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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)

DISCLOSEABLE TRANSACTION

DISPOSAL OF LAND AND PROPERTIES IN RELATION TO LAND RESUMPTION

On 26 April 2021 (after trading hours), Shandong Shengli, a wholly-owned subsidiary of the Company, entered into the Land Resumption Agreement with the Local Authority, pursuant to which Shandong Shengli agreed to surrender and the Local Authority agreed to resume the Resumed Land, Construction and Fixtures at a consideration of an aggregate compensation of RMB64,645,569 payable by the Local Authority to Shandong Shengli.

As all of the applicable percentage ratios (as defined in the Listing Rules) for the Land Resumption is more than 5% but less than 25%, the Land Resumption constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. The Land Resumption therefore is subject to notification and announcement requirements but exempt from Shareholders' approval under Chapter 14 of the Listing Rules.

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The principal terms of the Land Resumption Agreement are summarised as follows:

THE LAND RESUMPTION AGREEMENT

Date

26 April 2021 (after trading hours)

Parties

- (1) Shandong Shengli Steel Pipe Co., Ltd.* (山東勝利鋼管有限公司), a wholly-owned subsidiary of the Company
- (2) Rizhao Economic Technological Development Branch of the Natural Resources and Planning Bureau of Rizhao City, Shandong Province, the PRC * (中國山東省日照市自然資源和規劃局日照經濟技術開發區分局)

Assets to be resumed

Pursuant to the Land Resumption Agreement, the Local Authority will resume, and Shandong Shengli will surrender the Resumed Land, Construction and Fixtures, particulars of which are set out below:

Address:	Building No. 001, No. 101 of Xining Road West and Shanghai Road South, the Development Zone, Rizhao City, Shandong Province, the PRC* and the surrounding area(中國山東省日照市開發區上海路南西寧路西001幢101號等)
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Assets subject to the Land Resumption:	(i) The land use right to the Land; (ii) the construction erected on the Land (“ Construction ”); and (iii) the fixtures of the Company erected on the Land, including structures and attachments (“ Fixtures ”) (collectively, the “ Resumed Land, Construction and Fixtures ”)
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Land area of the Land:	Approximately 66,606.61 square meters
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Gross floor area of the buildings erected on the Land:	Approximately 18,829.77 square meters
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Current land use:	Industrial
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The Construction and Fixtures, which consisting of several buildings and part of a warehouse, are currently idle and hence did not generate any income or revenue for the year ended 31 December 2020.

COMPENSATION AND PAYMENT TERMS

Pursuant to the Land Resumption Agreement, the compensation payable to Shandong Shengli for the Land Resumption is RMB64,645,569. As the Land involved government subsidy which amounted to RMB5,750,000, the parties agreed that such amount shall be deducted from the total compensation and the remaining RMB58,895,569 shall be payable by the Local Authority to Shandong Shengli in cash in two instalments in the following manners:

- (i) RMB33,000,000 shall be paid within 2 days upon the receipt of the approved financial fund by the Local Authority and such amount shall be used principally for repaying the secured loan of the Land; and
- (ii) The remaining amount of RMB25,895,569 shall be paid upon the discharge of the security of the Land, the completion of relocation of the Construction and Fixtures (to the extent applicable) or the issue of declaration to waive the possession of the Construction and Fixtures by Shandong Shengli (as the case may be), the satisfactory inspection by the Local Authority, the delivery of security discharge documents and the execution of land transfer document(s) by both parties and such date shall be no later than 180 days upon the signing of the Land Resumption Agreement.

The amount of compensation for the Land Resumption was agreed after arm's length negotiations between the Local Authority and Shandong Shengli, taking into account the appraised market value of the Land under the approach of land datum value method and market approach, which amounted to approximately RMB25.5 million as at 12 April 2021 (i.e. the date of assessment), as set out in the Land Valuation Report and the appraised market value of the Construction and Fixtures under the cost approach, which amounted to approximately RMB39.1 million, as at 26 August 2020 (i.e. the date of assessment) as set out in the Construction and Fixtures Valuation Report.

The Land Valuation Report and the Construction and Fixtures Valuation Report are prepared by Shandong Tianrui Land and Property Appraisal Consultation Co., Ltd. * (山東天瑞土地房地產評估諮詢有限公司) (“**Shandong Tianrui**”) and DeHeng Land and Property Asset Appraisals and Surveying (Shandong) Co., Ltd. * (德恆土地房地產資產評估測繪(山東)有限公司) (“**DeHeng**”), both of which are independent valuer appointed by the Local Authority and hold the Registration Certificate for Land Appraisal Institutions* (土地評估中介機構註冊證書) and Registration Certificate for Real Estate Appraisal Company in the PRC (房地產估價機構備案證書) respectively.

Taking into account (i) the basis of determining the compensation under the Land Resumption has made reference to the appraised market value of the Resumed Land, Construction and Fixtures; and (ii) the estimated financial gain before tax under the Land Resumption as further particularised in the paragraph headed “Financial Effect of the Land Resumption and Use of Proceeds” in this announcement, the Directors concluded that the aggregate compensation receivable by the Group under the Land Resumption is in the interest of the Company and its Shareholders as a whole and is fair and reasonable.

COMPLETION

Upon surrender of the Land, the Land shall be without any debt, pledge, mortgage and/or other encumbrances.

REASONS FOR AND BENEFITS OF THE DISPOSAL

The Local Authority has advised Shandong Shengli that the Resumed Land, Construction and Fixture is situated within parcels of land that are subject to resumption due to implementation of urban planning.

Due to change in business strategy, the Construction and Fixtures are currently suspended from operation and did not generate any income or revenue for the year ended 31 December 2020. As the Company expects that the compensation payable to the Company can cover the value of the Resumed Land, Construction and Fixtures, the Board is of the view that the Land Resumption would allow the Group to unlock the value of its investment in the Land at a reasonable price in order to realise cash resources and to enhance the liquidity and strengthen the financial position of the Group.

The Directors consider that the Land Resumption Agreement is on normal commercial terms and the terms and conditions of the Land Resumption Agreement are fair and reasonable and are in the interest of the Company and the Shareholders as a whole.

INFORMATION ABOUT THE GROUP AND SHANDONG SHENGLI

The Group is principally engaged in designing, manufacturing, anti-corrosion processing and servicing of pipes used for the transport of crude oil, refined petroleum products, natural gas and other related products.

Shandong Shengli, a wholly-owned subsidiary of the Company, is principally engaged in manufacturing, processing and sale of submerged-arc helical welded pipes pipelines and provision of anti-corrosion service for oil and gas pipelines and other construction and manufacturing applications and trading of commodity.

INFORMATION ABOUT THE LOCAL AUTHORITY

The Local Authority is an institution directly under the Natural Resources and Planning Bureau of Rizhao City, Shandong Province, the PRC* (中國山東省日照市自然資源和規劃局). It is responsible for protecting, managing and allocating natural resources in the Rizhao City, land planning, surveying and mapping.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the Local Authority, a government authority in Rizhao City, Shandong Province, the PRC and its ultimate beneficial owner(s), if any, are Independent Third Parties.

FINANCIAL EFFECT OF THE LAND RESUMPTION AND USE OF PROCEEDS

As at 31 December 2020, the Resumed Land, Construction and Fixtures were stated at a book value of approximately RMB13.1 million in the management account of the Rizhao Branch of Shandong Shengli* (山東勝利鋼管有限公司日照分公司), which has been subsequently audited when preparing the consolidated financial statements of the Company for the year ended 31 December 2020.

The Resumed Land, Construction and Fixtures will be de-recognised from the books of the Group when the Group vacates from, and the Local Authority possesses, the Resumed Land, Construction and Fixtures. The relevant equipment will be de-recognised from the books of the Group if the Group decides not to relocate them to new premises.

It is estimated that there would be a gain before tax of approximately RMB44.2 million under the Land Resumption Agreement (which is estimated based on the compensation amount thereunder, less the net book value of the Resumed Land, Construction and Fixtures as at 31 December 2020, and other related expenses). Such estimated gain was arrived at as if the Land Resumption was completed on 31 December 2020. The actual gain under the Land Resumption Agreement will depend on the net book value of the Resumed Land, Construction and Fixtures attributable to the Group as at the date of completion of the Land Resumption, the net book value of certain office and production equipment not to be relocated and reused, and the actual costs and expenses to be incurred in connection with the Land Resumption, which are yet to be determined as at the date of this announcement. To the best of the Directors' knowledge, information and belief, no material net tax expense is expected to be charged upon the Land Resumption.

The estimated net proceeds expected to be received by the Company from the Land Resumption amounted to approximately RMB27.9 million, being the difference between the consideration receivable from the Land Resumption and the amount for repaying the secured loan of the Land, and deducting the other related direct expenses. It is expected that the net proceeds from the Land Resumption will be utilised as general working capital of the Group.

The above calculation is arrived at on an estimated basis and is for information purpose only. Actual gain from the Land Resumption is subject to assessment and audit upon completion of the transaction.

LISTING RULES IMPLICATIONS

As all of the applicable percentage ratios (as defined in the Listing Rules) for the Land Resumption is more than 5% but less than 25%, the Land Resumption constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules. The Land Resumption therefore is subject to notification and announcement requirements but exempt from Shareholders' approval under Chapter 14 of the Listing Rules.

DEFINITIONS

Unless the context otherwise requires, terms used in this announcement shall have the following meanings:

“Board”	the board of Directors
“Company”	Shengli Oil & Gas Pipe Holdings Limited (勝利油氣管道控股有限公司), a limited liability company incorporated in the Cayman Islands, the shares of which are listed on the main board of the Stock Exchange (Stock code: 1080)
“Construction and Fixtures Valuation Report”	the asset valuation report in respect of the Construction and Fixtures dated 16 September 2020 and prepared by DeHeng
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	person(s) or company(ies) which are not a connected person of the Company
“Land”	a stated-owned land situated in Building No. 001, No. 101 of Xining Road West and Shanghai Road South, the Development Zone, Rizhao City, Shandong Province, the PRC* and the surrounding area (中國山東省日照市開發區上海路南西寧路西001幢101號等), with a total area with land use rights of approximately 66,606.61 square meters and gross floor area of approximately 18,829.77 square meters
“Land Resumption”	the resumption by the Local Authority, and the surrender by Shandong Shengli of the Resumed Land, Construction and Fixtures in consideration of an aggregate compensation of RMB64,645,569 payable by the Local Authority to Shandong Shengli
“Land Resumption Agreement”	the land resumption agreement dated 26 April 2021 entered into between the Local Authority and Shandong Shengli in relation to the Land Resumption
“Land Valuation Report”	the asset valuation report in respect of the Land dated 20 April 2021 and prepared by Shandong Tianrui

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Local Authority”	Rizhao Economic Technological Development Branch of the Natural Resources and Planning Bureau of Rizhao City, Shandong Province, the PRC* (中國山東省日照市自然資源和規劃局日照經濟技術開發區分局), an institution directly under the Natural Resources and Planning Bureau of Rizhao City, Shandong Province, the PRC* (中國山東省日照市自然資源和規劃局)
“PRC” or “People’s Republic of China”	The People’s Republic of China and for the purpose of this announcement excludes Hong Kong, the Macau Special Administrative Region of the People’s Republic of China and Taiwan
“Resumed Land, Construction and Fixtures”	(i) the land use right to the Land; (ii) the construction erected on the Land; and (iii) the fixtures of the Company erected on the Land, including structures and attachments, which are intended to be resumed by the Local Authority pursuant to the Land Resumption Agreement
“RMB”	Renminbi, the lawful currency of the PRC
“Shandong Shengli”	Shandong Shengli Steel Pipe Co., Ltd.* (山東勝利鋼管有限公司), a company established in the PRC with limited liability, and a wholly-owned subsidiary of the Company
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholders”	the holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

By order of the Board
SHENGLI OIL & GAS PIPE HOLDINGS LIMITED
Zhang Bizhuang
Executive Director and Chief Executive Officer

Zibo, Shandong, 26 April 2021

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

Executive Directors: Mr. Zhang Bizhuang, Mr. Wang Kunxian, Ms. Han Aizhi and Mr. Zhang Bangcheng

Non-executive Directors: Mr. Wei Jun and Mr. Huang Guang

Independent non-executive Directors: Mr. Chen Junzhu, Mr. Wu Geng and Mr. Qiao Jianmin

** For identification purpose only*