June 2019: Nil).

\* For identification purpose only

# REPORT OF THE DIRECTORS

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

As at 30 June 2020, the interests or short positions of the Directors and 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 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 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 2020
Wei Jun	Interest in controlled corporation <sup>(1)</sup>	620,000,000		18.935%
Zhang Bizhuang	Interest in controlled corporation <sup>(2)</sup>	153,130,224		4.677%
Wang Kunxian	Beneficial owner	79,800,000 <sup>(3)</sup>	12,300,000 <sup>(7)</sup>	2.813%
	Interest in controlled corporation <sup>(4)</sup>	26,708,760		0.816%
Han Aizhi	Beneficial owner		9,960,000 <sup>(7)</sup>	0.304%
	Interest in controlled corporation <sup>(5)</sup>	26,708,760		0.816%
Song Xichen	Beneficial owner		10,200,000 <sup>(7)</sup>	0.312%
	Interest in controlled corporation <sup>(6)</sup>	26,708,760		0.816%
Jiang Yong	Beneficial owner		9,960,000 <sup>(7)</sup>	0.304%
Chen Junzhu	Beneficial owner		2,400,000 <sup>(7)</sup>	0.073%
Wu Geng	Beneficial owner		2,400,000 <sup>(7)</sup>	0.073%
Qiao Jianmin	Beneficial owner		2,400,000 <sup>(7)</sup>	0.073%

# REPORT OF THE DIRECTORS

Notes:

- (1) MEFUN GROUP LIMITED holds 620,000,000 shares of the Company (representing 18.935% of the issued shares of the Company). On 17 January 2019, Mr. Wei Jun acquired 28.04%, 28.03% and 9.9% of the issued share capital of MEFUN GROUP LIMITED from RXJ Holding Limited, HZJ Holding Limited and KYM Holding Limited, respectively. Accordingly, Mr. Wei Jun holds 65.97% of the issued share capital of MEFUN GROUP LIMITED. Therefore, Mr. Wei Jun 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) Mr. Zhang Bizhuang holds 79,800,000 shares of the Company, representing 2.437% of the issued shares of the Company.
- (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 2020, 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, 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.



# REPORT OF THE DIRECTORS

## CHARGES ON THE GROUP'S ASSETS

As at 30 June 2020, the bank loans of RMB124,000,000 (31 December 2019: approximately RMB127,000,000) were secured by pledge of certain of the property and plant amounting to approximately RMB86,269,000 (31 December 2019: approximately RMB88,512,000), and certain of the right-of-use asset amounting to approximately RMB75,890,000 (31 December 2019: approximately RMB76,900,000) of the Group.

As at 30 June 2020, an amount of approximately RMB155,160,000 (31 December 2019: approximately RMB155,160,000) out of bank loans of the Group of approximately RMB558,600,000 (31 December 2019: approximately RMB558,600,000) 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 RMB381,949,000 (31 December 2019: approximately RMB374,343,000) and certain of the right-of-use asset amounting to approximately RMB42,132,000 (31 December 2019: approximately RMB42,634,000).

An amount of approximately RMB12,930,000 (31 December 2019: approximately RMB12,930,000) out of bank loans of the Group of approximately RMB30,000,000 (31 December 2019: approximately RMB30,000,000) was guaranteed by a non-controlling shareholder of a subsidiary.

## CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any contingent liabilities (31 December 2019: Nil).

## FOREIGN EXCHANGE RISK

As at 30 June 2020, 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 2020, the Group has employed a work force of 996 employees (including Directors). The total salaries and related costs (including the Directors' fees) amounted to approximately RMB32,001,000 (30 June 2019: approximately RMB33,138,000).

# REPORT OF THE DIRECTORS

## 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 and New Scheme are collectively referred to as the “**Share Option 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 ongoing 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 Listing Rules) of any of the persons referred to in paragraphs (a) to (c) above.

# REPORT OF THE DIRECTORS

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 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 to seek approval from the shareholders of the Company to refresh the Scheme Mandate Limit, saved 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 Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited ("**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.

## REPORT OF THE DIRECTORS

- (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. 300,000 share options held by an employee were lapsed following his departure in 2019. The remaining 21,900,000 share options were lapsed on 9 February 2020 without being exercised.

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. 570,000 share options held by three employees were lapsed following their departure in 2019. 300,000 share options held by two employees were lapsed following their departure in 2020.

## REPORT OF THE DIRECTORS

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. 1,620,000 share options held by three employees were lapsed following their departure in 2019. 420,000 share options held by one employee were lapsed following his departure in 2020.

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. 1,350,000 share options held by one employee were lapsed following his departure in 2019.

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. 6,600,000 share options held by three employees were lapsed following their departure in 2019. 4,800,000 share options held by one employee were lapsed following his departure in 2020.

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. 1,200,000 share options held by an employee were lapsed following his departure in 2018. 1,200,000 share options held by a senior management and 10,200,000 share options held by three employees were lapsed following their departure in 2019. 1,800,000 share options held by two employees were lapsed following their departure in 2020.

On 22 June 2020, the Board granted 77,100,000 share options under the New Scheme to 40 management members and key staff of the Company and its subsidiaries at an exercise price of HK\$0.10 per share. According to the daily quotation sheets issued by the Stock Exchange, the closing price per share on 19 June 2020 (i.e. the last trading day immediately before the date of grant of the share options) and 22 June 2020 (i.e. the date of grant of the share options) was HK\$0.058 and HK\$0.059, respectively.

# REPORT OF THE DIRECTORS

As of 30 June 2020, movements of options granted under the Share Option Scheme are set out below:

Name	Capacity	Exercise price	Outstanding as at 1 January 2020	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30 June 2020	Approximate percentage of the issued share capital of the Company as at 30 June 2020	Notes
<b>Directors</b>									
Zhang Bizhuang	Beneficial owner	HK\$2.03	7,200,000	0	0	7,200,000	0	0%	(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)
Wang Kunxian	Beneficial owner	HK\$2.03	1,500,000	0	0	1,500,000	0	0%	(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	3,000,000	0	0%	(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	1,500,000	0	0%	(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)
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)
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)
<b>Employees</b>									
Employees	Beneficial owner	HK\$2.03	8,700,000	0	0	8,700,000	0	0%	(1)
Employees	Beneficial owner	HK\$0.80	16,230,000	0	0	300,000	15,930,000	0.487%	(2)
Employees	Beneficial owner	HK\$0.50	49,020,000	0	0	420,000	48,600,000	1.484%	(3)
Employees	Beneficial owner	HK\$0.40	41,850,000	0	0	0	41,850,000	1.278%	(4)
Employees	Beneficial owner	HK\$0.40	46,200,000	0	0	4,800,000	41,400,000	1.264%	(5)
Employees	Beneficial owner	HK\$0.415	97,200,000	0	0	1,800,000	95,400,000	2.914%	(6)
Employees	Beneficial owner	HK\$0.10	0	77,100,000	0	0	77,100,000	2.355%	(7)
<b>Total</b>			<b>324,420,000</b>	<b>77,100,000</b>	<b>0</b>	<b>29,220,000</b>	<b>372,300,000</b>	<b>11.370%</b>	

# REPORT OF THE DIRECTORS

## 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.
- (7) 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. 22 June 2020), respectively. These share options are exercisable at HK\$0.10 each according to the rules of the New Scheme during the period from 22 June 2020 to 21 June 2025.

# REPORT OF THE DIRECTORS

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

As at 30 June 2020, 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 <sup>(1)</sup>	620,000,000	18.935%
Wei Jun	Interest in controlled corporation <sup>(2)</sup>	620,000,000	18.935%
Du Jichun	Interest of spouse <sup>(3)</sup>	92,100,000	2.813%
	Interest in controlled corporation <sup>(4)</sup>	153,130,224	4.677%

Notes:

- (1) MEFUN GROUP LIMITED holds 620,000,000 shares of the Company (representing 18.935% of the issued shares of the Company).
- (2) Mr. Wei Jun holds 65.97% of the issued share capital of MEFUN GROUP LIMITED. Therefore, Mr. Wei Jun is deemed to be interested in the shares of the Company held by MEFUN GROUP LIMITED by virtue of the SFO.
- (3) 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 held by Mr. Zhang Bizhuang.
- (4) 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 2020, 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.



# REPORT OF THE DIRECTORS

## 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 2020, 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 under Review or at any time during the Period under Review.

## EVENT OCCURRING AFTER THE PERIOD UNDER REVIEW

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

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2020.

By order of the Board

**Zhang Bizhuang**

*Executive Director & Chief Executive Officer*

4 September 2020

# 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 (the “**Code**”) as set out in Appendix 14 to the Rule Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), and has complied with all code provisions and, where applicable, the recommended best practices.

## COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

## REVIEW OF ACCOUNTS

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters, including the review of the unaudited interim financial statements for the 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



## 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 44 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 2020 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 a 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.

#### **ZHONGHUI ANDA CPA Limited**

*Certified Public Accountants*

#### **Fong Tak Ching**

Practising Certificate Number P06353

Hong Kong

22 August 2020

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

For the six months ended 30 June 2020

	Notes	Six months ended 30 June	
		2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
<b>REVENUE</b>	3	<b>229,279</b>	430,441
Cost of sales and services		<b>(221,318)</b>	(358,274)
<b>Gross profit</b>		<b>7,961</b>	72,167
Other income and gains		<b>6,740</b>	6,489
Selling and distribution costs		<b>(15,358)</b>	(9,663)
Administrative expenses		<b>(75,680)</b>	(80,773)
Reversal of allowance/(Allowance) for trade receivables		<b>3,695</b>	(1,587)
Other expenses		<b>(1,264)</b>	(785)
Share of losses of associates		<b>(143)</b>	(4,511)
Gain on disposal of subsidiaries	4	–	10,429
Impairment loss on non-current assets held for sale	12	–	(24,468)
Finance costs	5	<b>(20,799)</b>	(23,353)
<b>LOSS BEFORE TAX</b>	6	<b>(94,848)</b>	(56,055)
Income tax expense	7	<b>(909)</b>	(1,333)
<b>LOSS FOR THE PERIOD</b>		<b>(95,757)</b>	(57,388)
<b>Other comprehensive income/(loss) that may be subsequently reclassified to profit or loss:</b>			
Exchange differences reclassified to profit or loss on disposal of subsidiaries		–	(10,677)
Exchange differences on translation of financial statements of foreign operations		<b>3,174</b>	234
		<b>3,174</b>	(10,443)
<b>TOTAL COMPREHENSIVE LOSS FOR THE PERIOD</b>		<b>(92,583)</b>	(67,831)
<b>LOSS FOR THE PERIOD ATTRIBUTABLE TO:</b>			
Owners of the Company		<b>(75,216)</b>	(55,358)
Non-controlling interests		<b>(20,541)</b>	(2,030)
		<b>(95,757)</b>	(57,388)

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

For the six months ended 30 June 2020

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

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

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

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

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

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the Company									
	Issued capital	Share premium*	Statutory surplus reserve*	Share option reserve*	Other reserve*	Foreign currency translation reserve*	Retained profits*	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 2019 (Audited)	283,911	1,230,106	62,484	77,513	(9)	26,459	(355,995)	1,324,469	96,452	1,420,921
Share-based payment (Unaudited)	-	-	-	578	-	-	-	578	-	578
Total comprehensive loss for the period (Unaudited)	-	-	-	-	-	(10,443)	(55,358)	(65,801)	(2,030)	(67,831)
Lapsed share options (Unaudited)	-	-	-	(2,381)	-	-	2,381	-	-	-
At 30 June 2019 (Unaudited)	283,911	1,230,106	62,484	75,710	(9)	16,016	(408,972)	1,259,246	94,422	1,353,668
At 1 January 2020 (Audited)	<b>283,911</b>	<b>1,230,106</b>	<b>62,484</b>	<b>76,451</b>	<b>(9)</b>	<b>19,043</b>	<b>(491,826)</b>	<b>1,180,160</b>	<b>63,090</b>	<b>1,243,250</b>
Share-based payment (Unaudited)	-	-	-	18	-	-	-	18	-	18
Total comprehensive loss for the period (Unaudited)	-	-	-	-	-	3,174	(75,216)	(72,042)	(20,541)	(92,583)
Lapsed share options (Unaudited)	-	-	-	(22,837)	-	-	22,837	-	-	-
At 30 June 2020 (Unaudited)	<b>283,911</b>	<b>1,230,106</b>	<b>62,484</b>	<b>53,632</b>	<b>(9)</b>	<b>22,217</b>	<b>(544,205)</b>	<b>1,108,136</b>	<b>42,549</b>	<b>1,150,685</b>

\* 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 2020

	For the six months ended 30 June	
	2020 RMB'000 (Unaudited)	2019 RMB'000 (Unaudited)
<b>Net cash generated from operating activities</b>	<b>54,602</b>	46,001
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(3,985)	(4,926)
Change in pledged deposits	(20,415)	(44,282)
Other investing cash flow	137	1,103
<b>Net cash used in investing activities</b>	<b>(24,263)</b>	(48,105)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
New borrowings	274,000	23,125
Repayment of loans	(277,000)	(36,500)
Repayment of other loans	(61,605)	–
Other financing cash flows	(697)	(24,078)
<b>Net cash used in financing activities</b>	<b>(65,302)</b>	(37,453)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(34,963)</b>	(39,557)
Cash and cash equivalents at beginning of period	99,535	106,076
Effect of foreign exchange	–	157
<b>Cash and cash equivalents at end of period</b>	<b>64,572</b>	66,676

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 1. GENERAL INFORMATION

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

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

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

## 2. BASIS OF PREPARATION

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

These Interim Financial Statements should be read in conjunction with the 2019 annual consolidated financial statements. The accounting policies and methods of computation used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2019.

In the current period, the Group has adopted all the new and revised IFRSs that are relevant to its operations and effective for its accounting year beginning on 1 January 2020. IFRSs comprise International Financial Reporting Standard; International Accounting Standards and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's condensed consolidated interim financial statements and amounts reported for the current period and prior periods.

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

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 3. SEGMENT INFORMATION

### Segment revenue and results

For the six months ended 30 June 2020 (Unaudited)

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

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 3. SEGMENT INFORMATION (Continued)

### Segment revenue and results (Continued)

For the six months ended 30 June 2019 (Unaudited)

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

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 3. SEGMENT INFORMATION (Continued)

### Disaggregation of revenue from contracts with customers

For the six months ended 30 June 2020 (Unaudited)

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

For the six months ended 30 June 2019 (Unaudited)

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

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 3. SEGMENT INFORMATION (Continued)

### Segment assets

As at 30 June 2020 (Unaudited)

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

As at 31 December 2019 (Audited)

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

### Segment liabilities

As at 30 June 2020 (Unaudited)

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

As at 31 December 2019 (Audited)

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

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 4. GAIN ON DISPOSAL OF SUBSIDIARIES

Pursuant to an agreement dated 18 June 2019 entered into between a subsidiary of the Company and an independent third party, the Group disposed of 100% interest in a wholly-owned subsidiary, Shengli Enterprise Holdings Limited together with its wholly-owned subsidiaries, namely Guangdong Shengli Trading Co., Ltd.\* (廣東勝利貿易有限公司) and Zhuhai Hengqin New Area Hongjie Commerce & Trade Development Co., Ltd.\* (珠海市橫琴新區鴻傑商貿發展有限公司) for a total cash consideration of 10,000 Hong Kong Dollars (approximately RMB9,000), resulting in a gain on disposal of subsidiaries of approximately RMB10,429,000 recognized for the six months ended 30 June 2019.

## 5. FINANCE COSTS

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

\* For identification purpose only

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 6. LOSS BEFORE TAX

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

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

## 7. INCOME TAX EXPENSE

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

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for the six months ended 30 June 2020 and 2019. The statutory tax rate of China Petro Equipment Holdings Pte. Ltd., a subsidiary of the Company incorporated in the Republic of Singapore, was 17% for the six months ended 30 June 2020 and 2019. Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the subsidiaries of the Company established in the PRC was 25% for the six months ended 30 June 2020 and 2019.



# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 8. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

### (a) Basic loss per share

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

### (b) Diluted loss per share

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 June 2020 and 2019 in respect of a dilution as there was no dilutive potential ordinary shares for the Company's outstanding options.

## 9. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2020 (for the six months ended 30 June 2019: Nil).

## 10. PROPERTY, PLANT AND EQUIPMENT

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

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

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 11. TRADE AND BILLS RECEIVABLES

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

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

	<b>30 June 2020 RMB'000 (Unaudited)</b>	31 December 2019 RMB'000 (Audited)
Within 3 months	<b>94,880</b>	148,569
3 to 6 months	<b>12,386</b>	28,706
6 months to 1 year	<b>11,548</b>	48,045
1 to 2 years	<b>27,234</b>	72,700
Over 2 years	<b>3,218</b>	23,284
	<b>149,266</b>	321,304

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 12. NON-CURRENT ASSETS HELD FOR SALE

Pursuant to an agreement dated 15 August 2019 entered into between a subsidiary of the Company and an independent third party, the Group will dispose of 45% equity interests in an associate, Shanghai Guoxin Industrial Co., Ltd.\* (上海國心實業有限公司) for a total cash consideration of RMB200,000,000. The investment in the associate has been reclassified as a non-current assets held for sale, resulting in an impairment loss on non-current assets held for sale of approximately RMB24,468,000 recognized for the six months ended 30 June 2019. In this connection, the Group has received a request from the purchaser for a three-month extension for payment of consideration and has consented to the same. As at the date of this report, the transaction has yet to proceed to completion.

## 13. TRADE AND BILLS PAYABLES

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

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

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

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.

\* For identification purpose only

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 14. COMMITMENTS

### (a) Capital commitments

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

	<b>30 June 2020 RMB'000 (Unaudited)</b>	31 December 2019 RMB'000 (Audited)
Contracted, but not provided for	<b>13,394</b>	8,667

### (b) Investment commitments

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

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

## 15. RELATED PARTY TRANSACTIONS

### (a) Significant related party transactions

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

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

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

# NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2020

## 15. RELATED PARTY TRANSACTIONS (Continued)

### (b) Significant related party balances

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

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

### (c) Key management compensation

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

	<b>For the six months ended 30 June</b>	
	<b>2020 RMB'000 (Unaudited)</b>	2019 RMB'000 (Unaudited)
Fees	<b>1,044</b>	975
Salaries, allowances and other benefits in kind	<b>1,508</b>	2,824
Social security contributions	<b>69</b>	139
Share-based payment	–	219
	<b>2,621</b>	4,157

## 16. APPROVAL OF INTERIM FINANCIAL STATEMENTS

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