



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 2021



Contents

<i>Corporate Information</i>	2
<i>Financial Highlights</i>	3
<i>Co-Chief Executive Officer's Statement</i>	4
<i>Management Discussion and Analysis</i>	9
<i>Report of the Directors</i>	14
<i>Corporate Governance</i>	26
<i>Independent Review Report</i>	27
<i>Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income</i>	29
<i>Condensed Consolidated Statement of Financial Position</i>	31
<i>Condensed Consolidated Statement of Changes in Equity</i>	33
<i>Condensed Consolidated Statement of Cash Flows</i>	34
<i>Notes to the Condensed Consolidated Interim Financial Statements</i>	35

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Bizhuang (*Co-Chief Executive Officer*)
(re-designated on 30 June 2021)
Mr. Wang Kunxian (*Vice President*)
Ms. Han Aizhi (*Vice President*)
Mr. Zhang Bangcheng
(appointed on 10 March 2021)
Mr. Song Xichen (*Vice President*)
(resigned on 10 March 2021)

Non-executive Directors

Mr. Wei Jun (*Chairman*)
Mr. Huang Guang (appointed on 10 March 2021)
Mr. Jiang Yong (resigned on 10 March 2021)

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

CO-CHIEF EXECUTIVE OFFICER

Mr. Zhang Liucheng (appointed on 30 June 2021)

COMPANY SECRETARY

Mr. Zhang Feng (appointed on 30 June 2021)
Mr. Hong Kam Le (resigned on 30 June 2021)

AUTHORISED REPRESENTATIVES

Ms. Han Aizhi
Mr. Zhang Feng (appointed on 30 June 2021)
Mr. Hong Kam Le (resigned on 30 June 2021)

REGISTERED OFFICE

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Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEADQUARTERS IN CHINA

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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
Suntera (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 RMB502,823,000, representing an increase of approximately 119.3% when compared to the corresponding period in 2020.
- Gross profit margin for the Period under Review was approximately 11.2%, representing an increase of approximately 7.7 percentage points when compared to the corresponding period in 2020.
- Loss attributable to owners of the Company for the Period under Review amounted to approximately RMB8,960,000, while loss attributable to owners of the Company for the corresponding period in 2020 amounted to approximately RMB75,216,000.
- Basic loss per share attributable to owners of the Company for the Period under Review amounted to approximately RMB0.23 cents, while basic loss per share attributable to owners of the Company for the corresponding period in 2020 amounted to approximately RMB2.30 cents.
- The Board does not recommend the declaration of any interim dividend for the six months ended 30 June 2021 (for the six months ended 30 June 2020: Nil).

CO-CHIEF EXECUTIVE OFFICER'S STATEMENT

Dear shareholders,

On behalf of the board (the “**Board**”) of directors (the “**Directors**”) of the Company, I hereby present to you the unaudited results of the Company and its subsidiaries (collectively, the “**Group**”) for the six months ended 30 June 2021 (the “**Period under Review**”).

During the first half of 2021, the economic prospects of a majority of countries and regions worldwide were subject to great uncertainties as they still suffered from the COVID-19 pandemic. It is currently estimated that global economy will grow by 5.4% in 2021 as compared to a sharp shrink of 3.6% in 2020, and is expected to recover to the pre-pandemic level in 2022 or 2023. Leveraging fruitful anti-pandemic efforts, coupled with popularity of the vaccination program and on-going fiscal and monetary policy support, China’s economy steadily regained momentum and trended upwards. However, it is also noticeable that as the pandemic continues to develop, domestic economic recovery remained imbalanced amid external instabilities and uncertainties, and it takes further efforts to consolidate the foundation for stable economic recovery. In terms of the industry, with the resumption of business activities, the demand for oil and gas across various countries are constantly on the rise. According to the International Energy Agency, demand for oil will basically return to the pre-pandemic level by December 2021. In addition, carbon emissions have attracted global attention, and China also raised the carbon emissions peak and carbon neutrality targets. From the perspective of energy structure transformation, natural gas will continue to play its role in accelerating emission reduction, and thereby contributing to a further increase in demand for natural gas in future.

According to the 2020 energy summary issued by the National Bureau of Statistics on 18 January 2021, China’s natural gas output reached 188.8 billion cubic metres, representing an increase of 9.8% from the previous year with an additional output exceeding 10 billion cubic metres for four consecutive years. Improved energy output in the upper stream will benefit demand for downstream pipes business. The Administrative Measures for the Price of Natural Gas Pipeline Transportation (Provisional)* (《天然氣管道運輸價格管理辦法(暫行)》) and the Measures for the Supervision and Examination of Pricing Cost of Natural Gas Pipeline Transportation (Provisional)* (《天然氣管道運輸定價成本監審辦法(暫行)》) issued by the National Development and Reform Commission (the “**NDRC**”) further optimised the natural gas pipeline transportation price management system and accelerated the progress towards the establishment of a “national pipeline network”, in a move to facilitate the standardised and orderly industry development. Overall, policies have been in place to promote the regulated and rationally competitive industry landscape, which will favour private players with profound experience like the Group. On 22 April 2021, China reiterated its commitments at the Leaders Summit on Climate regarding “striving for carbon emissions peak by 2030 and carbon neutrality by 2060”, signaling that ecology-focused, green and low-carbon development will be the dominant strategy in future. In addition, the National Energy Administration proposed to focus on the implementation plan of improving oil and gas reserve and output, step up capital investment and efforts in exploration, proactively cultivate new drivers for oil and gas reserve and output, strengthen offshore oil and gas development, comprehensively implement oil and gas green production initiatives, and promote energy conservation and carbon reduction in production process. As a result, oil and gas companies will accelerate transformation and the Group will also seek to win relevant pipes orders.



CO-CHIEF EXECUTIVE OFFICER'S STATEMENT

SEIZING NEW PIPELINE CONSTRUCTION OPPORTUNITIES TO ACHIEVE STEADY PROGRESS IN PRODUCTION AND OPERATION

During the Period under Review, with the continuous reopening of production and business operation, large-scale pipeline projects gradually commenced construction. Leveraging its desirable business performances, proactive market exploration, steady production and operation, as well as constant technological upgrade, the Group overcame various difficulties such as the surge in price of steel plates and formulated shrewd schedules to achieve a substantial increase in the production and sales volume and profit of pipes during the Period under Review as compared to the corresponding period of last year.

During the Period under Review, the Group seized opportunities to undertake the projects of China Oil & Gas Pipeline Network Corporation (“**PipeChina**”). Shandong Shengli Steel Pipe Co., Ltd.* (山東勝利鋼管有限公司) (“**Shandong Shengli Steel Pipe**”), a subsidiary of the Company, was shortlisted as a qualified supplier of PipeChina for the first time, and Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) (“**Hunan Shengli Steel Pipe**”), another subsidiary, also won two bid sections underlying approximately 40,000 tons of SAWL pipes and anti-corrosion pipes of PipeChina’s framework bid for 600,000 tons of SAWL pipes.

ESTABLISHING PRESENCE IN THE INSULATION PIPELINE BUSINESS AND SECURING ANOTHER RECORD IN PIPES SPECIFICATION

Shandong Shengli Steel Pipe’s insulation pipes business has met the conditions for commercial production. It has set up a special insulation pipeline sales team to get a thorough understanding of insulation pipeline standards, market environment and competitors for the new insulation spraying winding production line. It also prepared the insulation pipeline price calculation model to set the foundation for future price calculation and bidding preparation.

Besides, Shandong Shengli Steel Pipe achieved another breakthrough in the thermal industry in Henan, the PRC following the execution of the contract for “Anyang Long-distance Heating Pipeline Network Project”* (引熱入安長輸供熱管網工程) in May 2021. The $\Phi 1,620 \times 20$ mm steel pipes with steel grade of L360M used in the project represented steel pipes with the largest diameter and thickness undertaken by Shandong Shengli Steel Pipe so far, and also marked a breakthrough for the thermal industry. Shandong Shengli Steel Pipe meticulously conducted adjustment and production and successfully completed the business order, which not only tested the competence of its employees, but also further validated the capacity of its equipment.

CO-CHIEF EXECUTIVE OFFICER'S STATEMENT

ENHANCING CORPORATE GOVERNANCE LEVERAGING MULTIPLE MEASURES TO REDUCE OPERATING RISKS

The Group improved various systems, and encouraged technical staff and management personnel to proactively carry out minor reforms and rational proposals through the “Incentive Measures for Rational Suggestions and Minor Reforms”* (《合理化建議與小改小革獎勵辦法》). It formulated the “Regulations on the Management of Sales Commissions”* (《銷售提成管理規定》) to increase the commissions of anti-corrosive steel pipes and insulation steel pipes, and raise price difference commissions, so as to achieve comprehensive and reasonable sales incentive mechanism, and further motivate the enthusiasm of sales personnel. The Group improved the incentive mechanism of workload-based allocation and contribution-driven remuneration through the Administrative Measures of Bonus* (《獎金管理辦法》). It refined environmental protection and safety management, established the Responsibility System for Control and Disposal of Hazardous Waste with Environmental Pollution* (《危險廢物污染環境防治責任制度》), optimised the radiation management system, and standardised hazardous waste and radiation management to reduce business risks. It also strengthened operation and maintenance of photovoltaic solar energy projects, and brought into full play of photovoltaic solar energy projects to achieve energy conservation, environmental protection and maximise economic benefits. The Group proactively engaged high-quality transportation companies, and optimised transportation and loading schemes to reduce transportation costs.

In addition, in view of implementation of urban planning in Rizhao, the PRC, Shandong Shengli Steel Pipe, a wholly-owned subsidiary of the Group, entered into the Land Resumption Agreement with local governments in April 2021 to dispose of its idle lands and constructions located in Rizhao, the PRC following several rounds of consultations between the Group and local government authorities to balance comprehensive income, which effectively increased the working capital of the Company.

STRENGTHENING TECHNOLOGICAL INNOVATION AND CAPITALIZING ON AUTOMATIC EQUIPMENT

The Group constantly strengthened its technological innovation capability and enhanced its automation level. It improved the tube pulling machine of the anti-corrosion automatic inkjet printer to reduce the waste of energy and the wear of hydraulic pump; installed remote control handle on the pre-welding arc-extinguishing plate operation table to improve working efficiency and safety; redesigned and improved the adjustment mechanism of forming roll of certain units to achieve simple structure and convenient and accurate adjustment; enhanced the accuracy of welding seam tracking, realised automatic welding seam tracking, and improved the production efficiency and the first pass rate of products to reduce production defects caused by inadequate manual tracking; and achieved the function of automatic steel pipes transportation between the processes of continuous exploration and filming to reduce manpower and labor cost.

During the production of the Shandong Pipeline Network South Trunk Pipeline Natural Gas Pipeline Project* (山東管網南幹線天然氣管道工程), the pre-welding plant of Shandong Shengli Steel Pipe realised the maximum production output of 12 coils per shift. With sufficient material preparation, the number of personnel for the main engine was reduced to 4, and the forming butt achieved whole-process automatic operation of the central control room, giving full play to the advantages of equipment automation and improving productivity.

CO-CHIEF EXECUTIVE OFFICER'S STATEMENT

FUTURE PROSPECTS

Looking into the second half of 2021, global economic recovery is expected to speed up. China's average economic growth in the first half of the year outpaced last year thanks to on-going business reopening, economic structural adjustment and optimisation, enhanced driving force of innovation, overall upgrade of quality and efficiency and improvement of people's livelihood. As of the end of 2020, the tripod landscape in China's oil industry was officially redefined from the dominance by the **"Three Barrels"*** (三桶油), including China Petroleum & Chemical Corporation (**"SINOPEC"**), China National Petroleum Corporation (**"CNPC"**) and China National Offshore Oil Corporation (**"CNOOC"**) in the past to **"Three Barrels plus one Network"*** (三油一網), comprising SINOPEC, CNPC, CNOOC and PipeChina. With the separation of transportation and marketing, the "X+1+X" market system was introduced to the oil and gas industry. Following the establishment of PipeChina, national oil and gas trunk pipeline network will be gradually optimized, which will intensify the crucial role of PipeChina in asset allocation and yield important influence in terms of boosting oil and gas asset allocation efficiency and safeguarding national energy security. It is believed that China's oil and gas pipeline network construction will be substantially accelerated in future, thereby contributing to vigorous development of players at the upper stream and downstream of the oil and gas industry.

In 2021, despite the external negative impacts such as the COVID-19 pandemic, China's oil and gas pipeline industry has made significant progress. In particular, PipeChina took over the relevant oil and gas pipeline assets from the Three Barrels, and major oil and gas pipelines nationwide initially achieved "interconnection" and established "a national pipeline network"; the middle section of the Sino-Russian East Line natural gas pipeline (Changling-Yongqing)* (中俄東線天然氣管道中段(長嶺-永清)) and the Qingdao-Nanjing natural gas pipeline* (青島-南京天然氣管道) have been completed and commenced commercial operation; and the oil and gas consigner mechanism has taken shape, bolstering the fairness and openness of infrastructure.

According to the goal put forward in the Medium and Long-term Oil and Gas Pipeline Network Planning* (《中長期油氣管網規劃》) of the NDRC, the mileage of oil and gas pipeline network is set to reach 240,000 kilometres in 2025 and PipeChina initially proposed to build more than 25,000 kilometres of oil and gas pipelines during the 14th five-year plan (the **"14th Five-year Plan"**) period. In this regard, there is huge demand for pipe construction in the next five years. At present, due to the impact of the COVID-19 pandemic, PipeChina progressed at a slower pace. In order to keep up with schedule and achieve such goal, pipeline network construction is set to gain momentum. The Group believes that it will gain more construction opportunities in future.

During the first half of 2021, the Group also proactively embarked on the new insulation pipeline business, and conducted equipment installation and test run of the production lines. At present, the trial production has been completed with conditions for manufacturing insulation pipes satisfied, and the Group is capable of undertaking business orders. In addition, the Group optimised capital structure through disposal of a parcel of idle land to fuel business development. Moreover, Hunan Shengli Steel Pipe delivered better performances than in previous years and expects to secure more orders in the second half of the year as compared to the corresponding period of last year.

CO-CHIEF EXECUTIVE OFFICER'S STATEMENT

In the second half of 2021, the Group will continue to keep close track of the progress of pipeline construction and strive to secure more large-scale projects. It will proactively assess the performance of each business segment, assets and investment to refine operations, remain focused on principal business and endeavor to enhance core profitability and sustainability in the long term. Moreover, while maintaining steady growth of our principal business of pipes, we will also venture into other business fields along the oil and pipeline industry chain, in a bid to create greater value for the shareholders.

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 & Co-Chief Executive Officer

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

Amid the progress of COVID-19 vaccination and on-going fiscal and monetary support, China posted sound economic performances in the first half of 2021. Analysed on a quarter-by-quarter basis, economic growth increased by 18.3% year-on-year in the first quarter, primarily attributable to the low base effect in the first quarter of 2020 resulting from the hit of the COVID-19 pandemic; and edged up by 7.9% year-on-year in the second quarter. Such financial data demonstrated strong tailwind behind China's economic recovery with gradual reopening of business activities following improvement achieved in COVID-19 pandemic containment. Meanwhile, new waves of virus calls upon continued attention paid to COVID-19 pandemic control during production processes.

China's oil and gas industry witnessed a rebound in market demand and rising oil prices after it suffered harsh shocks in 2020. During the 14th Five-year Plan period, PipeChina initially planned to build more than 25,000 kilometres of oil and gas pipelines. To achieve such goal, PipeChina has been proactively advancing various construction projects since 2021. At present, Hunan Shengli Steel Pipe, a subsidiary of the Group, has entered into the pipes procurement framework agreement with PipeChina and the two parties will conduct in-depth cooperation in the field of oil and gas transportation. In the mid and short term, the oil and gas market and prices will trend stable, while in the long term, domestic oil and gas demands are expected to register continuous rise, which will contribute to enhanced oil and gas exploration efforts and in turn increased number of orders placed with the Group.

In the second half of 2021, although the COVID-19 pandemic still looms over the globe, major economic powers are on the track of gradual business reopening. Benefited from effective anti-pandemic measures taken by the government of the PRC, timely increase of public investment and liquidity support provided by The People's Bank of China, China's economy embraced a strong recovery, which is well-positioned for continual steady growth as further incentive policies supporting small and medium-sized enterprises are expected from the government authorities. Policy demands set to be unlocked at an accelerated pace in the second half of the year, which will drive stable investment increase. According to the 14th Five-year Plan, China's oil and gas pipeline construction market is estimated to reach RMB1,683.5 billion. In 2021, the opening year of the 14th Five-year Plan, PipeChina has basically completed asset integration and commenced construction of key pipeline projects. The Group will get involved in relevant projects in the second half of the year, striving to create values for society and secure better returns for the Company.

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 assurance system, the Group is one of the few domestic suppliers of, among other things, large-diameter pipes designed to sustain the high pressure in long distance transportation of crude oil, refined petroleum and natural gas. It is also the only privately-owned enterprise among a limited number of qualified suppliers for large-scale oil and natural gas pipeline projects in China. The Group focuses on the design, manufacturing, anti-corrosion processing and servicing of 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 relevant products.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Period under Review, Shandong Shengli Steel Pipe, a subsidiary of the Company, was shortlisted as a qualified supplier of SAWH pipes of PipeChina for the first time; and Hunan Shengli Steel Pipe, another subsidiary, secured the business order of approximately 40,000 tons of pipes in PipeChina's framework bid for 600,000 tons of SAWL pipes, which means that the Group has become a qualified supplier of PipeChina. In addition, the Group's major customers also include large-scale national petroleum and natural gas enterprises such as CNPC, SINOPEC and CNOOC and their subsidiaries. During the first half of 2021, the Group completed several large-scale pipeline projects and obtained desirable results in proactive exploration of the social market. Furthermore, the Group also completed the preliminary preparations for insulation pipes business.

As of 30 June 2021, the annual production capacity of the Group's SAWH pipes, SAWL pipes and ancillary anti-corrosion production line reached approximately 1.00 million tonnes, 300,000 tonnes and 9.60 million square metres, respectively.

As of 30 June 2021, pipes manufactured by the Group were used in the world's oil and gas pipelines with a cumulative total length of approximately 32,671 kilometres, of which approximately 94.9% were installed in China while the remaining approximately 5.1% were installed outside China.

During the Period under Review, large-scale pipes projects using SAWH pipes manufactured by the Group included: Shandong Pipeline Network South Trunk Pipeline Natural Gas Pipeline Project of SINOPEC, Xinjiang Coal-based Gas Transmission Pipeline Guangxi Branch Line Project* (新疆煤製氣外輸管道廣西支幹線工程), Yantai Port Crude Oil Pipeline Multiple Tracks Project* (煙台港原油管道復線工程), Wenshui-Xishui Natural Gas Pipeline Project* (溫水—習水天然氣管道工程) and Boshan District High Temperature Water Expansion Project* (博山區高溫水擴容工程).

Large-scale pipe projects using SAWL pipes manufactured by the Group included: Shenmu-Anping Coal-bed Methane Pipeline Project of CNOOC* (神木—安平煤層氣管道工程), Western Guangdong Natural Gas Trunk Pipeline Network Maoming-Yangjiang Trunk Pipeline Project of SINOPEC* (粵西天然氣主幹管網茂名—陽江幹線項目), Guangxi LNG Transmission Pipeline Guilin Branch Line Project* (廣西LNG外輸管道桂林支線工程), Nantian Road Tian'e Longtan Super Bridge Project* (南天路天峨龍灘特大橋項目), Shimenshan-Banqiao Natural Gas Pipeline Project* (石門山—板橋天然氣管道項目) and Natural Gas Supply Pipeline Project for Ningzhou Gas and Electricity Project* (寧洲氣電項目天然氣供應管道工程).

Large-scale pipeline projects using anti-corrosion pipes manufactured by the Group included: Shandong Pipeline Network South Trunk Pipeline Natural Gas Pipeline Project of SINOPEC, Xinjiang Coal-based Gas Transmission Pipeline Guangxi Branch Line Project, Shenmu-Anping Coal-bed Methane Pipeline Project of CNOOC, Yantai Port Crude Oil Pipeline Multiple Tracks Project, Shimenshan-Banqiao Natural Gas Pipeline Project and Yongzhou-Shaoyang County Gas Transmission Pipeline Project* (永州—邵陽縣輸氣管道工程).

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group's unaudited revenue for the Period under Review was approximately RMB502,823,000, which was primarily attributable to the revenue from the Group's core business segment, being the pipes business, representing an increase of approximately 119.3% when compared to that of approximately RMB229,279,000 for the corresponding period of 2020. In particular, (1) sales revenue from SAWH pipes reached approximately RMB269,758,000 (the corresponding period of 2020: approximately RMB125,299,000), representing a year-on-year increase of approximately 115.3%; (2) sales revenue from SAWL pipes reached approximately RMB179,099,000 (the corresponding period of 2020: approximately RMB82,026,000), representing a year-on-year increase of approximately 118.3%; (3) sales revenue from anti-corrosion processing business reached approximately RMB52,265,000 (the corresponding period of 2020: approximately RMB21,954,000), representing a year-on-year increase of approximately 138.1%; and (4) revenue from the trading business reached approximately RMB1,701,000 (the corresponding period of 2020: nil). Such increase was mainly due to gradual resumption of business activities in the PRC with the ease of the negative impact from the COVID-19 pandemic during the Period under Review, contributing to a surge in the sales volume of the pipes business and the anti-corrosion processing business of the Group as compared to the corresponding period of 2020.

Cost of sales and services

The Group's cost of sales and services increased year-on-year by approximately 101.7% from approximately RMB221,318,000 for the six months ended 30 June 2020 to approximately RMB446,330,000 during the Period under Review, primarily attributable to the corresponding increase in cost of sales and services as a result of the surge in the sales volume of the pipes business and the anti-corrosion processing business of the Group during the Period under Review as compared to the corresponding period of 2020.

Gross profit

Gross profit for the Period under Review was approximately RMB56,493,000, while that for the corresponding period of 2020 amounted to approximately RMB7,961,000. Such increase was mainly attributable to the surge in the sales volume of the pipes business and the anti-corrosion processing business of the Group during the Period under Review as compared to the corresponding period of 2020. The Group's gross profit margin increased from approximately 3.5% for the six months ended 30 June 2020 to approximately 11.2% for the Period under Review, which was mainly due to the substantial increase in sales volume of the pipes business and anti-corrosion processing business with higher gross profit margin during the Period under Review as compared to the corresponding period of 2020.

Other income and gains

Other income and gains of the Group increased year-on-year from approximately RMB6,740,000 for the six months ended 30 June 2020 to approximately RMB55,339,000 for the Period under Review. Such increase was primarily due to the fact that the Group received a compensation from the local government authority during the Period under Review due to the resumption of land use rights of a land parcel and the constructions and fixtures thereon located in Rizhao, Shandong Province, the PRC by the local government authority, which contributed to a significant increase in other income and gains as compared to the corresponding period of 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Selling and distribution costs

Selling and distribution costs of the Group increased from approximately RMB15,358,000 for the six months ended 30 June 2020 to approximately RMB20,754,000 for the Period under Review. The increase was principally due to an increase in transportation expenses and bidding service fees for pipelines projects during the Period under Review as compared to the corresponding period of 2020.

Administrative expenses

The Group's administrative expenses increased from approximately RMB75,680,000 for the six months ended 30 June 2020 to approximately RMB92,639,000 for the Period under Review. Such increase was mainly attributable to the fact that the State ceased to reduce the social insurance contributions for small and medium-sized enterprises following the ease of the COVID-19 pandemic and the Group recorded an increase in intermediary service fees during the Period under Review as compared to the corresponding period of 2020.

Share of loss of an associate

During the Period under Review, the Group recorded share of loss of an associate of approximately RMB1,229,000, as compared to approximately RMB143,000 for the corresponding period of 2020.

Finance costs

The Group's finance costs decreased from approximately RMB20,799,000 for the six months ended 30 June 2020 to approximately RMB18,031,000 for the Period under Review. The finance costs mainly came from interest on bank loans.

Total comprehensive loss for the Period under Review

The Group's total comprehensive loss for the Period under Review decreased from a loss of approximately RMB92,583,000 for the six months ended 30 June 2020 to a loss of approximately RMB23,643,000 for the Period under Review.

Assets and liabilities

As of 30 June 2021, the Group's total assets amounted to approximately RMB2,301,222,000 (31 December 2020: approximately RMB2,240,167,000); the Group's net assets amounted to approximately RMB884,923,000 (31 December 2020: approximately RMB857,764,000); net assets per share amounted to approximately RMB0.23, representing a decrease of approximately RMB3 cents when compared to that of 31 December 2020; and the Group's total liabilities amounted to approximately RMB1,416,299,000 (31 December 2020: approximately RMB1,382,403,000). The increase in total liabilities was mainly attributable to the increase in trade and bills payable as of 30 June 2021 as compared to 31 December 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

Net current liabilities

As of 30 June 2021, the Group had net current liabilities of approximately RMB251,182,000, as compared to approximately RMB339,055,000 as at 31 December 2020. The main reason for the decrease in net current liabilities was that sales volume of the Group's pipes business and anti-corrosion business experienced a sharp increase during the Period under Review, and the increase in inventories and trade and bills receivable exceeded that of trade and bills payable and other payables and accruals, leading to a decrease in the net current liabilities of the Group as compared to 31 December 2020.

PipeChina has completely taken over the relevant oil and gas pipeline assets of the Three Barrels and commenced integration and commercial operation. Meanwhile, during the 14th Five-year Plan period, pursuant to the planning of the state, China expects to newly establish over 10,000 kilometres of oil and gas pipeline network each year. As such, the Group will grasp sound development opportunities in the pipes industry and proactively secure more pipes orders. Through reasonable allocation of funds and meticulous operation, the Group is confident to ensure on-going stability of its production and operations and to gradually minimise its net current liabilities.

Liquidity and financial resources

As of 30 June 2021, cash and cash equivalents of the Group amounted to approximately RMB82,219,000 (31 December 2020: approximately RMB113,159,000); and the Group had borrowings of approximately RMB749,600,000 (31 December 2020: approximately RMB780,600,000).

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 of 30 June 2021, the gearing ratio of the Group was approximately 57.2% (31 December 2020: approximately 55.2%).

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 2020: 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 2021, 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/ Chief executives	Capacity	Number of issued ordinary shares held	Number of shares subject to options granted under the Share Option Scheme	Approximate percentage of the issued share capital of the Company as at 30 June 2021
Wei Jun	Interest in controlled corporation ⁽¹⁾	620,000,000		16.003%
Zhang Bizhuang	Interest in controlled corporation ⁽²⁾	153,130,224		3.952%
Wang Kunxian	Beneficial owner	79,800,000 ⁽³⁾	2,400,000 ⁽⁸⁾	2.122%
	Interest in controlled corporation ⁽⁴⁾	26,708,760		0.689%
Han Aizhi	Beneficial owner		2,160,000 ⁽⁸⁾	0.056%
	Interest in controlled corporation ⁽⁵⁾	26,708,760		0.689%
Huang Guang	Beneficial owner		2,400,000 ⁽⁸⁾	0.062%
	Interest in controlled corporation ⁽⁶⁾	600,000,000		15.486%
Chen Junzhu	Beneficial owner		1,200,000 ⁽⁸⁾	0.031%
Wu Geng	Beneficial owner		1,200,000 ⁽⁸⁾	0.031%
Qiao Jianmin	Beneficial owner		1,200,000 ⁽⁸⁾	0.031%
Song Xichen	Interest in controlled corporation ⁽⁷⁾	26,708,760		0.689%
	Beneficial owner		2,160,000 ⁽⁸⁾	0.056%

REPORT OF THE DIRECTORS

Notes:

- (1) Mefun Group Limited holds 620,000,000 shares of the Company (representing approximately 16.003% of the issued shares of the Company) and is the single largest shareholder of the Company. Mefun Group Limited is held as to 65.97% and 34.03% by Mr. Wei Jun and HZJ Holding Limited, respectively. Mr. Wei Jun is the chairman and a non-executive Director of the Company. 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 approximately 3.952% 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 approximately 2.06% of the issued shares of the Company.
- (4) Glad Sharp Limited (“**Glad Sharp**”) holds 26,708,760 shares of the Company, representing approximately 0.689% 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 approximately 0.689% 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) LM Global Asset LP holds 600,000,000 shares of the Company, representing approximately 15.486% of the issued shares of the Company. LM Global Asset LP is managed by its general partner, namely LM Asset Management Corp, which in turn is owned as to 70% by Mr. Huang Guang (one of our non-executive Directors) and 30% by Magic Group (HK) International Holdings Co., Limited. Magic Group (HK) International Holdings Co., Limited is wholly owned by Mr. Zhang Bangcheng (one of our executive Directors). Mr. Huang Guang is therefore deemed to be interested in the shares of the Company held by LM Global Asset LP by virtue of the SFO.
- (7) Winfun Investments Limited (“**Winfun**”) holds 26,708,760 shares of the Company, representing approximately 0.689% 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.
- (8) Underlying shares subject to the share options issued pursuant to the Share Option Scheme (as defined below), some of which were not exercised and expired on 27 January 2021 and 25 April 2021.

Save as disclosed above, as at 30 June 2021, 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.

REPORT OF THE DIRECTORS

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.

CHARGES ON THE GROUP'S ASSETS

As at 30 June 2021, the bank loans of RMB93,000,000 (31 December 2020: approximately RMB124,000,000) were secured by pledge of certain of the property and plant amounting to approximately RMB81,761,000 (31 December 2020: approximately RMB84,023,000), and certain of the land lease amounting to approximately RMB70,561,000 (31 December 2020: approximately RMB72,518,000) of the Group.

As at 30 June 2021, an amount of approximately RMB155,160,000 (31 December 2020: approximately RMB155,160,000) out of bank loans of the Group of approximately RMB558,600,000 (31 December 2020: 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 RMB285,082,000 (31 December 2020: approximately RMB322,935,000) and certain of the land lease amounting to approximately RMB41,283,000 (31 December 2020 approximately RMB41,789,000).

CONTINGENT LIABILITIES

As at 30 June 2021, the Group did not have any contingent liabilities (31 December 2020: Nil).

FOREIGN EXCHANGE RISK

During the Period under Review, 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 2021, the Group has employed a work force of 912 employees (including Directors). The total salaries and related costs (including the Directors' fees) amounted to approximately RMB45,816,000 (30 June 2020: approximately RMB32,001,000).

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**").



REPORT OF THE DIRECTORS

- (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 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. 1,200,000 share options held by one senior management member and 810,000 share options held by five employees were lapsed following their departure in 2020. 660,000 share options held by four employees were lapsed following their departure in 2021.

REPORT OF THE DIRECTORS

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. 3,300,000 share options held by one senior management member were lapsed following his departure in 2020. 1,350,000 share options held by one employee were lapsed following his departure in 2021. The remaining 51,300,000 share options were lapsed on 27 January 2021 without being exercised.

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. 6,600,000 share options held by four employees were lapsed following their departure in 2020. 1,200,000 share options held by one senior management member and 1,200,000 share options held by two employees were lapsed following their departure in 2021. The remaining 42,000,000 share options were lapsed on 25 April 2021 without being exercised.

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 member and 10,200,000 share options held by three employees were lapsed following their departure in 2019. 1,200,000 share options held by one senior management member and 3,600,000 share options held by five employees were lapsed following their departure in 2020. 1,200,000 share options held by one senior management member and 1,200,000 share options held by two employees were lapsed following their departure in 2021.

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. 1,800,000 share options held by four employees were lapsed following their departure in 2020. 450,000 share options held by one employee were lapsed following his departure in 2021.

Taking into account of the Shares available for issue after deducting those which have been exercised or cancelled under the Share Option Scheme, as at 30 June 2021, the total number of Shares available for issue under the Scheme was 257,823,060, representing approximately 6.655% of the issued Shares of the Company of 3,874,365,600 Shares as at the date of this report.

REPORT OF THE DIRECTORS

As at 30 June 2021, movements of options granted under the Share Option Scheme are set out below:

Name	Capacity	Exercise price	Outstanding as at 1 January 2021	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30 June 2021	Approximate percentage of the issued share capital of the Company as at 30 June 2021	Notes
Directors									
Zhang Bizhuang	Beneficial owner	HK\$0.80	1,200,000	0	0	0	1,200,000	0.031%	(1)
Zhang Bizhuang	Beneficial owner	HK\$0.40	4,200,000	0	0	4,200,000	0	0%	(2)
Zhang Bizhuang	Beneficial owner	HK\$0.415	1,200,000	0	0	0	1,200,000	0.031%	(4)
Wang Kunxian	Beneficial owner	HK\$0.80	960,000	0	0	0	960,000	0.025%	(1)
Wang Kunxian	Beneficial owner	HK\$0.40	3,300,000	0	0	3,300,000	0	0%	(2)
Wang Kunxian	Beneficial owner	HK\$0.415	1,200,000	0	0	0	1,200,000	0.031%	(4)
Han Aizhi	Beneficial owner	HK\$0.80	1,200,000	0	0	0	1,200,000	0.031%	(1)
Han Aizhi	Beneficial owner	HK\$0.40	3,300,000	0	0	3,300,000	0	0%	(2)
Han Aizhi	Beneficial owner	HK\$0.415	1,200,000	0	0	0	1,200,000	0.031%	(4)
Chen Junzhu	Beneficial owner	HK\$0.40	1,200,000	0	0	1,200,000	0	0%	(3)
Chen Junzhu	Beneficial owner	HK\$0.415	1,200,000	0	0	0	1,200,000	0.031%	(4)
Wu Geng	Beneficial owner	HK\$0.40	1,200,000	0	0	1,200,000	0	0%	(3)
Wu Geng	Beneficial owner	HK\$0.415	1,200,000	0	0	0	1,200,000	0.031%	(4)
Qiao Jianmin	Beneficial owner	HK\$0.40	1,200,000	0	0	1,200,000	0	0%	(3)
Qiao Jianmin	Beneficial owner	HK\$0.415	1,200,000	0	0	0	1,200,000	0.031%	(4)
Song Xichen	Beneficial owner	HK\$0.80	960,000	0	0	0	960,000	0.025%	(1)
Song Xichen	Beneficial owner	HK\$0.40	3,300,000	0	0	3,300,000	0	0%	(2)
Song Xichen	Beneficial owner	HK\$0.415	1,200,000	0	0	0	1,200,000	0.031%	(4)
Jiang Yong	Beneficial owner	HK\$0.40	1,200,000	0	0	1,200,000	0	0%	(3)(6)
Jiang Yong	Beneficial owner	HK\$0.415	1,200,000	0	0	1,200,000	0	0%	(4)(6)
Employees									
Employees	Beneficial owner	HK\$0.80	14,220,000	0	0	660,000	13,560,000	0.350%	(1)
Employees	Beneficial owner	HK\$0.40	38,550,000	0	0	38,550,000	0	0%	(2)
Employees	Beneficial owner	HK\$0.40	39,600,000	0	0	39,600,000	0	0%	(3)
Employees	Beneficial owner	HK\$0.415	92,400,000	0	0	1,200,000	91,200,000	2.354%	(4)
Employees	Beneficial owner	HK\$0.10	75,300,000	0	0	450,000	74,850,000	1.932%	(5)
Total			292,890,000	0	0	100,560,000	192,330,000	4.964%	

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. 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.
- (2) 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.
- (3) 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.

REPORT OF THE DIRECTORS

- (4) 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.
- (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. 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.
- (6) The share options held by Mr. Jiang Yong underlying 2,400,000 shares were lapsed following his departure on 10 March 2021.

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

As at 30 June 2021, 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 shareholders	Capacity	Number of issued ordinary shares/ underlying shares held	Approximate percentage of the issued share capital of the Company
Mefun Group Limited	Beneficial owner ⁽¹⁾	620,000,000	16.003%
Wei Jun	Interest in controlled corporation ⁽²⁾	620,000,000	16.003%
HZJ Holding Limited	Interest in controlled corporation ⁽³⁾	620,000,000	16.003%
Chen Haili	Interest in controlled corporation ⁽³⁾	620,000,000	16.003%
Yang Zhihui	Interest of spouse ⁽³⁾	620,000,000	16.003%
LM Global Asset LP	Beneficial owner ⁽⁴⁾	600,000,000	15.486%
LMT International Corporation Limited (魯民投國際有限公司)	Interest in controlled corporation ⁽⁴⁾	600,000,000	15.486%
Shandong Private Joint Investment Holding Co., Ltd.* (山東民營聯合投資控股股份有限公司)	Interest in controlled corporation ⁽⁴⁾	600,000,000	15.486%
LM Asset Management Corp	Interest in controlled corporation ⁽⁴⁾	600,000,000	15.486%
Huang Guang	Interest in controlled corporation ⁽⁴⁾	600,000,000	15.486%
Du Jichun	Interest of spouse ⁽⁵⁾	82,200,000	2.122%
	Interest in controlled corporation ⁽⁶⁾	153,130,224	3.952%

REPORT OF THE DIRECTORS

Notes:

- (1) Mefun Group Limited holds 620,000,000 shares of the Company (representing 16.003% 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) HZJ Holding Limited holds 34.03% of the issued share capital of Mefun Group Limited and HZJ Holding Limited is held as to 59% and 12% by Ms. Chen Haili and Mr. Yang Zhihui, respectively. Mr. Yang Zhihui is the spouse of Ms. Chen Haili. Therefore, HZJ Holding Limited, Ms. Chen Haili and Mr. Yang Zhihui are deemed to be interested in the shares of the Company held by Mefun Group Limited by virtue of the SFO.
- (4) LM Global Asset LP is a limited partnership registered under the laws of the British Virgin Islands and holds 600,000,000 shares of the Company, representing 15.486% of the issued shares of the Company. LMT International Corporation Limited is a limited partner of LM Global Asset LP and holds approximately 49.18% of the partnership interest in LM Global Asset LP. LMT International Corporation Limited is wholly owned by Shandong Private Joint Investment Holding Co., Ltd.. The general partner of LM Global Asset LP is LM Asset Management Corp, which is in turn owned as to approximately 70% by Mr. Huang Guang. Therefore, each of Mr. Huang Guang, LM Asset Management Corp, LMT International Corporation Limited and Shandong Private Joint Investment Holding Co., Ltd. is deemed to be interested in the shares of the Company held by LM Global Asset LP by virtue of the SFO.
- (5) Ms. Du Jichun is the spouse of Mr. Zhang Bizhuang. Therefore, 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.
- (6) Goldmics Investments holds 153,130,224 shares of the Company, representing 3.952% 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 2021, 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

During the Period under Review, 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.

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.

REPORT OF THE DIRECTORS

PUBLIC FLOAT

Based on the information that is available to the Company and within the knowledge of the Directors, as at 30 June 2021, 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.

CAPITAL COMMITMENT

Save as disclosed in note 14 to the condensed consolidated interim financial statements, the Group did not have any material capital commitment as at 30 June 2021.

SIGNIFICANT INVESTMENT HELD

The Group had not held any significant investments during the six months ended 30 June 2021.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During the six months ended 30 June 2021, there was no material acquisition or disposal of subsidiaries, associates and joint ventures by the Group.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

There was no definite future plan for material investments or acquisition of material capital assets as at 30 June 2021.

REPORT OF THE DIRECTORS

CHANGE IN DIRECTORS' BIOGRAPHICAL DETAILS UNDER RULE 13.51B(1) OF THE LISTING RULES

Set out below is the latest information of the Directors. The Company has made specific enquiries of all the Directors and each of them confirmed that save as disclosed herein, there is no other change in information of the Directors subject to disclosure pursuant to Rule 13.51B (1) of the Listing Rules since the date of the annual report of the Company for the prior year.

Mr. Chen Junzhu

Independent non-executive Director

Mr. Chen Junzhu has been our independent non-executive Director since May 2013. He currently serves as a partner of the Guangdong Zheng Yuan Public Accountants* (廣東正源會計師事務所). Mr. Chen served as a certified public accountant and senior auditor for Deloitte Touche Tohmatsu CPA Ltd from August 2001 to August 2004. He was an audit manager of the internal audit department in Wal-Mart (China) Investment Co., Ltd. from September 2004 to June 2006. From July 2006 to June 2007, Mr. Chen was a certified public accountant and a manager of transaction advisory service department in Ernst & Young Certified Public Accountants. He has been a partner of the Guangdong Zheng Yuan Public Accountants* (廣東正源會計師事務所) since July 2007. He served as a director and the chief financial officer of Huakang Insurance Agency Co., Ltd.* (華康保險代理有限公司) from September 2011 to September 2014, an independent director and the chairman of the audit committee of Guangdong Tapai Group Co. Ltd.* (廣東塔牌集團股份有限公司), a company listed on the Shenzhen Stock Exchange, from May 2013 to June 2019, an independent director of Shenzhen Genvict Technologies Co., Ltd.* (深圳市金溢科技股份有限公司), a company listed on the Shenzhen Stock Exchange, since 27 March 2020 and an independent director of Guangdong PAK Corporation Co.,Ltd.* (廣東三雄極光照明股份有限公司), a company listed on the Shenzhen Stock Exchange, since 12 May 2021.

Mr. Chen graduated from China Foreign Affairs University with a bachelor's degree in arts in 1998, and graduated from Southwest University of Political Science & Law with a master's degree in law in 2003. Mr. Chen is a member of the Chinese Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants.

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 2021.

By order of the Board

Zhang Bizhuang

Executive Director & Co-Chief Executive Officer

3 September 2021

* For identification purpose only

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

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules as the required standard for securities transactions by Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that during the Period under Review, they have complied with the required standards set out in the Model Code and the code of conduct regarding Directors’ securities transactions.

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

On 24 December 2020 (after trading hours), the Company entered into the subscription agreement with LM Global Asset LP (the “**Subscriber**”), pursuant to which the Subscriber has conditionally agreed to subscribe for, and the Company has conditionally agreed to allot and issue 600,000,000 new Shares under general mandate at the subscription price of HK\$0.1 per Subscription Share, subject to a lock-up period of six months (the “**Subscription**”). The completion of the Subscription took place on 7 January 2021.

Save as disclosed, 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 29 to 48 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 2021 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.

INDEPENDENT REVIEW REPORT

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2 to the condensed consolidated financial information which mentions that the Group incurred a loss attributable to owners of the Company of approximately RMB8,960,000 and as at 30 June 2021 the Group had net current liabilities of approximately RMB251,182,000. These conditions indicate a material uncertainty which may cast doubt on the Company's ability to continue as a going concern. Our conclusion is not modified in respect of this matter.

ZHONGHUI ANDA CPA Limited

Certified Public Accountants

Fong Tak Ching

Practising Certificate Number P06353

Hong Kong

21 August 2021

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
REVENUE	3	502,823	229,279
Cost of sales and services		(446,330)	(221,318)
Gross profit		56,493	7,961
Other income and gains		55,339	6,740
Selling and distribution costs		(20,754)	(15,358)
Administrative expenses		(92,639)	(75,680)
Reversal of allowance for trade receivables		133	3,695
Other expenses		(1,965)	(1,264)
Share of losses of an associate		(1,229)	(143)
Reversal of impairment loss on other receivables		3,927	–
Finance costs	4	(18,031)	(20,799)
LOSS BEFORE TAX	5	(18,726)	(94,848)
Income tax expense	6	(2,738)	(909)
LOSS FOR THE PERIOD		(21,464)	(95,757)
Other comprehensive income/(loss) that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		(2,179)	3,174
		(2,179)	3,174
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		(23,643)	(92,583)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Notes	Six months ended 30 June	
		2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		(8,960)	(75,216)
Non-controlling interests		(12,504)	(20,541)
		(21,464)	(95,757)
TOTAL COMPREHENSIVE LOSS FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		(11,139)	(72,042)
Non-controlling interests		(12,504)	(20,541)
		(23,643)	(92,583)
LOSS PER SHARE (RMB cents)			
	7		
– Basic		(0.23)	(2.30)
– Diluted		(0.23)	(2.30)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	520,244	568,876
Deposits paid for acquisition of investments		200,861	203,040
Investment in an associate		190,860	192,089
Right-of-use assets	9	227,367	234,221
Deferred tax assets		1,615	4,361
		1,140,947	1,202,587
CURRENT ASSETS			
Inventories		381,325	290,778
Trade and bills receivables	10	305,614	283,596
Contract assets		38,245	27,499
Prepayments, deposits and other receivables		285,163	251,267
Pledged deposits		63,381	66,953
Cash and cash equivalents		82,219	113,159
		1,155,947	1,033,252
Non-current assets held for sale	11	4,328	4,328
		1,160,275	1,037,580
CURRENT LIABILITIES			
Trade and bills payables	12	443,769	360,366
Other payables and accruals		38,995	67,575
Contract liabilities		161,032	150,151
Lease liabilities		1,170	1,052
Borrowings		749,600	780,600
Tax payable		15,308	15,308
Deferred income		1,583	1,583
		1,411,457	1,376,635
NET CURRENT LIABILITIES		(251,182)	(339,055)
TOTAL ASSETS LESS CURRENT LIABILITIES		889,765	863,532

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

	Notes	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred income		3,947	4,375
Lease liabilities		610	1,101
Deferred tax liabilities		285	292
		4,842	5,768
NET ASSETS			
		884,923	857,764
EQUITY			
Equity attributable to owners of the Company			
Issued capital	13	334,409	283,911
Reserves		546,856	557,691
		881,265	841,602
Non-controlling interests		3,658	16,162
Total equity		884,923	857,764

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	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 2020 (Audited)	283,911	1,230,106	62,484	76,451	(9)	19,043	(491,826)	1,180,160	63,090	1,243,250
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)	283,911	1,230,106	62,484	53,632	(9)	22,217	(544,205)	1,108,136	42,549	1,150,685
At 1 January 2021 (Audited)	283,911	1,230,106	62,484	38,573	(9)	5,534	(778,997)	841,602	16,162	857,764
Issue of shares (Unaudited)	50,498	-	-	-	-	-	-	50,498	-	50,498
Share-based payment (Unaudited)	-	-	-	304	-	-	-	304	-	304
Total comprehensive loss for the period (Unaudited)	-	-	-	-	-	(2,179)	(8,960)	(11,139)	(12,504)	(23,643)
Lapsed share options (Unaudited)	-	-	-	(15,964)	-	-	15,964	-	-	-
At 30 June 2021 (Unaudited)	334,409	1,230,106	62,484	22,913	(9)	3,355	(771,993)	881,265	3,658	884,923

* 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 2021

	For the six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net cash (used in)/generated from operating activities	(70,431)	54,602
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(8,212)	(3,985)
Proceeds from disposal of items of property, plant and equipment	9,355	–
Proceeds from disposal of items of right-of-use assets	33,000	–
Change in pledged deposits	3,572	(20,415)
Interest received	872	137
Net cash generated from/(used in) investing activities	38,587	(24,263)
CASH FLOWS FROM FINANCING ACTIVITIES		
New borrowings	753,000	274,000
Repayment of loans	(784,000)	(277,000)
New borrowings from non-controlling shareholders of a subsidiary	10,000	–
Repayment to non-controlling shareholders of a subsidiary	(10,000)	–
Repayment of other loans	–	(61,605)
Proceeds from issue of subscription shares	50,498	–
Other financing cash flows	(18,687)	(697)
Net cash generated from/(used in) financing activities	811	(65,302)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(31,033)	(34,963)
Cash and cash equivalents at beginning of period	113,159	99,535
Effect of foreign exchange	93	–
Cash and cash equivalents at end of period	82,219	64,572

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

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 Special Administrative Region (“Hong Kong”) and the People’s Republic of China (the “PRC”) are located at Room 2111, 21st Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong and Zhongbu Town, Zhangdian District, Zibo City, Shandong Province 255082, the PRC, 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 a loss attributable to owners of the Company of approximately RMB8,960,000 and as at 30 June 2021, the Group had net current liabilities of approximately RMB251,182,000. Nevertheless, these condensed consolidated financial statements have been prepared on a going concern basis. The Directors are of the opinion that taking into account of the expected sales of welded steel pipes for oil and gas pipelines after the reporting period, it is appropriate to prepare the condensed consolidated financial statements on a going concern basis.

These Interim Financial Statements should be read in conjunction with the 2020 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 2020.

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 2021. 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

2. BASIS OF PREPARATION (Continued)

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

3. SEGMENT INFORMATION

Segment revenue and results

For the six months ended 30 June 2021 (Unaudited)

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:				
Sales to external customers	501,122	1,701	–	502,823
Intersegment sales	–	–	–	–
Total revenue	501,122	1,701	–	502,823
Segment results	3,715	(1,352)		2,363
Interest income				872
Reversal of impairment loss on other receivables				3,927
Unallocated expenses				(7,857)
Finance costs				(18,031)
Loss before tax				(18,726)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

3. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

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 2021

3. SEGMENT INFORMATION (Continued)

Disaggregation of revenue from contracts with customers

For the six months ended 30 June 2021 (Unaudited)

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Geographical markets				
Mainland China	501,122	1,701	-	502,823
Timing of revenue recognition				
At a point in time	501,122	1,701	-	502,823

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

3. SEGMENT INFORMATION (Continued)

Segment assets

As at 30 June 2021 (Unaudited)

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment assets	1,741,283	16,151	–	1,757,434
Unallocated assets				543,788
Total consolidated assets				2,301,222

As at 31 December 2020 (Audited)

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment assets	1,650,069	3,069	–	1,653,138
Unallocated assets				587,029
Total consolidated assets				2,240,167

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

3. SEGMENT INFORMATION (Continued)

Segment liabilities

As at 30 June 2021 (Unaudited)

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment liabilities	647,927	554	–	648,481
Unallocated liabilities				767,818
Total consolidated liabilities				1,416,299

As at 31 December 2020 (Audited)

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment liabilities	557,194	24,367	–	581,561
Unallocated liabilities				800,842
Total consolidated liabilities				1,382,403

4. FINANCE COSTS

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Interest on borrowings	17,986	20,737
Interest on lease liabilities	45	62
	18,031	20,799

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

5. LOSS BEFORE TAX

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

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Cost of inventories sold	410,500	204,211
Cost of services	35,830	17,107
	446,330	221,318
Employees benefits expenses including directors' remuneration	45,816	32,001
Depreciation of property, plant and equipment	47,744	48,574
Depreciation of right-of-use assets	2,708	2,572
Reversal of allowance for trade receivables	(133)	(3,695)
Reversal of impairment loss recognised on other receivables	(3,927)	–
Short term lease payments	78	156
(Gain)/loss on disposal of property, plant and equipment	(187)	428
Gain on disposal of right-of-use assets	(46,090)	–

6. INCOME TAX EXPENSE

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Current – PRC Enterprise Income Tax (“EIT”)		
– Charge for the period	–	55
Deferred tax	2,738	854
Income tax expense	2,738	909

Hong Kong profits tax was calculated at 16.5% of the estimated assessable profits for the six months ended 30 June 2021 and 2020. 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 2021 and 2020. 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 2021 and 2020.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

7. 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 2021 attributable to owners of the Company of approximately RMB8,960,000 (for the six months ended 30 June 2020: approximately RMB75,216,000) and the weighted average number of 3,854,476,097 (for the six months ended 30 June 2020: 3,274,365,600) ordinary shares in issue during the six months ended 30 June 2021.

(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 2021 and 2020 in respect of a dilution as there was no dilutive potential ordinary shares for the Company's outstanding options.

8. DIVIDEND

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2021 (for the six months ended 30 June 2020: Nil).

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

During the six months ended 30 June 2021, the Group acquired property, plant and equipment at a total cost of approximately RMB8,212,000 (for the six months ended 30 June 2020: approximately RMB3,985,000).

Property, plant and equipment with a carrying amount of approximately RMB9,168,000 (for the six months ended 30 June 2020: approximately RMB566,000) were disposed by the Group during the six months ended 30 June 2021.

Right-of-use assets with a carrying amount of approximately RMB4,336,000 (for the six months ended 30 June 2020: Nil) were disposed by the Group during the six months ended 30 June 2021. Gain on disposal of right-of-use assets of approximately RMB46,090,000 (for the six months ended 30 June 2020: Nil) recognized in other income for six months ended 30 June 2021.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

10. TRADE AND BILLS RECEIVABLES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Trade receivables	303,008	265,344
Less: allowance for impairment of trade receivables	(3,797)	(2,647)
	299,211	262,697
Bills receivables	6,403	20,899
	305,614	283,596

The Group's trading terms with its customers are mainly on credit generally ranging from 90 to 180 days. All bills receivable are due within 90 to 180 days.

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 3 months	211,840	170,274
3 to 6 months	39,854	43,657
6 months to 1 year	24,468	14,303
1 to 2 years	16,881	28,445
Over 2 years	6,168	6,018
	299,211	262,697

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

11. NON-CURRENT ASSETS HELD FOR SALE

Pursuant to an agreement (the “Sale and Purchase Agreement”) dated 15 August 2019 entered into between a subsidiary of the Company and an independent third party (the “Purchaser”), the Group will dispose of 45% equity interests in an associate, being Shanghai Guoxin Industrial Co., Ltd.* (上海國心實業有限公司) (the “Equity Interest”) for a total cash consideration of RMB200,000,000 (the “Disposal”). The associate has been reclassified as a non-current assets held for sale during the year ended 31 December 2019. Due to the adverse effects of the outbreak of COVID-19 on the economy and the corresponding impact on the Purchaser’s business during the year ended 31 December 2020, the Purchaser cannot proceed with the transaction with the Group. The Sale and Purchase Agreement was terminated and the sum of RMB10.1 million deposits received was forfeited by the Group and recognized as other income during the year ended 31 December 2020.

After the Disposal is terminated, considering the deteriorating operating results and the outlook for the business of the associate under the influence of COVID-19 pandemic and the US-China trade dispute, the Group intends to dispose of the 45% equity interests in the associate by way of a public tender process to be carried out via Southern United Assets and Equity Exchange* (南方聯合產權交易中心). A review on the net carrying amount of the net assets of the associate has since been conducted at the request of the Company and an impairment loss has been recognised based on the result of such review. Subsequent to the reporting period, the relevant subsidiary of the Company has entered into a sales and purchase agreement with an independent third party in respect of the Equity Interest for a total cash consideration of RMB4,500,000, the completion of which has taken place on 12 August 2021. The transaction does not have any material impact on the financial position of the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

12. TRADE AND BILLS PAYABLES

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Trade payables	379,057	237,153
Bills payables	64,712	123,213
	443,769	360,366

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Within 3 months	355,068	228,296
3 to 6 months	20,606	1,711
6 months to 1 year	748	2,572
1 to 2 years	2,365	3,110
Over 2 years	270	1,464
	379,057	237,153

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

13. SHARE CAPITAL

	30 June 2021 HK\$'000 (Unaudited)	31 December 2020 HK\$'000 (Audited)
Authorised: 5,000,000,000 ordinary shares of HK\$0.1 each	500,000	500,000
	RMB'000 (Unaudited)	RMB'000 (Audited)
Issued and fully paid: 3,874,365,600 (At 31 December 2020: 3,274,365,600) ordinary shares of HK\$0.1 each	334,409	283,911

A summary of the movements in the issued share capital of the Company is as follows:

	Note	Number of shares in issue	Issued capital HK\$'000	Issued capital RMB'000
At 1 January 2020 (audited), 31 December 2020 (audited) and 1 January 2021 (audited)		3,274,365,600	327,437	283,911
Shares issued	(a)	600,000,000	60,000	50,498
At 30 June 2021 (unaudited)		3,874,365,600	387,437	334,409

Note:

- (a) On 7 January 2021, the Company issued 600,000,000 ordinary new shares at a subscription price of HK\$0.1 per share for a total cash consideration of approximately HK\$60 million.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

14. COMMITMENTS

(a) Capital commitments

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Contracted, but not provided for	17,103	24,674

(b) Investment commitments

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

	30 June 2021 RMB'000 (Unaudited)	31 December 2020 RMB'000 (Audited)
Contracted, but not provided for	87,232	87,295

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

For the six months ended 30 June 2021

15. RELATED PARTY TRANSACTIONS

(a) Significant related party transactions

During the six months ended 30 June 2021 and 2020 the Group had the following material transactions with related parties:

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Interest expenses to non-controlling interests	19	–
Interest expenses to directors	–	91

(b) Key management compensation

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

	Six months ended 30 June	
	2021 RMB'000 (Unaudited)	2020 RMB'000 (Unaudited)
Fees	1,462	1,044
Salaries, allowances and other benefits in kind	1,706	1,508
Social security contributions	223	69
	3,391	2,621

16. APPROVAL OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

These condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 21 August 2021.