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

Annual Report 2013

CORPORATE PROFILE

SHENGLI OIL & GAS PIPE HOLDINGS LIMITED (the "Company") is one of the largest oil and gas pipeline manufacturers in China. We focus on the design, manufacturing, value-added processing and servicing of spiral submerged arc welded pipes ("SSAW pipes") and longitudinal submerged arc welded pipes ("LSAW pipes"), that are used to transport crude oil, refined petroleum products, natural gas and other related products.

CONTENT

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Bizhuang
(Chairman and Chief Executive Officer)
Mr. Jiang Yong *(Vice President)*
Mr. Liu Yaohua *(Vice President)*
Ms. Han Aizhi *(Vice President)*
Mr. Song Xichen *(Vice President)*

Non-executive Director

Mr. Yan Tangfeng

Independent non-executive Directors

Mr. Guo Changyu
Mr. Wang Xueyou
Mr. Chen Junzhu, *ACCA, CICPA*
(appointed on 30 May 2013)
Mr. Leung Ming Shu (resigned on 9 April 2013)

AUDIT COMMITTEE

Mr. Chen Junzhu *(Chairman), ACCA, CICPA*
(appointed on 30 May 2013)
Mr. Yan Tangfeng
Mr. Wang Xueyou
Mr. Leung Ming Shu (resigned on 9 April 2013)

REMUNERATION COMMITTEE

Mr. Wang Xueyou *(Chairman)*
Mr. Yan Tangfeng
Mr. Chen Junzhu, *ACCA, CICPA*
(appointed on 30 May 2013)
Mr. Leung Ming Shu (resigned on 9 April 2013)

NOMINATION COMMITTEE

Mr. Guo Changyu *(Chairman)*
Mr. Zhang Bizhuang
Mr. Wang Xueyou

COMPANY SECRETARY

Mr. Hong Kam Le (appointed on 31 December 2013)
Mr. Ng Kam Tsun, Jeffrey
(resigned on 31 December 2013)

AUTHORISED REPRESENTATIVES

Ms. Han Aizhi
Mr. Hong Kam Le (appointed on 31 December 2013)
Mr. Ng Kam Tsun, Jeffrey
(resigned on 31 December 2013)

REGISTERED OFFICE

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

HEADQUARTERS IN CHINA

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

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

LEGAL ADVISER AS TO HONG KONG LAW

Li & Partners

COMPLIANCE ADVISER

Messis Capital Limited

AUDITORS

ZHONGHUI ANDA CPA Limited
21/F., Max Share Centre,
373 King's Road,
North Point,
Hong Kong

SHARE REGISTRARS

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company (Cayman) Limited

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited

LISTING EXCHANGE INFORMATION

Main Board
The Stock Exchange of Hong Kong Limited

STOCK CODE

1080

COMPANY WEBSITE

www.slogp.com

FINANCIAL HIGHLIGHTS

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB2,556,717,000, representing an increase of approximately 33.1% when compared to 2012.
- Gross profit margin was 3.4%, representing a decrease of approximately 0.3 percentage points when compared to 2012.
- Profit attributable to owners of the Company amounted to approximately RMB17,826,000, representing a decrease of approximately 71.6% when compared to 2012.
- Basic earnings per share attributable to owners of the Company were approximately RMB0.72 cents, representing a decrease of approximately 71.5% when compared to 2012.
- The Board of Directors ("the Board") recommends the payment of a dividend of RMB0.125 cents per share, representing a decrease of approximately 81.4% when compared to 2012, which is subject to approval by shareholders at the forthcoming annual general meeting of the Company.

CHAIRMAN'S STATEMENT

Promising start

We believe that we are one of the few suppliers in China producing SSAW pipes and LSAW pipes of large-diameter, high wall thickness, high steel grade and high pressure for the transportation of crude oil, refined petroleum products and natural gas over long distances.

Dear Shareholders,

On behalf of Shengli Oil & Gas Pipe Holdings Limited (the "Company", Shengli Oil & Gas Pipe Holdings Limited together with its subsidiaries, the "Group"), I would like to present the audited results of the Group for the year ended 31 December 2013 to the shareholders.

During the year, recovery in both European and the United States (the "US") economies had been sluggish, the growth rate of gross domestic products ("GDP") of the People's Republic of China (the "PRC" or "China") hit a 14-year low, and uncertainties were looming over the economy at large with activities at every level and of different industries and markets had been affected. Last year, many major pipelines construction projects in China experienced delay which had resulted in the Group's principal business — spiral submerged arc welded pipes ("SSAW pipes") and anti-corrosion services — registering lower sales along with the industry as a whole. Moreover, our new projects were still at investment stage and required substantial amount of capital, thus our cost had been surging considerably. The newly added pre-welding and precision-welding production line also caused higher depreciation charges and thus escalating cost. For the year ended 31 December 2013, the Group reported an year-on-year decline in operating results. However, with the Board overseeing and directing the Group's entire operation,

the Group continued its striving for sustainable development and prosperity, and achieved notable results in, amongst others, our internal management, infrastructure for development and technological application.

FORMATION OF SHENGGUAN GROUP MARKED OUR INITIAL SUCCESS TOWARDS CONGLOMERATE-BASED MANAGEMENT

With the business portfolio of the Group continued to diversify, its production scale expanded further and more subsidiaries being under its control and management, in order to achieve optimisation of resource allocation, well regulated management of subsidiaries and enhanced risk control over investment projects, in June 2013, we completed the name verification, filed and registered with the State Administration for Industry and Commerce* (國家工商行政管理總局) for the incorporation of Shengguan Group* (勝管集團). Shengguan Group was established with the Group's domestic subsidiary, Shandong Shengli Steel Pipe Co., Ltd* (山東勝利鋼管有限公司) ("Shandong Shengli") as its parent company, and controlled five subsidiaries in China which were engaged in the businesses of production, sales, anti-corrosion processing as well as investment and trading. Five operational departments had been set up under Shengguan Group to oversee and support the business of its subsidiaries in the areas of investment supervision, financial management and production technique, amongst others. The formation of Shengguan Group will help rationalise the management procedures, realising synergy from the integration of the Group's coordination and supervising functions with the independent operations of each of the group companies, which shall set us up favourably with a corporate structure headed by our oil and gas pipe principal business and synchronous development of a range of other business lines and to consolidate our leading niche in the market whenever opportunities arise, and ultimately steering the Group towards a future of sustainable, vibrant and stable development.

MARKET EXPANSION AND PRODUCT DIVERSIFICATION FURTHER DRIVEN BY THE COMPREHENSIVE FORMATION OF HUNAN SUBSIDIARY

The high-grade petroleum and gas transmission pipeline project under Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) ("Hunan Shengli") was another major initiative of the Group since the commencement of our pre-welding and precision-welding operation. Phase 1 of this project comprised of a longitudinal submerged arc welded pipes ("LSAW pipes") production line with domestically leading prowess, two

SSAW pipes production lines, a steel pipe external anti-corrosion production line, and a internal coating production line. Hunan Shengli managed to overcome various obstacles in 2013 and basically completed its project development tasks on schedule.

As at the end of 2013, Hunan Shengli had been granted with the license for special equipment manufacturing from the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中國國家質量監督檢驗檢疫總局) as well as the GB/T19001-2008/ISO9001:2008, GB/T24001-2004/ISO14001:2004 and GB/T28001-2011 management system certifications for operational quality, environmental protection, occupational health and safety from the China Classification Society Quality Assurance Ltd. (中國船級社質量認證公司). In February 2014, it was granted by the American Petroleum Institute (API) with the license for using API's trademark as well as the ISO/TS29001, Specification Q1 management system certification on quality management. Such certifications served to recognise its capacity and possession of all required qualifications for the production of high standard State-level major oil and gas transmission pipes. On the other hand, Hunan Shengli had completed the trial production of two SSAW pipes of Φ1219×18.4mm X80 and Φ820×10mm Q235B standards, and two LSAW pipes of Φ762×16mm L245M and Φ1219×26.4mm X80M standards. Its anti-corrosion production line had also completed the trial production of Φ820×10mm Fusion Bonded Epoxy Coasting (FBE) anti-corrosion pipes and Φ820×10mm standard 3PE anti-corrosion pipes. The ancillary facilities such as the office block, laboratory block, staff canteen, staff quarters, godown and warehouse had also commenced operation eventually, thereby paving its way for full-scale production.

The successful conclusion of the construction project of Hunan Shengli marked the overall completion of the construction of the Group's high standard oil and gas transmission pipes production hub in central and southern China, filling up the gap left by the Group in the field of oil and gas transmission LSAW pipes, as well as expanding further of its oil and gas transmission pipes production capacity and the Group's product coverage.

EMPHASIZING ON R&D AND INNOVATION TO TAKE THE GROUP'S TECHNOLOGICAL STANDARD TO ANOTHER LEVEL

Technology plays a key part in the life development of a corporation. The Group has been fully committed to R&D and innovation and investing heavily in technology over the years. In 2013, we achieved various missions that serve to exemplify our strength, and fill in the gaps in the history of the Group's development.

We had commenced in 2013 the joint technical development project for pre-welding and precision-welding production line MES system expansion. Upon completion, we envisaged to realise lean production and quality management in the pre-welding and precision-welding production line, achieve improvement in production process parameters and product quality as well as reduction in production cost. The system is currently under individual equipment trial.

In accordance with the specification requirements of the department of petroleum pipelines construction of China National Petroleum Corporation, the Group succeeded to conduct and conclude the small batch production of Φ1219×16.3mm X90 standard steel pipes for the pre-welding and precision-welding unit. The trial production was conducted by a team formed by various steel and pipes corporations during the course of which the Group came first to deliver in the trial production of such standard steel pipes with top quality, gaining praise and recognition from experts in steel corporations and supervision body, making up for the Group's emptiness in X90 steel pipe mass production. Such achievement would also serve to lay a solid foundation for taking up mass production orders of steel pipes with higher steel grade and enhanced wall thickness.

Both projects had been recognised by the Economics and Information Technology Committee of Shandong (山東省經濟和信息化委員會) as the fourth class of technological innovation projects of Shandong in 2013, and would be eligible to relevant supportive policies by the provincial government.

In 2013, the Group completed various items concerning technological modifications and production process research. We made four applications for utility model patents and one for invention patent, among which two utility model patents had been granted by the State Intellectual Property Office.

BOLSTERING UP SALES EFFORT AND EXPANDING CUSTOMER BASE FOR MORE PROMINENT PERFORMANCE OF MAIN BUSINESS OPERATIONS

Due to delay in some major pipelines construction projects in China, the Group's sales in SSAW pipes registered a decline. Notwithstanding of this, the Group had been actively seeking to diversify its sales channel from the second half of the year, maintaining closer communication with customers and thus the sales performance had seen much improvement afterwards. It had secured some of the State's pipelines construction contracts including, inter alia, the Jinan-Qingdao Dual Line (濟青復線), Shandong Liquefied Natural Gas (LNG) (山東LNG) and Guangdong LNG (廣東LNG). Product volume under contract for the second half stood at 3.3 times of that in the first half of 2013. As at 31 December 2013, product volume under the outstanding contracts amounted to almost 100,000 tonnes.

Looking forward, a stronger momentum in economic recovery might not yet be on the horizon as there are still uncertainties concerning the US's debt ceiling and withdrawal of quantitative easing. Nevertheless, the various reform measures and policies having been promulgated by the PRC government in 2013, among them the open door policy of the pipelines industry, had helped to paint a promising picture for the future of this industry. Judging from the forthcoming implementation of various coal-to-natural gas (煤改氣) projects and Sinopec's proposed sales of its pipelines operation, amongst other developments, we expect the construction of oil and gas pipelines will be undergoing in its full fledge in the coming year. The path of industry reform had not been completely smooth and obstacle-free in the past. However, we understand that there is a very close tie between oil and gas pipelines industry and China's economy, and the construction of oil and gas pipelines is also closely associated with environmental protection issues. Shengli Pipe will continue to focus primarily on the front of technology and process advancement and to pay close attention to the progress of state policies coming into effect, thereby research and develop high quality products supporting sustainable development and make contribution to the pipelines network development of China.

Finally, I would like to take this opportunity to express thanks to shareholders and customers, and to extend heartfelt gratitude to the management and staff for their hard work. The Group will vigorously capture future growth opportunities and continue to create greater value for shareholders.

Zhang Bizhuang
Chairman of the Board & Chief Executive Officer

* *For identification purpose only*

As at the end of December 2013, the Group's SSAW pipes annual production capacity has reached

1,450,000 tonnes,

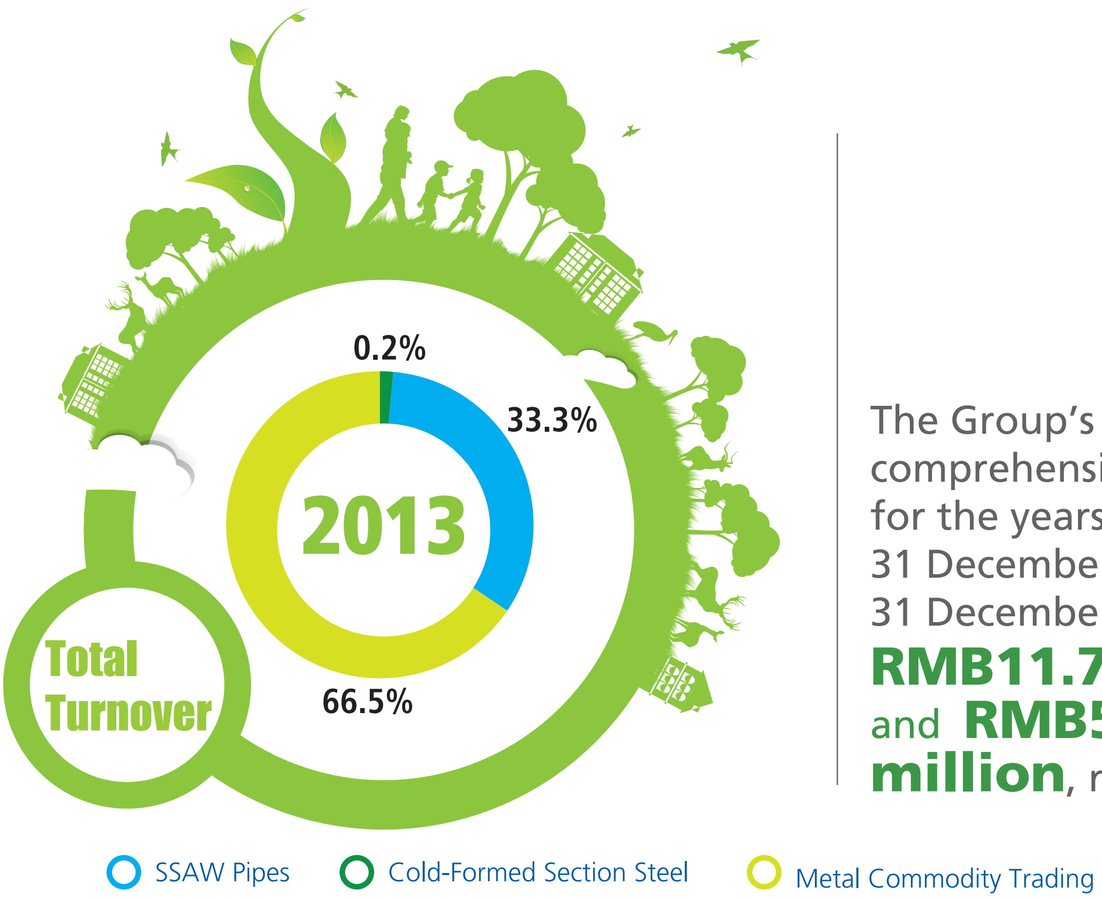
and LSAW pipes annual production capacity was 200,000 tonnes, asserting the Group as one of the largest oil and gas pipelines manufacturers in China.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

2013 marked the first year where the main theme set down in the 18th National Congress of Communist Party of China (CPC) were to be followed and realised. It was also a critical year in building on previous years' efforts and breaking new grounds in implementing the State's "12th Five-Year" Plan.

According to the 18th CPC National Congress' report made in 2012, China was confronting with a series of problems included increasingly scarce resources, the stern situations of severe environmental pollution and a failing ecological system, amongst others. It was stated that China was in urgent need to step up its effort in reviving its ecological system and restoring its natural environment. The State aimed to better manage its total energy consumption through introduction of reforms in both areas of energy production and consumption, to focus more on energy saving and conservation, giving extra support to industries promoting energy saving and low-carbon emission as well as development of renewable energy, thereby ensuring the national security in terms of energy.



The Group's total comprehensive income for the years ended 31 December 2013 and 31 December 2012 were **RMB11.7 million** and **RMB55.6 million**, respectively.

The State Council announced its "12th Five-Year Plan in Energy Development" in 1 January 2013, where it was stated that China would gear up effort in development of energy storage and transportation facilities, push forward the construction of strategic lines and backbone pipeline networks. On the front of crude oil transportation, the State intended to accelerate the construction of Sino-Kazakhstan Pipeline (中哈) in northwest, the Sino-Russian Pipeline (中俄) in northeast and the China-Myanmar Pipeline (中緬) in southwest (which formed the three major developments in onshore crude oil importing pipelines) and also further the development of ancillary pipelines. More focus would also be placed on development of large-scale coastal crude oil terminals and road-side ancillary pipelines in response to demand in offshore oil import. Effort would also be made in further development of outgoing pipelines for refined petroleum in northwestern and northeastern China, so that the major consumption regions (i.e. the eastern, southern, central and southwestern parts of China) would be covered by more comprehensive pipeline networks. The targeted length of new pipelines for crude oil to be added during the "12th Five-Year" Plan period were 8,400 km in total. For new pipelines for refined petroleum, the target length was 21,000 km. On natural gas, the State also intended to pick up the pace in pipeline development in the 4 major import channels namely the northwest (China-Central Asia) (中國-中亞), northeast (Sino-Russian Pipeline) (中俄), southwest (China-Myanmar Pipeline) (中緬) and offshore, forming a skeleton gas transmission network which would incorporate the West to East Natural Gas Pipeline (西氣東輸), the Sichuan-to-East Gas Pipeline (川氣東送), Shaanxi-to-Beijing Gas Pipeline (陝京輸氣管道) as the primary lines that connect the major production areas, consumption areas as well as the storage facilities. Coordination work would also be conducted for the development of coastal LNG receiving station, cross-province lines, gas distribution pipelines and underground storage facilities, availing Yangtze Delta region, Bohai Economic Rim and Sichuan-Chongqing Region with comprehensive natural gas pipeline networks and to substantially complete the regional networks in northeast, Pearl River Delta and central-to-southern region. It targeted to add 44,000 km of new natural gas pipeline during "12th Five-Year" Plan period. The new Guangdong-to-Zhjiang Pipeline (粵浙管綫) of approximately 8,200km planned by Sinopec is under stable progress.

In November 2013, a serious oil leakage and explosion accident took place at the Donghuang oil pipeline under Sinopec Pipeline, Storage and Transportation Branch Company (中石化股份有限公司管道儲運分公司) at Qingdao Economic and Hi-Tech Development Zone in Shandong province. Subsequently, large-scale inspection and maintenance exercises over oil, natural gas and explosive chemicals pipelines had been underway in the entire country. The replacement of those outdated and much worn-out oil and gas pipelines were higher in agenda. Initiatives in city pipeline redevelopment and further progress in oil and gas pipeline network development also had a positive impact in the industry. On the other hand, as incidents like this bear serious implication and consequence and the enormous risks associated with that, it is expected that considerably greater emphasis will be placed on pipeline quality management and risk control. Higher requirement on pipe quality would also imply keener competition within the industry, and players possessing superior technology, quality and stability in their products would be in a even more advantageous position.

BUSINESS REVIEW

With a view to grasping the precious opportunities arising from the development in steel pipe industry, the Group has been taking on the process of production capacity expansion in 2013. The Group not only successfully boosted its SSAW pipes capacity, but also expanded its product mix by additions of new types of LSAW pipe products, which further consolidated the Group's leading position in the industry.

Construction work of the Xiangtan (湘潭) project in Hunan was largely completed during the year. As at the end of December 2013, the Group's SSAW pipes capacity reached 1.45 million tonnes per annum, and the capacity of LSAW pipes was 200,000 tonnes per annum, asserting the Group as one of the largest oil and gas pipelines providers in China.

In addition to reinforcing its principal business, the Group had continued to work on optimisation of its business structure. Since late 2012, the Group had been progressively phasing out its cold-formed section steel operation which was of lower profitability. Subsequently, the entire production facilities, equipment and office attributed to the cold-formed section steel operation had been leased out to the newly formed joint venture for the integration houses business. The conversion arrangement between the discontinued operation and the new undertakings had enabled more efficient use of its existing resources. During the year, the joint venture company completed the redevelopment and modification of its integration houses production facilities and production line, and began to implement its business plan and took on, amongst others, the product design and manufacturing. To date, the joint venture was in the process of product assembly and formation of its sales team. As its "second-string" business division, the metal commodity trading business, which had only been formed last year, also worked intensively in building its own professional sales team and proactively stretched out to expand its sales channel in search for profit growth. The Group expects the metal commodity trading business will assist the Group to fully utilize its resources, complement its steel pipes manufacturing business and maximize earnings for its shareholders.

Followings are analysis of the operation performance by operating segments:

SSAW pipes business

The Group is a leading manufacturer of SSAW pipes designed with large diameter, high wall thickness which can sustain the high pressure in long distance oil and natural gas transportation. With top facilities, advanced technological processes and a comprehensive quality check and assurance system, the Group is the one and only privately owned enterprise among a handful of suppliers in the PRC who were qualified to supplying to major oil and natural gas pipelines projects.

The SSAW pipes business mainly consisted of production, processing of and provision of relevant anti-corrosion services for SSAW pipes which principally used in transmission of oil and natural gas. Major customers included large state-owned oil and gas companies such as CNPC and Sinopec and their subsidiaries. To accommodate the "12th Five-Year" Plan, efforts have been made by the Group in progressively expanding its capacity since 2010. By the end of 2013, it had attained an SSAW pipes production capacity of 1.45 million tonnes per annum.

Through a reasonable distribution of operational presence, the Group's SSAW pipes production plants had now been established in some of the key transportation hubs in China, including Zibo and Dezhou in Shandong province, Urumqi in Xinjiang, and Xiangtan in Hunan. Among these operation units, Shandong Shengli at the Zibo headquarter had five SSAW production lines with total capacity of 520,000 tonnes per annum and a set of pre-welding and precision-welding production line (which stood at forefront of international standard in SSAW pipes technology) with capacity of 360,000 tonnes per annum, adding to that were two external anti-corrosion production lines, and two internal coating production lines with total capacity of 4.80 million sq.m. per annum. Shengli Steel Pipe (Dezhou) Co., Ltd* (勝利鋼管(德州)有限公司) ("Dezhou Shengli") had four SSAW production lines with total capacity of 120,000 tonnes per annum and an external anti-corrosion production line with capacity of 1.20 million sq.m. per annum. Xinjiang Shengli Steel Pipe Co., Ltd.* (新疆勝利鋼管有限公司) ("Xinjiang Shengli") in Urumqi, Xinjiang had an SSAW production line with capacity of 150,000 tonnes per annum and also an external anti-corrosion production line and an internal anti-corrosion production line which combined to offer anti-corrosion services at an capacity of 2.40 million sq.m. per annum. Hunan Shengli at Xiangtan, Hunan completed construction of two SSAW production lines with total capacity of 300,000 tonnes per annum and one external anti-corrosion and one internal coating production lines with total capacity of 2.40 million sq.m. per annum.

As at 31 December 2013, SSAW pipes produced by the Group comprised approximately 23,800 km of the total length of the world's major oil and gas pipelines, of which 94% have been installed domestically in China and the remaining 6% have been installed overseas.

During the year, the Group took part in the production of a number of SSAW national pipeline projects, including, amongst others, the Tanzania Pipeline (坦桑尼亞管線), the Shandong LNG Pipeline (山東LNG), the Guangxi LNG Pipeline (廣西LNG), the China-Asia Line C (中亞C綫), the east section of the Third West to East Natural Gas Pipeline (西氣東輸三線東段), the Jinan-Qingdao Dual Line (濟青復線), the Donghuang Oil Dual Pipeline (東黃(復綫)), the Yizheng-Jiujiang and Tai-Qing-Wei Pipeline (儀征 — 九江及泰青威綫). The major regional pipeline projects that it participated in were, among others, the Yantai Port-Zibo Pipeline (烟台港 — 淄博), the Hebei Natural Gas Pipeline (河北天然氣管線) and the Shanxi Natural Gas Pipeline (山西天然氣管線). The major pipeline anti-corrosion service projects it undertook were, amongst others, the China-Asia Line C (中亞C綫), the Tanzania Pipeline (坦桑尼亞管線), the Yantai Port-Zibo Pipeline (烟台港 — 淄博), the Third West to East Natural Gas Pipeline (西氣東輸三線), the Qingtie Pipeline (慶鐵綫), the Jinan-Qingdao Line (濟青綫), and the Shanxi Natural Gas Pipeline (山西天然氣).

For the year ended 31 December 2013, the total revenue of the SSAW pipes business was RMB852,310,000 (for the year ended 31 December 2012: RMB1,433,322,000), accounting for approximately 33.3% of the Group's total revenue (2012: 74.6%). This revenue comprised of the followings: (1) sales of SSAW pipes of RMB702,813,000 (2012: RMB1,346,927,000), representing a decrease of 47.8% from last year, which was mainly attributable to delay in construction work of a number of State-standard major oil and gas pipeline projects contributing to lower sales volume in SSAW pipes; (2) SSAW pipes processing service income of RMB29,836,000 (2012: RMB1,191,000),

representing an increase of 2,405.1% from last year, which was mainly attributable to a significant increase in State pipeline construction materials processing orders placed by Sinopec which were secured in second half of the year; (3) anti-corrosion processing service income of RMB119,661,000 (2012: RMB85,204,000), representing an increase of 40.4% when compared to last year, which was mainly attributable to increase in sales of anti-corrosion services.

Metal commodity trading business

In order to fully utilize the business chain capacity of our existing customers and other storage resources available, the Group set up a wholly-owned subsidiary in July 2012 to be engaged in the metal commodity trading business. By working intensively in building a professional sales team and in expanding its sales channel, the size of the metal commodity trading business has been scaling up. For the year ended 31 December 2013, revenue approximately RMB1,700,350,000 (2012: RMB399,385,000) and the gross profit approximately RMB57,116,000 (2012: RMB4,389,000). The Group not only would expect profit contribution from the metal commodity trading business, but that it would help consolidate, expand and deepen its relationship with pipeline business-related customers and domestic and international financial institutions, which in turn will introduce a well-organized sales platform for pipelines export in future and achieve its goal to bring benefit to both sides of the relationships.

Other business

To mitigate the risk of concentration in a single product, the Group had been actively exploring new investment opportunities with an aim to transforming itself into a conglomerate-type of enterprise where SSAW pipes and anti-corrosion services would remain as its core business, with diversification into other business lines. In September 2012, the Group entered into a shareholder agreement with four other companies (including Prodigy International Limited) for the formation of Dome Integration Housing Industrial Holding Co. Ltd. (where the Group was to own 40% of equity interest), as well as the establishment of two domestic wholly-owned subsidiaries namely, Prodigy Dome Integration Housing Production (Shandong) Co., Ltd. (普帝龍哆咪集成房屋製造(山東)有限公司) ("Dome (Shandong)") and Prodigy Dome Integration Housing Sales (Chonqing) Co., Ltd. (普帝龍哆咪集成房屋營銷(重慶)有限公司) ("Dome (Chonqing)") for the design, production, assembly and sales of dome integrated housings. During the year, Dome (Shandong) had completed the construction and modification work of its production line, and commenced production and sales of expandable polystyrene modules (EPS modules). Registration of Dome (Chonqing) had been completed at the end of the year, and the formation of an integration housing assembly and sales team is currently underway.

FUTURE PROSPECT

Looking forward, due to delay in a number of major pipeline projects in 2013, it is expected that Sinopec and CNPC might push forward their pipelines construction projects in 2014 in attempt to catch up with the schedules.

Pivoting on edges in aspects ranging from capacity advantage, geographical advantage and new pre-welding and precision-welding technology, the Group will actively seize the business opportunities emerging from the rapid growth of the industry to ensure the steady growth of the earnings of the Group in the future.

The Group will provide support for the due commencement of production of Hunan Shengli's LSAW pipe production line with capacity of 200,000 tonnes, thereby diversifying its product portfolio, and meeting various needs of its existing customers.

Leveraging on our rich experience in supplying products for a number of long-distance and cross-border oil and gas pipelines, capacity advantage and geographical advantage, the Group will focus in pursuing additional contracts from national oil and gas pipelines projects. It will also vigorously look to gain extra market share in the regional branch pipeline segment and urban pipeline network, as well as further its presence in the international market.

Furthermore, with the solid foundation of the existing oil and gas pipeline products, the Group will progressively seek for expansion in the metal commodity trading business, to step up its sales effort in integration housing business. Such strategy will enable us to grow into a promising and versatile enterprise that is based on oil and gas transmission pipe products and supported by related industries, which will help us ensure a steady growth in our overall earnings, and ultimately bring substantial value to our shareholders.

FINANCIAL REVIEW

Revenue

The Group's revenue for the year ended 31 December 2013 was RMB2,556,717,000, representing an increase of approximately 33.1% when compared to RMB1,920,855,000 in 2012. In 2013, construction works of a number of major national oil and gas pipeline projects had been delayed, causing revenue from SSAW pipes segment tumble by 40.5%. Meanwhile, the Group had discontinued the cold-formed section steel production segment during the year as part of its business structure optimisation process, thus segmental revenue from cold-formed section steel operation declined by 95.4%. Through building of a professional sales team and expansion of sales channel, the metal commodity trading segment, newly established in last year, achieved robust development and recorded a 325.7% increase in segment revenue for the year and stood out as the major driver for revenue growth. For the year ended 31 December 2013, amongst the Group's major business segments, (1) SSAW pipes business reported revenue of RMB852,310,000 (2012: RMB1,433,322,000); (2) cold-formed section steel business recorded a revenue of RMB4,057,000 (2012: RMB88,148,000); and (3) the metal commodity trading business recorded a revenue of RMB1,700,350,000 (2012: RMB399,385,000).

Cost of sales

The Group's cost of sales increased by approximately 33.5% from RMB1,850,284,000 for the year ended 31 December 2012 to RMB2,470,787,000 for the year ended 31 December 2013. While the costs of sales for both SSAW pipes and cold-formed section steel businesses had reduced along with the scaling-down of their production and sales volumes, the rapid expansion of metal commodity trading business, which commanded a larger share in total revenue for this year, had reported an increase in cost of sales in line with its sales growth, resulting in a surge of overall cost of sales. During the year ended 31 December 2013, amongst the Group's principal business segments, (1) cost of sales for SSAW pipe business was RMB823,833,000 (2012: RMB1,371,246,000); (2) cost of sales for cold-formed section steel was RMB3,721,000 (2012: RMB91,377,000); and (3) cost of sales for metal commodity trading business was approximately RMB1,643,233,000 (2012: RMB387,661,000).

Gross profit

The gross profit of the Group increased from RMB70,571,000 for the year ended 31 December 2012 to RMB85,930,000 for the year ended 31 December 2013. While gross profit grew by 21.8% from last year, gross profit margin slipped by 0.3 percentage points, from 3.7% for the year ended 31 December 2012 to 3.4% for the year ended 31 December 2013. The decrease in gross margin was primarily due to higher production cost for SSAW pipes business and an increased contribution from metal commodity trading business that commanded a lower profit margin, which had resulted in generally lower gross profit margin. Regarding SSAW segment, the processing services of SSAW pipes accounted for approximately 62.5% (2012: 0.1%)of its gross profit, while anti-corrosion services accounted for approximately 41.1% (2012: 2.8%) and -3.6% of the sales (2012: 97.1%).

Other income and gains

Other income and gains of the Group decreased from RMB155,609,000 for the year ended 31 December 2012 to RMB135,433,000 for the year ended 31 December 2013, which was attributable to no government subsidy being granted and substantial reduction in interest income for the year ended 31 December 2013.

Selling and distribution expenses

Selling and distribution expenses of the Group increased from RMB22,946,000 for the year ended 31 December 2012 to RMB31,075,000 for the year ended 31 December 2013. The increase in selling and distribution expenses was mainly attributable to higher selling and distribution expenses incidental to the swift expansion in metal commodity trading business. Moreover, as the Company was required to bear the transportation cost according to some of its SSAW pipes contracts, consequently driving up selling expense.

Administrative expenses

The Group's administrative expenses increased by 14.5% from RMB84,380,000 for the year ended 31 December 2012 to RMB96,625,000 for the year ended 31 December 2013. The increase was mainly attributable to following factors: Hunan Shengli substantially completed its steel pipes construction project only at the end of the year; the capacity of Xinjiang Shengli had yet to be fully deployed; the expeditious expansion of metal commodity trading business brought about an increase in administrative expenses for the year. The administrative expenses during the year primarily comprised of labor cost of RMB20,920,000 and shutdown expenses of RMB18,213,000.

Finance costs

The Group incurred finance costs of RMB58,367,000 for the year ended 31 December 2013 (2012: RMB36,053,000), representing an increase of 61.9% from 2012. The finance costs exclusively comprised of interest incurred by bank and other loans of the Group. In order to meet the funding requirements for the expansion plans of product capacity of SSAW pipes and the metal commodity trading segment, the Group's borrowings increased by 57.8% from RMB988,461,000 in 2012 to RMB1,559,618,000 in 2013 and had resulted in higher finance costs.

Income tax expenses

As a foreign invested enterprise, Shandong Shengli (being the major operating entity and a wholly-owned subsidiary of the Group) is eligible for certain tax holidays and concessions, namely, two-year exemption from PRC enterprise income tax starting from 2008, which was the Group's first profitable year and followed by a 50% deduction on PRC enterprise income tax for the three years from 2010 to 2012. Beginning from 2013, Shandong Shengli is subject to an enterprise income tax rate of 25%.

Income tax expenses for the year ended 31 December 2013 was RMB11,699,000, representing a decrease of 28.5% from the previous year (2012: RMB16,371,000). The decrease was mainly attributable to decline in profit.

Profit for the year

To sum up, with a dip in revenue from SSAW pipes business due to delay in major oil and gas pipelines construction projects in China, various costs arising from the newly started projects of the Group, including construction cost, depreciation charge on pre-welding and precision-welding production lines and finance costs increased. Meanwhile, the shrink in one-off government subsidy and other income and gains had all contributed to a decrease in total comprehensive income for the year as compared with last year. The audited consolidated profit for the year ended 31 December 2013 was RMB11,688,000, representing a decrease of 79.0% from last year (2012: RMB55,588,000).

CAPITAL EXPENDITURE

The Group incurred capital expenditure for the acquisition of property, plant and equipment, expansion of production facilities and purchase of machinery for the manufacture of steel pipe products. Capital expenditure during each of the two years ended 31 December 2012 and 2013 were primarily related to the purchase of property, plant and equipment.

The following table sets forth the capital expenditure of the Group:

	2013 (RMB'000)	2012 (RMB'000)
Purchase of property, plant and equipment	**210,757**	335,793
Prepaid land lease payments	**14,886**	108,089
	225,643	443,882

INDEBTEDNESS

Borrowings

The following table sets forth information of the loans of the Group:

	2013 (RMB'000)	2012 (RMB'000)
Borrowings:		
Bank loans — unsecured	**635,000**	423,800
Bank loans — secured	**542,240**	188,333
Current portion of long-term bank loans — unsecured	**98,378**	354,328
Other loan — unsecured	**200,000**	—
Bank loans — guaranteed	**84,000**	22,000
Total	**1,559,618**	988,461

The following table sets forth the annual interest rates of the Group's borrowings:

	2013 %	2012 %
Effective interest rate per annum	**2.27 to 6.88**	2.76 to 6.00

As at 31 December 2013, the borrowings of the Group amounted to RMB1,559,618,000 (2012: RMB988,461,000).

Details of the Group's borrowings as at 31 December 2013 are set out in note 33 of the financial statements.

The following discussion should be read in conjunction with the Group's financial information and its notes, which are included in this annual report.

Financial management and fiscal policy

During the year ended 31 December 2013, the Group's turnover, expenses, assets and liabilities were primarily denominated in Renminbi. The Directors consider that the Group currently has limited foreign currency exposure and has not entered into any hedging arrangement for its foreign currency risks. The Group will closely monitor the foreign currency movement and will assess the need to adopt any measures in relation to foreign currency risks from time to time.

Utilisation of IPO proceeds

The net proceeds obtained by the Group from the IPO were approximately RMB1,098,500,000. After the exercise of over-allotment option on 13 January 2010, the net proceeds of the IPO increased to RMB1,269,900,000. As at 31 December 2013, RMB766,657,000 out of total net proceeds from the IPO has been utilised in the manner specified in the Company's prospectus dated 9 December 2009 ("Prospectus") and the balance of RMB503,243,000 remains unutilized. The Group intended to continue to apply the proceeds in same manner as disclosed in the Prospectus except for upgrading one cold-formed section steel production line as this project has been suspended.

As at 31 December 2013, the accumulated use of proceeds is set out below:

	Amount allocated (RMB'000)	Actual expenditure as at 31 December 2013 (RMB'000)
Project		
construction of one set of SSAW production lines with a total annual production capacity of 360,000 tonnes and two anti-corrosion coating lines	440,000	499,054
construction of one LSAW pipe production line with an annual production capacity of 200,000 tonnes and one anti-corrosion coating line	650,000	255,000
upgrade one cold-formed section steel production facility to an ERW pipe production line with an annual production capacity of 100,000 tonnes	50,000	the project has been suspended
working capital and other general corporate purposes	129,900	12,603
Total	1,269,900	766,657

The Group will continue to pursue a prudent treasury management policy and is in a strong liquidity position with sufficient cash to cope with daily operation and future development demands for capital. With the strong cash and bank balances, the Group has not entered into any hedging arrangement.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zhang Bizhuang, aged 46, was appointed as executive Director and chief executive officer in July 2009, and has been the chairman of the Board since August 2012, responsible for the overall management of our Group's business operations. Mr. Zhang joined Shengli Steel Pipe Co., Ltd., (勝利鋼管有限公司) ("Shengli Steel Pipe", known as Shengli Factory and Shengli Administration of Petroleum Steel Pipe Factory (勝利石油管理局鋼管廠) and Shengli Oilfield Zibo Pipe Co., Ltd. (勝利油田淄博制管有限公司) before reconstruction of state-owned enterprise) in July 1990, and served as the department head of technical supervision department and quality control inspection department, deputy general manger, general manager and chairman. He has been the chairman of Shandong Shengli since July 2007. From December 2007 to June 2013, Mr. Zhang was appointed as the general manager of Shandong Shengli. He has been the general manager of Shengguan Group since July 2013.

Mr. Zhang graduated from Chongqing University with a bachelor's degree in engineering in July 1990, and graduated from the Open University of Hong Kong with a master's degree in business administration in June 2004. Mr. Zhang was certified as a senior engineer in November 2000, and obtained the Chinese Career Manager qualification in July 2005.

Mr. Jiang Yong, aged 46, was appointed as executive Director and vice president in August 2012, responsible for the Group's finance management and trading business. Prior to 2012, he was a director and chief executive of the China region of Times Fashion Technology Company Limited (天時服飾科技有限公司) for over three years. From January to June 2012, he served as a director of Shandong Demian Incorporated Company (山東德棉股份有限公司), a company listed on the Shenzhen Stock Exchange.

Mr. Jiang Yong graduated from Jinan University (暨南大學) in June 1989 with a bachelor's degree in economics. He also received a master's degree in banking from Massey University in New Zealand in November 2003.

Mr. Liu Yaohua, aged 42, was appointed as our executive Director and vice president in June 2011, in charge of the overall management of Hunan Shengli Xianggang Steel Pipe Co., Ltd. (湖南勝利湘鋼鋼管有限公司)'s business operation. Mr. Liu joined Shengli Steel Pipe in July 1995, serving as the deputy head of the quality control office, the deputy officer and officer of factory, the general manager assistant and the deputy general manager. He has been the director of Shandong Shengli since December 2007. From December 2007 to June 2013, he served as a deputy general manager of Shandong Shengli, responsible for production and technology management, the construction of new projects and market sales. He has been the deputy general manager of Shengguan Group since July 2013.

Mr. Liu graduated from the North China Institute of Technology in July 1995 with a bachelor's degree in engineering. He obtained a master's degree in business administration from the Open University of Hong Kong in June 2004. He was certified as a senior engineer in January 2007.

Ms. Han Aizhi, aged 46, was appointed as our executive Director in July 2009, and has been serving as vice president from March 2011, responsible for the Group's external investment business and operational supervision, listing compliance, investor and public relation matters. Ms. Han joined Shengli Steel Pipe in July 1988, and had held various positions such as head of the technology supervision division, officer of enterprise management department, the officer of the general manager's office, general manager assistant, deputy general manager and management representative. She has been the director of Shandong Shengli since December 2007. From December 2007 to June 2013, Ms. Han served as a deputy general manager of Shandong Shengli, responsible for overseeing quality management, environment, occupational health and safety system management, investor relations, listing compliance, public relations, external investment business and operational supervision. She has been the deputy general manager of Shengguan Group since July 2013.

Ms. Han graduated from Chengde Petroleum College in July 1988 with a major in professional welding technology and graduated from the Party School of the Shandong Province Committee of CPC in December 2002 with a major in professional economic management. Ms. Han had obtained a master's degree in business administration from the Open University of Hong Kong in June 2004. She was certified as an engineer in September 2000, and had obtained the PRC Registered Quality Professional Technician Qualification (middle tier) Certificate in December 2001.

Mr. Song Xichen, aged 49, was appointed as an executive Director in April 2012, and has been serving our vice president since August 2012. He is responsible for the finance management of Shengguan Group. Mr. Song joined Shengli Steel Pipe in July 1988, and served as deputy head of quality inspection department, deputy supervisor and supervisor of the corporate management department, deputy general manager and general manager until March 2012. He has been the director of Shandong Shengli since July 2013. From March 2012 to June 2013, Mr. Song served as the deputy general manager of Shandong Shengli, responsible for the corporate management, finance management, infrastructure and management of the back office. He has been the deputy general manager of Shengguan Group since July 2013.

Mr. Song graduated from China University of Petroleum (East China) in July 1988 with a bachelor's degree in applied physics. He obtained a master's degree in business administration from the Open University of Hong Kong in June 2004. He was certified as a senior economist in September 2000.

NON-EXECUTIVE DIRECTOR

Mr. Yan Tangfeng, aged 43, is our non-executive Director and joined our Group in July 2008. Mr. Yan has been the chief executive officer of Sinolion Investment Pte. Ltd. since September 2007, responsible for the management of investments and overall management of business operations. Mr. Yan started his career as a teacher and secretary of the faculty's Party Committee in Shandong University of Technology (merged with Shandong University in 2001) between July 1994 and April 2003. From April 2003 to September 2007, Mr. Yan worked in ICH Capital Pte. Ltd. as vice president and senior vice president. From June 2012 to May 2013, Mr. Yan was an non-executive director of Silverman Holdings Limited (Stock code: 1616.HK). Mr. Yan has been an executive director of Sinolion Investment Holdings Limited since July 2007, and a director of China Albetter Technology Holdings Pte. Ltd. since August 2008.

Mr. Yan graduated from Shandong University of Technology in July 1994 with a bachelor's degree in engineering.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Guo Changyu, aged 64, is our independent non-executive Director and joined our Group in July 2009. Mr. Guo is currently a leader of the third patrol team of China Petrochemical Corporation and the deputy head of the China Association of Labor Studies. Prior to 2000, Mr. Guo had served various positions under Shengli Petroleum Administrative Bureau and its subordinate units, including the director of the material supply department, the secretary of the Party Committee of Shengli Oilfields Administrative Bureau and deputy chief economist of Shengli Petroleum Administrative Bureau. From February 2000 to November 2004, Mr. Guo was a member of the standing committee to the Party Committee of Shengli Petroleum Administrative Bureau and its deputy head, vice mayor of Municipal Government of Dong Ying City of Shandong Province and the deputy secretary general. From November 2004 to March 2007, he was the deputy secretary of CPC Party Committee and the deputy head of Shengli Petroleum Administrative Bureau as well as the vice municipal secretary of Dong Ying City. From March 2007 to April 2009, he served as various posts, including the secretary of CPC Party Committee, the deputy head of Shengli Petroleum Administrative Bureau as well as the vice municipal secretary of Dong Ying City. From January 2008 to October 2013, he was a member of Standing Committee of Shandong Political Consultative Conference.

Mr. Guo graduated from Dalian University of Technology in 2005 with a master's degree in business administration and he possesses the qualification of professor-grade senior economist. In 2005, he was awarded the title of "Outstanding expert in technology and management in China Petrochemical industry 2004". In April 2008, he was awarded the national "First of May" labor medal.

Mr. Wang Xueyou, aged 53, is our independent non-executive Director and joined our Group in October 2012. He currently serves as the general manager of Tianjin Economic Development Zone Branch of COSCO Tianjin International Freight Forwarding Co., Ltd. ("COSCO Tianjin"). From 1990 to 2001, Mr. Wang held various positions at COSCO Tianjin, including as the division chief of the transportation division and a deputy general manager of the storage and transportation department of COSCO Tianjin. From 2001 to 2003, Mr. Wang served as the general manager of COSCO Xi'an International Freight Forwarding Co., Ltd. From 2003 to 2010, Mr. Wang worked as the general manager of the Customs Broker Co., Ltd. of COSCO Tianjin.

Mr. Wang received a diploma in law from Tianjin Open University in 1988, an Assistant Engineer Certificate in 1989 and an Advance Professional Executive Certificate in 2007.

Mr. Chen Junzhu, aged 38, is our independent non-executive Director and joined our Group in May 2013. He currently serves as a partner of the Guangdong Zheng Yuan Public Accountants. Mr. Chen served as a certified public accountant and senior accountant 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 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 since July 2007, and a director and the chief financial officer of Huakang Insurance Agency Co., Ltd. since September 2011. He has also been an independent director and the chairman of audit committee of Guangdong Tapai Group Co. Ltd., the A shares of which are listed on the Shenzhen Stock Exchange (stock code: 002233.SZ), since May 2013.

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

SENIOR MANAGEMENT

Mr. Hong Kam Le, aged 34, is the company secretary and authorized representative of our Company and joined our Group in December 2013. He is currently an assistant solicitor in Li & Partners.

Mr. Hong holds a Bachelor of Commerce and a Bachelor of Laws Degrees from the University of Sydney and a Postgraduate Certificate in Laws from the University of Hong Kong. Mr. Hong has been a practising solicitor in Hong Kong since 2007.

REPORT OF THE DIRECTORS

The Directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2013.

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

The Company is a limited liability company incorporated in the Cayman Islands and its principal place of business in Hong Kong is Room 2111, 21st Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries of the Company are set out in note 21 to the financial statements.

DIVIDENDS

The Directors has resolved to recommend the payment of a dividend of RMB0.125 cents per share (equivalent to HK0.158 cents per share) (2012: RMB0.672 cents per share (equivalent to HK0.843 cents per share)) for the year ended 31 December 2013, which will be charged to the share premium account and will be subject to shareholders' approval at the forthcoming annual general meeting.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

(i) from Tuesday, 17 June 2014 to Thursday, 19 June 2014, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the forthcoming annual general meeting. In order to be eligible to attend and vote at the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Shop 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 16 June 2014.

(ii) On Thursday, 26 June 2014, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited at the address as set out in sub-paragraph (i) above not later than 4:30 p.m. on Wednesday, 25 June 2014.

During the periods mentioned in sub-paragraphs (i) and (ii) above, no transfers of shares will be registered.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for 88.7% (2012: 69.8%) of the Group's total sales and the top five suppliers accounted for 71.1% (2012: 48.0%) of the total purchases for the year. In addition, the Group's largest customer accounted for 30.6% (2012: 39.5%) of the total sales and the largest supplier of the Group accounted for 20.2% (2012: 23.3%) of the total purchases for the year.

To the best knowledge of the Directors, at no time during the year, have the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

CHARITABLE DONATION

For the year ended 31 December 2013, the Company and its subsidiaries' donation amounted to RMB200,000, all of which has been applied towards poverty, elderly, education, disability and medical assistance, disaster relief and other charitable activities.

FINANCIAL STATEMENTS

The result of the Group for the year ended 31 December 2013 and the financial status of the Company and the Group as at 31 December 2013 are set out in the financial statements on pages 51 to 131.

DISTRIBUTABLE RESERVE

The Company's reserves available for distribution represent the share premium, contributed surplus and profit which in aggregate amounted to RMB1,004 million as at 31 December 2013 (2012: RMB1,032 million). Details of the reserves of the Company as at 31 December 2013 are set out in note 36 to the financial statements.

FIXED ASSETS

Details of movements in fixed assets during this financial year are set out in note 18 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 35 to the financial statements.

REPORT OF THE DIRECTORS

The Directors during this financial year and up to the date of this report were:

Executive Directors

Mr. Zhang Bizhuang *(Chairman and Chief Executive Officer)*
Mr. Jiang Yong *(Vice President)*
Mr. Liu Yaohua *(Vice president)*
Ms. Han Aizhi *(Vice President)*
Mr. Song Xichen *(Vice President)*

Non-executive Director

Mr. Yan Tangfeng

Independent Non-executive Directors

Mr. Guo Changyu
Mr. Wang Xueyou
Mr. Chen Junzhu, *ACCA, CICPA* (appointed on 30 May 2013)
Mr. Leung Ming Shu, *FCCA, FCPA* (resigned on 9 April 2013)

Pursuant to Article 84(1) of the Articles of Association of the Company, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation. Each of the Directors has entered into a service contract or an appointment letter with the Company for a term of three years. Pursuant to the Articles of Association, Ms. Han Aizhi, Mr. Yan Tangfeng and Mr. Guo Changyu shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Company has received from each of the Independent Non-executive Directors, an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company, on the basis of the said confirmations, considers that all of the Independent Non-executive Directors are independent. No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

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

As at 31 December 2013, the interests and short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporation (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") as follows:

Name of director	Capacity	Number of issued ordinary shares held	Number of shares subject to options granted under the Share Option Scheme	Total percentage of the issued share capital of the Company as at 31 December 2013
Jiang Yong	Interest in controlled corporation[(1)]	620,000,000	—	24.994%
Yan Tangfeng	Interest in controlled corporation[(2)]	393,563,200	—	15.866%
Zhang Bizhuang	Interest in controlled corporation[(3)]	153,130,224		6.173%
			8,400,000[(7)]	0.339%
Liu Yaohua	Interest in controlled corporation[(4)]	26,708,760		1.077%
	Beneficial owner		2,700,000[(7)]	0.109%
Han Aizhi	Interest in controlled corporation[(5)]	26,708,760		1.077%
	Beneficial owner		4,200,000[(7)]	0.169%
Song Xichen	Interest in controlled corporation[(6)]	26,708,760		1.077%
	Beneficial owner		2,460,000[(7)]	0.099%

Notes:

(1) Valuable Tactics Development Limited ("Valuable Tactics") holds 620,000,000 shares of the Company, representing 24.994% of the issued shares in the Company. Mr. Jiang Yong owns the entire issued share capital of Valuable Tactics and is therefore deemed to be interested in the shares of the Company held by Valuable Tactics by virtue of the SFO.

(2) Aceplus Investments Limited ("Aceplus Investments") holds 393,563,200 shares of the Company, representing 15.866% of the issued shares in the Company. Mr. Yan Tangfeng owns the entire issued share capital of Aceplus Investments Limited and is therefore deemed to be interested in the shares of the Company held by Aceplus Investments by virtue of the SFO.

(3) Goldmics Investments Limited ("Goldmics Investments") holds 153,130,224 shares of the Company, representing 6.173% of the issued shares in the Company. Mr. Zhang Bizhuang holds 40% interest of the issued share capital of Goldmics Investments, and his spouse Ms. Du Jichun 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.

(4) Ocean Prosperity Limited ("Ocean Prosperity") holds 26,708,760 shares of the Company, representing 1.077% of the issued shares in the Company. Mr. Liu Yaohua owns the entire issued share capital of Ocean Prosperity and is therefore deemed to be interested in the shares of the Company held by Ocean Prosperity by virtue of the SFO.

(5) Crownova Limited ("Crownova") holds 26,708,760 shares of the Company, representing 1.077% of the issued shares in the Company. Ms. Han Aizhi owns the entire issued share capital of Crownova and is therefore deemed to be interested in the shares of the Company held by Crownova by virtue of the SFO.

(6) Winfun Investments Limited ("Winfun Investments") holds 26,708,760 shares of the Company, representing 1.077% of the issued shares in the Company. Mr. Song Xichen holds 50% interest of the issued share capital of Winfun Investments and his spouse Ms. Xu Li holds the remaining 50% interest. Therefore, Mr. Song Xichen is deemed to be interested in the shares of the Company held by Winfun Investments by virtue of the SFO.

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

Save as disclosed above, as at 31 December 2013, none of the Directors or chief executives of the Company had or were deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register required to be kept under section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Save as disclosed above, at no time during the year 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 children under 18 years of age) to hold any interest or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations (with the meaning of Part XV of the SFO).

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on 21 November 2009. The purpose of the Share Option Scheme is to give the Eligible Persons (as defined in Share Option Scheme) an opportunity to have a personal stake in the Company and help motivate them to optimize their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally 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 below are the "Eligible Persons" under the Share Option Scheme 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 a person for the time being seconded to work full-time or part-time for any member of the Group;

(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.

The principal terms of the Share Option Scheme are summarized as follows:

The Share Option Scheme was adopted for a period of 10 years commencing from 21 November 2009 and will remain in force until 20 November 2019. The Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme. Upon termination of the Share Option Scheme as aforesaid, no further options can be granted but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme. The 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 in total by the grantee. The exercise period of the share options granted is determined by the directors of the Company, and commences after a certain vesting period and ends on the 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 Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price 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 offer date; and

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

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as of the Listing Date, excluding Shares which may fall to be issued upon the exercise of the Over-allotment Option i.e. 240,000,000 Shares (the "Scheme Mandate Limit") provided that:

(a) The Company may at any time as the Board may think fit seek approval from the Shareholders of the Company to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option 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 Share Option 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 Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

(b) The Company may seek separate approval from the 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 issue a circular to the Shareholders containing the details and information required under the Listing Rules.

(c) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option 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 Share Option Scheme and any other share option scheme of the Company if this will result in such limit being exceeded.

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

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

In addition, on 3 January 2012, the Board granted 24,000,000 share options to 81 Directors, senior management and other personnel approved by the Board, including five Directors of the Company and its subsidiaries, at an exercise price of HK$0.80 per Share under the Share Option Scheme. 1,260,000 share options held by three members of the management were lapsed following their departure in 2013.

For the year ended 31 December 2013, movements of options granted under the Share Option Scheme are set out below:

Name	Capacity	Exercise Price	Outstanding as at 1 January 2013	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2013	Approximate percentage of the issued share capital of the Company as at 31 December 2013	Notes
Directors									
Zhang Bizhuang	Beneficial owner	HK$2.03	7,200,000	0	0	0	7,200,000	0.290%	(1)
Zhang Bizhuang	Beneficial owner	HK$0.80	1,200,000	0	0	0	1,200,000	0.048%	(2)
Liu Yaohua	Beneficial owner	HK$2.03	1,500,000	0	0	0	1,500,000	0.060%	(1)
Liu Yaohua	Beneficial owner	HK$0.80	1,200,000	0	0	0	1,200,000	0.048%	(2)
Han Aizhi	Beneficial owner	HK$2.03	3,000,000	0	0	0	3,000,000	0.121%	(1)
Han Aizhi	Beneficial owner	HK$0.80	1,200,000	0	0	0	1,200,000	0.048%	(2)
Song Xichen	Beneficial owner	HK$2.03	1,500,000	0	0	0	1,500,000	0.060%	(1)
Song Xichen	Beneficial owner	HK$0.80	960,000	0	0	0	960,000	0.039%	(2)
Employees									
Employees	Beneficial owner	HK$2.03	9,300,000	0	0	0	9,300,000	0.375%	(1)
Employees	Beneficial owner	HK$0.80	19,440,000	0	0	1,260,000	18,180,000	0.733%	(2)
Total			46,500,000	0	0	1,260,000	45,240,000	1.824%	

Note:

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

(2) The share options granted by the Company are exercisable for 10 years. The grantees may exercise up to one-third, two-third 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). These share options are exercisable at HK$0.80 each according to the rules of the Share Option Scheme during period from 3 January 2012 to 2 January 2022.

Further details in respect of the Share Option Scheme are disclosed in note 37 to the financial statements.

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

As at 31 December 2013, 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 to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules of the Stock Exchange:

Name of shareholder	Capacity	Number of issued ordinary shares/underlying shares held	Percentage of the issued share capital of the Company
Valuable Tactics	Beneficial owner	620,000,000	24.994%
Aceplus Investments	Beneficial owner	393,563,200	15.866%
Goldmics Investments	Beneficial owner	153,130,224	6.173%
Du Jichun	Interest in controlled corporation(1)	153,130,224	6.173%
	Spouse's interest(2)	8,400,000	0.339%

Note:

(1) Goldmics Investments holds 153,130,224 shares of the Company. Ms. Du Jichun holds 60% interest of the issued shares of Goldmics Investments and his spouse, Mr. Zhang Bizhuang holds the remaining 40% interest. Ms. Du Jichun is therefore deemed to be interested in the shares of the Company held by Goldmics Investments by virtue of the SFO.

(2) Mr. Zhang Bizhuang, the spouse of Ms. Du Jichun has been granted options to subscribe for 8,400,000 shares of the Company under the Share Option Scheme, Ms. Du Jichun is therefore deemed to be interested in Mr. Zhang Bizhuang's options.

Save as disclosed above, as at 31 December 2013, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance had been entered into between the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December 2013.

COMPETING BUSINESS

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

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS' INTERESTS IN CONTRACTS

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2013, cash and cash equivalents of the Group amounted to approximately RMB202,720,000 (2012: RMB166,056,000). As at 31 December 2013, the Group had borrowings of approximately RMB1,559,618,000 (2012: RMB988,461,000).

The gearing ratio is defined as net debt (represented by borrowings, trade payables and other payables and accruals net of cash and cash equivalents and pledged deposits) divided by total capital plus net debt. As at 31 December 2013, the gearing ratio of the Group was 31.9% (2012: 25.0%).

CHARGES AND CONTINGENT LIABILITIES

Except the aforesaid secured bank borrowings, as at 31 December 2013, the Group did not have other charges on its assets or any material contingent liabilities.

FOREIGN EXCHANGE RISK

For the year of 2013, the Group's sales were mainly denominated in RMB. The Group did not utilise any forward contracts or other means to hedge its foreign currency 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 EMOLUMENT POLICY

The Group reviews its human resources and remuneration policies periodically with reference to local legislations, market conditions, industry practice and assessment of the performance of the Group and individual employees. As at 31 December 2013, the Group employed 1,378 employees (including Directors). The emolument policy of the employees of the Group is determined on the basis of their merit, qualifications and competence. The Company adopted the Share Option Scheme to provide incentive to its senior management and employees and please refer to the paragraphs headed "Share Option Scheme" in this annual report for details of such scheme.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities and non-controlling interests of the Group for the last five financial years, is set out on page 132. This summary does not form part of the audited financial statements.

RETIREMENT SCHEMES

Particulars of employee retirement schemes of the Group are set out in note 4 to the financial statements.

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 39 to the financial statements constituted connected transactions under Chapter 14A of the Listing Rules. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules with respect to such transactions. Details of the transactions are set out below.

Lease of land and buildings from Shengli Steel Pipe Co., Ltd. ("Shengli Steel Pipe")

The Company's indirect wholly owned subsidiary, Shandong Shengli, entered into a lease agreement with Shengli Steel Pipe on 26 July 2009, pursuant to which, Shengli Steel Pipe agreed to lease to Shandong Shengli certain land and buildings in Zibo, Shandong Province where the Group's SSAW production facilities are located. Pursuant to the lease agreement, the term of the lease is 20 years commencing from 1 January 2009 to 31 December 2028, renewable at the option of Shandong Shengli. Shandong Shengli and Shengli Steel Pipe entered into supplemental lease agreements on 28 September 2010, 29 April 2011 and 20 December 2011, respectively, pursuant to which the parties adjusted the scope of properties to be lease and the rental payable under the lease agreement. The rent is adjustable every three years with reference to the then market value which shall be confirmed by an independent property valuer jointly appointed by the parties. The annual cap for the transactions under the lease agreement as amended by the supplemental lease agreements for each of the three years from 1 January 2012 to 31 December 2014 is RMB8,120,000.

The registered capital of Shengli Steel Pipe is held as to 49.87% by Mr. Zhang Bizhuang, an executive Director and the chief executive officer of the Company (for himself as to 1.19% and the remaining on behalf of the 315 employees of Shengli Steel Pipe). By reason of him being entitled to control the exercise of more than 30% voting power in Shengli Steel Pipe's general meeting, Shengli Steel Pipe is an associate of Mr. Zhang Bizhuang pursuant to the Listing Rules. As Mr. Zhang Bizhuang, being an executive Director and the chief executive officer of the Company, is a connected person of the Company pursuant to the Listing Rules, Shengli Steel Pipe, being his associate, is also a connected person of the Company pursuant to the Listing Rules. Accordingly, the transactions under the lease agreement as amended by the supplemental lease agreements constitute continuing connected transactions of the Company, and are subject to reporting, announcement and annual review requirements but exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The Directors of the Company have reviewed and confirmed that above continuing connected transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms;

(3) in accordance with the relevant agreements governing them; and

(4) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The Board has received a letter from the auditors of the Company confirming that during the reporting period, the above continuing connected transactions:

(1) have received the approval of the Board of the Company;

(2) have been entered into in accordance with the relevant agreement governing the transactions; and

(3) have not exceeded the cap disclosed in previous announcements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated.

PURCHASE, REDEMPTION OR SALE OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of their respective securities during the year ended 31 December 2013.

AUDITORS

The consolidated financial statements of the Group for the financial year ended 31 December 2010 were audited by Deloitte Touche Tohmatsu. On 29 June 2011, Ernst & Young ("EY") was appointed as the auditors of the Company, in place of Deloitte Touche Tohmatsu, as the latter and the Company failed to reach consensus over the audit fee for the financial year ended 31 December 2011.

At the annual general meeting held on 15 June 2012, the Company re-appointed EY as auditors of the Company for the year ended 31 December 2012.

At the extraordinary general meeting held on 6 June 2013, a special resolution was passed for the removal of EY as auditors of the Company. The reason for the proposed removal of EY as auditors of the Company was disclosed in the announcement on 14 May 2013.

At the extraordinary general meeting held on 6 June 2013, an ordinary resolution was passed for the appointment of ANDA CPA Limited (currently known as ZHONGHUI ANDA CPA Limited ("ZHONGHUI ANDA")) as auditors of the Company.

At the annual general meeting held on 11 August 2013, the Company re-appointed ANDA CPA Limited (currently known as ZHONGHUI ANDA) as auditors of the Company for the year ended 31 December 2013.

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

30 March 2014

CORPORATE GOVERNANCE REPORT

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 strived to uphold good corporate governance and adopt sound corporate governance practices. Save as disclosed below, the Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Corporate Governance Code (the "Code") during the period from 1 January 2013 to 31 December 2013 as set out in Appendix 14 of the Listing Rules.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules as the required standard for securities transactions by Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that for the year ended 31 December 2013, they have complied with the required standards set out in the Model Code and the code of conduct regarding directors' securities transactions.

BOARD OF DIRECTORS

Composition of the Board of Directors

The Board comprises five executive Directors, one non-executive Director and three independent non-executive Directors. The Board members of the Company currently are:

Executive Directors

Mr. Zhang Bizhuang *(Chairman and Chief Executive Officer)*
Mr. Jiang Yong *(Vice President)*
Mr. Liu Yaohua *(Vice President)*
Ms. Han Aizhi *(Vice President)*
Mr. Song Xichen *(Vice President)*

Non-executive Director

Mr. Yan Tangfeng

Independent non-executive Directors

Mr. Guo Changyu
Mr. Wang Xueyou
Mr. Chen Junzhu (appointed on 30 May 2013)
Mr. Leung Ming Shu (resigned on 9 April 2013)

The biographical details of all Directors are set out in pages 22 to 25 of this annual report. Save as those disclosed in this annual report, none of the Directors has any other financial, business, family or other material or relevant relationships among members of the Board.

The composition of the Board is well balanced with each Director having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The Board brings a variety of experience and expertise to the Company.

Functions of the Board

The principal function of the Board is to consider and approve strategies, financial objectives, annual budget and investment proposals of the Group, and assume the responsibilities of corporate governance of the Group. The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group's businesses to the executive Directors, senior management and certain specific responsibilities to the Board committees.

Board meetings and Board Practices

During the year ended 31 December 2013, the Board held 18 meetings, four of which were regular meetings.

The Directors can attend meetings in person or through other means of electronic communication in accordance with the Company's Articles of Association. The company secretary of the Company (the "Company Secretary") assists the Chairman to prepare the agenda of the meeting and each Director may request to include any matters in the agenda. Generally, at least 14 days notice would be given for the regular meeting by the Company. The Directors will receive details of agenda items for decision at least 3 days before each Board meeting. The Company Secretary is responsible for distributing detailed documents to the Directors prior to the meetings of the Board to ensure that the Directors are able to make informed decisions regarding the matters to be discussed in the meetings so that they may receive accurate, timely and clear information. All Directors may access the advice and services of the Company Secretary who regularly updates the Board on governance and regulatory matters. All Directors will also be provided with sufficient resources to discharge their duties, and upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances, at the Company's expense. The Company Secretary is also responsible for ensuring the procedures of the Board meetings are observed and providing the Board with opinions on matters in relation to the compliance with the procedures of the Board meetings. All minutes of Board meetings were recorded in sufficient details, including the matters considered by the board and decisions reached.

Throughout the year, 18 Board meetings were held. Details of the attendance of each Director are as follows:

Name of the Director	Attendance
Executive Directors	
Mr. Zhang Bizhuang *(Chairman and Chief Executive Officer)*	17/18
Mr. Jiang Yong *(Vice President)*	16/18
Mr. Liu Yaohua *(Vice President)*	16/18
Ms. Han Aizhi *(Vice President)*	18/18
Mr. Song Xichen *(Vice President)*	18/18
Non-executive Director	
Mr. Yan Tangfeng	16/18
Independent non-executive Directors	
Mr. Guo Changyu	15/18
Mr. Wang Xueyou	16/18
Mr. Chen Junzhu (appointed on 30 May 2013)	4/6
Mr. Leung Ming Shu (resigned on 9 April 2013)	5/5

Directors' Appointment, Re-election and Removal

Each of the Directors has entered into a service contract or an appointment letter with the Company for a term of three years. The service contract and appointment letter are subject to termination in accordance with the provisions contained therein by one party giving the other not less than 3 months' prior written notice for executive Directors and 1 month prior written notice for non-executive Directors.

In accordance with the Company's Articles of Association, one-third of the Directors (including executive directors, non-executive directors and independent non-executive directors) shall retire from office by rotation. Pursuant to A.4.2 of the code provisions in the Code, all Directors are subject to retirement by rotation at least once every three years.

Independent non-executive Directors

In compliance with Rules 3.10 and 3.10A of the Listing Rules, the Company has three independent non-executive Directors, representing one-third of the members of the Board. Out of the three independent non-executive Directors, one of them is required to possess appropriate professional qualification in accounting or related financial management expertise under Rule 3.10(2) of the Listing Rules. The Company has received a written confirmation from each of the independent non-executive Directors in respect of his independence pursuant to Rule 3.13 of the Listing Rules. Based on the relevant confirmation, the Company considers Mr. Guo Changyu, Mr. Wang Xueyou and Mr. Chen Junzhu to be independent from the Company.

Mr. Leung Ming Shu, a former independent non-executive Director, chairman of the Audit Committee and member of the Remuneration Committee and Nomination Committee, tendered his resignations on 9 April 2013. The Board noted that following the resignations of Mr. Leung, the number of independent non-executive Directors and the members of the Audit Committee would fall below the minimum number required under Rule 3.10(1) and Rule 3.21 of the Listing Rules. In addition, the position of the chairman of the Audit Committee would be left vacant and the number of independent non-executive Directors of the Remuneration Committee would fall below a majority required under Rule 3.25 of the Listing Rules and Code Provision A.5.1 in Appendix 14 to the Listing Rules.

The Company appointed Mr. Chen Junzhu as an independent non-executive Director on 30 May 2013 and in replacement of Mr. Leung Ming Shu in all of his positions within the Board. From then on, the Company has re-complied with requirements of Rule 3.10(1), Rule 3.21 and Rule 3.25 of the Listing Rules as well as Code Provision A.5.1 in Appendix 14 to the Listing Rules.

Continuous Professional Development

The Directors have been informed of the requirement under code provision A.6.5 of the Code regarding continuous professional development. Arrangement was made by the Company to have the Directors and Management participated in a training session on new price-sensitive information disclosure regime of Hong Kong conducted by the Company's former legal advisor as to Hong Kong law Latham & Watkins LLP. in February 2013. In addition, the existing Directors (other than Chen Junzhu, a director of the Company) had completed a 24-hour training session on 8 core subjects and a 4-hour training session on continuous responsibility organised by the Hong Kong Institute of Directors in May 2013.

Chairman and Chief Executive Officer

Under code provision A.2.1 of the Code, the roles of the Chairman and the chief executive officer should be separated and should not be performed by the same individual. The roles of the chairman and the chief executive officer of the Company are performed by Mr. Zhang Bi Zhuang, as the Board considers this arrangement is beneficial to the Company's daily operations, while splitting the two roles will involve a separation of power and authority under the existing structure. The Board will review the existing structure from time to time and make necessary arrangements as and when necessary.

Delegation of Powers

The Board delegates day-to-day operations of the Group to executive Directors and management of the Company with department heads responsible for different aspects of the business/functions, while reserving certain key matters in making strategic decision for its approval. When the Board delegates aspects of its management and administration functions to management, it gives clear directions as to the powers of management, in particular, with respect to the circumstances where management need to report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

BOARD COMMITTEES

The Board has established (i) an audit committee, (ii) a remuneration committee; and (iii) a nomination committee, with defined terms of reference which are in line with the code provisions of the Code. For the purpose of complying with the Code adopted by the Company on 10 March 2012, the Board has adopted revised terms of reference for the (i) audit committee, (ii) remuneration committee; and (iii) nomination committee on 10 March 2012. The terms of reference of the Board Committees which explain their respective roles and the authority delegated to them by the Board will be made available on the websites of the Company and the Stock Exchange. The Board Committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance in appropriate circumstances, at the Company's expenses.

Audit Committee

Composition

The audit committee of the Company (the "Audit Committee") was established on 21 November 2009 in compliance with the Listing Rules. The primary functions of the Audit Committee are to make recommendations to the Board on the appointment and removal of external auditors and review and monitor the financial reporting system and internal controls of the Group. All members of the Audit Committee are appointed by the Board. The Audit Committee currently consists of one non-executive Director, namely Mr. Yan Tangfeng and two independent non-executive Directors, namely Mr. Chen Junzhu (appointed on 30 May 2013) and Mr. Wang Xueyou, with Mr. Chen Junzhu as chairman. The Audit Committee has reviewed the consolidated financial statements for the year ended 31 December 2013.

During the year ended 31 December 2013, the Audit Committee held three meetings. Details of the attendance of each member are as follows:

Name of audit committee members	Attendance
Mr. Chen Junzhu *(Chairman)* (appointed on 30 May 2013)	2/2
Mr. Yan Tangfeng	3/3
Mr. Wang Xueyou	3/3
Mr. Leung Ming Shu *(Former Chairman)* (resigned on 9 April 2013)	0/0

During the year ended 31 December 2013, the Audit Committee had performed the following functions: reviewing the half-year and full year results, approving of the audit proposal of the auditors, reviewing the report of the auditors, formulating the plan of internal audit for 2013, reviewing the internal audit report summary for 2012 and the internal audit report for first half of 2013, as well as reviewing the internal control system.

Remuneration Committee

Composition

The remuneration committee of the Company (the "Remuneration Committee") was established on 21 November 2009 in compliance with the Listing Rules. The primary duties of the Remuneration Committee are to make recommendation to the Board on Company's policy and structure for all Directors' and senior management's remuneration, review and approve the management's remuneration proposals, and make recommendations to the Board on the remuneration packages of individual executive directors and senior management. The Remuneration Committee currently consists of two independent non-executive Directors, namely Mr. Wang Xueyou and Mr. Chen Junzhu (appointed on 30 May 2013) and one non-executive Director Mr. Yan Tangfeng. Mr. Wang Xueyou currently serves as the chairman.

During the year ended 31 December 2013, the Remuneration Committee held one meeting. Details of the attendance of each member are as follows:

Name of remuneration committee members	Attendance
Mr. Wang Xueyou *(Chairman)*	1/1
Mr. Yan Tangfeng	1/1
Mr. Chen Junzhu (appointed on 30 May 2013)	1/1
Mr. Leung Ming Shu (resigned on 9 April 2013)	0/0

During the year ended 31 December 2013, the Remuneration Committee had performed the following functions: formulating the remuneration policies for Directors, approving the terms in service contracts of Directors, and reviewing the distribution of bonus for the year based on assessment on performances of the executive Directors and senior management.

Remuneration Policy for Directors and Senior Management

The emolument policy of the employees of the Group is determined on the basis of their merit, qualifications and competence.

The emoluments of the Directors are recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance, experience, responsibility, workload and time devoted to the Company and comparable market statistics. Each of the executive Directors is entitled to a basic salary which is reviewed annually. In addition, each of the executive Directors may receive a discretionary bonus as the Board may recommend. Such amount has to be approved by the Remuneration Committee.

The Company has adopted the Share Option Scheme on 21 November 2009. The purpose of the Share Option Scheme is to give the Eligible Persons (as mentioned on pages 30 to 33 of this report) an opportunity to have a personal stake in the Company and help motivate them to optimize their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally 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.

Nomination Committee

Composition

The nomination committee of the Company (the "Nomination Committee") was established on 21 November 2009. The revised terms of reference and procedures of the Nomination Committee were approved by the Board on 11 November 2013 to ensure they continue to meet the needs of the Company and to ensure compliance with the Code. The principal duties of the Nomination Committee of the Company include (a) reviewing the structure, size and diversity of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (b) identifying individuals suitably qualified to become Board members and selecting or making recommendations on the selection of individuals nominated for directorships; (c) accessing the independence of independent non-executive Director of the Company; (d) making recommendations to the Board on the appointment or re-appointment of Directors of the Company and reviewing succession planning for the chairman, the Chief Executive as well as the senior management, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future, together with the Board, as appropriate; (e) reviewing the Board Diversity Policy, as appropriate and reviewing the measurable objectives that the Board has set for implementing the Board Diversity policy, and the progress on achieving the objectives; (f) attending annual general meeting of the Company and answering questions raised in the annual general meeting. The Nomination Committee consists of two independent non-executive Directors, namely, Mr. Guo Changyu and Mr. Wang Xueyou and one executive Director, namely, Mr. Zhang Bizhuang. Mr. Guo Changyu currently serves as the chairman.

During the year ended 31 December 2013, the Nomination Committee held two meetings. Details of the attendance of each member are as follows:

Name of nomination committee members	Attendance
Mr. Guo Changyu *(Chairman)*	2/2
Mr. Zhang Bizhuang	2/2
Mr. Wang Xueyou	2/2

During the year ended 31 December 2013, the Nomination Committee had performed the following functions: advising the Board on selection of candidates to fill the vacancy of the Board, reviewing the structure, size and composition of the Board, and giving full review on the professional qualifications and career background of all candidates to directorship and members of the Board committees as well as the independence of the independent Directors.

In addition, the Nomination Committee has adopted the Board Diversity Policy in compliance with the Code in 2013. The Company recognizes and embraces the benefits of diversity in the Board to the performance of the Company. To achieve a sustainable and balanced development, the Company sees increasing diversity in the composition of the Board as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, Board diversity has been considered from a number of aspects. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. Therefore, the Board has set measurable objectives for the implementation of the Board Diversity Policy. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. With reference to measurable objectives, the Nomination Committee is satisfied with the successful implementation of the Board Diversity Policy. The Nomination Committee will continue to monitor the implementation of the Board Diversity Policy and review the policy as appropriate to ensure its effectiveness.

CORPORATE GOVERNANCE FUNCTION

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board in compliance with code provision D.3.1 of the New Code, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the Code and disclosure in the corporate governance report.

ACCOUNTABILITY AND AUDIT

Directors and Auditors' Responsibilities for the Financial Statements

The Board of Directors acknowledges its responsibility to prepare the Group's financial statements for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2013, the Board has selected appropriate accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

AUDITORS' REMUNERATION

During the year ended 31 December 2013, the remuneration paid or payable to ZHONGHUI ANDA CPA Limited, in respect of their audit and non-audit services were as follows:

Type of Services	**Total**
	RMB'000
Audit Services	1,183
Non-audit Services	
— Review on interim report	382
— Report on continuing connected transaction	12
— Review on preliminary results announcement	9
	403
Total	1,586

INTERNAL CONTROL

The Board acknowledges its responsibility for the effectiveness of the Group's internal control systems. The Board and the audit committee have reviewed the effectiveness of the Group's internal control systems on all major operations of the Group during the year under review. The Board and the audit committee considered that the key areas of the Group's internal control systems, including financial and operational aspects, are reasonably implemented and the Group has fully complied with provisions of the Code regarding internal control systems in general for the year ended 31 December 2013.

INVESTORS AND SHAREHOLDERS RELATIONS

The Board is well aware of the importance of maintaining clear, timely and effective communication with the shareholders of the Company and investors. The Board also recognises that an effective communication with investors is the key for us to establish investor confidence and to attract new investors. Therefore, the Group is committed to maintaining a high degree of transparency, in order to ensure that the investors and the shareholders of the Company can receive accurate, clear, comprehensive and timely information of the Group via the issue of annual reports, interim reports, announcements and circulars. The Company also publishes all documents on the Company's website at www.slogp.com.

We promptly respond to investors' enquiries. We also organise and plan exchange activities on a regular basis, such as investor conferences, seminars and conferences. These initiatives can help us extend an in-depth reach of our strengths and competitive advantages into the market, and ultimately reflect the market value of the Company.

The investor relations team regularly informs the Board of the latest market perceptions and developments of the Company, in order for the Board to immediately keep abreast of the concerns of investors, to get deeper understanding of the prevailing policies, and to make better efforts in the Company's own investor relations with reference to the best international standards. The Directors and members of the Board Committees had attended the annual general meeting and the extraordinary general meeting to answer questions. Separate resolutions on each distinct issue would be proposed at the general meeting.

Throughout the year, two general meetings were held. Details of the attendance of each Director are as follows:

Name of the Director	Attendance
Executive Directors	
Mr. Zhang Bizhuang *(Chairman and Chief Executive Officer)*	2/2
Mr. Jiang Yong *(Vice President)*	2/2
Mr. Liu Yaohua *(Vice President)*	2/2
Ms. Han Aizhi *(Vice President)*	2/2
Mr. Song Xichen *(Vice President)*	2/2
Non-executive Director	
Mr. Yan Tangfeng	2/2
Independent non-executive Directors	
Mr. Guo Changyu	2/2
Mr. Wang Xueyou	2/2
Mr. Chen Junzhu (appointed on 30 May 2013)	2/2
Mr. Leung Ming Shu (resigned on 9 April 2013)	0/0

Shareholders' Rights

How Shareholders can convene an extraordinary general meeting and putting forward proposals at Shareholders' meetings

Pursuant to the Articles of Association of the Company, any one or more Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two months after the deposit of such requisition. If, within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the Company by mail at Unit 2111, 21st Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong or by email at ir@slogp.com. The Company will forward communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and customer complaints, to the Chief Executive Officer of the Company.

Significant Change in Constitutional Documents

During the year ended 31 December 2013, there has been no significant change in the Company's constitutional documents.

INDEPENDENT AUDITOR'S REPORT

中汇
ZHONGHUI

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

We have audited the consolidated financial statements of Shengli Oil & Gas Pipe Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 51 to 131, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2013, and of the Group's results and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Sze Lin Tang
Practising Certificate Number P03614

Hong Kong, 30 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
REVENUE	10	**2,556,717**	1,920,855
Cost of sales and services		**(2,470,787)**	(1,850,284)
Gross profit		**85,930**	70,571
Other income and gains	10	**135,433**	155,609
Selling and distribution costs		**(31,075)**	(22,946)
Administrative expenses		**(96,625)**	(84,380)
Other expenses		**(1,326)**	(3,893)
Share of losses of:			
Joint ventures		**(3,104)**	(751)
Associate		**(6,786)**	(6,198)
Finance costs	11	**(58,367)**	(36,053)
PROFIT BEFORE TAX	12	**24,080**	71,959
Income tax expense	14	**(11,699)**	(16,371)
PROFIT FOR THE YEAR		**12,381**	55,588
Other comprehensive loss that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(693)**	—
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**11,688**	55,588
PROFIT/(LOSS) FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company	15	**17,826**	62,775
Non-controlling interests		**(5,445)**	(7,187)
		12,381	55,588
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**17,133**	62,775
Non-controlling interests		**(5,445)**	(7,187)
		11,688	55,588
EARNINGS PER SHARE (RMB cents)	16		
— Basic		**0.72**	2.53
— Diluted		**0.72**	2.53

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	18	1,100,509	984,322
Prepaid land lease payments	19	175,212	164,457
Goodwill	20	9,910	9,910
Deposits paid for acquisition of investments	22	33,928	41,483
Investment in joint ventures	23	50,952	45,400
Investment in an associate	24	230,270	237,056
Available-for-sale investment	25	15,000	15,000
Derivative financial instrument	24	183,000	94,000
Other assets		941	8,797
Deferred tax assets	26	31,046	13,495
		1,830,768	1,613,920
CURRENT ASSETS			
Inventories	27	195,374	276,084
Trade and bills receivables	28	1,111,883	749,158
Prepayments, deposits and other receivables	29	435,831	405,358
Prepaid land lease payments	19	3,749	3,406
Pledged deposits	30	591,744	373,502
Cash and cash equivalents	30	202,720	166,056
		2,541,301	1,973,564
CURRENT LIABILITIES			
Trade payables	31	338,487	128,312
Other payables and accruals	32	78,362	169,489
Borrowings	33	1,475,618	988,461
Tax payable		10,511	14,752
Deferred income	34	1,058	854
		1,904,036	1,301,868
NET CURRENT ASSETS		637,265	671,696
TOTAL ASSETS LESS CURRENT LIABILITIES		2,468,033	2,285,616
NON-CURRENT LIABILITIES			
Deferred income	34	9,026	9,880
Borrowings	33	84,000	—
Deferred tax liabilities	26	32,909	10,675
		125,935	20,555
NET ASSETS		2,342,098	2,265,061

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	35	218,786	218,786
Reserves	36	1,858,065	1,855,583
		2,076,851	2,074,369
Non-controlling interests		265,247	190,692
Total equity		2,342,098	2,265,061

The consolidated financial statements on pages 51 to 131 were approved and authorised for issue by the board of directors on 30 March 2014 and are signed on its behalf by:

Approved by:

Zhang Bizhuang
Director

Han Aizhi
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Attributable to owners of the Company										
	Issued capital RMB'000	Share premium* RMB'000	Statutory surplus reserve* RMB'000	Share option reserve* RMB'000	Other reserve* RMB'000	Foreign currency translation reserve* RMB'000	Retained profits* RMB'000	Proposed final dividend* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2012	218,786	1,099,245	62,484	18,843	(9)	—	605,274	23,317	2,027,940	117,879	2,145,819
Capital contribution from non-controlling shareholders	—	—	—	—	—	—	—	—	—	80,000	80,000
Share-based payment	—	—	—	6,971	—	—	—	—	6,971	—	6,971
Final 2011 dividend paid	—	—	—	—	—	—	—	(23,317)	(23,317)	—	(23,317)
Proposed final 2012 dividend	—	(16,676)	—	—	—	—	—	16,676	—	—	—
Total comprehensive income/(loss) for the year	—	—	—	—	—	—	62,775	—	62,775	(7,187)	55,588
At 31 December 2012	218,786	1,082,569	62,484	25,814	(9)	—	668,049	16,676	2,074,369	190,692	2,265,061
At 1 January 2013	**218,786**	**1,082,569**	**62,484**	**25,814**	**(9)**	**—**	**668,049**	**16,676**	**2,074,369**	**190,692**	**2,265,061**
Capital contribution from non-controlling shareholders	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**80,000**	**80,000**
Share-based payment	**—**	**—**	**—**	**2,025**	**—**	**—**	**—**	**—**	**2,025**	**—**	**2,025**
Final 2012 dividend paid	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(16,676)**	**(16,676)**	**—**	**(16,676)**
Proposed final 2013 dividend	**—**	**(3,095)**	**—**	**—**	**—**	**—**	**—**	**3,095**	**—**	**—**	**—**
Total comprehensive income/(loss) for the year	**—**	**—**	**—**	**—**	**—**	**(693)**	**17,826**	**—**	**17,133**	**(5,445)**	**11,688**
At 31 December 2013	**218,786**	**1,079,474**	**62,484**	**27,839**	**(9)**	**(693)**	**685,875**	**3,095**	**2,076,851**	**265,247**	**2,342,098**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	24,080	71,959
Adjustments for:		
Finance costs	58,367	36,053
Interest income	(20,229)	(38,047)
Share of losses of joint ventures	3,104	751
Share of loss of an associate	6,786	6,198
Depreciation	80,194	61,446
Amortization of prepaid land lease payments	3,788	2,105
Gain on disposal of property, plant and equipment, net	(671)	(248)
(Reversal of write down)/write down of inventories	(727)	2,337
Share option expenses	2,025	6,971
Change in fair value of a derivative financial instrument	(89,000)	(19,000)
Recognise of deferred income	(1,650)	(1,489)
Operating profit before working capital changes	66,067	129,036
Change in inventories	81,437	114,320
Change in trade and bills receivables	(362,725)	(63,304)
Change in prepayments, deposits and other receivables and other assets	13,648	(292,802)
Change in trade payables	210,175	33,292
Change in other payables and accruals	(91,127)	33,615
Change in deferred income	1,000	—
Cash used in operations	(81,525)	(45,843)
Income tax paid	(11,257)	(17,155)
Net cash used in operating activities	(92,782)	(62,998)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(210,757)	(335,793)
Additions of prepaid land lease payments	(14,886)	(108,089)
Investment in a joint venture	(8,656)	(28,943)
Investment held for sale	—	4,793
Proceeds from disposal of property, plant and equipment	15,047	406
Purchases of available-for-sale investment	—	(15,000)
Deposits paid for acquisition of investments	—	(41,483)
Increase in pledged deposits	(218,242)	(362,252)
Interest received	20,229	38,047
Repayment of a loan from third party	—	300,000
Advance to a joint venture	(28,765)	(6,751)
Net cash flows used in investing activities	(446,030)	(555,065)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES		
New borrowings	**1,303,668**	356,661
Repayment of loans	**(732,511)**	—
Interest paid	**(58,367)**	(36,053)
Capital contribution from non-controlling interests	**80,000**	80,000
Dividends paid	**(16,676)**	(23,317)
Net cash flows generated from financing activities	**576,114**	377,291
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**37,302**	(240,772)
Cash and cash equivalents at beginning of year	**166,056**	406,828
Effect of foreign exchange	**(638)**	—
Cash and cash equivalents at end of year	**202,720**	166,056

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2013

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 located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal places of business of the Company in Hong Kong and 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, PRC; respectively.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 21 to the financial statements.

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 18 December 2009.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the disclosure requirements of the Hong Kong Companies Ordinance.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, 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 2013. IFRSs comprise International Financial Reporting Standards ("IFRS"); International Accounting Standards ("IAS") and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years except as stated below.

Amendments to IAS 1 "Presentation of Financial Statements"

Amendments to IAS 1 titled Presentation of Items of Other Comprehensive Income introduce new terminology for statement of comprehensive income and income statement. Under the amendments to IAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

The amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

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

Amendments to IAS 1 "Presentation of Financial Statements" (continued)

The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the change. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

IFRS 11 "Joint Arrangements"

IFRS 11 "Joint Arrangements" supersedes IAS 31 "Interests in Joint Ventures" and Hong Kong (SIC) Interpretation 13 "Jointly Controlled Entities — Non-Monetary Contributions by Venturers". IFRS 11 defines joint arrangement as an arrangement of which two or more parties have joint control. A joint arrangement is either a joint operation or a joint venture. IFRS 11 requires a single method i.e. equity method, to account for interests in joint ventures and thereby eliminating the proportionate consolidation method.

IFRS 12 "Disclosure of Interests in Other Entities"

IFRS 12 "Disclosure of Interests in Other Entities" specifies the disclosure requirements for subsidiaries, joint arrangements and associates, and introduces new disclosure requirements for unconsolidated structured entities.

The adoption of IFRS 12 only affects the disclosures relating to the Group's subsidiaries, associates and joint arrangements in the consolidated financial statements. IFRS 12 has been applied retrospectively.

IFRS 13 "Fair Value Measurement"

IFRS 13 "Fair Value Measurement" establishes a single source of guidance for all fair value measurements required or permitted by IFRSs. It clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under market conditions, and enhances disclosures about fair value measurements.

The adoption of IFRS 13 only affects disclosures on fair value measurements in the consolidated financial statements. IFRS 13 has been applied prospectively.

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

4. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

The preparation of financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the Directors to exercise their judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements are disclosed in note 5 to these financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of profit or loss and other comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation (continued)

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

Joint arrangements

A joint arrangement is an arrangement of which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Relevant activities are activities that significantly affect the returns of the arrangement. When assessing joint control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has joint control. A potential voting right is considered only if the holder has the practical ability to exercise that right.

A joint arrangement is either a joint operation or a joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

Investment in a joint venture is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the joint venture in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint arrangements (continued)

The Group's share of a joint venture's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture. If the joint venture subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of a joint venture that results in a loss of joint control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that joint venture and (ii) the Group's share of the net assets of that joint venture plus any remaining goodwill relating to that joint venture and any related accumulated foreign currency translation reserve. If an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interests in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates (continued)

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associate are eliminated to the extent of the Group's interests in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill (continued)

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, available-for-sale investment), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

Foreign currency translation

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi, which is the Company's presentation currency and the functional currency of the principal operating subsidiaries of the Group.

(b) *Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

(c) Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

(iii) All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation is provided to write off the cost of items of property, plant and equipment, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful lives of property, plant and equipment are as follows:

Buildings	20–30 years
Plant and machinery	10 years
Electronic equipment and others	4–5 years
Motor vehicles	6 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Construction in progress represents buildings under construction and plant and machinery pending installation, and is stated at cost less any impairment losses. Depreciation begins when the relevant assets are available for use.

Leases

Operating leases

The Group as lessee

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

The Group as lessor

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Club membership

Club membership with indefinite useful life is stated at cost less any impairment losses. Impairment is reviewed annually or when there is any indication that the club membership has suffered an impairment loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

The Group's financial assets include cash and bank balances, trade and other receivables, bills receivable and quoted and unquoted financial instruments.

Investments are classified as either financial assets at fair value through profit or loss or available-for-sale financial assets.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either investments classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition and derecognition of financial instruments (continued)

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets not classified as trade and other receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost less impairment losses.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale financial assets are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in profit or loss if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

Impairment losses on unquoted equity instruments that are not carried at fair value because their fair values cannot be reliably measured, or on derivative assets that are linked to and must be settled by delivery of such unquoted instruments are not reversed.

Derivative financial instruments

Derivatives are initially recognised and subsequently measured at fair value. Changes in the fair value of derivatives are recognised in profit or loss as they arise.

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the carrying amount of the receivables and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade and other receivables (continued)

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the recoverable amount of the receivables can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants relating to the purchase of assets are recorded as deferred income and recognised in profit or loss on a straight-line basis over the useful lives of the related assets.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

(a) Revenues from the sales of goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

(b) Service income is recognised when the services are provided.

(c) Rental income is recognised on a straight-line basis over the lease term.

(d) Interest income is recognised on a time-proportion basis using the effective interest method.

(e) Dividend income is recognised when the shareholders' right to receive payment has been established.

Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

(b) Pension obligations

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme ("MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme in Hong Kong. Contributions are made based on 5% of the employees' relevant income, subject to a ceiling of monthly relevant income of HK$20,000 (increased to HK$25,000 starting from 1 June 2012) and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group also participates in a defined contribution retirement scheme organised by the government in the People's Republic of China (the "PRC"). The Group is required to contribute a specific percentage of the payroll of its employees to the retirement scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the retirement scheme. No forfeited contributions may be used by the employers to reduce the existing level of contributions.

(c) Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

Share-based payments

The Group issues equity-settled share-based payments to certain employees (including directors). Equity-settled share-based payments are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Related parties

A related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if that person:

   (i) has control or joint control over the Group;

   (ii) has significant influence over the Group; or

   (iii) is a member of the key management personnel of the Company or of a parent of the Company.

(b) An entity is related to the Group (reporting entity) if any of the following conditions applies:

   (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

   (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

   (iii) Both entities are joint ventures of the same third party.

   (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

   (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

   (vi) The entity is controlled or jointly controlled by a person identified in (a).

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) (continued)

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources to, and assessing the performance of the Group's various lines of business in different geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of productions processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, investments, deferred tax assets, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

5. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY ESTIMATES

Critical judgements in applying accounting policies

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements.

(a) Legal titles of certain lands and buildings

As stated in notes 18 and 19 to the financial statements, the legal titles of certain lands and buildings have not been transferred to the Group as at 31 December 2013. Despite the fact that the Group has not obtained the relevant certificates of legal titles, the Directors determine to recognise those lands and buildings under property, plant and equipment and prepaid land lease payments, on the grounds that they expect the transfer of legal titles in future should have no major difficulties and the Group is in substance controlling those lands and buildings.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred tax assets at 31 December 2013 was RMB31,046,000 (2012: RMB13,495,000).

(b) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. The net carrying amounts of trade receivables, and prepayments, deposits and other receivables at 31 December 2013 were approximately RMB1,099,330,000 (2012: RMB736,854,000) and RMB435,831,000 (2012: RMB405,358,000), respectively.

5. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY ESTIMATES (continued)

Key sources of estimation uncertainty (continued)

(c) Write-down of inventories

The Group determines the write-down for obsolescence of inventories with reference to aged inventory analyses and projections of expected future saleability of goods. Based on this review, write-down of inventories will be made when the carrying amounts of inventories are lower than their estimated net realisable values. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation. The net carrying amount of inventories at 31 December 2013 was RMB195,374,000 (2012: RMB276,084,000).

(d) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2013 was RMB9,910,000 (2012: RMB9,910,000). More details are given in note 20.

(e) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation/amortization charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation/amortization charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(f) Impairment loss recognised in respect of interests in an associate and joint ventures

Interests in an associate and joint ventures are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Value-in-use calculations are used for assessing the recoverable amount of these interests. These calculations require use of judgments and estimates.

5. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY ESTIMATES (continued)

Key sources of estimation uncertainty (continued)

(f) Impairment loss recognised in respect of interests in an associate and joint ventures (continued)

Management judgment is required for assessing impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related carrying value of interests may not be recoverable; and (ii) whether the carrying value of the interests can be supported by the recoverable amount. Changing the estimations used by management in assessing impairment could materially affect the recoverable amount used in the impairment test and as a result affect the Group's consolidated financial position and results of operations. At the end of the reporting period, the carrying value of interests in the associate and joint ventures were RMB230,270,000 (2012: RMB237,056,000) and RMB50,952,000 (2012: RMB45,400,000); respectively.

(g) Fair value of derivative financial instrument

Derivative financial instrument was carried in the consolidated statement of financial position at the end of the reporting period at their fair value of approximately RMB183,000,000 (2012: RMB94,000,000). The fair value was based on a valuation on this derivative financial instrument conducted by an independent firm of professional valuers using the Monte Carlo simulation method which involve certain assumptions of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's derivative financial instrument and corresponding adjustments to the amount of gain or loss reported in the consolidated profit or loss.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

During the reporting period, the capital structure of the Group consist of debt which includes interest-bearing bank loans and equity attributable to owners of the Company, comprising issued share capital and reserves. The Directors review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the associated risks, and take appropriate actions to adjust the Group's capital structure. The Group's overall strategy remains unchanged from prior periods.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise derivative financial instrument, borrowings, and cash and cash equivalents. The main purpose of these financial instruments is to raise funding for the Group's operations. The Group has various other financial assets and liabilities, such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, price risk, liquidity risk, interest rate risk and foreign currency risk. The board reviews and agrees on policies for managing each of these risks and they are summarised below:

(a) Foreign currency risk

Foreign currency risk means the risk of fluctuations in the fair value or future cash flows of financial instruments which arise from changes in exchange rates.

The Group's business are mainly located in the Mainland China and are mainly transacted and settled in Renminbi, so the Group has minimal exposure to foreign currency risk.

(b) Interest rate risk

Interest rate risk means the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group did not have any long-term bank loans with a floating interest rate during the years ended 31 December 2013 and 2012, so the Group was not exposed to the risk of changes in market interest rates.

(c) Price risk

The Group's derivative financial instrument represented the guarantee return and right to sell the interest in an associate. This is measured at fair value at the end of each reporting period. Therefore, the Group is exposed to equity security price risk. The directors manage this exposure by regularly reviewing the financial performance of the associate.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Credit risk

Credit risk means the risk of loss in respect of a financial instrument when the counterparty to the financial instrument cannot execute its obligations.

The Group only transacts with those third parties who are recognised as creditworthy. The Group's policy is to perform credit verification for all customers who have transactions with the Group. Further, credit limits, credit terms and sales methods are determined based on the credit ratings of customers.

For sales under credit terms, a sales contract shall stipulate the payment term and credit amounts. The payment date should not exceed the credit term, and the credit amount in aggregate should not exceed the credit limit.

In addition, the Group continuously monitors its trade receivable balance, and insists that salespersons are responsible for cash collection, and the persons who approve sales contracts are accountable for the collection of receivables.

The Group's other financial assets include cash and cash equivalents, and other receivables. Substantial amounts of the Group's cash and cash equivalents are held in major reputable financial institutions located in the PRC and Hong Kong, which management believes are of high credit quality. The credit risk of the Group's other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group has no other financial assets which carry significant exposure to credit risk.

At the end of the reporting period, the Group had certain concentration of credit risk as approximately 16% (2012: 17%) and 66% (2012: 71%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

(e) Liquidity risk

The Group monitors its exposure to a shortage of funds by considering the maturity of both its financial liabilities and financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank loans and its own funding sources.

The Group has already obtained banking facilities from various commercial banks for its working capital and capital expenditure.

The Group's management monitors the working capital position to ensure that there is adequate liquidity to meet with all the financial obligations when they become due and to maximise the return of the Group's financial resources.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of each reporting period, based on the contractual undiscounted payment, is as follows:

2013

	Within one year or on demand RMB'000	In the second year RMB'000	In the third to fifth years, inclusive RMB'000	Beyond five years RMB'000	Total RMB'000
Borrowings	**1,475,618**	**27,500**	**56,500**	**—**	**1,559,618**
Trade payables	**338,487**	**—**	**—**	**—**	**338,487**
Financial liabilities included in other payables and accruals	**50,091**	**—**	**—**	**—**	**50,091**
	1,864,196	**27,500**	**56,500**	**—**	**1,948,196**

2012

	Within one year or on demand RMB'000	In the second year RMB'000	In the third to fifth years, inclusive RMB'000	Beyond five years RMB'000	Total RMB'000
Borrowings	988,461	—	—	—	988,461
Trade payables	128,312	—	—	—	128,312
Financial liabilities included in other payables and accruals	124,498	—	—	—	124,498
	1,241,271	—	—	—	1,241,271

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(f) Categories of financial instruments

	2013 RMB'000	2012 RMB'000
Financial assets:		
Financial assets at fair value through profit or loss		
Derivative financial instrument	183,000	94,000
Available-for-sale financial assets	15,000	15,000
Loans and receivables		
Trade and bills receivables	1,111,883	749,158
Financial assets included in prepayments, deposits and other receivables	69,291	27,855
Pledged deposits	591,744	373,502
Cash and cash equivalents	202,720	166,056
	1,975,638	1,316,571
Financial liabilities:		
Financial liabilities at amortised cost		
Trade payables	338,487	128,312
Financial liabilities included in other payables and accruals	50,091	124,498
Borrowings	1,559,618	988,461
	1,948,196	1,241,271

(g) Fair value

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

8. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values, except for its available-for-sale investment, which is measured at cost less impairment losses.

(a) Disclosures of level in fair value hierarchy

The Group's financial asset involving recurring fair value measurements represents its derivative financial instrument for the Guaranteed Return and Right to Sell of Golden Fortune, details of which are set out in note 24. The fair value of the derivative financial instrument is measured using Level 3 inputs and there was no transfer in or transfer out of the measurement level. The fair values of the derivative financial instrument as at the end of the reporting periods are as follows:

	2013 **RMB'000**	2012 RMB'000
Fair value of the derivative financial instrument	**183,000**	94,000

8. FAIR VALUE MEASUREMENTS (continued)

(b) Reconciliation of assets measured at fair value based on level 3

	RMB'000
At 1 January 2012	75,000
Total gain recognised in profit or loss for the year (included in assets held at end of the reporting period)	19,000
At 31 December 2012	94,000
Total gain recognised in profit or loss for the year (included in assets held at end of the reporting period)	89,000
At 31 December 2013	183,000

The total gains recognised in profit or loss are presented in other income and gains in the consolidated statement of profit or loss and other comprehensive income.

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements

The Group's financial controller is responsible for the fair value measurements of assets required for financial reporting purposes, including level 3 fair value measurements. The financial controller reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Board of Directors at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Key unobservable inputs used in level 3 fair value measurements are mainly:

— weighted average cost of capital (estimated based on Capital Asset Pricing Model of 15.25%)

— long-term revenue growth rate (estimated based on average historical inflation rate in China)

— discount for lack of marketability (estimated based on market research study on the median discount for lack of marketability of restricted stocks of 21%).

8. FAIR VALUE MEASUREMENTS (continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements (continued)

Level 3 fair value measurements

Description	Valuation Technique	Unobservable inputs	Effect on fair value for increase of input	Fair value as at 31 December 2013 RMB'000
Derivative financial instrument in respect of the Guaranteed Return and Right to Sell of Golden Fortune	Monte Carlo Simulation	Long-term revenue growth rate 2.86% Weighted average cost of capital 15.25% Discount for lack of marketability 21%	Decrease Decrease Increase	183,000

During the two years, there were no changes in the valuation techniques used.

9. OPERATING SEGMENT INFORMATION

For management purposes, the Group has three (2012: three) reportable segments: spiral submerged arc welded pipe operation ("SSAW Pipes Business"), cold-formed section steel operation ("Cold-formed Section Steel Business") and trading of metal commodity. The trading of metal commodity business mainly involve aluminium ingot and aluminium oxide in this year. The SSAW Pipes Business segment produces spiral submerged arc welded pipes which are mainly used for the oil industry and the Cold-formed Section Steel Business produces cold-formed section steel which is mainly used for the infrastructure industry. Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents, derivative financial instruments and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude borrowings, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

The inter-segment sales were based on agreed selling prices between the parties involved.

Segment results represent the profit earned by each segment without allocation of interest income, finance costs, fair value gains of derivative financial instrument, and central administration costs including directors' fees, share-based payments, foreign currency exchange gains/losses, share of losses of joint ventures and an associate and items not directly related to the core business of the segments.

9. OPERATING SEGMENT INFORMATION (continued)

Segment revenue and results

For the year ended 31 December 2013

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Trading of metal commodity RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:					
Sales to external customers	852,310	4,057	1,700,350	—	2,556,717
Intersegment sales	24,294	—	87,079	(111,373)	—
Total revenue	876,604	4,057	1,787,429	(111,373)	2,556,717
Segment results	(17,706)	780	32,685		15,759
Interest income					20,229
Fair value gains of derivative financial instrument					89,000
Unallocated expenses (note)					(42,541)
Finance costs					(58,367)
Profit before tax					24,080

9. OPERATING SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

For the year ended 31 December 2012

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Trading of metal commodity RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:					
Sales to external customers	1,433,322	88,148	399,385	—	1,920,855
Intersegment sales	—	—	—	—	—
Total revenue	1,433,322	88,148	399,385	—	1,920,855
Segment results	135,206	(5,280)	4,389		134,315
Interest income					38,047
Fair value gains of derivative financial instrument					19,000
Unallocated expenses (note)					(83,350)
Finance costs					(36,053)
Profit before tax					71,959

Note:

Included in unallocated expenses of approximately to RMB7,115,000 (2012: RMB5,570,000) which were related to the longitudinal submerged arc welded ("LSAW") pipes business and the related operation has not yet commenced during the reporting period.

9. OPERATING SEGMENT INFORMATION (continued)

Segment assets

For the year ended 31 December 2013

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Trading of metal commodity RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment assets	**1,519,230**	**92,076**	**878,535**	**—**	**2,489,841**
Unallocated assets (note)					**1,882,228**
Total consolidated assets					**4,372,069**

For the year ended 31 December 2012

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Trading of metal commodity RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment assets	1,794,879	79,396	477,689	—	2,351,964
Unallocated assets (note)					1,235,520
Total consolidated assets					3,587,484

9. OPERATING SEGMENT INFORMATION (continued)

Segment liabilities

For the year ended 31 December 2013

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Trading of metal commodity RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment liabilities	**146,913**	**1,331**	**252,806**	**—**	**401,050**
Unallocated liabilities (note)					**1,628,921**
Total consolidated liabilities					**2,029,971**

For the year ended 31 December 2012

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Trading of metal commodity RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment liabilities	197,956	4,502	62,221	—	264,679
Unallocated liabilities (note)					1,057,744
Total consolidated liabilities					1,322,423

Note:

Included in unallocated assets and liabilities were assets amounted approximately to RMB567,518,000 (2012: RMB237,081,000) and liabilities amounted approximately to RMB102,825,000 (2012: RMB29,871,000) which were related to LSAW pipes business and the related operation has not yet commenced as at the end of the reporting period.

9. OPERATING SEGMENT INFORMATION (continued)

Other segment information

As at 31 December 2013

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Trading of metal commodity RMB'000	Unallocated RMB'000	Consolidated RMB'000
Share of losses of:					
Joint ventures	—	—	—	(3,104)	(3,104)
Associate	(6,786)	—	—	—	(6,786)
Reversal of write down of inventories	—	(727)	—	—	(727)
Depreciation and amortisation	77,177	5,026	241	1,538	83,982
Investment in joint ventures	—	—	—	50,952	50,952
Investment in an associate	230,270	—	—	—	230,270
Capital expenditure*	25,584	—	132	199,927	225,643

As at 31 December 2012

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Trading of metal commodity RMB'000	Unallocated RMB'000	Consolidated RMB'000
Share of losses of:					
Joint ventures	—	—	—	(751)	(751)
Associate	(6,198)	—	—	—	(6,198)
Write down of inventories	1,238	1,099	—	—	2,337
Depreciation and amortisation	58,314	5,092	37	108	63,551
Investment in joint ventures	—	—	—	45,400	45,400
Investment in an associate	237,056	—	—	—	237,056
Capital expenditure*	204,333	1,064	1,343	237,142	443,882

* Capital expenditure consists of additions of property, plant and equipment and prepaid land lease payments. During the year, the Group incurred capital expenditure approximately of RMB199,927,000 (2012: RMB237,142,000) for the LSAW pipes business which operation has not yet commenced at the end of the reporting period. Such amount was included in unallocated capital expenditure.

9. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2013 RMB'000	2012 RMB'000
Mainland China	2,282,749	1,307,185
Other countries	273,968	613,670
	2,556,717	1,920,855

(b) Non-current assets

	2013 RMB'000	2012 RMB'000
Mainland China	1,601,593	1,491,209
Hong Kong	129	216
	1,601,722	1,491,425

The non-current asset information above is based on the location of assets and excludes derivative financial instruments, available-for-sale investment and deferred tax assets.

Information about major customers

Revenue from major customers, each of whom accounted for 10% or more of the total revenue is set out below:

	Segment	2013 RMB'000	2012 RMB'000
Customer A	Trading of metal commodity	625,060	—
Customer B	Trading of metal commodity	546,753	265,215
Customer C (note)	SSAW Pipes Business	349,527	759,089
Customer D	SSAW Pipes Business	—	222,733

9. OPERATING SEGMENT INFORMATION (continued)

Information about major customers (continued)

Note: Revenue of approximately RMB349,527,000 (2012: RMB759,089,000) was derived from sales to a single customer, including sales to a group of entities which are known to be under common control with that customer.

10. REVENUE, OTHER INCOME AND GAINS

	2013 RMB'000	2012 RMB'000
Revenue		
Sales of steel pipes	826,531	1,520,363
Trading of metal commodity	1,700,350	399,385
Rendering of services related to pipe business	29,836	1,107
	2,556,717	1,920,855
Other income		
Interest income	20,229	38,047
Dividend income received from available-for-sale investments	509	—
Rental income	8,208	2,878
Government grant for achieving energy saving standard	—	72,230
Others	2,292	424
	31,238	113,579
Other Gains		
Gain on sales of materials	12,942	18,406
Fair value gains of derivative financial instrument	89,000	19,000
Exchange gains, net	1,485	393
Gain on disposal of property, plant and equipment, net	671	248
Others	97	3,983
	104,195	42,030
	135,433	155,609

11. FINANCE COSTS

	2013 RMB'000	2012 RMB'000
Interest of borrowings wholly repayable within five years		
— borrowings	**58,872**	36,053
— Other loans from a financial institution in the PRC	**11,173**	—
Less: interests capitalised	**(11,678)**	—
	58,367	36,053

12. PROFIT BEFORE TAX

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

	2013 RMB'000	2012 RMB'000
Cost of inventories sold*	**2,458,740**	1,849,689
Cost of services	**12,047**	595
Employees benefits expenses (including directors' remuneration (note 13))		
Wages, salaries and bonus	**59,264**	66,273
Performance related bonus	**64**	3,784
Pension scheme contributions	**6,348**	5,601
Welfare and other expenses	**6,086**	6,751
Equity-settled share option expense	**2,025**	6,971
	73,787	89,380
Depreciation of property, plant and equipment	**80,194**	61,446
Amortisation of prepaid land lease payments	**3,788**	2,105
Gain on disposal of property, plant and equipment	**(671)**	(248)
Operating lease payments	**15,665**	10,638
Exchange gains, net	**(1,485)**	(393)
Auditors' remuneration	**1,183**	2,482

* Included in the cost of inventories sold is an amount of RMB727,000 (2012: write down of inventories of RMB2,337,000) related to the reversal of write down of inventories for the year ended 31 December 2013.

13. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL REMUNERATION

(a) Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

		For the year ended 31 December 2013					
	Notes	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Performance related bonus RMB'000	Retirement benefit scheme contribution RMB'000	Equity settled share option expense RMB'000	Total remuneration RMB'000
Executive directors:							
Zhang Bizhuang	(i)	80	915	—	13	172	1,180
Jiang Yong		80	797	—	—	—	877
Liu Yaohua		80	678	—	13	106	877
Han Aizhi		80	676	—	13	123	892
Song Xichen		80	678	—	13	88	859
Non-executive directors:							
Yan Tangfeng		239	—	—	—	—	239
Independent non-executive directors:							
Guo Changyu		239	—	—	—	—	239
Wang Xueyou		239	—	—	—	—	239
Chen Junzhu	(ii)	140	—	—	—	—	140
Leung Ming Shu	(iii)	66	—	—	—	—	66
		1,323	3,744	—	52	489	5,608

13. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL REMUNERATION (continued)

(a) (continued)

		For the year ended 31 December 2012					
	Notes	Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Performance related bonus RMB'000	Retirement benefit scheme contribution RMB'000	Equity settled share option expense RMB'000	Total remuneration RMB'000
Executive directors:							
Zhang Bizhuang	(i)	81	1,066	376	11	1,181	2,715
Jiang Yong		32	321	110	—	—	463
Liu Yaohua		81	813	263	11	400	1,568
Han Aizhi		81	823	263	11	606	1,784
Song Xichen		61	693	263	11	361	1,389
Wang Xu	(iv)	49	831	263	11	606	1,760
Non-executive directors:							
Yan Tangfeng		244	—	—	—	—	244
Independent non-executive directors:							
Guo Changyu		244	—	—	—	—	244
Wang Xueyou		61	—	—	—	—	61
Leung Ming Shu	(iii)	244	—	—	—	—	244
Huo Chunyong	(v)	163	—	—	—	—	163
		1,341	4,547	1,538	55	3,154	10,635

Notes:

(i) Mr. Zhang Bizhuang was also the chairman and chief executive officer of the Company during the year. His emoluments disclosed above included those for services rendered by him as the chairman and chief executive officer.

(ii) Appointed on 30 May 2013

(iii) Resigned on 9 April 2013

(iv) Resigned on 9 August 2012

(v) Resigned on 30 August 2012

13. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL REMUNERATION (continued)

(b) Five Highest Paid Individuals' emoluments

Four (2012: All) of the five highest paid individuals of the Group were the directors whose emolument is set out in the above. The details of the remaining employees' emoluments of the Company were as follows:

	2013 RMB'000	2012 RMB'000
Salaries, allowances and other benefits in kind	828	—
Performance related bonus	64	—
Social security contributions	12	—
Equity-settled share option expense	—	—
	904	—

The number of non-director, highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employee	
	2013	2012
Emolument band:		
HK$0–HK$1,000,000	1	—

(c) No emoluments have been paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the two years ended 31 December 2013 and 2012.

14. INCOME TAX EXPENSE

	2013 RMB'000	2012 RMB'000
Current — PRC Enterprise Income Tax ("EIT")		
— Charge for the year	**3,399**	16,067
— Under-provision in prior years	**431**	—
Current — Hong Kong		
— Charge for the year	**3,186**	28
Deferred tax	**4,683**	276
	11,699	16,371

Hong Kong profits tax is calculated at 16.5% (2012: 16.5%) of the estimated assessable profits for the year.

The statutory tax rate of China Petro Equipment Holdings Pte. Ltd. ("CPE"), a subsidiary of the Company incorporated in the Republic of Singapore ("Singapore"), was 17% for the years ended 31 December 2013 and 2012.

The statutory tax rate of Shandong Shengli Steel Pipe Co., Ltd. ("Shandong Shengli"), a subsidiary of the Company established in the PRC, was 25%. Shandong Shengli was entitled to an exemption from income tax for the two years commencing from its first profit-making year of operations and thereafter entitled to a 50% relief for the subsequent three years. Shandong Shengli was exempted from income tax in 2008 and 2009 and enjoyed a 50% relief in 2010, 2011 and 2012.

14. INCOME TAX EXPENSE (continued)

A reconciliation of the income tax expenses applicable to profit before tax at the statutory rates for the jurisdictions in which the Group's principal operations are domiciled to the income tax expenses at the Group's effective income tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

	2013 **RMB'000**	2012 RMB'000
Profit before tax	**24,080**	71,959
Tax at the applicable tax rate of companies within the Group of 25% (2012: 25%)	**6,020**	17,990
Expenses not deductible for tax	**4,137**	1,023
Income not taxable for tax	**(397)**	—
Tax loss not recognised	**92**	1,073
Profits and losses attributable to joint ventures and an associate	**2,473**	1,737
Others	**(626)**	6,259
Effect of tax relief	**—**	(11,711)
Tax at the Group's effective rate	**11,699**	16,371

Notes:

No deferred tax assets have been recognised for tax losses of RMB4,292,000 for the year ended 31 December 2012, derived from the Group as the management of the Group is of the view that it is not probable that taxable profits of these subsidiaries will be available against which tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applied to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The applicable tax rate for the Group is 10% and therefore the Group is liable to 10% withholding tax on dividends distributed by subsidiaries in the Mainland China in respect of earnings generated from 1 January 2008 and afterwards.

As at 31 December 2012 and 2013, the aggregate amounts of temporary differences associated with undistributed earnings of the subsidiaries in the Mainland China for which deferred tax liabilities have not been recognised were approximately RMB848,000,000 and RMB818,000,000, respectively. In the opinion of the directors of the Company, it is not probable that its principal operating subsidiary, Shandong Shengli will distribute such earnings in the foreseeable future.

15. TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated total comprehensive income attributable to owners of the Company for the year ended 31 December 2013 includes a loss of approximately RMB13,591,000 (2012: RMB14,724,000), which has been dealt with in the financial statements of the Company.

16. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

(a) Basic earnings per share

The calculation of basic earnings per share attributable to owners of the Company is based on the profits for the year attributable to owners of the Company of approximately RMB17,826,000 (2012: RMB62,775,000) and the weighted average number of 2,480,580,000 (2012: 2,480,580,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2013 and 2012 in respect of a dilution as there were no dilutive potential ordinary share.

17. DIVIDEND

The dividends for the years ended 31 December 2013 and 2012 are set out below:

	2013 **RMB'000**	2012 RMB'000
Proposed final 2013: RMB0.125 cents (2012: RMB0.672 cents) per ordinary share	**3,095**	16,676

On 29 March 2014, the directors proposed a final dividend of RMB0.125 cents per share (equivalent to HK0.158 cents per share) for the year ended 31 December 2013 (2012: approximately RMB0.672 cents per share (equivalent to HK0.843 cents per share)) to all equity shareholders of the Company which will be charged to the share premium account and is subject to the shareholders' approval at the forthcoming annual general meeting.

18. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Electronic equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2013						
COST:						
At 1 January 2013	228,175	595,531	15,625	6,089	290,451	1,135,871
Additions	782	6,883	917	1,699	200,476	210,757
Transfers	3,625	30,129	—	—	(33,754)	—
Disposals	—	(15,001)	(228)	(17)	—	(15,246)
At 31 December 2013	232,582	617,542	16,314	7,771	457,173	1,331,382
ACCUMULATED DEPRECIATION:						
At 1 January 2013	14,058	127,371	7,059	3,061	—	151,549
Provided during the year	12,113	64,310	2,584	1,187	—	80,194
Disposals	—	(635)	(219)	(16)	—	(870)
At 31 December 2013	26,171	191,046	9,424	4,232	—	230,873
CARRYING AMOUNTS:						
At 31 December 2013	206,411	426,496	6,890	3,539	457,173	1,100,509

18. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Electronic equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2012						
COST:						
At 1 January 2012	143,984	318,567	11,345	4,775	322,808	801,479
Additions	10,569	24,376	4,809	1,292	294,747	335,793
Transfers	74,019	252,993	—	92	(327,104)	—
Disposals	(397)	(405)	(529)	(70)	—	(1,401)
At 31 December 2012	228,175	595,531	15,625	6,089	290,451	1,135,871
ACCUMULATED DEPRECIATION:						
At 1 January 2012	6,339	77,683	5,223	2,101	—	91,346
Provided during the year	8,104	49,973	2,342	1,027	—	61,446
Disposals	(385)	(285)	(506)	(67)	—	(1,243)
At 31 December 2012	14,058	127,371	7,059	3,061	—	151,549
CARRYING AMOUNTS:						
At 31 December 2012	214,117	468,160	8,566	3,028	290,451	984,322

As at 31 December 2013, the Group was in the process of applying for the title certificates of buildings with an aggregate net book value of approximately RMB133,186,000 (2012: RMB112,682,000). The directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the abovementioned buildings in due course, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2013.

19. PREPAID LAND LEASE PAYMENTS

	2013 RMB'000	2012 RMB'000
Carrying amount at 1 January	**167,863**	61,879
Additions	**14,886**	108,089
Amortisation for the year	**(3,788)**	(2,105)
Carrying amount at 31 December	**178,961**	167,863
Current portion	**(3,749)**	(3,406)
Non-current portion	**175,212**	164,457

The Group's prepaid land lease prepayments related to land use rights held under long term leases and located in Mainland China.

As at 31 December 2013, the Group was in the process of applying for the title certificates of certain land acquired by the Group with an aggregate carrying amount of approximately RMB99,545,000 (2012: RMB138,171,000). The directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned land in due course, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2013.

20. GOODWILL

	2013 RMB'000	2012 RMB'000
Carrying amount at 31 December	**9,910**	9,910

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

— SSAW Pipes business cash-generating unit

— Xinjiang business cash-generating unit

20. GOODWILL (continued)

Impairment testing of goodwill (continued)

SSAW Pipes business cash-generating unit

The recoverable amount of the SSAW Pipes business cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 14% (2012: 14%) and cash flows beyond the five-year-period were extrapolated using a growth rate of 3% by reference to the long-term average growth rate.

Xinjiang business cash-generating unit

The recoverable amount of the Xinjiang business cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 16% and cash flows beyond the five-year-period were not extrapolated using a growth rate under the management's conservative estimation.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2013 RMB'000	2012 RMB'000
SSAW Pipes business	2,525	2,525
Xinjiang business	7,385	7,385
	9,910	9,910

Key assumptions were used in the value in use calculation of the SSAW Pipes business and Xinjiang business cash-generating units for 31 December 2013 and 31 December 2012. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, adjusted for expected product mix, and expected market development.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

The values assigned to key assumptions are consistent with external information sources.

21. SUBSIDIARIES

Particulars of the Company's major subsidiaries are set out below:

Company name	Place of incorporation	Nominal value of issued and paid-up share/registered paid-up capital	Percentage of equity interests attributable to the Company	Principal activities
Directly held:				
Shengli (BVI) Ltd. ("BVI")	BVI	USD1	100%	Investment holding
Siu Thai Holdings Limited ("Siu Thai")	BVI	USD1	100%	Investment holding
Indirectly held:				
China Petro Equipment Holdings Pte. Ltd. ("CPE")	Republic of Singapore	SGD2	100%	Investment holding
Shandong Shengli Steel Pipe Co., Ltd. ("Shandong Shengli")# (山東勝利鋼管有限公司) (Note i)	PRC	RMB1,153,790,300	100%	Manufacturing, processing and sale of welded steel pipes for oil and gas pipelines and other construction and manufacturing applications
Shengli Steel Pipe (Dezhou) Co., Ltd. ("Shengli Dezhou")# (勝利鋼管(德州)有限公司) (Note ii)	PRC	RMB80,000,000	100%	Manufacturing, processing and sale of welded steel pipes for oil and gas pipelines and other construction and manufacturing applications
Shandong Muxin Investment Co., Ltd. ("Shandong Muxin")# (山東沐鑫投資有限公司) (Note ii)	PRC	RMB30,000,000	100%	Equity investment, investment management, and investment consultation
Guangdong Shengli Trading Co., Ltd. ("Guangdong Shengli")# (廣東勝利貿易有限公司) (Note i)	PRC	RMB100,000,000	100%	Trading of metal commodity
Xinjiang Shengli Steel Pipe Co., Ltd. ("Xinjiang Shengli")# (新疆勝利鋼管有限公司) (Note iii)	PRC	RMB180,000,000	56.43%	Manufacturing and selling of pipes for oil and gas, pipe components and anti-corrosion steel pipes
Hunan Shengli Xianggang Steel Pipe Co., Ltd. ("Hunan Shengli")# (湖南勝利湘鋼鋼管有限公司) (Note iv)	PRC	RMB464,000,000	54.96%	Manufacturing, processing and sale of LSAW and SSAW pipelines and provision of anti-corrosion service
Shengli Investment Company	United States of America/Texas	USD100,000	100%	Investment holding
Shengli Enterprise Holdings Limited ("Shengli Enterprise")	Hong Kong	HK$10,000	100%	Trading of metal commodity

\# The English names are for identification only

Note:

(i) The subsidiary is a wholly foreign-owned enterprise incorporated in the PRC

(ii) The subsidiary is a wholly owned domestic limited company incorporated in the PRC

(iii) The subsidiary is a non-wholly owned domestic limited company incorporated in the PRC

(iv) The subsidiary is a non-wholly foreign-owned enterprise incorporated in the PRC

21. SUBSIDIARIES (continued)

The following table shows information of subsidiaries that have non-controlling interests ("NCI") material to the Group. The summarised financial information represents amounts before inter-company eliminations.

Name	Xinjiang Shengli		Hunan Shengli	
	2013	2012	**2013**	2012
Principal place of business/country of incorporation	**PRC/PRC**	PRC/PRC	**PRC/PRC**	PRC/PRC
% of ownership interests/voting rights held by NCI	**43.57%**	43.57%	**45.04%**	45.74%
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 31 December:				
Non-current assets	**122,276**	121,907	**508,538**	236,404
Current assets	**56,159**	36,791	**58,980**	67,638
Non-current liabilities	**(6,674)**	(854)	**(84,000)**	—
Current liabilities	**(33,933)**	(9,835)	**(27,327)**	(27,612)
Net assets	**137,828**	148,009	**456,191**	276,430
Accumulated NCI	**60,055**	64,491	**205,192**	126,201
Year ended 31 December:				
Revenue	**22,084**	11,791	**—**	—
Loss for the year	**(10,182)**	(10,072)	**(2,239)**	(6,118)
Total comprehensive loss	**(10,182)**	(10,072)	**(2,239)**	(6,118)
Loss allocated to NCI	**(4,436)**	(4,388)	**(1,009)**	(2,799)
Dividends paid to NCI	**—**	—	**—**	—
Net cash used in operating activities	**(1,926)**	(26,082)	**(5,750)**	(5,700)
Net cash used in investing activities	**(3,094)**	(4,806)	**(199,485)**	(236,564)
Net cash (used in)/generated from financing activities	**(1,586)**	(182)	**224,095**	145,472
Net (decrease)/increase in cash and cash equivalents	**(6,606)**	(31,070)	**18,860**	(96,792)

21. SUBSIDIARIES (continued)

As at 31 December 2013, the bank and cash balances of the these subsidiaries in the PRC denominated in Renminbi ("RMB") amounted to RMB33,429,000 (2012: RMB21,175,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

22. DEPOSITS PAID FOR ACQUISITION OF INVESTMENTS

	2013	2012
	RMB'000	RMB'000
Deposit paid for acquisition of the equity interest of:		
— EVER Growing Energy Service LLC	**11,428**	11,483
— Gaoqing Xian Minfu Microfinance Co., Ltd.#		
(高青縣民福小額貸款有限公司) ("Minfu Microfinance") (note)	**30,000**	30,000
	41,428	41,483
Less: Current portion (note 29)	**(7,500)**	—
Non-current portion	**33,928**	41,483

Note:

The amount represented deposits paid for acquisition of additional 20% (2012: 20%) equity interest in Minfu Microfinance, an available-for-sale investment of the Group as stated in note 25 to the financial statement. As at the end of the reporting period and up to the date of this report, the share transfer is still subject to approval from the local authority. An amount of RMB7,500,000 is subsequently refund to the Group on 21 February 2013 and disclosed as prepayments, deposits and other receivables under current assets.

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23. INVESTMENT IN JOINT VENTURES

	2013 RMB'000	2012 RMB'000
Unlisted investments in the PRC:		
Share of net assets	50,952	45,400

Details of the Group's joint ventures at 31 December 2013 are as follows:

Company name	Place of incorporation/ operations	Registered paid-up capital	Percentage of equity interests attributable to the Group
Shenzhen Taihe Tiandi Investment Partnership# ("Shenzhen Taihe") (深圳市泰和天地投資合夥企業)	PRC	RMB20,000,000	90%
Dome Integration Housing Industrial Holding Co. Ltd.* ("Dome (BVI)") (哆咪集成房屋工業控股有限公司)	BVI	USD200	40%

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* It held 100% equity instrument in a company established in the PRC

23. INVESTMENT IN JOINT VENTURES (continued)

(a) Shenzhen Taihe

On 27 January 2011, Shandong Muxin, a indirect wholly-owned subsidiary of the Company established in the PRC, entered into an agreement with an individual, pursuant to which Shandong Muxin and the individual contributed RMB18,000,000 and RMB2,000,000, respectively, to set up Shenzhen Taihe, a partnership in the PRC.

Pursuant to the partnership agreement, Shandong Muxin acts as a partner with limited liability and the individual acts as an executive partner with unlimited liability. Each of Shandong Muxin and the individual are entitled to one vote in the partnership meeting. Therefore, Shenzhen Taihe is accounted for as a jointly controlled entity of the Group. The audited return on investment of Shenzhen Taihe will be distributed to the partners in the following order:

(i) Appropriation of 10% of the annual profit to all partners according to the percentage of capital contribution and the time of contribution.

(ii) provision of any short-term management fee.

(iii) appropriation of 80% of the residual profit to all partners based on their shares of the equity interests after appropriation of 20% of the residual profit to the executive partner.

The operating loss of Shenzhen Taihe will be shared by all partners based on their shares of the equity interests.

For the year ended 31 December 2013 and 2012, the Group's share of loss of Shenzhen Taihe approximately of RMB153,000 and RMB442,000, respectively.

23. INVESTMENT IN JOINT VENTURES (continued)

(b) Dome (BVI)

On 17 September 2012, Siu Thai, a direct wholly-owned subsidiary of the Company, entered into a shareholders' agreement with Dome (BVI) and four other parties, according to which Siu Thai and each of the four other parties (collectively referred to as the "JV Shareholders") subscribed for, and Dome (BVI) alloted and issued shares to the JV Shareholders, such that Dome (BVI) has become a joint venture company between the JV Shareholders.

Pursuant to the shareholders' agreement, Siu Thai subscribed for 40% and the other four parties subscribed for 35%, 7.75%, 4.75% and 12.5% of the share capital of Dome (BVI) for a consideration of RMB100,000,000, RMB87,500,000, RMB19,375,000, RMB11,875,000 and RMB31,250,000, respectively, payable by way of cash within one year from the date of the shareholders' agreement. Upon completion of the issuance of shares by Dome (BVI) to the JV Shareholders, Siu Thai has 40% equity interests in Dome (BVI), and Dome (BVI) becomes a joint venture company of the Group.

According to the shareholders' agreement, Dome (BVI) established a limited liability company incorporated under the laws of Hong Kong, Dome Integration Housing Industrial Group Company Limited ("Dome (HK)") and the Dome (HK) established a limited liability company under the laws of the PRC, Prodigy Dome Integration Housing Production (Shandong) Co., Ltd. ("Dome (Shandong)"). The Dome (Shandong) is primarily engaged in the business of the processing, manufacturing and distribution of dome integration houses. Dome (BVI), Dome (HK) and Dome (Shandong) are collectively referred to as the "JV Group".

The return on investment of the JV Group will be distributed to the JV Shareholders by way of dividends. The JV Shareholders will take all steps to ensure that each company of the JV Group will distribute by way of dividends in each of its financial year its profit available for distribution, provided that its cash requirements for its daily operation are well satisfied. The amount of the dividend to be distributed shall be determined by the JV Shareholders by written resolutions from time to time, which shall be no less than 30% of the profits available for distribution of each company of the JV Group for the financial year.

Up to the end of the reporting period, the Group has invested approximately RMB37,599,000 (2012: RMB28,943,000) to the JV Group. During the year ended 31 December 2013, the Group's share of loss of JV Group approximately of RMB2,951,000 (2012: RMB309,000).

23. INVESTMENT IN JOINT VENTURES (continued)

The following tables show information of joint ventures that are material to the Group. These joint ventures are accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the IFRS financial statements of the joint ventures.

Name	**Shenzhen Taihe**		**Dome (BVI)**	
	2013	2012	**2013**	2012
Principal place of business/country of incorporation	**PRC/PRC**	PRC/PRC	**PRC/BVI**	PRC/BVI
Principal activities	**Equity investment, investment management, and investment consultation**		**Processing, manufacturing and distribution of dome integration houses**	
% of ownership interests/voting rights held by the Group	**90%/50%**	90%/50%	**40%/40%**	40%/40%
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 31 December:				
Non-current assets	**5,024**	4,259	**22,252**	28,795
Current assets	**13,434**	14,388	**188,944**	132,118
Current liabilities	**—**	(18)	**(125,349)**	(89,328)
Net assets	**18,458**	18,629	**85,847**	71,585
Group's share of carrying amount of interests	**16,613**	16,766	**34,339**	28,634
Cash and cash equivalents included in current assets	**8,310**	10,647	**11,768**	26,531
Current financial liabilities (excluding trade and other payables and provision) included in current liabilities	**—**	—	**—**	—
Year ended 31 December:				
Revenue	**53**	—	**24,210**	—
Depreciation and amortisation	**118**	72	**7,315**	524
Interest income	**—**	—	**5**	—
Interest expense	**1**	140	**554**	—
Income tax expense	**—**	—	**1**	—
Loss from continuing operation	**(170)**	(491)	**(7,377)**	(772)
Profit after tax from discontinued operations	**—**	—	**—**	—
Other comprehensive income	**—**	—	**—**	—
Total comprehensive loss	**(170)**	(491)	**(7,377)**	(772)
Dividends received from joint ventures	**—**	—	**—**	—

23. INVESTMENT IN JOINT VENTURES (continued)

As at 31 December 2013, the bank and cash balances of the Group' joint ventures in the PRC denominated in Renminbi ("RMB") amounted to RMB20,078,000 (2012: RMB37,178,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

24. INVESTMENT IN AN ASSOCIATE AND DERIVATIVE FINANCIAL INSTRUMENT

(a) Investment in an associate

	2013 RMB'000	2012 RMB'000
Unlisted investment in the PRC:		
Share of net assets	109,202	115,988
Goodwill on acquisition	121,068	121,068
	230,270	237,056

Particulars of the associate of the Group are as follows:

Company name	Place of incorporation/ operations	Registered paid-up capital	Percentage of equity interests attributable to the Group	Principal activities
Beijing Golden Fortune Investment Co., Ltd.# ("Golden Fortune") (北京慧基泰展投資有限公司)	PRC	RMB222,910,000	25%	Natural gas distribution and gas pipeline construction

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24. INVESTMENT IN AN ASSOCIATE AND DERIVATIVE FINANCIAL INSTRUMENT (continued)

(a) Investment in an associate (continued)

The following table shows information of the associate that is material to the Group. The associate is accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the IFRS financial statements of the associate.

	2013	2012
Principal place of business/country of incorporation	**PRC/PRC**	PRC/PRC
Principal activities	**Natural gas distribution and gas pipeline construction**	
% of ownership interests/voting rights held by the Group	**25%/25%**	25%/25%
	RMB'000	RMB'000
At 31 December:		
Non-current assets	**904,423**	914,947
Current assets	**260,035**	331,264
Current liabilities	**(727,650)**	(782,259)
Net assets	**436,808**	463,952
Group's share of net assets	**109,202**	115,988
Goodwill	**121,068**	121,068
Group's share of carrying amount of interests	**230,270**	237,056
Year ended 31 December:		
Revenue	**879,269**	800,703
Loss from continuing operations	**(27,143)**	(24,794)
Loss after tax from discontinued operations	**—**	—
Other comprehensive income	**—**	—
Total comprehensive loss	**(27,143)**	(24,794)
Dividends received from the associate	**—**	—

24. INVESTMENT IN AN ASSOCIATE AND DERIVATIVE FINANCIAL INSTRUMENT (continued)

(a) Investment in an associate (continued)

Golden Fortune is a strategic investment of the Group, providing access to new technology and processes for its natural gas distribution and gas pipeline construction business.

As at 31 December 2013, the bank and cash balances of the Group' associates in the PRC denominated in Renminbi ("RMB") amounted to RMB171,566,000 (2012: RMB270,127,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

(b) Derivative financial instrument

	2013 RMB'000	2012 RMB'000
Guaranteed return and right to sell of Golden Fortune	183,000	94,000

Pursuant to the investment agreement in relation to Golden Fortune, Shandong Shengli, the wholly-owned subsidiary of the Company, is entitled to a guaranteed return on its initial investment of RMB300,000,000 at a rate of not less than 5%, 10%, 15%, 20% and 25% for the years ended/ending 31 December 2011, 2012, 2013, 2014 and 2015, respectively, and an average return of not less than 15% over the five years ending 31 December 2015 (the "Guarantee Return"). The return on Shandong Shengli's investment for a given year is equal to its pro rata share of Golden Fortune's net profit as shown in its consolidated statement of profit or loss and other comprehensive income for that year divided by the amount of the Investment. If the average return on investment to Shandong Shengli falls short of the Guaranteed Return of 15% over the five years ending 31 December 2015, Shandong Shengli will be compensated by certain shareholders of Golden Fortune. Shandong Shengli may choose to be compensated for the shortfall in the Guaranteed Return in one of the following ways:

(i) transfer of cash dividend from certain shareholders of Golden Fortune; or

24. INVESTMENT IN AN ASSOCIATE AND DERIVATIVE FINANCIAL INSTRUMENT (continued)

(b) Derivative financial instrument (continued)

(ii) to require certain shareholders of Golden Fortune to purchase all or part of Shandong Shengli equity interest in Golden Fortune (the "Right to Sell"), i.e. in the event that: (1) average return on Shandong Shengli's investment over the years 2011 to 2015 falls below the Guaranteed Return of 15%; or (2) Golden Fortune experiences any material adverse change after 2015, at the request of Shandong Shengli, certain shareholders of Golden Fortune will be required to purchase all or part of the equity interest in Golden Fortune held by Shandong Shengli at a price equal to the sum of the cumulative amount of investment made by Shandong Shengli, any undistributed profit of Golden Fortune and interest on the relevant amount of cumulative investment calculated based on the prevailing bank lending rate.

During the year, the Group obtained further undertaking from the controlling shareholder of Golden Fortune, guaranteeing the shortfall from the above-mentioned compensation (if any) to meet the Guaranteed Return.

The above-mentioned arrangements are collectively referred to as the "Guaranteed Return and Right to Sell of Golden Fortune".

The fair value of investment return arrangement was determined by the directors of the Company with reference to the valuation performed by Roma Appraisals Limited, an independent professional valuer to the Group. The valuation was performed based on a 3 years' financial projection provided by the management, using the Monte Carlo simulation method, under which the possible outcomes of the value of Guaranteed Return and the Right to Sell were simulated.

The following assumptions were used to calculate the fair value of the Guaranteed Return and Right to Sell of Golden Fortune:

Time to expire	2 years
Discount rate	15%
Expected volatility	38%
Marketability discount	21%

The changes in fair value of the derivative financial instrument were recognised in the consolidated statement of profit or loss and other comprehensive income during the year ended 31 December 2013.

The derivative financial instrument is measured at fair value based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly (level 3).

25. AVAILABLE-FOR-SALE INVESTMENT

	2013 RMB'000	2012 RMB'000
An unlisted equity investment, at cost	**15,000**	15,000

On 31 May 2012, Shandong Muxin, a wholly-owned subsidiary of the Company, signed an agreement with Zibo Minan Plastics Co., Ltd.# (淄博民安塑料製品有限公司) ("Minan"), pursuant to which Shangdong Muxin agreed to acquire 10% equity interest in Minfu Microfinance from Minan for a consideration of RMB15,000,000.

As at 31 December 2013, the equity investment in Minfu Microfinance which was held on behalf by Minan had a carrying amount of RMB15,000,000 (2012: RMB15,000,000) and was stated at cost less impairment because the Directors are of the opinion that its fair value cannot be measured reliably. The Group does not intend to dispose the equity investment in the near future.

26. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The movements in deferred tax assets and deferred tax liabilities during the year are as follows:

	2013 RMB'000	2012 RMB'000
Deferred tax assets		
As at 1 January	**13,495**	9,039
Deferred tax credited to the consolidated profit or loss during the year (note 14)	**17,551**	4,456
Gross deferred tax assets as at 31 December	**31,046**	13,495
Deferred tax liabilities		
As at 1 January	**10,675**	5,943
Deferred tax charged to the consolidated profit or loss during the year (note 14)	**22,234**	4,732
Gross deferred tax liabilities as at 31 December	**32,909**	10,675
Net deferred tax (liabilities)/assets as at 31 December	**(1,863)**	2,820

26. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES (continued)

The components of the Group's deferred tax assets and liabilities are as follows:

	2013 RMB'000	2012 RMB'000
Deferred tax assets		
Accrued interest on borrowings	**4,111**	3,718
Government grants received but not yet recognised as income	**2,470**	2,683
Excess of carrying value over fair value of identifiable assets and liabilities in acquisition of subsidiaries	**1,681**	1,867
Others	**—**	66
Tax losses	**22,784**	5,161
Gross deferred tax assets	**31,046**	13,495
Deferred tax liabilities		
Excess of fair value of identifiable assets and liabilities over carrying value in acquisition of subsidiaries	**409**	425
Fair value gains of a derivative financial instrument	**32,500**	10,250
Gross deferred tax liabilities	**32,909**	10,675
Net deferred tax (liabilities)/assets	**(1,863)**	2,820

27. INVENTORIES

	2013 RMB'000	2012 RMB'000
Raw materials	**79,699**	87,804
Work in progress	**3,405**	4,765
Finished and semi-finished goods	**112,270**	183,515
	195,374	276,084

28. TRADE AND BILLS RECEIVABLES

	2013 RMB'000	2012 RMB'000
Trade receivables	**1,099,300**	736,854
Bills receivable	**12,583**	12,304
	1,111,883	749,158

The Group's trading terms with its customers are mainly on credit generally ranging from 90 to 180 days. All of the 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:

	2013 RMB'000	2012 RMB'000
Within 3 months	**848,028**	475,694
3 to 6 months	**126,395**	148,563
6 months to 1 year	**65,545**	102,181
1 to 2 years	**54,233**	10,416
2 to 3 years	**5,099**	—
	1,099,300	736,854

Included in the trade receivables of RMB72,506,000 (2012: RMB79,447,000) ranging from 6 months to 3 years are quality guarantee deposits receivable from customers.

28. TRADE AND BILLS RECEIVABLES (continued)

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2013 RMB'000	2012 RMB'000
Neither past due nor impaired	**1,083,832**	649,824
1 to 3 months past due	**5,517**	33,928
3 to 6 months past due	**—**	48,432
6 months to 1 year and past due	**199**	4,670
1 year to 2 years and past due	**9,752**	—
	1,099,300	736,854

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

Certain trade receivables are pledged to secure general banking facilities granted to the Group are set out in note 33 below.

	2013 RMB'000	2012 RMB'000
The carrying amounts of the Group's trade receivables are denominated in the following foreign currencies:		
Hong Kong Dollar ("HK$")	**535,021**	—

29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Details of the prepayments, deposits and other receivables are as follows:

	2013 RMB'000	2012 RMB'000
Advance to suppliers (note a)	56,805	207,610
Trade deposits paid to metal commodity suppliers (note b)	251,366	60,000
Advance to a joint venture (note c)	35,516	6,751
Loans to employees (note d)	1,730	4,880
Deposits paid for acquisition of investment (note 22)	7,500	—
Deposits paid for development of sales network	—	74,960
Tender deposits to customers	3,444	1,990
Other tax receivables (note e)	37,210	19,650
Rent prepaid to a related company (note 39(d))	8,110	8,110
Others	34,150	21,407
	435,831	405,358

Notes

(a) The advance is paid to suppliers to secure the supply of raw materials and sub-contracting services as at the end of the reporting period. The advance is interest-free and refundable within one year.

(b) These trade deposits were paid to metal commodity suppliers to secure trade payables of approximately RMB249,380,000 (2012: RMB60,697,000) as at the end of the reporting period. The deposits are interest-free and refundable within one year. These metal commodity suppliers are independent third parties of the Group.

(c) Included in the advance to a joint venture is a loan of RMB28,848,000 (2012: nil) which is unsecured, bears an interest rate of 3% per annum and repayable within one year. The remaining balance is unsecured, non-interest bearing and repayable within one year.

(d) Loans to employee are secured by cash guarantee deposits of RMB920,000 (2012: RMB930,000), bearing interests at 6% (2012: 6%) per annum and have no fixed repayment term.

(e) The Group's other tax receivables mainly represent value-added tax receivable.

30. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2013 RMB'000	2012 RMB'000
Cash and bank balances	**794,464**	539,558
Less: Pledged deposits	**(591,744)**	(373,502)
Cash and cash equivalents	**202,720**	166,056

Cash and cash equivalents and pledged deposits denominated in:

	2013 RMB'000	2012 RMB'000
RMB	**689,364**	519,558
USD	**94,629**	16,933
HK$	**9,607**	1,843
SGD	**864**	1,224
	794,464	539,558

The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between seven days and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

31. TRADE PAYABLES

	2013 RMB'000	2012 RMB'000
Trade payables	**338,487**	128,312

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

	2013 RMB'000	2012 RMB'000
Within 3 months	**301,424**	116,808
3 to 6 months	**23,525**	5,030
6 months to 1 year	**10,493**	5,178
1 to 2 years	**2,204**	833
2 to 3 years	**390**	48
3 to 4 years	**451**	415
	338,487	128,312

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.

32. OTHER PAYABLES AND ACCRUALS

	2013 RMB'000	2012 RMB'000
Receipt in advances from customers	**25,112**	39,882
Payable on acquisition of property, plant and equipment	**30,954**	96,808
Security deposits received from employees (note 29(d))	**920**	930
Other tax payables	**3,159**	5,109
Others	**18,217**	26,760
	78,362	169,489

33. BORROWINGS

	Notes	2013 Effective interest rate (%)	2013 Maturity (year)	2013 RMB'000	2012 Effective interest rate (%)	2012 Maturity (year)	2012 RMB'000
Bank loans — Unsecured		2.27%–6.88%	2014	635,000	6.00%	2013	423,800
Bank loans — Secured	(a)	2.76%–6.00%	2014	542,240	2.76%–6.00%	2013	188,333
Current portion of long-term bank loan — Unsecured	(b)	3.20%–3.70%	2014	98,378	3.20%–3.70%	2013	354,328
Other loans — Unsecured	(c)	5.88%	2014	200,000			—
Bank loans — Guaranteed	(d)	6.40%	2015–2018	84,000	6.00%	2013	22,000
				1,559,618			988,461

The borrowings are repayable as follows:

	2013 RMB'000	2012 RMB'000
On demand of within one year	1,475,618	988,461
In the second year	27,500	—
In the third to fifth years, inclusive	56,500	—
	1,559,618	988,461
Less: Amount due for settlement within 12 months (shown under current liabilities)	(1,475,618)	(988,461)
Amount due for settlement after 12 months	84,000	—

The carrying amounts of the borrowings were denominated in the following currencies:

	2013 RMB'000	2012 RMB'000
RMB	1,277,378	800,128
USD	282,240	93,528
HK$	—	94,805
	1,559,618	988,461

33. BORROWINGS (continued)

Notes:

(a) The Group's bank loans were secured by pledge of certain of the Group's trade receivables amounting to RMB105,767,000 (2012: RMB137,119,000) and bank deposits of RMB582,681,000 (2012: RMB300,000,000).

(b) In respect of this unsecured loan of RMB354,328,000 in aggregate as at 31 December 2012, the Group triggered an event of default due to an event of suspension of trading during the reporting period. The Group has received a waiver by providing pledged bank deposits and letter of credits to secure partial of these loans and restructure of new borrowing terms, as such the restructured loans of RMB180,000,000 were classified as secured loans.

During the year, the Group was found breach in certain financial covenants and thereon triggered an event of default in respect of this unsecured loan. The Group has also received a wavier by providing a lodgment of an unpledged bank deposit. Subsequent to the end of reporting period, the Group has made an request in early termination of this loan, and repaid in full of the respective loan.

(c) The loan is borrowed from a financial institution in the PRC.

(d) As at 31 December 2013, an amount of RMB48,400,000 out of bank loans of RMB84,000,000 were guaranteed by a minority shareholder of a subsidiary. As at 31 December 2012, the bank loans of RMB22,000,000 were guaranteed by independent third parties.

34. DEFERRED INCOME

	2013 **RMB'000**	2012 RMB'000
Government grants:		
As at 1 January	**10,734**	12,223
Received during the year	**1,000**	—
Recognised as other income during the year	**(1,650)**	(1,489)
As at 31 December	**10,084**	10,734
Less: Current portion	**(1,058)**	(854)
Non-current portion	**9,026**	9,880

In August 2011, Xinjiang Shengli received a government grant of RMB12,330,000 in relation to land use right. Such government grant is recognised as income in equal amounts over the expected useful life of the land use right.

35. SHARE CAPITAL

Ordinary shares of HK$0.1 each	Number of shares	HK$'000
Authorised:		
At 31 December 2013 and 2012	5,000,000,000	500,000

Issued and fully paid:	Number of shares	RMB'000
At 31 December 2013 and 2012	2,480,580,000	218,786

There were no changes in the share capital of the Company during both years.

	Number of shares in issue	Issued capital HK$'000	Issued capital RMB'000
At 31 December 2013 and 2012	2,480,580,000	248,058	218,786

36. RESERVES

(a) Statutory surplus reserve

As stipulated by the relevant law and regulations for foreign investment enterprises in the People's Republic of China (the "PRC"), the Company's PRC subsidiaries are required to maintain a statutory surplus reserve which is non-distributable. Appropriation to such reserve is made out of net profit after tax expenses as shown in the statutory financial statements of the relevant PRC subsidiaries and after making up prior year cumulative losses. The amounts and allocation basis are decided by the board of directors of the respective subsidiaries annually. The statutory surplus reserve can be applied in conversion into issued capital by means of capitalisation issue.

(b) Share options reserve

Share option reserve represents the reserve arising from the share option scheme for eligible employees of the Group.

(c) Other reserve

Other reserve represents the reserve arising from Group Reorganisation.

36. RESERVES (continued)

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of changes in equity.

Company

The amounts of the Company's reserves and the movements therein for the year ended 31 December 2013 are as follows:

	Share premium RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2012	1,122,901	18,843	(78,440)	1,063,304
Final 2011 dividend paid	(23,317)	—	—	(23,317)
Share-based payment	—	6,971	—	6,971
Total comprehensive loss for the year	—	—	(14,724)	(14,724)
At 31 December 2012	1,099,584	25,814	(93,164)	1,032,234
Final 2012 dividend paid	(16,676)	—	—	(16,676)
Share-based payment	—	2,025	—	2,025
Total comprehensive loss for the year	—	—	(13,591)	(13,591)
At 31 December 2013	1,082,908	27,839	(106,755)	1,003,992

37. SHARE-BASED PAYMENTS

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. Details of the share options outstanding as at the end of the reporting period are as follows:

		2013	2012
Granted on 10 February 2010	(a)	22,500,000	22,500,000
Granted on 3 January 2012	(b)	22,740,000	24,000,000
		45,240,000	46,500,000

37. SHARE-BASED PAYMENTS (continued)

(a) Pursuant to the Company's announcement on 10 February 2010, the Company granted to eligible participants a total of 24,000,000 share options to subscribe for ordinary shares of HK$0.10 each in the share capital of the Company at an exercise price of HK$2.03 per share.

The share options granted has a 10-year exercisable period and are vesting as follows:

Vesting date	**Percentage of share options to vest**
First anniversary of the date of grant	One-third of the total number of share options granted
Second anniversary of the date of grant	One-third of the total number of share options granted
Third anniversary of the date of grant	One-third of the total number of share options granted

The closing price of the Company's shares immediately before 10 February 2010, being the date of grant, was HK$1.98 per share.

The aggregate fair values of the options determined at the date of grant based on the Binomial model, was HK$29,100,000.

The following assumptions were used to calculate the fair values of share options granted on 10 February 2010:

Grant date share price (per share)	HK$1.98
Exercise price (per share)	HK$2.03
Contractual life	10 years
Expected volatility (%)	67.0%
Dividend yield (%)	0.00%
Risk-free interest rate (%)	2.87%

1,500,000 share options out of the total 24,000,000 share options granted on 10 February 2010 were forfeited already during the year ended 31 December 2011.

(b) Pursuant to the Company's announcement on 3 January 2012, the Company granted to eligible participants a total of 24,000,000 share options to subscribe for ordinary shares of HK$0.10 each in the share capital of the Company at an exercise price of HK$0.80 per share.

37. SHARE-BASED PAYMENTS (continued)

(b) (continued)

The share options granted has a 10-year exercisable period and are vesting as follows:

Vesting date	**Percentage of share options to vest**
First anniversary of the date of grant	One-third of the total number of share options granted
Second anniversary of the date of grant	One-third of the total number of share options granted
Third anniversary of the date of grant	One-third of the total number of share options granted

The closing price of the Company's shares immediately before 3 January 2012, being the date of grant, was HK$0.80 per share.

The aggregate fair values of the options determined at the date of grant based on the Binomial model, was HK$8,207,638.

The following assumptions were used to calculate the fair values of share options granted on 3 January 2012:

Grant date share price (per share)	HK$0.80
Exercise price (per share)	HK$0.80
Contractual life	10 years
Expected volatility (%)	57.5%
Dividend yield (%)	1.33%
Risk-free interest rate (%)	1.45%

1,260,000 share options out of the total 24,000,000 share options granted on 3 January 2012 were forfeited during the year ended 31 December 2013.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

At the end of the reporting period, the Group revised its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognized in profit or loss with a corresponding adjustment to the share option reserve.

For the year ended 31 December 2013, the Group recognized share-based payments of RMB2,025,000 (2012: RMB6,971,000), which has been charged to the consolidated statement of profit or loss and other comprehensive income.

The number of share options exercisable at the end of the year is 37,660,000 (2012: 30,500,000).

38. COMMITMENTS

(a) Commitments under operating leases

As lessor

The Group leases its factory properties under an operating lease arrangement for four years.

At 31 December 2013, the Group had future minimum lease receivable under non-cancellable operating leases with its tenant, a related party to the Group, falling due as follows:

	2013 RMB'000	2012 RMB'000
Within one year	6,732	—
In the second to fifth years, inclusive	20,196	—
	26,928	—

Operating lease receivable as at 31 December 2013 mainly represent rental receivable by the Group from a related party for factory premises in Shandong Province, the PRC. Leases are negotiated for a term of four years.

As lessee

At the end of each reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2013 RMB'000	2012 RMB'000
Within one year	2,024	1,334
In the second to fifth years, inclusive	6,204	549
	8,228	1,883

Operating lease commitments as at 31 December 2013 mainly represent rental payable by the Group to a related party for factory premises in Shandong Province, the PRC. Dates of this arrangement were disclosed in the announcement of the company dated 29 April 2011 and 20 December 2011.

Leases are negotiated for lease terms of three years, and the Group has prepaid the lease payments for the three financial years from 2012 to 2014 during the year ended 31 December 2012.

38. COMMITMENTS (continued)

(b) Capital commitments

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

	2013 RMB'000	2012 RMB'000
Contracted, but not provided for	109,205	243,379

(c) Investment commitments

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

	2013 RMB'000	2012 RMB'000
Contracted, but not provided for	—	182,000

39. RELATED PARTY TRANSACTIONS

(a) Related parties of the Group

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

Name of related party	Relationship with the Company
Shengli Steel Pipe Co., Ltd. ("Shengli Steel Pipe")	A company jointly controlled by a Director of the Company
Dome (Shandong)	A wholly owned subsidiary of Dome (HK)
Golden Fortune	An associate of the Company
Shenzhen Taihe	A joint venture of the Company

(b) Significant related party transactions

During the years ended 31 December 2013 and 2012, the Group had the following material transactions with related parties:

	2013 **RMB'000**	2012 RMB'000
Rental expense paid to Shengli Steel Pipe	**8,110**	8,110
Rental income received from Dome (Shandong)	**6,354**	—
Proceeds from disposal of property, plant and equipment to Dome (Shandong)	**14,636**	—
Interest income from Dome (Shandong)	**554**	—

The rental expenses paid to Shengli Steel Pipe constitutes continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(c) Commitments with related parties

Shandong Shengli entered into a lease agreement and the supplemental agreements with Shengli Steel Pipe to rent factory premises for production purposes. The annual rental for year 2013 and 2012 is approximately RMB8.11 million. Details of the operating lease arrangements are disclosed in note 39(a) to the financial statements.

39. RELATED PARTY TRANSACTIONS (continued)

(d) Balances with related parties

	2013 RMB'000	2012 RMB'000
Shengli Steel Pipe	**8,110**	15,224
Less: Current portion (note 29)	**(8,110)**	(8,110)
Non-current portion as other assets	**—**	7,114

(e) Key management compensation

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

	2013 RMB'000	2012 RMB'000
Fees	**1,323**	1,343
Salaries, allowances and other benefits in kind	**5,211**	5,344
Performance related bonus	**64**	1,538
Social security contributions	**132**	114
Equity-settled share option expense	**612**	3,310
	7,342	11,649

Further details of directors' emoluments are included in note 12 to the financial statements.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY AS AT 31 DECEMBER

	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	112	214
Investments in subsidiaries	1,563,515	1,799,949
	1,563,627	1,800,163
CURRENT ASSETS		
Prepayments, deposits and other receivables	1,200	722
Cash and cash equivalents	32,620	2,145
	33,820	2,867
CURRENT LIABILITIES		
Other payables and accruals	3,283	9,349
Borrowings	371,386	542,661
	374,669	552,010
NET CURRENT LIABILITIES	(340,849)	(549,143)
TOTAL ASSETS LESS CURRENT LIABILITIES	1,222,778	1,251,020
NET ASSETS	1,222,778	1,251,020
EQUITY		
Issued capital	218,786	218,786
Reserves	1,003,992	1,032,234
Total equity	1,222,778	1,251,020

41. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 30 March 2014.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements is set out below.

	Year ended 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
CONTINUING OPERATIONS					
Turnover	**2,556,717**	1,920,855	1,821,836	1,126,923	2,999,092
Profit before tax	**24,080**	71,959	115,496	108,116	335,888
Income tax	**(11,699)**	(16,371)	(23,579)	(18,952)	—
Profit for the year	**12,381**	55,588	91,917	89,164	335,888
Attributable to:					
Owners of the Company	**17,826**	62,775	93,780	89,164	335,888
Non-controlling interests	**(5,445)**	(7,187)	(1,863)	—	—
	12,381	55,588	91,917	89,164	335,888

	As at 31 December				
	2013	2012	2011	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	**4,372,069**	3,587,484	3,042,491	2,086,619	2,167,961
Total liabilities	**(2,029,971)**	(1,322,423)	(896,672)	(124,953)	(437,552)
Net assets	**2,342,098**	2,265,061	2,145,819	1,961,666	1,730,409
Attributable to:					
Owners of the Company	**2,076,851**	2,074,369	2,027,940	1,961,666	1,730,409
Non-controlling interests	**265,247**	190,692	117,879	—	—
	2,342,098	2,265,061	2,145,819	1,961,666	1,730,409