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

2015

ANNUAL REPORT

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 submerged-arc helical welded pipes ("SAWH pipes") and submerged-arc longitudinal welded pipes ("SAWL pipes"), that are used to transport crude oil, refined petroleum products, natural gas and other related products.


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BIO
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SAVE
GLOBE
ECOLOGY
eco
WORLD
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ECOLOGY
LEAF
TREE
PROTECTION
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PLANET
tree
PLANET
PLANT
FRESH
WORLD
global
world
ECOLOGY
SUSTAINABLE
organic
concept
ENERGY
globe
conservation

CONTENT

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Ji Rongdi (alias Jee Rongdee) *(Chairman)*
(appointed on 12 April 2016)
Mr. Zhang Bizhuang
(Chief Executive Officer)
(resigned as Chairman on 12 April 2016)
Mr. Jiang Yong *(Vice President)*
Mr. Wang Kunxian *(Vice President)*
Ms. Han Aizhi *(Vice President)*
Mr. Song Xichen *(Vice President)*

Independent non-executive Directors

Mr. Chen Junzhu, *ACCA, CICPA*
Mr. Wu Geng (appointed on 19 March 2015)
Mr. Qiao Jianmin (appointed on 12 April 2016)
Mr. Wang Xueyou
(retired at the general meeting on 26 June 2015)
Mr. Guo Changyu (resigned on 12 April 2016)

AUDIT COMMITTEE

Mr. Chen Junzhu *(Chairman), ACCA, CICPA*
Mr. Wu Geng (appointed as member of
the Audit Committee on 23 March 2015)
Mr. Qiao Jianmin (appointed as member of the Audit
Committee on 12 April 2016)
Mr. Wang Xueyou (resigned as member of
the Audit Committee on 23 March 2015)
Mr. Guo Changyu (resigned as member of the Audit
Committee on 12 April 2016)

REMUNERATION COMMITTEE

Mr. Wu Geng *(Chairman)* (appointed as chairman of
the Remuneration Committee on 26 June 2015)
Mr. Zhang Bizhuang
Mr. Chen Junzhu, *ACCA, CICPA*
Mr. Wang Xueyou
(retired at the general meeting on 26 June 2015)

NOMINATION COMMITTEE

Mr. Ji Rongdi (alias Jee Rongdee) *(Chairman)*
(appointed as Chairman of the Nomination Committee
on 12 April 2016)
Mr. Zhang Bizhuang
Mr. Wu Geng (appointed as member of
the Nomination Committee on 23 March 2015)
Mr. Wang Xueyou (resigned as member of
the Nomination Committee on 23 March 2015)
Mr. Gao Changyu (resigned as Chairman of the
Nomination Committee on 12 April 2016)

COMPANY SECRETARY

Mr. Hong Kam Le

AUTHORISED REPRESENTATIVES

Ms. Han Aizhi
Mr. Hong Kam Le

REGISTERED OFFICE

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

HEADQUARTERS IN CHINA

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

Industrial & Commercial Bank of China
China Construction Bank
Agricultural Bank of China
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

AUDITORS

ZHONGHUI ANDA CPA Limited
Unit 701, Citicorp Centre,
18 Whitfield Road,
Causeway Bay, Hong Kong

SHARE REGISTRARS

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company (Cayman) Limited

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited

LISTING EXCHANGE INFORMATION

Main Board
The Stock Exchange of Hong Kong Limited

STOCK CODE

1080

COMPANY WEBSITE

www.slogp.com

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB1,953,960,000, representing a decrease of approximately RMB55,102,000 when compared to 2014.
- Gross profit margin was 2.0%, representing an increase of approximately 0.6 percentage points when compared to 2014.
- The loss for the year attributable to owners of the Company amounted to approximately RMB302,130,000, representing an increase of approximately RMB82,954,000 when compared to 2014.
- Basic loss per share attributable to owners of the Company was approximately RMB11.07 cents, representing an increase of approximately RMB2.35 cents when compared to 2014.

CHIEF EXECUTIVE OFFICER'S STATEMENT

Promising start

We believe that we are one of the few suppliers in China producing SAWH pipes and SAWL 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", together with its subsidiaries, the "Group"), I would like to present the audited results of the Group for the year ended 31 December 2015 (the "Year under Review") to the shareholders.

In 2015, the global economy trod on a delicate recovery path. The disparity of major economies aggravated while the growth momentum of emerging economies slowed down, hinting at a difficult resuscitation of global economy. In parallel, the international petroleum price was caught in the downdraft, and further slump is inferred as it stands. However, against the backdrop of "The Belt and Road Initiative" strategy, crude oil corporates, trading corporates and energy-related corporates can take this opportunity to tie up with more overseas companies during the implementation of the strategy. Besides, while the state-owned companies are undergoing a round of reform, the oil and gas pipeline separation reform agrees with the general direction of oil and gas industry reform and is instrumental in dismantling the monopoly that oil and petrochemical businesses are controlled by the same industry in order to augment industrial competitiveness. In this light, it will be beneficial to the Group's business development.

BOOSTING GLOBAL SALES AND SEIZING MARKET OPPORTUNITIES

The Group has been striving to diversify its product and service portfolio and expand overseas markets in recent years. During the Year under Review, Shandong Shengli Steel Pipe Co., Ltd.* (山東勝利鋼管有限公司) ("Shandong Shengli Steel Pipe") completed the production and delivery for the Pakistan Large-Diameter Gas Pipeline Project (巴基斯坦大口徑輸氣管線項目) and took up the entire Venezuela Pipeline Project (委內瑞拉管道工程), which represent the first overseas project completed by the Group alone and allowed the Company to take solid steps forward in our pursuit of international presence and greater market share. At the same time, following the success of its pipeline project in Venezuela, Shandong Shengli Steel Pipe has been formally listed as a national supplier of the country.

On the other hand, Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) ("Hunan Shengli Steel Pipe") also actively participated in overseas pipeline tenders, including pipeline projects in Pakistan and Turkmenistan, thereby gaining relevant experience of overseas pipeline tender and laying the solid foundation for its future expansion in the overseas markets.

SEEKING TECHNOLOGY INNOVATION AND UPHOLDING MARKET LEADERSHIP OF WELDED PIPE TECHNOLOGY

As technological advancement is a driving force for the growth of a corporate and core technologies are vital for a corporate to maintain its competitiveness, the Group has always attached great importance to technological investment and pursued technology innovation over the years.

During the Year under Review, the Group was more adept at the pre-welding and precision-welding technology and made new headway in terms of technological research and domestic production for the consumables and quick wear parts for the equipment imported. The Group refined the precision-welding technology to reduce consumption of wires and improve weld surface quality. Moreover, the Group's self-designed extrusion rollers were processed by the engaged processing company in the PRC and the quality of which is comparable to those imported. The Group also refined and designed the conductive nozzle by itself, which completely replaced imported parts. Lastly, the Group recently applied the consumables for plasma-cutting machines produced in the PRC to a small scale trial use and achieved a satisfactory result.

CHIEF EXECUTIVE OFFICER'S STATEMENT

Moreover, technicians of the Group strived for technological research and development ("R&D") as well as modification of equipment and obtained two national invention patents, namely "high-shear three-ply polyolefin anti-corrosion and insulated steel pipes and the relevant production technique" and "submerged-arc helical welded pipes manufacturing technique", and five national utility model patents, namely "water recycling system for high pressure water pump", "a type of fabrication device of arc striking and extinguishing plate for double-sided submerged-arc longitudinal welded pipes", "a type of cleansing equipment for upper and lower surface of steel plate" , "a type of outer welding and submerged arc welding equipment for longitudinal pipes" and "a type of automatic submerged arc welding production line for inner and outer steel plate". This fully illustrates that the welded pipe of the Group forges ahead its peers.

LAYING FOUNDATION IN PREPARATION FOR MAJOR PROJECTS

Looking ahead, the Group will further its effort on deepening the mechanism and system of oil and gas industry for the formation of an effective and competitive market structure and system. The reform of oil and gas industry will further unravel the administrative monopoly and keep natural monopoly on a short leash. Moreover, this will open up the market for fair competition. Check and balance in the development of oil and gas storage and transport industry will be gradually unrolled according to the philosophy of separation of networks from transportation and independent pipeline companies will be established once conditions are ripe. As one of the largest pipe equipment manufacturers in the PRC, the Group will largely benefit from the incremental investment from the reform of separation of network.

The Group's planning on market penetration in eastern China, central-southern region and northwest region has well-positioned itself in a new round of peak construction period for pipeline projects.

During the Year under Review, Hunan Shengli Steel Pipe held the project assessment meeting of "R&D and application of SAWL pipes JCOE production line, SAWH pipes production line and anti-corrosion production line" and reaped fruitful result. The project gained recognition from Li Helin, a member of Chinese Academy of Engineering and several experts of welded pipe industry. The expert team is of opinion that this project is up to internationally advanced standard to meet the production requirements of welded pipeline for oil and gas transportation with high performance and wide application. This signifies that Hunan Shengli Steel Pipe possesses the capability to produce high-grade steel pipe for oil and gas transportation, laying a solid foundation to undertake major oil and gas pipeline production project home and abroad in the future.

In addition, authorized by the project department of Outbound Synthetic Natural Gas Pipeline from Xinjiang ("New Gas Pipeline", formerly known as "Xinjiang-Guangdong-Zhejiang Pipeline") of China Petrochemical Corporation ("Sinopec"), Shandong Shengli Steel Pipe, Xinjiang Shengli Steel Pipe Co., Ltd.* (新疆勝利鋼管有限公司) ("Xinjiang Shengli Steel Pipe") and Hunan Shengli Steel Pipe of the Group conducted trial production of SAWH pipes of X80MΦ1219×18.4mm; Hunan Shengli Steel Pipe also conducted trial production of SAWL pipes of X80MΦ1219×18.4mm, X80M:Φ1219×22mm, Φ1219×27.5mm, Φ1219×26.4mm and Φ1219×33mm in well preparation for the steel pipe production of New Gas Pipeline in the future.

EXPLORING NEW PARTNERSHIPS AND BROADENING INCOME SOURCES

In order to generate stable income and to mitigate the risk of fluctuations in the welded pipe industry, the Group has, in addition to developing oil and gas pipeline products, been actively exploring opportunities to form new partnership with players from the upstream resources industry. This will realize its strategy for a sustainable, stable and healthy development. The Company entered into an agreement through Gold Apple Holdings Limited, a wholly owned subsidiary of the Company, to acquire 56% of the allotted and issued share capital of Blossom Time Group Limited ("Blossom Time") at US$32,000,000 during the Year under Review. Blossom Time indirectly holds certain titanium — zirconium ore deposits in Vietnam. Under the current mineral resources price trough, this acquisition will broaden the revenue source of the Group and create higher returns for the shareholders. In addition, with the national development plan for the industry and the actual circumstance of the Group, the Group also strengthened the regulation and disposal of investments and proactively explored appropriate industry and products to maximise returns for shareholders.

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 make preparation for capturing future growth opportunities and continue to create long-term value for shareholders.

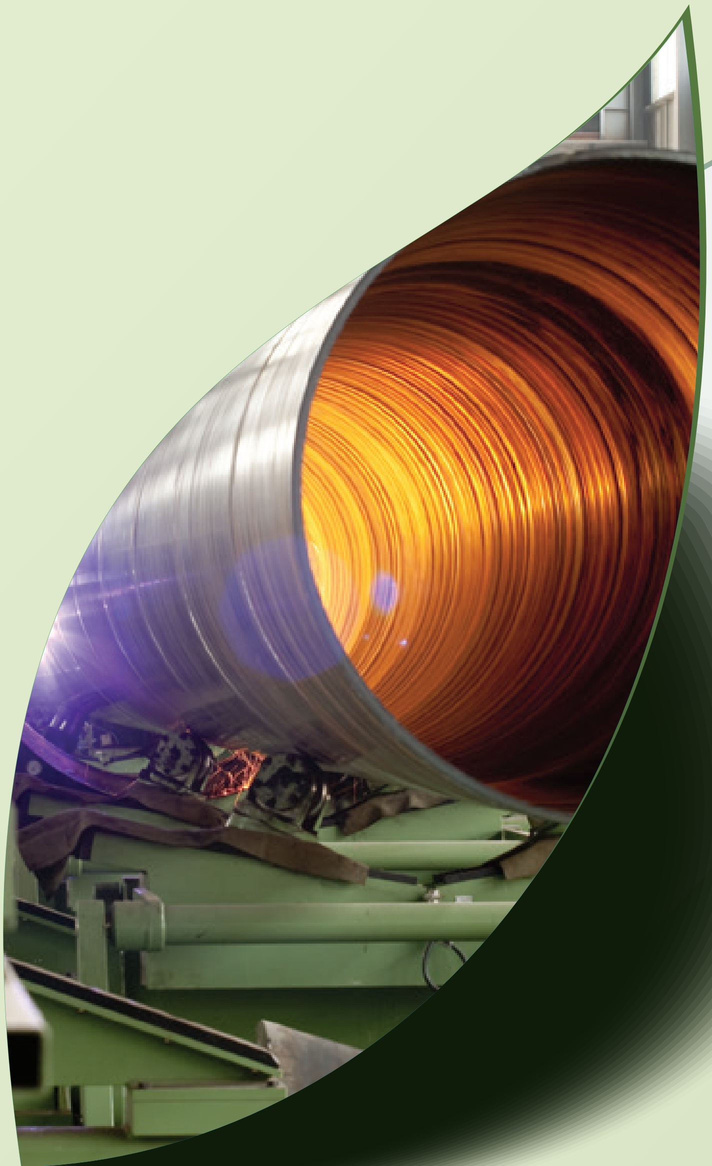
Zhang Bizhuang
Chief Executive Officer

* *For identification purpose only*

As at the end of December 2015, the annual capacity of the Group's SAWH pipe production line had reached

1,450,000 tonnes

and the annual capacity of the SAWL pipe production line was 400,000 tonnes, making the Group as one of the largest oil and gas pipeline manufacturers in the PRC



MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

Given the slow global economic recovery and the divergence over the monetary and fiscal policies of major economies in 2015, the downward pressure on the PRC's economy increased. Meanwhile, the oil and gas industry in the world has entered the trough, resulting in a continued oversupply of crude oil, refined petroleum product and natural gas and the downtrend in both oil and gas prices.

According to the anticipation of *the Outlook of the Oil Industry of China and the World of 2015* (《2015年國內外油氣行業發展報告》) by the Economics and Technology Research Institute of China National Petroleum Corporation, the year of 2016 is the starting year of "13th Five-Year" Plan whereby the oil and gas industry and oil companies will undergo low oil price reform with new starting point, new pattern and new challenge.

During the Year under Review, the State Council's *Opinions on Key Work on Deepening Economic System Reform in 2015* (《關於2015年深化經濟體制改革重點工作的意見》) for the approval of National Development and Reform Commission clearly stated the overall plan for the reform of oil and gas industry and lowered the access threshold of the industry chain in all aspects. The separation reform of oil and gas pipes not only fulfills the general direction of the reform of oil and gas industry, but also serves as one of the main focuses. The aim of which is to fully realise pipe independence and marketization while small and medium oil and gas companies can leverage their respective advantages not associated with business scale to engage in fair competition with "Three barrels of oil" (i.e. CNPC, Sinopec and CNOOC) of enormous scale, which is in turn beneficial to the long term development of oil and gas industry in the PRC.

In addition, Line 2 of the Sino-Russian Crude Oil Pipeline (中俄原油管道二線項目) will be completed in 2017 to satisfy the increase in demand for Russian crude oil of 15 million tons per annum from 2018. Coupled with the commencement of construction of the high-profile Sino-Russian Natural Gas Project during the year, Russia will be supplying gases to the PRC from 2019 for a term of 30 years, with an annual gas supply of 38 billion cubic meters. Both China and Russia can actively explore and create cooperation model under low oil price environment, facilitate and speed up the construction of oil and gas pipes, and bring benefit to the industry.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Being one of the largest oil and gas pipeline manufacturers in the PRC with leading product quality, as at 31 December 2015, the Group's production capacity of SAWH pipes reached 1.45 million tonnes per annum, and that of SAWL pipes was 400,000 tonnes per annum, and that of a supporting anti-corrosion production line was 10.80 million square meters.

In order to realize its strategy for a sustainable, stable and healthy development, the Group has, in addition to developing oil and gas pipeline products, been actively exploring opportunities to form new partnership with players from the upstream resources industry.

Analysis of the operation performance by segments is as follows:

Pipes business

Being one of the largest oil and gas pipeline manufacturers in the PRC with leading product quality, top facilities, advanced technique and a comprehensive quality check and assurance system, the Group is one of the few local suppliers of pipes designed with large diameter which can sustain the high pressure in long-distance transportation of, amongst others, crude oil, refined petroleum and natural gas. It is also the only privately-owned enterprise among the handful of suppliers in the PRC who were qualified to supply to major oil and natural gas pipeline projects.

The Group focuses on the design, manufacturing, anti-corrosion processing and servicing of pipes (including SAWH pipes and SAWL pipes) which are used to transport crude oil, refined petroleum products and natural gas. Major customers include large state-owned oil and natural gas companies such as CNPC and Sinopec, and their subsidiaries.

Through a reasonable distribution of operational presence, the Group's pipes production plants have now been established in some of the key transportation hubs in China, including Zibo and Dezhou in Shandong, Urumqi in Xinjiang, and Xiangtan in Hunan. Among these operation units, Shandong Shengli Steel Pipe at the Zibo headquarters has SAWH pipes production lines with total production capacity of 520,000 tonnes per annum and a pre-welding and precision-welding production line (which stood at forefront of international standard in SAWH pipes technology) with production capacity of 360,000 tonnes per annum, as well as external anti-corrosion production lines and internal coating production lines with total production capacity of 4.80 million square meters per annum. Shengli Steel Pipe (Dezhou) Co., Ltd. has SAWH pipes production lines with total capacity of 120,000 tonnes per annum and an external anti-corrosion production line with production capacity of 1.20 million square meters per annum. Xinjiang Shengli Steel Pipe in Urumqi, Xinjiang has a SAWH pipes production line with production capacity of 150,000 tonnes per annum, and also an external anti-corrosion production line and an internal coating production line with total production capacity of 2.40 million square meters per annum. Hunan Shengli Steel Pipe in Xiangtan, Hunan has SAWH pipes production lines with total production capacity of 300,000 tonnes per annum, a SAWL pipes production line with total production capacity of 400,000 tonnes per annum, and also an external anti-corrosion production line and an internal coating production line with total production capacity of 2.40 million square meters per annum.

As at 31 December 2015, pipes produced by the Group comprised approximately 25,600 kilometers of the accumulated total length of the world's major oil and gas pipelines, of which 94.2% have been installed domestically in the PRC and the remaining 5.8% have been installed overseas.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year 2015, the Group took part in the production of a number of major national SAWH pipeline projects, including, amongst others, the Zhongyuan-Kaifeng Gas Pipeline Project (中原 — 開封輸氣管道工程), the Pakistan Large-Diameter Gas Pipeline Project (巴基斯坦大口徑輸氣管線項目), the Venezuela Pipeline Project (委內瑞拉管道工程), the Yizheng-Changling Oil Pipeline (Yizheng-Jiujiang section) (儀征 — 長嶺原油管線儀征 — 九江段), the Tianjin LNG transportation trunk Project (天津液化天然氣項目輸氣幹線工程) and the Luning Oil Pipeline Project Phase II (魯寧原油管線二期工程). Major regional pipeline projects that the Group participated in were, amongst others, the Heat Supply Pipeline Network Project for the Combined Heat and Power Project of Shandong Xingda New Energy (山東興達新能源熱電聯產項目熱力管網工程), the Westbound Pipeline Project for Combined Heat and Power of the Shengli Oilfield Base (勝利油田基地熱電聯供西主幹線工程), the Connecting Pipeline Project from 300,000-tonne Crude Oil Port at the West Port section of Yantai Port to Phase I storage (煙台港西港區30萬噸級原油碼頭至一期庫區連接管線工程), the Dongguan Oil Depot Project (東莞油庫工程), the Jinan Thermal Power Project (濟南熱電), Weidong Natural Gas Pipeline Project (Dongying section) (濰東天然氣管道東營段管線工程), Daji 6 to Daji 7 Gas Exploitation Project (大吉6 — 大吉7採氣幹線工程), Fuping Railway Project (福平鐵路項目), Guang-Fo-Jiang Expressway Project (Jiangmen section) (廣佛江快速通道江門段項目), Zhaohua Bridge Project (昭華大橋工程). Major anti-corrosion projects it undertook were, amongst others, the Zhongyuan-Kaifeng Gas Pipeline Project (中原 — 開封輸氣管道工程), the Venezuela Pipeline Project (委內瑞拉管道工程), the Yizheng-Changling Oil Pipeline (Yizheng-Jiujiang section) (儀征 — 長嶺原油管線儀征 — 九江段), the Tianjin LNG transportation trunk Project (天津液化天然氣項目輸氣幹線工程) and the Luning Oil Pipeline Project Phase II (魯寧原油管線二期工程), the Heat Supply Pipeline Network Project for the Combined Heat and Power Project of Shandong Xingda New Energy (山東興達新能源熱電聯產項目熱力管網工程) Daji 6 to Daji 7 Gas Exploitation Project (大吉6 — 大吉7採氣幹線工程) and Fuping Railway Project (福平鐵路項目). Projects using SAWL pipelines produced by the Group were, amongst others, the Huaneng Suzhou Natural Gas Pipeline Project (華能蘇州天然氣管道專線工程), the Xinchu Qingtian Plaza Project (新楚擎天廣場項目), the Exhibition Center Project in Changsha (長沙會展中心項目), the Xiangtan North Station Project (湘潭北站項目), the First-grade Hydropower Station at Lishiluo River in Fugong County (福貢縣力士洛河一級水電站項目) and the Water Supply Project at Diaodong Reservoir in Danzhai County, Guizhou (貴州丹寨縣吊洞水庫供水工程項目). In addition, trial production of SAWH and SAWL pipes were also successfully completed for the new gas pipeline projects during the year.

During the Year under Review, the total revenue of the Group's pipe business was approximately RMB431,682,000 (for the year ended 31 December 2014: approximately RMB359,368,000), accounting for approximately 22.1% (2014: approximately 17.9%) of the Group's total revenue. This revenue comprised the followings: (1) revenue from the sale of SAWH pipes of approximately RMB362,605,000 (2014: approximately RMB325,164,000), representing an increase of approximately 11.5% as compared with last year; (2) revenue from the sale of SAWL pipes for the period of approximately RMB24,141,000 subsequent to the completion and operation of the SAWL pipes production line; (3) revenue from the sales of anti-corrosion processing business of approximately RMB44,874,000 (2014: approximately RMB33,943,000), representing an increase of approximately 32.2% as compared with the last year; and (4) revenue from the cold-formed section steel business of approximately RMB62,000 (2014: approximately RMB261,000), representing a decrease of approximately 76.2% as compared with last year.

Metal commodity trading business

In order to fully utilize the business network of its current customers and other existing resources, the Group set up a wholly-owned subsidiary in July 2012 to engage in the metal commodity trading business. For the year ended 31 December 2015, revenue of this business was approximately RMB1,522,278,000 (2014: approximately RMB1,649,694,000) and the gross profit was approximately RMB30,501,000 (2014: approximately RMB38,308,000).

The Group expects to maintain and consolidate its steady cooperation with its pipeline business-related customers and financial institutions through the Group's metal commodity trading business, so as to achieve an optimum balance for the overall businesses of the Group and to achieve the goal of steady development.

FUTURE PROSPECT

National Development and Reform Commission made the official approval for the new gas pipeline project of Sinopec. Main construction includes 1 main pipeline and 6 straight pipelines with an aggregate length of 8,400 kilometers. The main line will span from Mori in Jizhou, Xinjiang to Shaoguan, Guangdong with a designed annual gas transmission capacity of 30 billion cubic meters.

The feasibility study report on Line 2 of the Sino-Russian Crude Oil Pipeline (中俄原油管道二線項目) was approved by CNPC during the year. The project will be completed in 2017, upon which there will be two oil pipelines between the PRC and Russia, whereby Russia's supply of crude oil will increase by 15 million tons per annum from 2018. In addition, the construction of the PRC section of the Sino-Russian Eastern Natural Gas Pipeline commenced during the year, representing the largest cooperation between the two nations in practice. The project will be conducive to the energy diversification strategy and security of both parties as well as the economic development of the regions along the route. The Russian section of the Sino-Russian Natural Gas Pipeline will have a length of approximately 4,000 kilometers spanning from Irkutsk Oblast in the west to Vladivostok, Russia's coastal city in the Far East. The PRC section will start from the Sino-Russian border in Heihe, Heilongjiang and end at Shanghai. It will run through 9 provinces and municipalities such as Heilongjiang, Jilin, Inner Mongolia, Liaoning, Hebei, Tianjin, Shandong, Jiangsu and Shanghai. The new pipeline is proposed to run 3,170 kilometers while 1,800 kilometers of existing pipeline will be converted and used under this project. It has a diameter of 1,422/1,219 millimeters, a designed pressure of 12/10 MPa and a designed gas transportation capacity of 38 billion cubic meters per year. Matched underground gas storage facilities will also be built. The PRC section will be completed and will commence gas transportation in 2018.

Being one of the largest oil and gas pipeline manufacturers in the PRC, the Company participated in the construction of nearly all long-distance oil and gas pipelines within and beyond the PRC. Looking ahead, the Group will continue to proactively seize business opportunities arising from the rapid future growth of the industry by leveraging its superior production capacity, the geographic advantage of its subsidiaries as well as its strengths in new pre-welding and precision-welding techniques, in order to ensure stable income for the Group in the future.

In order to generate stable income and to mitigate the risk of fluctuations in the pipe industry, the Group has, in addition to developing oil and gas pipeline products, actively explored opportunities to form new partnership with players from the upstream resources industry. In addition, with the national development plan for the industry, the Group proactively explored industry and projects promoted by the PRC so as to realize the Group's strategy for a sustainable, stable and healthy development. Under the current mineral resources price trough, the Company entered into an agreement through Gold Apple Holdings Limited on 29 March 2015 to acquire 56% of the allotted and issued share capital of Blossom Time (the "Acquisition") after extensive visits and negotiations. Blossom Time indirectly holds titanium — zirconium ore deposits in Vietnam. For the time being, exploration and assessment in relation to the project is currently well underway as scheduled. The capital commitments to the aforesaid Acquisition will be funded by the Group's internal resources and the proceeds of the subscriptions under general mandate on

12 April 2016. The Group believes that Vietnam enjoys a promising investment environment and ample natural resources. In view of the current mineral resources price trough, the Acquisition will present new business impetus to the Company in the future. Coupled with the all-round economic expansion brought by the "The Belt and Road" initiative, the active market atmosphere in the regions covered by this initiative will provide more opportunities for the Group to diversify its source of revenue and bring better returns to the shareholders through the Acquisition.

FINANCIAL REVIEW

Revenue

The Group's sales revenue decreased by approximately 2.7% from approximately RMB2,009,062,000 for the year ended 31 December 2014 to approximately RMB1,953,960,000 for the year ended 31 December 2015. For the year ended 31 December 2015, amongst the Group's two core business segments, (1) pipes business reported revenue of approximately RMB431,682,000 (2014: approximately RMB359,368,000) due to the increased proportion of sales of steel pipe which have a higher revenue contribution whereas Hunan Shengli Steel Pipe commenced mass production during the Year under Review, which contributed a slight growth in revenue from pipes business for the Year under Review as compared to 2014; and (2) metal commodity trading business recorded a revenue of approximately RMB1,522,278,000 (2014: approximately RMB1,649,694,000) due to the decrease in revenue for the Year under Review as compared to 2014 as a result of the market fluctuation.

Cost of sales

The Group's cost of sales decreased by approximately 3.3% from approximately RMB1,982,006,000 for the year ended 31 December 2014 to approximately RMB1,915,857,000 for the year ended 31 December 2015. During the year ended 31 December 2015, amongst the Group's principal business segments, (1) cost of sales for pipes business was approximately RMB424,080,000 (2014: approximately RMB370,619,000); and (2) cost of sales for metal commodity trading business was approximately RMB1,491,777,000 (2014: approximately RMB1,611,387,000).

Gross profit

The gross profit of the Group increased from approximately RMB27,056,000 for the year ended 31 December 2014 to approximately RMB38,103,000 for the year ended 31 December 2015. This was attributable to the increased proportion of anti-corrosion services which have a higher gross profit, and the increase in gross profit for the Year under Review as compared to 2014 as a result of the transportation costs assumed by the Group included in the revenue of certain pipeline projects. The gross profit margin of the Group increased to 2.0% for the year ended 31 December 2015 from 1.4% for the year ended 31 December 2014.

Other income and gains

Other income and gains of the Group increased from approximately RMB26,732,000 for the year ended 31 December 2014 to approximately RMB46,971,000 for the year ended 31 December 2015, which was mainly due to the receipt of a one-off reimbursement from the disposal of Golden Fortune project.

Selling and distribution costs

Selling and distribution costs of the Group increased from approximately RMB23,681,000 for the year ended 31 December 2014 to approximately RMB33,706,000 for the year ended 31 December 2015. Such increase in selling and distribution costs was principally due to the increase in transportation costs in pipes business due to the increased proportion of pipeline projects for which the Group assumed the transportation costs, and the increase in selling expense as compared to 2014 due to vigorous expansion of sales and marketing by Hunan Shengli Steel Pipe.

Administrative expenses

The Group's administrative expenses increased by approximately 84.3% from approximately RMB165,836,000 for the year ended 31 December 2014 to approximately RMB305,689,000 for the year ended 31 December 2015. The main reasons were the shutdown expenses incurred by the lack of production of our pipes business, the provision for the impairment of assets according to the relevant accounting policy, the increase in operating expense following the full operation of Hunan Shengli Steel Pipe, and the increase in share option expense.

Finance costs

The Group incurred finance costs of approximately RMB58,119,000 for the year ended 31 December 2015 (2014: approximately RMB53,643,000). The finance costs comprised exclusively interest incurred by bank loans.

Income tax expenses

Hong Kong profits tax is calculated at the rate of 16.5% (2014: 16.5%) on the estimated assessable profit for the year. The profits tax rate of China Petro Equipment Holdings Pte. Ltd., a subsidiary of the Company incorporated in the Republic of Singapore, is 17% (2014:17%) for the year. Under the EIT Law and Implementation Regulation of the EIT Law, the profits tax rate of the Company's subsidiaries in the PRC for the year is 25% (2014: 25%). Income tax expenses for the year ended 31 December 2015 was approximately RMB8,528,000, representing an increase of approximately 13.0% from the previous year (2014: approximately RMB7,548,000). The increase was mainly attributable to the one-off tax expenses of Shandong Shengli Steel Pipe incurred by the accumulated profit distribution for the previous years.

Total comprehensive loss for the year

Due to the combined effect of the above factors, the audited total comprehensive loss of the Group for the year ended 31 December 2015 was approximately RMB345,102,000, compared to the audited total comprehensive loss of the Group of approximately RMB238,878,000 for the year ended 31 December 2014.

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 2014 and 2015 were primarily related to the purchase of property, plant and equipment.

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

	2015 RMB'000	2014 RMB'000
Purchase of property, plant and equipment	**48,044**	95,930
Prepaid land lease payments	**173**	—
	48,217	95,930

Indebtedness

Borrowings

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

	2015 RMB'000	2014 RMB'000
Borrowings:		
Bank loans — Unsecured	**565,000**	540,000
Bank loans — Secured	**272,036**	279,789
Bank loans — Secured and guaranteed	**130,000**	—
Bank loans — Guaranteed	**132,500**	245,000
Total	**1,099,536**	1,064,789

Included in the borrowings is approximately RMB1,044,536,000 repayable within one year. The following table sets forth the annual interest rates of the Group's bank loans:

	2015 %	2014 %
Effective interest rate per annum	**1.54–6.80**	2.73–6.60

As at 31 December 2015, the borrowings of the Group amounted to approximately RMB1,099,536,000 (2014: approximately RMB1,064,789,000).

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 2015, the Group's revenue, expenses, assets and liabilities were primarily denominated in Renminbi. The directors consider that the Group currently has limited foreign exchange exposure and has not entered into any hedging arrangement for its foreign exchange risk. The Group will closely monitor the foreign currency movement and will assess the need to adopt any measures in relation to foreign exchange risk from time to time.

Utilisation of IPO proceeds

The net proceeds obtained by the Group from the IPO were approximately RMB1,098,500,000. After the exercise of the over-allotment option on 13 January 2011, the net proceeds of the IPO increased to approximately RMB1,269,900,000. As at 31 December 2015, approximately RMB818,034,000 out of the total net proceeds from the IPO has been utilised in the manner specified in the Company's prospectus dated 9 December 2009 (the "Prospectus") and the balance of approximately RMB451,866,000 remains unutilised. The Group intends to continue to apply the proceeds in the same manner as disclosed in the Prospectus except for upgrading a cold-formed section steel production line as this project has been suspended.

As at 31 December 2015, the accumulated use of the capital raised is set out below:

	Amount allocated RMB'000	**Actual expenditure as at 31 December 2015** RMB'000
Projects		
Construction of one set of SAWH pre-welding and precision welding production lines with total production capacity of 360,000 tonnes per annum and two anti-corrosion coating production lines	440,000	518,317
Construction of one SAWL pipe production line with production capacity of 200,000 tonnes per annum and one anti-corrosion coating production line	650,000	255,000
Upgrade of one cold-formed section steel production line to an ERW pipe production line with production capacity of 100,000 tonnes per annum	50,000	the project has been suspended
Working capital and other general corporate purposes	129,900	44,717
Total	1,269,900	818,034

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 capital requirement for future development. 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. Ji Rongdi (alias Jee Rongdee), aged 48, has been appointed as an executive director of the Company ("Director") and the chairman of the board of Directors ("Board") with effect from April 2016, responsible for the new energy and finance business of the Group. Mr. Ji has extensive experience in finance and new energy. During the period from 2004 to 2013, he served as the chairman of Sunlight Group Inc. (陽光集團) and was mainly responsible for the international trading of new energy sources and the manufacturing and sales of photovoltaic silicon wafers. From 2000 to 2004, Mr. Ji served as the general manager in Cute International Group in the United States and was responsible for the operation of the company and reexport business of stationery. During the period from 1994 to 1999, he worked as the regional manager of AXA Group in the United States and was mainly responsible for financial sales.

He graduated from China Agricultural University (formerly known as Beijing Agricultural University) with a bachelor's degree in economics and management in 1987, and obtained a master's degree in business administration from University of Mississippi in 1994.

Mr. Zhang Bizhuang, aged 48, has been our executive Director and chief executive officer since July 2009, responsible for the overall management of our Group's business operations, and has been the chairman of the Board from August 2012 to April 2016. 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 enterprises) in July 1990, and served as the department head of technical supervision department and quality control inspection department, deputy general manager, general manager and chairman of the company. He has been the chairman of Shandong Shengli Steel Pipe since July 2007. From December 2007 to June 2013, Mr. Zhang was appointed as the general manager of Shandong Shengli Steel Pipe. 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 obtained his master's degree in business administration from the Open University of Hong Kong in June 2004. He was certified as a senior engineer in November 2000, and obtained the Chinese Career Manager qualification in July 2005.

Mr. Jiang Yong, aged 48, has been our executive Director and vice president since 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. Wang Kunxian, aged 47, has been our vice president since October 2010, and has been our executive Director and vice president since August 2014, responsible for the technology development, quality control and production management of the Group. Mr. Wang joined Shengli Steel Pipe in July 1990, and served as factory officer, deputy chief engineer and deputy general manager of the company. He has been a director of Shandong Shengli Steel Pipe since December 2007. From December 2007 to June 2013, he served as deputy general manager of Shandong Shengli Steel Pipe, responsible for technology development, quality control and production management. He was a deputy general manager of Shengguan Group from July 2013 to February 2016. He has been acting as the technical director in Shengguan Group from February 2016 to the present.

Mr. Wang graduated from Chongqing University with a bachelor's degree in engineering in July 1990, and obtained his master's degree in business administration from the Open University of Hong Kong in June 2004. He was certified as a senior engineer in December 2001.

Ms. Han Aizhi, aged 48, has been our executive Director since 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 in the company such as head of the technology supervision division, officer of corporate management department, officer of the general manager's office, assistant to general manager, deputy general manager and management representative. She has been a director of Shandong Shengli Steel Pipe since December 2007. From December 2007 to June 2013, Ms. Han served as a deputy general manager of Shandong Shengli Steel Pipe, 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 was a deputy general manager of Shengguan Group from July 2013 to February 2016. She has been acting as the securities investment director in Shengguan Group from February 2016 to the present.

Ms. Han graduated from Chengde Petroleum College in July 1988 with a major in welding technology and graduated from the Party School of the Shandong Province Committee of CPC in December 2002 with a major in 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 obtained the PRC Registered Quality Professional Technician Qualification (middle tier) Certificate in December 2001.

Mr. Song Xichen, aged 51, has been our executive Director since April 2012, and has been serving as vice president since August 2012. He is responsible for the finance management of the Group's members in the PRC. Mr. Song joined Shengli Steel Pipe in July 1988, and served as deputy head of quality inspection department, deputy supervisor and supervisor of corporate management department, deputy general manager and general manager of the company until March 2012. He has been a director of Shandong Shengli Steel Pipe since July 2013. From March 2012 to June 2013, Mr. Song served as a deputy general manager of Shandong Shengli Steel Pipe, responsible for corporate management, finance management, infrastructure and management of the back office. He was a deputy general manager of Shengguan Group from July 2013 to February 2016. He has been acting as the asset management director in Shengguan Group from February 2016 to the present.

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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Junzhu, aged 40, 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 a certified public accountant and a manager of transaction advisory service department in Ernst & Young Certified Public Accountants. He has been a partner of the Guangdong Zheng Yuan Public Accountants since July 2007. He served as a director and the chief financial officer of Huakang Insurance Agency Co., Ltd. from September 2011 to September 2014. He has also been an independent director and the chairman of audit committee of Guangdong Tapai Group Co. Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 002233.SZ), since May 2013.

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

Mr. Wu Geng, aged 44, is our independent non-executive Director and joined our Group in March 2015. He currently serves as the associate director of Drew & Napier LLC in Singapore, and an independent non-executive director, the chairman of the nomination committee and the remuneration committee and a member of the audit committee of Foreland Fabrictech Holdings Limited, the securities of which are listed on the mainboard of the Singapore Exchange Securities Trading Limited. From March 2016, Mr. Wu acted as non-executive Director of CFLD (Singapore) Investment Pte. Ltd. and CFLD Investment III Pte. Ltd. From July 1999 to December 1999, Mr. Wu was a legal adviser and foreign trade assistant at Pan-Commercial Pte Ltd. in Singapore. Since January 2000, Mr. Wu had been a graduate assistant at the department of political science and international relations of University of Delaware for two years, and studied for a master's degree at the same time. Mr. Wu served as a Chinese law adviser and foreign consultant both at Hoh & Partners and Colin Ng & Partners in Singapore, from January 2002 to June 2003 and from June 2003 to October 2003, respectively. From October 2003 to April 2008, Mr. Wu served as the head of department of Chinese Business Law at Hoh Law Corporation in Singapore.

In July 1995, Mr. Wu graduated from Peking University with a bachelor's degree in law, majoring in economic law and international economic law. He graduated from National University of Singapore with a master's degree in comparative law in June 1999, and graduated from University of Delaware with a master's degree in political science and international relations in January 2002. Mr. Wu is a practicing advocate and solicitor in Singapore.

Mr. Qiao Jianmin, aged 56, is an independent non-executive Director. He joined the Group in April 2016. He is currently serving as the deputy chairman of Zhejiang Returned Overseas Entrepreneurs' Association* (浙江省海歸創業協會) and standing deputy president of Zhejiang University Returned Overseas Entrepreneurs' Club* (浙江大學海歸校友創業俱樂部). Mr. Qiao has profound experience in advanced technology and new energy. He acted as the technical director in China Seven Star New Energy Holdings Limited from 2014 to 2015. He served as the general manager and a legal representative in Hangzhou Hanyu Technology Company Limited* (杭州漢宇科技有限公司) from 2008 to 2014. Mr. Qiao acted as the deputy president in Hanli International Microelectronics (Hangzhou) Company

Limited* (漢力國際微電子（杭州）有限公司) from 2005 to 2008. From 2004 to 2005, Mr. Qiao served as a senior technical officer in Piconetics, Inc. in the United States. Mr Qiao served as the general manager in HQ Technologies, Inc. in the United States from 2002 to 2003. From 1992 to 2002, Mr. Qiao served as the international affair director in the International Technological University in the United States. Meanwhile, Mr. Qiao primarily worked on technological research and development, and production management in Advanced Optical Solutions, LLC in the United States from 2000 to 2001. He served as the research and development engineer in chief in Cypress Semiconductor Corp. in the United States from 1998 to 2000. From 1994 to 1997, he acted as a senior engineer and the engineering manager in Applied Materials, Inc. in the United States. He acted as a postdoctoral researcher and primarily worked on the research on hi-tech superconductive equipment in Santa Clara University in the United States from 1991 to 1994. Mr. Qiao held tutorship in the materials faculty of the Zhejiang University from 1989 to 1991.

Mr. Qiao graduated from Zhejiang University with a bachelor's degree in silicate engineering in 1982 and obtained a doctorate degree in materials engineering from Zhejiang University and the Sapienza University of Rome in 1989. Mr. Qiao has been committed to conducting researches on advanced technology and possesses over 20 invention patents. Mr. Qiao was elected as an expert in the "Thousand People Plan" in Zhejiang and was authorized as a senior engineer at professor level by Ministry of Human Resources and Social Security of Zhejiang in 2013. He was elected as one of the outstanding overseas entrepreneurs by the People's Government of Xiaoshan, Hangzhou in 2011. In 2010, he was granted the Outstanding Overseas Chinese Professional Entrepreneur Award* (海外華僑華人專業人士傑出創業獎) by Overseas Chinese Office of the People's Government of Zhejiang and was recognized as an outstanding talent specializing in professional science in the United States in 1994 and was recognized as a preeminent scientist by the government of the United States. He founded International Technology University (國際科技大學) which engaged in hi-tech education for postgraduates in the United States in 1994.

SENIOR MANAGEMENT

Mr. Hong Kam Le, aged 36, is our company secretary and authorized representative and joined our Group in December 2013. He is currently a partner in Li & Partners.

Mr. Hong holds a bachelor's degree in commerce and a bachelor's degree in law from University of Sydney and a postgraduate certificate in laws from 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 consolidated financial statements for the year ended 31 December 2015.

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 19 to the consolidated financial statements.

Further discussion and analysis of the Group's principal activities as required by Schedule 5 of the Companies Ordinance, including a review of the Group's business and an indication of likely development in the Group's business, can be found in the Management Discussion and Analysis set out on page 10 to 19 of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

Business Risk

The Group's principal business activity is pipes business, whose principal risks include the quality of the pipes and the security during production. The Group has taken comprehensive measures to ensure that both quality and security will meet the industry standards.

Financial Risk

The Group's main risks arising from its financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency risk. Details of the financial risk management objectives and policies are set out in note 7 to the consolidated financial statements.

Uncertainties

The Group's pipes business is facing the uncertainty of the gloomy economic conditions both in the PRC and abroad, especially the reduced market demand of the pipes, resulting in a significant impact on the Group's performance in the Year under Review.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to contributing to the sustainability of the environment and the development of the society. Shandong Shengli Steel Pipe and Hunan Shengli Steel Pipe have got certified by the ISO 14001 environmental management system, which shows that the Group has decent environmental performance. The Group will keep reviewing the internal environmental protection system and make improvements to it from time to time.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group has adopted internal control and risk management policies to monitor the on-going compliance with relevant laws and regulations. As far as the Board is concerned, the Group has complied in material aspects with the relevant laws and regulations that have a significant impact on the business and operation of the Company and its subsidiaries.

DIVIDENDS

The board does not recommend the payment of final dividend for the year ended 31 December 2015 (2014: Nil).

CLOSURE OF REGISTER OF MEMBERS

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

From Wednesday, 18 May 2016 to Friday, 20 May 2016, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the annual general meeting. In order to be eligible to attend and vote at the 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 Tuesday, 17 May 2016.

During the periods mentioned above, no transfers of shares will be registered.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for 77.9% (2014: 57.5%) of the Group's total sales and the top five suppliers accounted for 85.8% (2014: 86.5%) of the total purchases for the year. In addition, the Group's largest customer accounted for 11.1% (2014: 13.1%) of the total sales and the Group's largest supplier accounted for 48.9% (2014: 59.4%) of the total purchases for the year.

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

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group is in good relationship with its employees and some policies have been carried out to make sure the employees can acquire competitive remuneration, good welfare and continuous professional training.

The Group also maintains a good relationship with its customers and suppliers, without whom the production and operation success will not be guaranteed.

CHARITABLE DONATION

For the year ended 31 December 2015, the Company and its subsidiaries' donation amounted to RMB100,000 in aggregate, all of which has been applied towards poverty, elderly, education, disability and medical assistance, disaster relief and other charitable activities.

LAPSE OF SUBSCRIPTION OF SHARES OF THE COMPANY

On 11 June 2015, the Company and each of Ren Zhong Investment Co., Limited (仁中投資有限公司) and King Time International Holding Limited (金時國際控股有限公司) (the "Subscribers") entered into two subscription agreements on the same terms in relation to the issue of an aggregate of 248,058,000 new shares of the Company to be allotted and issued upon completion of the subscriptions, to each of the Subscribers at the subscription price of HK$0.46 per share subject to a lock-up period of six months. As additional time was required for the Subscribers to transfer the funds in relation to their respective subscriptions to the Company, after arm's length negotiations with each of the Subscribers, each of the Subscribers and the Company have on 25 June 2015 entered into a supplemental agreement to extend the completion date for each of the subscription agreement to 29 June 2015 and 3 July 2015 respectively or such other date as the Company and the respective subscribers may agree. On 30 June 2015 and 3 July 2015, as notified by the respective Subscribers, that they were unable to settle the subscription monies under subscriptions on or before the latest completion date the subscriptions as extended by the supplemental agreements, the subscription agreements and supplemental agreements had lapsed after 29 June 2015 and 3 July 2015 respectively. As such, the Subscribers did not proceed with the aforementioned subscriptions. The Board considered that the lapse of subscriptions has no material adverse impact on the existing business operation and financial position of the Group. Please refer to the announcements made by the Company on 11 June 2015, 25 June 2015, 30 June 2015 and 3 July 2015 for further details.

USE OF SUBSCRIPTION PROCEEDS FROM THE ISSUE OF SHARES UNDER GENERAL MANDATE

As at the date of this report, the actual use of proceeds from the issue of shares under general mandate carried out by the Company in November 2014 is as follows:

Date of announcement	Fund raising activity	Net proceeds	Intended use of proceeds as announced	Actual use of proceeds
3 November 2014	Subscription in relation to the issue of 248,058,000 shares at the subscription price of HK$0.45 per share under the general mandate to Waynew Investments Limited (維新投資有限公司) as the subscriber. The completion of the subscription took place on 14 November 2014 and 248,058,000 subscription shares had been issued to the subscriber.	Approximately HK$111.28 million	For the operating expenses for dome integration houses projects operated by Dome Integration Housing Industrial Holding Co. Ltd, a joint venture company of the Group (as disclosed in the announcement of the Company dated 17 September 2012), the operating expenses for oil field development projects operated by Ever Growing Energy Service, LLC (as disclosed in the announcement of the Company dated 28 May 2014) and general working capital of the Group.	As at the date of this report, approximately HK$80 million was used for general working capital of the Group and approximately HK$31 million is not yet utilised and is deposited at a bank account and is reserved to be used for the intended purpose as set out in the announcement of the Company dated 3 November 2014.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2015 and the financial positions of the Group as at 31 December 2015 are set out in the consolidated financial statements on pages 55 to 135.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the share premium, contributed surplus and profit which in aggregate amounted to RMB1,049 million as at 31 December 2015 (2014: RMB1,059 million). Details of the reserves of the Company as at 31 December 2015 are set out in note 35 to the consolidated financial statements.

FIXED ASSETS

Details of movements in fixed assets during this financial year are set out in note 16 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 34 to the consolidated financial statements.

REPORT OF THE DIRECTORS

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. Wang Kunxian *(Vice President)*
Ms. Han Aizhi *(Vice President)*
Mr. Song Xichen *(Vice President)*

Independent Non-executive Directors

Mr. Guo Changyu
Mr. Chen Junzhu, *ACCA, CICPA*
Mr. Wu Geng (appointed on 19 March 2015)
Mr. Wang Xueyou (retired at the general meeting on 26 June, 2015)

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, Mr. Zhang Bizhuang, Ms. Han Aizhi and Mr. Chen Junzhu shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

Pursuant to Article 83(3) of the Articles of Association of the Company, Mr. Ji Rongdi (alias Jee Rongdee) and Mr. Qiao Jianmin were appointed as executive Director and independent non-executive Director on 12 April 2016 respectively and they shall hold office until the forthcoming annual general meeting, and are eligible to offer themselves for re-election at the forthcoming annual general meeting.

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 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 2015, the interests and short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

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 2015
Zhang Bizhuang	Interest in controlled corporation(1)	153,130,224		5.612%
	Beneficial owner	79,800,000(2)	18,300,000(6)	3.595%
Wang Kunxian	Interest in controlled corporation(3)	26,708,760		0.979%
	Beneficial owner		10,260,000(6)	0.376%
Han Aizhi	Interest in controlled corporation(4)	26,708,760		0.979%
	Beneficial owner		12,000,000(6)	0.440%
Song Xichen	Interest in controlled corporation(5)	26,708,760		0.979%
	Beneficial owner		10,260,000(6)	0.376%

Notes:

(1) Goldmics Investments Limited ("Goldmics Investments") holds 153,130,224 shares of the Company, representing 5.612% of the issued shares of 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.

(2) On 17 September, 2015, Mr. Zhang Bizhuang acquired 79,800,000 shares of the Company at an average price of HK$0.25 per Share from the market and is therefore deemed to be interested in the above 79,800,000 shares by virtue of the SFO.

(3) Glad Sharp Limited ("Glad Sharp") holds 26,708,760 shares of the Company, representing 0.979% of the issued shares of the Company. Mr. Wang Kunxian owns the entire issued share capital of Glad Sharp and is therefore deemed to be interested in the shares of the Company held by Glad Sharp by virtue of the SFO.

(4) Crownova Limited ("Crownova") holds 26,708,760 shares of the Company, representing 0.979% of the issued shares of the Company. Ms. Han Aizhi owns the entire issued share capital of Crownova and is therefore deemed to be interested in the shares of the Company held by Crownova by virtue of the SFO.

(5) Winfun Investments Limited ("Winfun") holds 26,708,760 shares of the Company, representing 0.979% of the issued shares of the Company. Mr. Song Xichen owns 50% interest of the issued share capital of Winfun, and his spouse Ms. Xu Li owns the remaining 50% interest. Therefore, Mr. Song Xichen is deemed to be interested in the shares of the Company held by Winfun by virtue of the SFO.

(6) 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 2015, 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 minor children) to hold any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within 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 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 any 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 at any time terminate the operation of the Share Option Scheme by resolution in general meeting. Upon termination of the Share Option Scheme as aforesaid, no further options shall be granted but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme. 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 share option shall be such price as the Board may in its discretion determine at the time of grant of the relevant share option (and shall be stated in the letter containing the offer of the grant of the share option) but 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 date of grant; and

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

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 Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited ("Listing Rules").

(b) The Company may seek separate approval from its Shareholders in general meeting for granting options beyond the Scheme Mandate Limit, provided that the options in excess of the Scheme Mandate Limit are granted only to the Eligible Person(s) specified by the Company before such approval is obtained. The Company shall send to our Shareholders a circular containing the details and information required under the Listing Rules.

(c) The maximum number of Shares which may be issued upon exercise of all outstanding options granted 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 of the Company and its subsidiaries and other personnel approved by the Board, including three Directors of the Company, at an exercise price of HK$2.03 per Share under the Share Option Scheme. 1,500,000 share options held by a member of the senior management were lapsed following his departure in 2011.

On 3 January 2012, the Board granted 24,000,000 share options to 81 directors and senior management of the Company and its subsidiaries and other personnel approved by the Board, including four Directors of the Company, at an exercise price of HK$0.80 per Share under the Share Option Scheme. 1,260,000 share options held by three members of the management were lapsed following their departure in 2013. 300,000 share options held by two employees were lapsed following their departure in 2014. In addition, 300,000 share options held by two employees were lapsed following their departure in 2015.

On 23 September 2014, the Board granted 74,400,000 share options to 57 directors and senior management of the Company and its subsidiaries and other personnel approved by the Board, including four Directors of the Company, at an exercise price of HK$0.50 per Share under the Share Option Scheme. 840,000 share options held by two employees were lapsed following their departure in 2015.

On 28 January 2015, the Board granted 60,000,000 share options to 24 directors and senior management of the Company and its subsidiaries and other personnel approved by the Board, including four Directors of the Company, at an exercise price of HK$0.40 per Share under the Share Option Scheme.

For the year ended 31 December 2015, movements of options granted under the Share Option Scheme are set out below:

Name	Capacity	Exercise Price	Outstanding as at 1 January 2015	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2015	Approximate percentage of the issued share capital of the Company as at 31 December 2015	Notes
Directors									
Zhang Bizhuang	Beneficial owner	HK$2.03	7,200,000	0	0	0	7,200,000	0.264%	(1)
Zhang Bizhuang	Beneficial owner	HK$0.80	1,200,000	0	0	0	1,200,000	0.044%	(2)
Zhang Bizhuang	Beneficial owner	HK$0.50	5,700,000	0	0	0	5,700,000	0.209%	(3)
Zhang Bizhuang	Beneficial owner	HK$0.40	0	4,200,000	0	0	4,200,000	0.154%	(4)
Wang Kunxian	Beneficial owner	HK$2.03	1,500,000	0	0	0	1,500,000	0.055%	(1)
Wang Kunxian	Beneficial owner	HK$0.80	960,000	0	0	0	960,000	0.035%	(2)
Wang Kunxian	Beneficial owner	HK$0.50	4,500,000	0	0	0	4,500,000	0.165%	(3)
Wang Kunxian	Beneficial owner	HK$0.40	0	3,300,000	0	0	3,300,000	0.121%	(4)
Han Aizhi	Beneficial owner	HK$2.03	3,000,000	0	0	0	3,000,000	0.110%	(1)
Han Aizhi	Beneficial owner	HK$0.80	1,200,000	0	0	0	1,200,000	0.044%	(2)
Han Aizhi	Beneficial owner	HK$0.50	4,500,000	0	0	0	4,500,000	0.165%	(3)
Han Aizhi	Beneficial owner	HK$0.40	0	3,300,000	0	0	3,300,000	0.121%	(4)
Song Xichen	Beneficial owner	HK$2.03	1,500,000	0	0	0	1,500,000	0.055%	(1)
Song Xichen	Beneficial owner	HK$0.80	960,000	0	0	0	960,000	0.035%	(2)
Song Xichen	Beneficial owner	HK$0.50	4,500,000	0	0	0	4,500,000	0.165%	(3)
Song Xichen	Beneficial owner	HK$0.40	0	3,300,000	0	0	3,300,000	0.121%	(4)
Employees									
Employees	Beneficial owner	HK$2.03	9,300,000	0	0	0	9,300,000	0.341%	(1)
Employees	Beneficial owner	HK$0.80	18,120,000	0	0	300,000	17,820,000	0.653%	(2)
Employees	Beneficial owner	HK$0.50	55,200,000	0	0	840,000	54,360,000	1.992%	(3)
Employees	Beneficial owner	HK$0.40	0	45,900,000	0	0	45,900,000	1.682%	(4)
Total			119,340,000	60,000,000	0	1,140,000	178,200,000	6.531%	

Notes:

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

(2) The share options granted by the Company are exercisable for 10 years. The grantees may exercise up to one-third, two-thirds and 100% of the respective total share options granted from the first, second and third anniversaries of the date of grant (i.e. 3 January 2012), respectively. These share options are exercisable at HK$0.80 each according to the rules of the Share Option Scheme during the period from 3 January 2012 to 3 January 2022.

(3) The share options granted by the Company are exercisable for 6 years. The grantees may exercise up to one-third, two-thirds and 100% of the respective total share options granted from the first, second and third anniversaries of the date of grant (i.e. 23 September 2014), respectively. These share options are exercisable at HK$0.50 each according to the rules of the Share Option Scheme during the period from 23 September 2014 to 23 September 2020.

(4) The share options granted by the Company are exercisable for 6 years. The grantees may exercise up to one-third, two-thirds and 100% of the respective total share options granted from the first, second and third anniversaries of the date of grant (i.e. 28 January 2015), respectively. These share options are exercisable at HK$0.40 each according to the rules of the Share Option Scheme during the period from 28 January 2015 to 28 January 2021.

Further details in respect of the Share Option Scheme are disclosed in note 36 to the consolidated financial statements.

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

As at 31 December 2015, 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
Zhongheng International Investment Limited	Beneficial owner(1)	620,000,000	22.722%
Waynew Investments Limited	Beneficial owner	248,058,000	9.091%
Goldmics Investments	Beneficial owner	153,130,224	5.612%
Du Jichun	Interest in controlled corporation(2)	153,130,224	5.612%
	Spouse's interest(3)	18,300,000	0.671%

Notes:

(1) On 6 July, 2015, Zhongheng International Investment Limited acquired 620,000,000 shares of the Company (representing 22.72% of the shares of the Company) held by Valuable Tactics Limited at an average price of HK$0.37. On 2 February, 2016, the above shares were transferred to MEFUN GROUP LIMITED at an average price of HK$0.295 per share.

(2) Goldmics Investments holds 153,130,224 shares of the Company. Ms. Du Jichun owns 60% interest of the issued shares of Goldmics Investments and her spouse, Mr. Zhang Bizhuang, owns 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.

(3) Mr. Zhang Bizhuang, the spouse of Ms. Du Jichun, has been granted options to subscribe for 18,300,000 shares of the Company under the Share Option Scheme. Ms. Du Jichun is therefore deemed to be interested in the options granted to Mr. Zhang Bizhuang.

Save as disclosed above, as at 31 December 2015, 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 or any of their subsidiaries during the year ended 31 December 2015.

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, either directly or indirectly, with business of the Group under the Listing Rules.

PUBLIC FLOAT

Based on the information that is available to the Company and within the knowledge of the Directors, as at 31 December 2015, the Company has maintained a public float of not less than 25% as required under the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS OF SIGNIFICANCE

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

REPORT OF THE DIRECTORS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2015, cash and cash equivalents of the Group amounted to approximately RMB393,881,000 (2014: approximately RMB216,007,000). As at 31 December 2015, the Group had borrowings of approximately RMB1,099,536,000 (2014: approximately RMB1,064,789,000).

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 equity plus net debt. As at 31 December 2015, the gearing ratio of the Group was 34.0% (2014: 33.1%).

CHARGES AND CONTINGENT LIABILITIES

Save for the aforesaid secured bank borrowings, as at 31 December 2015, the Group did not have other charges over its assets or any material contingent liabilities.

FOREIGN EXCHANGE RISK

In 2015, the Group's businesses are mainly transacted and settled in functional currency of subsidiaries, so the Group has minimal exposure to foreign currency risk. The Group did not utilise any forward contracts or other means to hedge its foreign exchange exposure. However, the management will closely monitor the exchange rate fluctuations to ensure sufficient precautionary measures against any adverse impacts are in place.

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group reviews its human resources and remuneration policies periodically with reference to local legislations, market conditions, industry practice and assessment of the performance of the Group and individual employees. As at 31 December 2015, the Group employed a work force of 1,328 employees (including Directors). The total salaries and related costs (including the Directors' fees) amounted to approximately RMB90,184,000 (2014: approximately RMB71,879,000).

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 136. This summary does not form part of the audited consolidated financial statements.

RETIREMENT SCHEMES

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

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 38 to the consolidated 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 connected transactions are set out below.

Purchase of steel plates from Hunan Valin Xiangtan Iron & Steel Co., Ltd. ("Hunan Xiangtan")

On 13 January 2015, Hunan Shengli Steel Pipe, a non wholly-owned subsidiary of the Company entered into the purchase agreement with Hunan Xiangtan, pursuant to which Hunan Xiangtan agreed to supply certain steel plates to Hunan Shengli Steel Pipe, for a total contract price of RMB3,647,593. Please refer to the Company's announcement dated 13 January 2015 for further details.

Since Hunan Shengli Steel Pipe is required to supply the steel products starting from 28 January 2015 under its sales contract with customers. Due to the tight schedule, Hunan Xiangtan is the only manufacturer which is able to supply the steel plates on time. Accordingly, the Directors consider that it is in the interest of the Group to enter into the purchase agreement with Hunan Xiangtan.

As Xiangtan Steel Group Co. Ltd.* (湘潭鋼鐵集團有限公司) ("Xiangtan Steel") is a substantial shareholder of Hunan Shengli Steel Pipe, which is a non-wholly owned subsidiary of the Company, Hunan Xiangtan is a connected person of the Company. As Xiangtan Steel is wholly owned by Hunan Valin Iron & Steel Group Co., Ltd.* (湖南華菱鋼鐵集團有限責任公司) ("Valin Steel"), which in turn is entitled to control the exercise of more than 30% of the voting power at the general meeting of Hunan Valin Iron & Steel Co., Ltd.* (湖南華菱鋼鐵股份有限公司) ("Hunan Valin"), being the holder of 94.71% equity in Hunan Xiangtan, Hunan Xiangtan is an associate of Xiangtan Steel pursuant to the Listing Rules, and is a connected person of the Company. Valin Steel also owns 5.29% equity interest in Hunan Xiangtan directly. Accordingly, the transaction under the Purchase Agreement constitutes connected transaction of the Company and are subject to reporting and announcement requirements only but exempt from the independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Purchase of steel plates and steel coils from Hunan Xiangtan and Hunan Valin Lianyuan Iron & Steel Co., Ltd.* (湖南華菱漣源鋼鐵有限公司) ("Hunan Lianyuan")

On 30 April 2015, Hunan Shengli Steel Pipe, a non wholly-owned subsidiary of the Company entered into the framework purchase agreements with Hunan Xiangtan and Hunan Lianyuan, pursuant to which Hunan Xiangtan and Hunan Lianyuan agreed to supply certain steel plates and steel coils to Hunan Shengli Steel Pipe, respectively. The term of the framework purchase agreements is from 30 April 2015 to 31 December 2017. The annual cap for the transactions under the framework purchase agreement for each of the three years ended 31 December 2015, 2016 and 2017 is RMB477,440,000, RMB701,100,000 and RMB841,320,000 respectively. Please refer to the Company's announcement dated 30 April 2015 for further details.

By entering into the framework purchase agreements, it is expected that Hunan Shengli Steel Pipe will be able to secure a stable source of steel plates and steel coils such that it can supply the SAWH pipes and SAWL pipes to its customers on time. Accordingly, the Directors consider that it is in the interest of the Group to enter into the framework purchase agreements with Hunan Xiangtan and Hunan Lianyuan respectively.

As Xiangtan Steel is a substantial shareholder of Hunan Shengli Steel Pipe, which is a non-wholly owned subsidiary of the Company, Xiangtan Steel is a connected person of the Company. As Xiangtan Steel is wholly owned by Valin Steel, which in turn is entitled to control the exercise of more than 30% of the voting power at the general meeting of Hunan Valin, being the holder of 94.71% equity in Hunan Xiangtan, Hunan Xiangtan is an associate of Xiangtan Steel pursuant to the Listing Rules, and is a connected person of the Company at the level of subsidiaries. Valin Steel also owns 5.29% equity interest in Hunan Xiangtan directly. In addition, Hunan Valin is the holder of 62.75% equity in Hunan Lianyuan, which therefore is also a connected person of the Company at the level of subsidiaries. Accordingly, the transactions under the framework purchase agreements constitute continuing connected transaction of the Company and are subject to reporting and announcement requirements but exempt from the circular, independent financial advice and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

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

The Company's indirect wholly owned subsidiary, Shandong Shengli Steel Pipe, 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 Steel Pipe certain land and buildings in Zibo, Shandong Province where the Group's SAWH 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 Steel Pipe. Shandong Shengli Steel Pipe and Shengli Steel Pipe entered into supplemental lease agreements on 28 September 2010, 29 April 2011, 20 December 2011 and 24 December 2014, respectively, pursuant to which the parties adjusted the scope of properties to be leased and the rental payable under the lease agreement. The rent is adjustable once 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 2015 to 31 December 2017 is RMB7,670,000.

The leased properties comprise the properties housing the spiral submerged arc welded pipe manufacturing facilities of Shandong Shengli Steel Pipe and the properties used by Shandong Shengli Steel Pipe for research and catering purposes. The Directors consider that it is in the best interest of the Group to continue leasing the leased properties from Shengli Steel Pipe to avoid any unnecessary interruption to the Group's operation and minimize any unnecessary relocation costs.

Prior to 21 July 2015, the registered capital of Shengli Steel Pipe was 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 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 was 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, was 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 constituted continuing connected transactions of the Company, and were subject to reporting, announcement and annual review requirements but exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

After the disposal of all of his shares in Shengli Steel Pipe in 21 July 2015, Mr. Zhang Bizhuang ceased to be a shareholder of Shengli Steel Pipe. Accordingly, since 21 July 2015, Shengli Steel Pipe ceased to be a connected person of the Company and the transactions under the lease agreement as amended by the supplemental lease agreements ceased to be regarded as connected transactions of the Company thereafter under Chapter 14A of the Listing Rules.

The independent non-executive Directors of the Company have reviewed and confirmed the 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 (Revised) "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 auditor 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 all material aspects, in accordance with the terms of the relevant agreements 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, redeemed or sold any of their respective securities during the year ended 31 December 2015.

EVENT AFTER REPORTING PERIODS

On 8 March 2016, Shandong Shengli Steel Pipe entered into a capital increase agreement with, among others, Zhenjiang Tianyang Motor Co., Ltd.* (鎮江天洋汽車有限公司) ("Zhenjiang Tianyang") and Jiangsu Tianyang Group Co., Ltd.* (江蘇天洋集團有限公司) ("Jiangsu Tianyang Group") pursuant to which, Shandong Shengli Steel Pipe has conditionally agreed to contribute RMB15,625,000 to Zhenjiang Tianyang resulting in Shandong Shengli Steel Pipe obtaining 20% of the equity interest in Zhenjiang Tianyang. As certain conditions of the capital increase agreement have not been fulfilled and/or waived (as the case may be) and the parties to the capital increase agreement have not agreed in respect of continuing the capital increase, Shandong Shengli Steel Pipe delivered a unilateral termination notice on 1 April 2016 to, among others, Zhenjiang Tianyang and Jiangsu Tianyang Group to terminate the capital increase agreement. Please refer to the announcements made by the Company on 8 March 2016 and 7 April 2016 for further details.

Subsequent to the end of the reporting period, on 23 March 2016, the Company and not less than six subscribers entered into subscription agreements in relation to the issue of an aggregate of 545,727,600 new shares of the Company at the subscription price of HK$0.280 per subscription share subject to a lock-up period of six months. On 12 April 2016, all the conditions of the subscriptions have been fulfilled and completion of the subscriptions took place in accordance with the term of the subscription agreements. Please refer to the Company's announcements dated 23 March 2016 and 12 April 2016 for further details.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year under Review.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for Director's and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. The permitted indemnity provision is in force for the benefit of the Directors as required by section 470 of the Companies Ordinance when the Report of the Directors prepared by the Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance.

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 failed to reach consensus with the Company 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 ZHONGHUI ANDA as auditors of the Company for the year ended 31 December 2013.

At the annual general meeting held on 20 June 2014, the Company re-appointed ZHONGHUI ANDA as auditors of the Company for the year ended 31 December 2014.

At the annual general meeting held on 26 June 2015, the Company re-appointed ZHONGHUI ANDA as auditors of the Company for the year ended 31 December 2015.

By order of the board
Zhang Bizhuang
Chief Executive Officer

20 March 2016

* *For identification purposes only*

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 still strives to uphold good corporate governance and adopts 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") as set out in Appendix 14 to the Listing Rules during the period from 1 January 2015 to 31 December 2015.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the required standard for securities transactions by Directors. The Company has made specific enquiries with all Directors and all Directors confirmed that for the year ended 31 December 2015, 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

As at the date of this annual report, the Board comprises six executive Directors and three independent non-executive Directors. The Board members of the Company during the year ended 31 December 2015 and as at the date of this annual report are:

Executive Directors

Mr. Ji Rongdi (alias Jee Rongdee) *(Chairman)* (appointed on 12 April 2016)
Mr. Zhang Bizhuang *(Chief Executive Officer)* (resigned as Chairman on 12 April 2016)
Mr. Jiang Yong *(Vice President)*
Mr. Wang Kunxian *(Vice President)*
Ms. Han Aizhi *(Vice President)*
Mr. Song Xichen *(Vice President)*

Independent non-executive Directors

Mr. Chen Junzhu, *ACCA, CICPA*
Mr. Wu Geng (appointed on 19 March 2015)
Mr. Qiao Jianmin (appointed on 12 April 2016)
Mr. Wang Xueyou (retired at the general meeting on 26 June 2015)
Mr. Guo Changyu (resigned on 12 April 2016)

The biographical details of all Directors as at the date of this annual report are set out in pages 20 to 23 of this annual report. Save as those disclosed in this annual report, there are not any other financial, business, family or other material or relevant relationships among the 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 functions of the Board are 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 and senior management, and certain specific responsibilities to the Board committees.

Board Meetings and Board Practices

During the year ended 31 December 2015, the Board held 20 meetings, 2 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, notice would be given for a regular meeting of the Company at least 14 days in advance. 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 each of the Directors prior to the meetings of the Board to ensure that the Directors may receive accurate, timely and clear information to make informed decisions regarding the matters to be discussed in the meetings. All Directors may access to 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 Board meetings are observed and providing the Board with opinions on matters in relation to the compliance with the procedures of Board meetings. All minutes of Board meetings will be recorded in sufficient details, including the matters considered by the Board and decisions reached.

Throughout the year, 20 Board meetings were held. Details of the attendance of each Director are as follows:

Name of Director	Attendance
Executive Directors	
Mr. Zhang Bizhuang *(Chairman and Chief Executive Officer)*	20/20
Mr. Jiang Yong *(Vice President)*	20/20
Mr. Wang Kunxian *(Vice President)*	20/20
Ms. Han Aizhi *(Vice President)*	20/20
Mr. Song Xichen *(Vice President)*	20/20
Independent non-executive Directors	
Mr. Guo Changyu	20/20
Mr. Chen Junzhu	20/20
Mr. Wu Geng (appointed on 19 March 2015)	15/15
Mr. Wang Xueyou (retired at the general meeting on 26 June 2015)	11/12

Appointment, Re-election and Removal of Directors

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 contracts or appointment letters are subject to termination in accordance with the provisions contained therein by one party giving the other not less than 3-month prior written notice for executive Directors or 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 the code provision A.4.2, all Directors are subject to retirement by rotation at least once every three years.

Independent non-executive Directors

In compliance with the requirements of 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. Chen Junzhu and Mr. Wu Geng to be independent from the Company.

Continuous Professional Development

Each of the newly appointed Directors, namely Mr. Wu Geng, has been given an induction training so as to ensure that he has appropriate understanding of the Group's business and his duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements.

The Company also provides regular updates on the business development of the Group. The Directors are regularly briefed on the latest development regarding the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practices. In addition, the Company has been encouraging the Directors to enroll in professional development courses and seminars relating to the Listing Rules, Companies Ordinance and corporate governance practices organized by professional bodies or chambers in Hong Kong. All Directors are requested to provide the Company with their respective training records pursuant to the Code.

During the year, all Directors, namely Mr. Zhang Bizhuang, Mr. Jiang Yong, Mr. Wang Kunxian, Ms. Han Aizhi, Mr. Song Xichen, Mr. Guo Changyu, Mr. Chen Junzhu and Mr. Wu Geng, have participated in appropriate continuous professional development and refreshed their knowledge and skills so as to ensure that their contribution to the Board remains informed and relevant. Such professional development was completed by way of attending briefings, conferences, courses, forums, seminars and lectures which are relevant to the business or Directors' duties, as well as reading relevant information and participating in business-related research.

Chairman and Chief Executive Officer

Under 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. During the year ended 31 December 2015, the roles of the chairman and the chief executive officer of the Company were performed by Mr. Zhang Bizhuang, 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 it deems 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/duties, while reserving strategic decisions on certain key matters for its approval. When the Board delegates aspects of its management and administration functions to the management, it gives clear directions as to the powers of the management, in particular, with respect to the circumstances where the management needs 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 new 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 functions 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 requirements of the Listing Rules. The primary duties of the Audit Committee are to make recommendations to the Board on the appointment and removal of external auditors and review and supervise the financial reporting process, risk management and internal control system of the Group covering all material controls, including financial, operational, compliance controls as well as risk management functions of the Group for the year ended 31 December 2015. All members of the Audit Committee are appointed by the Board. During the year ended 31 December 2015, the Audit Committee consisted of three independent non-executive Directors, namely, Mr. Chen Junzhu, Mr. Guo Changyu and Mr. Wu Geng (appointed on 23 March 2015). Mr. Chen Junzhu served as the chairman. The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2015.

During the year ended 31 December 2015, the Audit Committee held two meetings. Details of the attendance of each member are as follows:

Name of Audit Committee Member	Attendance
Mr. Chen Junzhu *(Chairman)*	2/2
Mr. Guo Changyu	2/2
Mr. Wu Geng (appointed on 23 March 2015)	2/2
Mr. Wang Xueyou (resigned on 23 March 2015)	0/0

During the year ended 31 December 2015, the Audit Committee had performed the following functions: reviewing the half-year and full year results, approving the audit proposal of the auditors, reviewing the report of the auditors, formulating the plan of internal audit for 2015, reviewing the internal audit report summary for 2014 and the internal audit report for the first half of 2015, as well as reviewing the risk management and 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 requirements of the Listing Rules. The primary functions of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration, review and approve proposals for the management's remuneration, 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. Wu Geng (appointed on 26 June 2015) and Mr. Chen Junzhu, and one executive Director, namely Mr. Zhang Bizhuang. Mr. Wu Geng currently serves as the chairman.

During the year ended 31 December 2015, the Remuneration Committee held one meeting. Details of the attendance of each member are as follows:

Name of Remuneration Committee Member	Attendance
Mr. Wu Geng *(Chairman)* (appointed on 26 June 2015)	0/0
Mr. Zhang Bizhuang	1/1
Mr. Chen Junzhu	1/1
Mr. Wang Xueyou (retired at the General Meeting on 26 June 2015)	1/1

During the year ended 31 December 2015, the Remuneration Committee had formulated the remuneration policy of Directors, approved the terms in service contracts of Directors and reviewed 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 merits, 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 information. 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, subject to the approval 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 34 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 cooperation and relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and in the case of executives, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Pursuant to B.1.5 of the Code, the remuneration paid by the Group to members of senior management by bands for the year ended 31 December 2015 is set out below:

Remuneration band	Number of individuals
HK$0–500,000	2
HK$500,001–600,000	5
HK$600,001–700,000	1

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 and came into effect 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 strategy; (b) identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; (c) assessing the independence of independent non-executive Directors of the Company; (d) making recommendations to the Board on the appointment or re-appointment of Directors of the Company and reviewing the succession planning for the chairman, the chief executive officer of the Group 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 meetings of the Company and answering questions raised in the annual general meetings. During the year ended 31 December 2015, the Nomination Committee consisted of two independent non-executive Directors, namely Mr. Guo Changyu and Mr. Wu Geng (appointed on 23 March 2015), and one executive Director, namely Mr. Zhang Bizhuang. Mr. Guo Changyu served as the chairman.

During the year ended 31 December 2015, the Nomination Committee held one meeting. Details of the attendance of each member are as follows:

Name of Nomination Committee Member	Attendance
Mr. Guo Changyu *(Chairman)*	1/1
Mr. Zhang Bizhuang	1/1
Mr. Wu Geng (appointed on 23 March 2015)	1/1
Mr. Wang Xueyou (resigned on 23 March 2015)	0/0

During the year ended 31 December 2015, the Nomination Committee had reviewed the structure, size and composition of the Board, and gave full review on the professional qualifications and career background of all candidates to directorships and members of each Board committee 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 2015. The Company recognizes and embraces the benefits of diversity in the Board to the performance enhancement 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 to directorships 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 the merit and contribution that the selected candidates will bring to the Board. For the purpose of implementing the Board Diversity Policy, the Company has adopted measurable objectives as follows:

1. at least one-third of the Board members shall be independent non-executive Directors;

2. at least one of the Board members shall have obtained accounting or other professional qualifications;

3. at least one of the Board members shall be female if conditions allow;

4. at least 75% of the Board members shall have more than ten years of experience in the industry he/she specializes in; and

5. at least 50% of the Board members shall have more than five years of working experience in the industry the Company is engaged in.

With reference to the above measurable objectives, the Nomination Committee is satisfied with the successful implementation of the Board Diversity Policy. As at the year ended 31 December 2015, the Company had achieved all of the five measurable objectives of the Board Diversity Policy listed above. 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 includes (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 in 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 make disclosure in the corporate governance report.

ACCOUNTABILITY AND AUDIT

Directors' and Auditors' Responsibilities for the Consolidated Financial Statements

The Board of Directors acknowledges its responsibility to prepare the Group's consolidated financial statements for each financial period to give a true and fair view of the financial position, results and cash flows of the Group for the period. In preparing the consolidated financial statements for the year ended 31 December 2015, the Board has selected appropriate accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the consolidated 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.

The reporting responsibilities of the external auditors of the Company, ZHONGHUI ANDA, on the consolidated financial statements of the Group are set out in the section headed "Independent Auditor's Report" on page 53 of this annual report.

AUDITORS' REMUNERATION

During the year ended 31 December 2015, 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** HKD'000
Audit Services	1,680
Non-audit Services	
— Review on interim report	480
— Report on continuing connected transactions	15
— Review on preliminary results announcement	15
Total	2,190

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 consider 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 regarding internal control systems in general for the year ended 31 December 2015.

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 to establish investors' 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 presentations. These initiatives can help us extend an in-depth reach of our business strengths and competitive advantages into the market, which is ultimately reflected in the market value of the Company.

The investor relations team regularly informs the Board of the latest market perceptions and developments of the Company, 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 will attend annual general meetings and extraordinary general meetings to answer questions. Separate resolutions on each distinct issue would be proposed at the general meetings.

Throughout the year, one general meeting was held. Details of the attendance of each Director are as follows:

Name of Director	**Attendance**
Executive Directors	
Mr. Zhang Bizhuang *(Chairman and Chief Executive Officer)*	1/1
Mr. Jiang Yong *(Vice President)*	1/1
Mr. Wang Kunxian *(Vice President)*	1/1
Ms. Han Aizhi *(Vice President)*	1/1
Mr. Song Xichen *(Vice President)*	1/1
Independent non-executive Directors	
Mr. Guo Changyu	1/1
Mr. Chen Junzhu, *ACCA, CICPA*	1/1
Mr. Wu Geng (appointed on 19 March 2015)	1/1
Mr. Wang Xueyou (retired at the General Meeting on 26 June 2015)	0/1

Shareholders' Rights

Procedures by which Shareholders may convene extraordinary general meetings and putting forward proposals at general 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 to vote at general meetings of the Company shall at all times have the right, by written requisition to the Board (by mail to the Company at Room 2111, 21st Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong or by email to ir@slogp.com), 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 after 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.

If Shareholders wish to put forward proposal(s) at a general meeting and request the Company to give notice to its Shareholders on the resolution(s) intended to be moved at the general meeting, they shall send a signed written notice with their contact information by mail to the Company at Room 2111, 21st Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong or by email to ir@slogp.com.

Procedures by which enquiries may be put to the Board

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

Significant Change in Constitutional Documents

During the year ended 31 December 2015, 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 55 to 135, which comprise the consolidated statement of financial position as at 31 December 2015, 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.

INDEPENDENT AUDITOR'S REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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

Hong Kong, 19 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
REVENUE	9	**1,953,960**	2,009,062
Cost of sales and services		**(1,915,857)**	(1,982,006)
Gross profit		**38,103**	27,056
Other income and gains	9	**46,971**	26,732
Selling and distribution costs		**(33,706)**	(23,681)
Administrative expenses		**(305,689)**	(165,836)
Other expenses		**(2,562)**	(3,894)
Share of results of:			
Joint ventures		**(11,596)**	(12,422)
Associates		**9**	3,618
Gain on acquisition of an associate		**—**	3,421
Impairment loss recognized on goodwill	18	**(7,385)**	—
Impairment loss recognized on investment in an associate	29	**—**	(33,548)
Impairment loss recognized on available-for-sale investment	23	**(11,428)**	—
Finance costs	10	**(58,119)**	(53,643)
LOSS BEFORE TAX	11	**(345,402)**	(232,197)
Income tax expense	13	**(8,528)**	(7,548)
LOSS FOR THE YEAR		**(353,930)**	(239,745)
Other comprehensive income that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**8,828**	867
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(345,102)**	(238,878)
LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(302,130)**	(219,176)
Non-controlling interests		**(51,800)**	(20,569)
		(353,930)	(239,745)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(293,302)**	(218,309)
Non-controlling interests		**(51,800)**	(20,569)
		(345,102)	(238,878)
LOSS PER SHARE (RMB cents)	14		
— Basic		**(11.07)**	(8.72)
— Diluted		**(11.07)**	(8.72)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	Notes	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**1,036,606**	1,107,277
Prepaid land lease payments	17	**167,824**	171,408
Goodwill	18	**2,525**	9,910
Deposits paid for acquisition of investments	20	**152,655**	—
Investment in joint venture	21	**17,934**	29,530
Investment in an associate	22	**48,770**	48,761
Available-for-sale investment	23	**—**	11,428
Other assets		**827**	3,248
Deferred tax assets	24	**16,116**	26,522
		1,443,257	1,408,084
CURRENT ASSETS			
Inventories	25	**158,949**	176,808
Trade and bills receivables	26	**775,914**	1,018,694
Prepayments, deposits and other receivables	27	**461,794**	459,435
Prepaid land lease payments	17	**3,767**	3,777
Pledged deposits	28	**207,589**	206,446
Cash and cash equivalents	28	**393,881**	216,007
		2,001,894	2,081,167
Non-current assets held for sale	29	**—**	350,000
		2,001,894	2,431,167
CURRENT LIABILITIES			
Trade and bills payables	30	**310,222**	339,891
Other payables and accruals	31	**149,699**	186,780
Borrowings	32	**1,044,536**	982,289
Tax payable		**18,202**	14,218
Deferred income	33	**854**	854
		1,523,513	1,524,032
NET CURRENT ASSETS		**478,381**	907,135
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,921,638**	2,315,219

	Notes	2015 RMB'000	2014 RMB'000
NON-CURRENT LIABILITIES			
Deferred income	33	**7,317**	8,171
Borrowings	32	**55,000**	82,500
Deferred tax liabilities	24	**376**	32,892
		62,693	123,563
NET ASSETS		**1,858,945**	2,191,656
EQUITY			
Equity attributable to owners of the Company			
Issued capital	34	**238,438**	238,438
Reserves	35	**1,427,629**	1,708,540
		1,666,067	1,946,978
Non-controlling interests		**192,878**	244,678
Total equity		**1,858,945**	2,191,656

The consolidated financial statements on pages 55 to 135 were approved and authorised for issue by the Board of Directors on 19 March 2016 and are signed on its behalf by:

Zhang Bizhuang
Director

Han Aizhi
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Attributable to owners of the Company										
	Issued capital	Share premium*	Statutory surplus reserve*	Share option reserve*	Other reserve*	Foreign currency translation reserve*	Retained profits*	Proposed final dividend*	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2014	218,786	1,079,474	62,484	27,839	(9)	(693)	685,875	3,095	2,076,851	265,247	2,342,098
Issue of shares	19,652	68,781	—	—	—	—	—	—	88,433	—	88,433
Final 2013 dividend paid	—	—	—	—	—	—	—	(3,095)	(3,095)	—	(3,095)
Share-based payment	—	—	—	3,098	—	—	—	—	3,098	—	3,098
Total comprehensive income/(loss) for the year	—	—	—	—	—	867	(219,176)	—	(218,309)	(20,569)	(238,878)
At 31 December 2014	238,438	1,148,255	62,484	30,937	(9)	174	466,699	—	1,946,978	244,678	2,191,656
At 1 January 2015	**238,438**	**1,148,255**	**62,484**	**30,937**	**(9)**	**174**	**466,699**	**—**	**1,946,978**	**244,678**	**2,191,656**
Share-based payment	**—**	**—**	**—**	**12,391**	**—**	**—**	**—**	**—**	**12,391**	**—**	**12,391**
Total comprehensive income/(loss) for the year	**—**	**—**	**—**	**—**	**—**	**8,828**	**(302,130)**	**—**	**(293,302)**	**(51,800)**	**(345,102)**
At 31 December 2015	**238,438**	**1,148,255**	**62,484**	**43,328**	**(9)**	**9,002**	**164,569**	**—**	**1,666,067**	**192,878**	**1,858,945**

* 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 2015

	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	**(345,402)**	(232,197)
Adjustments for:		
Finance costs	**58,119**	53,643
Interest income	**(14,485)**	(14,203)
Share of results of joint venture	**11,596**	12,422
Share of results of associates	**(9)**	(3,618)
Depreciation	**117,451**	88,176
Amortization of prepaid land lease payments	**3,767**	3,776
Gain on acquisition of an associate	**—**	(3,421)
Gain on disposal of property, plant and equipment, net	**(89)**	(195)
Allowance for trade receivables	**108,647**	50,430
Impairment loss recognized on investment in an associate	**—**	33,548
Impairment loss recognized on available-for-sale investment	**11,428**	—
Impairment loss recognized on goodwill	**7,385**	—
Impairment loss recognized on other receivables	**5,764**	—
Write down of inventories	**35,285**	30,447
Share option expenses	**12,391**	3,098
Recognize of deferred income	**(854)**	(1,059)
Operating profit before working capital changes	**10,994**	20,847
Change in inventories	**(17,426)**	(11,881)
Change in trade and bills receivables	**134,133**	42,758
Change in prepayments, deposits and other receivables and other assets	**(12,461)**	11,926
Change in trade and bills payables	**(29,669)**	8,704
Change in other payables and accruals	**62,919**	8,698
Cash generated from operations	**148,490**	81,052
Income tax (paid)/refunded	**(26,655)**	305
Net cash generated from operating activities	**121,835**	81,357

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(48,044)**	(95,930)
Additions of prepaid land lease payments	**(173)**	—
Investment in an associate	—	(7,500)
Proceeds from disposal of items of property, plant and equipment	**1,353**	1,181
Deposits received from disposal of an associate	—	100,000
Proceeds from disposal of non-current assets held for sale	**250,000**	—
Refund of deposits paid for acquisition of investments	—	7,500
Dividends received from an associate	—	33,000
Change in pledged deposits	**(1,143)**	377,998
Interest received	**14,485**	14,203
Reduction in investment in a joint venture	—	9,000
Advance to entities	**(18,567)**	—
Repayment from/(Advance to) a joint venture	**25,326**	(45,338)
Deposit paid for acquisition of investments	**(152,655)**	—
Net cash generated from investing activities	**70,582**	394,114
CASH FLOWS FROM FINANCING ACTIVITIES		
New borrowings	**1,110,036**	1,135,066
Repayment of loans	**(1,075,964)**	(1,629,895)
Interest paid	**(58,119)**	(53,643)
Dividends paid	—	(3,095)
Proceeds from issue of shares	—	88,433
Net cash used in financing activities	**(24,047)**	(463,134)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**168,370**	12,337
Cash and cash equivalents at beginning of year	**216,007**	202,720
Effect of foreign exchange	**9,504**	950
Cash and cash equivalents at end of year	**393,881**	216,007

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. GENERAL INFORMATION

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

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 19 to the consolidated 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 consolidated 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 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 2015. IFRSs comprise International Financial Reporting Standards; International Accounting Standards and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years.

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

The preparation of consolidated 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 consolidated financial statements are disclosed in note 5 to these consolidated financial statements.

The significant accounting policies applied in the preparation of these consolidated 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint arrangements (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

(c) Translation on consolidation (continued)

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.

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
Motor vehicles	6 years
Electronic equipment and others	4–5 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(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$30,000 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

(b) Pension obligations (continued)

The Group also participates in a defined contribution retirement scheme organised by the government in 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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, joint ventures 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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).

(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).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Non-current assets held for sale

Non-current assets or disposal group are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the assets or disposal group are available for immediate sale in their present condition. The Group must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets or disposal group classified as held for sale are measured at the lower of the assets' or disposal group's previous carrying amount and fair value less costs to sell.

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 consolidated financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the consolidated 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 judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements.

(a) Legal titles of certain lands and buildings

As stated in notes 16 and 17 to the consolidated financial statements, the legal titles of certain lands and buildings have not been transferred to the Group as at 31 December 2015. 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.

(b) Available-for-sale investment

Although the Group owns more than 50% of the equity interest in Ever Growing Energy Service, LLC ("Ever Growing"), Ever Growing is treated as an available-for-sale investment because the Group is neither able to control the relevant activities, nor exercise significant influence over Ever Growing.

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 2015 was approximately RMB16,116,000 (2014: RMB26,522,000).

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

Key sources of estimation uncertainty (continued)

(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 2015 were approximately RMB759,481,000 (2014: RMB1,006,562,000) and RMB461,794,000 (2014: RMB459,435,000), respectively.

(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 2015 was RMB158,949,000 (2014: RMB176,808,000).

(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 2015 was approximately RMB2,525,000 (2014: RMB9,910,000) after an impairment loss of RMB7,385,000 was recognised during 2015 (2014: nil). Details of the impairment loss calculation are provided in note 18 to the consolidated financial statements.

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

Key sources of estimation uncertainty (continued)

(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 associates and joint ventures

Interests in associates 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.

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 an associate and joint ventures were approximately RMB48,770,000 (2014: RMB48,761,000) and approximately RMB17,934,000 (2014: RMB29,530,000), respectively.

(g) Impairment loss recognised in respect of available-for-sale investment

Available-for-sale investment 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.

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. The carrying amount of available-for-sale investment at 31 December 2015 was nil (2014: RMB11,428,000) after an impairment loss of RMB11,428,000 was recognised during 2015 (2014: nil).

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 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, 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 businesses 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

The Group's exposure to interest rate risk relates primarily to the Group's interest-bearing loans. The interest rates and terms of repayment of interest-bearing loans are disclosed in note 32 to the consolidated financial statements.

At 31 December 2015, if interest rates at that date had been 100 basis points lower with all other variables held constant, consolidated profit after tax for the year would have been RMB10,995,000 (2014: RMB10,648,000) higher, arising mainly as a result of lower interest expense on bank and other borrowings. If interest rates had been 100 basis points higher, with all other variables held constant, consolidated profit after tax for the year would have been RMB10,995,000 (2014: RMB10,648,000) lower, arising mainly as a result of higher interest expense on bank and other borrowings.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) 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 23% (2014: 18%) and 75% (2014: 61%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

(d) 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.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Liquidity risk (continued)

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.

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:

2015

	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	**1,065,139**	**30,024**	**28,458**	**—**	**1,123,621**
Trade and bills payables	**310,222**	**—**	**—**	**—**	**310,222**
Financial liabilities included in other payables and accruals	**77,444**	**—**	**—**	**—**	**77,444**
	1,452,805	**30,024**	**28,458**	**—**	**1,511,287**

2014

	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	1,009,729	29,260	58,269	—	1,097,258
Trade and bills payables	339,891	—	—	—	339,891
Financial liabilities included in other payables and accruals	172,113	—	—	—	172,113
	1,521,733	29,260	58,269	—	1,609,262

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Categories of financial instruments

	2015 RMB'000	2014 RMB'000
Financial assets:		
Available-for-sale financial assets	—	11,428
Loans and receivables		
Trade and bills receivables	775,914	1,018,694
Financial assets included in prepayments, deposits and other receivables	99,371	110,017
Pledged deposits	207,589	206,446
Cash and cash equivalents	393,881	216,007
	1,476,755	1,551,164
Financial liabilities:		
Financial liabilities at amortised cost		
Trade and bills payables	310,222	339,891
Financial liabilities included in other payables and accruals	77,444	172,113
Borrowings	1,099,536	1,064,789
	1,487,202	1,576,793

(f) 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 except for available-for-sale financial assets.

8. OPERATING SEGMENT INFORMATION

During the year ended 31 December 2015, the Group has two (2014: two) reportable segments which comprise pipes business and trading of metal commodity. The pipes business segment produces submerged-arc helical welded pipes, submerged-arc longitudinal welded pipes and cold-formed section steel which are mainly used for the oil and infrastructure industry ("Pipes Business"). The trading of metal commodity business mainly involves trading of electrolytic copper, aluminium ingot and aluminium oxide. 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 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, gain on acquisition of an associate, impairment loss recognized on goodwill, impairment loss recognized on investment in an associate, impairment loss recognized on available-for-sale investment and central administration costs including Directors' fees, share-based payments, foreign currency exchange gains/losses, share of results of joint ventures and associates and items not directly related to the core business of the segments.

8. OPERATING SEGMENT INFORMATION (continued)

Segment revenue and results

For the year ended 31 December 2015

	Pipes Business RMB'000	Trading of metal commodity RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:				
Sales to external customers	431,682	1,522,278	—	1,953,960
Intersegment sales	13,454	—	(13,454)	—
Total revenue	445,136	1,522,278	(13,454)	1,953,960
Segment results	(238,066)	(7,627)		(245,693)
Interest income				14,485
Impairment loss recognized on goodwill				(7,385)
Impairment loss recognized on available-for-sale investment				(11,428)
Unallocated expenses				(37,262)
Finance costs				(58,119)
Loss before tax				(345,402)

8. OPERATING SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

For the year ended 31 December 2014

	Pipes Business RMB'000	Trading of metal commodity RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:				
Sales to external customers	359,368	1,649,694	—	2,009,062
Intersegment sales	20,702	—	(20,702)	—
Total revenue	380,070	1,649,694	(20,702)	2,009,062
Segment results	(113,016)	(22,000)		(135,016)
Interest income				14,203
Gain on acquisition of an associate				3,421
Impairment loss recognized on investment in an associate				(33,548)
Unallocated expenses				(27,614)
Finance costs				(53,643)
Loss before tax				(232,197)

8. OPERATING SEGMENT INFORMATION (continued)

Segment assets

As at 31 December 2015

	Pipes Business RMB'000	Trading of metal commodity RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment assets	**2,016,026**	**575,743**	**—**	**2,591,769**
Unallocated assets				**853,382**
Total consolidated assets				**3,445,151**

As at 31 December 2014

	Pipes Business RMB'000	Trading of metal commodity RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment assets	2,291,828	657,640	—	2,949,468
Unallocated assets				889,783
Total consolidated assets				3,839,251

8. OPERATING SEGMENT INFORMATION (continued)

Segment liabilities

As at 31 December 2015

	Pipes Business RMB'000	Trading of metal commodity RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment liabilities	240,598	224,944	—	465,542
Unallocated liabilities				1,120,664
Total consolidated liabilities				1,586,206

As at 31 December 2014

	Pipes Business RMB'000	Trading of metal commodity RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment liabilities	310,583	222,031	—	532,614
Unallocated liabilities				1,114,981
Total consolidated liabilities				1,647,595

8. OPERATING SEGMENT INFORMATION (continued)

Other segment information

2015

	Pipes Business RMB'000	Trading of metal commodity RMB'000	Unallocated RMB'000	Consolidated RMB'000
Share of results of:				
Joint ventures	—	—	(11,596)	(11,596)
Associates	9	—	—	9
Write down of inventories	35,285	—	—	35,285
Allowance for trade receivables	79,230	29,417	—	108,647
Impairment loss recognized on other receivables	5,764	—	—	5,764
Depreciation and amortisation	120,793	309	116	121,218
Investment in joint ventures	—	—	17,934	17,934
Investment in an associate	48,770	—	—	48,770
Capital expenditure	48,201	6	10	48,217

2014

	Pipes Business RMB'000	Trading of metal commodity RMB'000	Unallocated RMB'000	Consolidated RMB'000
Share of results of:				
Joint ventures	—	—	(12,422)	(12,422)
Associates	3,618	—	—	3,618
Write down of inventories	30,447	—	—	30,447
Allowance for trade receivables	—	50,430	—	50,430
Depreciation and amortisation	91,418	290	244	91,952
Investment in joint ventures	—	—	29,530	29,530
Investment in an associate	48,761	—	—	48,761
Capital expenditure	95,024	387	519	95,930

8. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	For the year ended 31 December	
	2015	2014
	RMB'000	RMB'000
Mainland China	**1,942,967**	2,009,062
Other countries	**10,993**	—
	1,953,960	2,009,062

In presenting the geographical information, revenue is based on the locations of the customers.

(b) Non-current assets

	As at 31 December	
	2015	2014
	RMB'000	RMB'000
Mainland China	**1,274,110**	1,369,646
Hong Kong	**153,031**	488
	1,427,141	1,370,134

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

8. OPERATING SEGMENT INFORMATION (continued)

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	2015 RMB'000	2014 RMB'000
Customer A	Trading of metal commodity	—	263,327
Customer B	Trading of metal commodity	—	223,064
Customer C	Trading of metal commodity	**358,530**	240,652
Customer D	Trading of metal commodity	**378,129**	215,635
Customer E	Trading of metal commodity	**373,217**	213,896
Customer F	Trading of metal commodity	**216,276**	103,801[1]
Customer G	Trading of metal commodity	**196,126**	—

1 Revenue from this customer did not exceed 10% of total revenue in the respective years. This amount was shown for comparative purpose.

9. REVENUE, OTHER INCOME AND GAINS

	2015 RMB'000	2014 RMB'000
Revenue		
Sales of steel pipes	386,808	325,425
Trading of metal commodity	1,522,278	1,649,694
Rendering of services related to pipe business	44,874	33,943
	1,953,960	2,009,062
Other income		
Interest income	14,485	14,203
Rental income	6,567	6,620
Penalty income (note)	15,084	—
Others	3,875	4,072
	40,011	24,895
Other gains		
Gain on sales of materials	4,415	—
Exchange gains, net	1,091	1,438
Gain on disposal of property, plant and equipment, net	89	195
Others	1,365	204
	6,960	1,837
	46,971	26,732

Note:

On 28 April 2014, Shandong Shengli Steel Pipe Co., Ltd.# ("Shandong Shengli Steel Pipe") (山東勝利鋼管有限公司), a PRC subsidiary of the Company, entered into the sale and purchase agreement (the "Agreement") with Mr. Li Zifeng and Beijing Golden Fortune Investment Co., Ltd.# ("Golden Fortune") (北京慧基泰展投資有限公司), pursuant to which the Group has conditionally agreed to sell and Mr. Li Zifeng has conditionally agreed to purchase the equity interest of Golden Fortune for the consideration of RMB350 million. Pursuant to a supplemental agreement in 2015, it was agreed that the damages incurred up to the date of the supplemental agreement payable by Mr. Li Zifeng for his failure to pay the unsettled amount of the consideration to Shandong Shengli Steel Pipe as scheduled under the Agreement amounts to RMB15,084,000.

The English name is for identification only

10. FINANCE COSTS

	2015 RMB'000	2014 RMB'000
Interest of borrowings	**58,119**	69,549
Less: interest capitalised	**—**	(15,906)
	58,119	53,643

11. LOSS BEFORE TAX

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

	2015 RMB'000	2014 RMB'000
Cost of inventories sold*	**1,885,952**	1,953,485
Cost of services	**29,905**	28,521
Employees benefits expenses (including Directors' remuneration):		
Wages, salaries and bonus	**60,241**	56,053
Performance related bonus	**—**	—
Pension scheme contributions	**6,228**	5,808
Welfare and other expenses	**11,324**	6,920
Equity-settled share option expense	**12,391**	3,098
	90,184	71,879
Depreciation of property, plant and equipment	**117,451**	88,176
Amortisation of prepaid land lease payments	**3,767**	3,776
Allowance for trade receivables	**108,647**	50,430
Impairment loss recognized on other receivables	**5,764**	—
Gain on disposal of property, plant and equipment, net	**(89)**	(195)
Operating lease payments	**14,795**	15,085
Exchange gains, net	**(1,091)**	(1,438)
Auditors' remuneration	**1,407**	1,325

* Included in the cost of inventories sold is an amount of RMB35,285,000 (2014: RMB30,447,000) related to the write down of inventories for the year ended 31 December 2015.

12. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL REMUNERATION

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

		For the year ended 31 December 2015					
		Fees	Salaries, allowances and other benefits in kind	Performance related bonus	Social security contribution	Equity-settled share option expense	Total remuneration
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors:							
Zhang Bizhuang	(i)	80	471	—	15	1,007	1,573
Jiang Yong		80	402	—	—	—	482
Han Aizhi		80	412	—	15	794	1,301
Song Xichen		80	408	—	15	793	1,296
Wang Kunxian		80	393	—	15	793	1,281
Independent non-executive Directors:							
Guo Changyu		—	—	—	—	—	—
Wang Xueyou	(v)	116	—	—	—	—	116
Chen Junzhu		241	—	—	—	—	241
Wu Geng	(vi)	190	—	—	—	—	190
		947	2,086	—	60	3,387	6,480

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

(a) (continued)

		For the year ended 31 December 2014					
		Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Performance related bonus RMB'000	Social security contribution RMB'000	Equity settled share option expense RMB'000	Total remuneration RMB'000
Executive Directors:							
Zhang Bizhuang	(i)	79	688	—	14	219	1,000
Jiang Yong		79	594	—	—	—	673
Liu Yaohua	(ii)	49	534	—	14	182	779
Han Aizhi		79	534	—	14	182	809
Song Xichen		79	534	—	14	173	800
Wang Kunxian	(iii)	30	509	—	14	138	691
Non-executive Directors:							
Yan Tangfeng	(iv)	188	—	—	—	—	188
Independent non-executive Directors:							
Guo Changyu		—	—	—	—	—	—
Wang Xueyou		238	—	—	—	—	238
Chen Junzhu		238	—	—	—	—	238
		1,059	3,393	—	70	894	5,416

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) Resigned on 14 August 2014 but remain as a member of the senior management team of the Company.

(iii) Appointed on 14 August 2014.

(iv) Resigned on 16 October 2014.

(v) Retired on 26 June 2015.

(vi) Appointed on 19 March 2015.

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

(b) Five Highest Paid Individuals' emoluments

Four (2014: 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 employee's emoluments of the Group for the year ended 31 December 2015 were as follows:

	2015 RMB'000	2014 RMB'000
Salaries, allowances and other benefits in kind	437	—
Performance related bonus	—	—
Social security contributions	15	—
Equity settled share option expenses	745	—
	1,197	—

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

	Number of employee	
	2015	2014
Emolument band:		
HK$1,000,000–HK$1,500,000	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 2015 and 2014.

13. INCOME TAX EXPENSE

	2015 RMB'000	2014 RMB'000
Current — PRC Enterprise Income Tax ("EIT")		
— Charge for the year	**30**	27
— Under-provision in prior years	**67**	—
Current — Hong Kong		
— Charge for the year	**3,541**	3,014
Current — PRC dividend withholding tax	**27,000**	—
Deferred tax	**(22,110)**	4,507
	8,528	7,548

Hong Kong profits tax is calculated at 16.5% (2014: 16.5%) of the estimated assessable profits for the year.

The statutory tax rate of China Petro Equipment Holdings Pte Ltd., a subsidiary of the Company incorporated in the Republic of Singapore, was 17% for both years.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of subsidiaries of the Company in the PRC is 25% for both years.

13. 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:

	2015 RMB'000	2014 RMB'000
Loss before tax	**(345,402)**	(232,197)
Tax at the applicable tax rate of companies within the Group of 25% (2014: 25%)	**(86,351)**	(58,049)
Expenses not deductible for tax	**53,091**	38,951
Income not taxable for tax	**(35,463)**	(6,056)
Tax loss not recognized	**49,142**	32,019
Effect of different tax rates of subsidiaries	**(1,855)**	(1,558)
Profits and losses attributable to joint ventures and associates	**2,897**	2,201
Under-provision in prior years	**67**	—
PRC dividend withholding tax	**27,000**	—
Others	**—**	40
Tax at the Group's effective rate	**8,528**	7,548

Notes:

At the end of the reporting period, the Group has unused tax losses of approximately RMB361,002,000 (2014: RMB198,301,000) available for offset against future profits. No deferred tax assets have been recognized for tax losses for the year ended 31 December 2015, 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 EIT 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 2015 and 2014, 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 recognized were approximately RMB600,602,000 and RMB765,000,000, respectively. In the opinion of the Directors, it is not probable that its principal operating subsidiary, Shandong Shengli Steel Pipe will distribute such earnings in the foreseeable future.

14. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

(a) Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately RMB302,130,000 (2014: approximately RMB219,176,000) and the weighted average number of 2,728,638,000 (2014: 2,513,201,000) ordinary shares in issue during the year.

(b) Diluted loss per share

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2015 and 2014 in respect of a dilution as there was no dilutive potential ordinary share for the Company's outstanding options.

15. DIVIDEND

The Board of Directors has resolved not to declare a final dividend for the year ended 31 December 2015 (2014: Nil).

16. 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 2015						
COST:						
At 1 January 2015	288,690	951,955	15,412	10,019	157,052	1,423,128
Additions	8,467	3,896	439	690	34,552	48,044
Transfers	31,043	96,510	—	4,924	(132,477)	—
Disposals	(1,026)	(5,231)	(116)	(528)	—	(6,901)
At 31 December 2015	327,174	1,047,130	15,735	15,105	59,127	1,464,271
ACCUMULATED DEPRECIATION:						
At 1 January 2015	35,833	264,120	10,371	5,527	—	315,851
Provided during the year	12,221	101,617	1,870	1,743	—	117,451
Disposals	(1)	(5,016)	(113)	(507)	—	(5,637)
At 31 December 2015	48,053	360,721	12,128	6,763	—	427,665
CARRYING AMOUNTS:						
At 31 December 2015	279,121	686,409	3,607	8,342	59,127	1,036,606

16. 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 2014						
COST:						
At 1 January 2014	232,582	617,542	16,314	7,771	457,173	1,331,382
Additions	560	14,497	423	2,159	78,291	95,930
Transfers	55,548	322,661	—	203	(378,412)	—
Disposals	—	(2,745)	(1,325)	(114)	—	(4,184)
At 31 December 2014	288,690	951,955	15,412	10,019	157,052	1,423,128
ACCUMULATED DEPRECIATION:						
At 1 January 2014	26,171	191,046	9,424	4,232	—	230,873
Provided during the year	9,662	74,938	2,173	1,403	—	88,176
Disposals	—	(1,864)	(1,226)	(108)	—	(3,198)
At 31 December 2014	35,833	264,120	10,371	5,527	—	315,851
CARRYING AMOUNTS:						
At 31 December 2014	252,857	687,835	5,041	4,492	157,052	1,107,277

As at 31 December 2015, the Group was in the process of applying for the title certificates of buildings with an aggregate net book value of approximately RMB160,870,000 (2014: RMB161,986,000). The Directors 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 2015.

17. PREPAID LAND LEASE PAYMENTS

	2015 RMB'000	2014 RMB'000
Carrying amount at 1 January	**175,185**	178,961
Additions	**173**	—
Amortisation for the year	**(3,767)**	(3,776)
Carrying amount at 31 December	**171,591**	175,185
Current portion	**(3,767)**	(3,777)
Non-current portion	**167,824**	171,408

The Group's prepaid land lease payments related to land use rights are located in Mainland China.

As at 31 December 2015, 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 RMB10,594,000 (2014: RMB99,545,000). The Directors 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 2015.

18. GOODWILL

	2015 RMB'000	2014 RMB'000
Carrying amount at 1 January	**9,910**	9,910
Impairment loss recognised during the year	**(7,385)**	—
Carrying amount at 31 December	**2,525**	9,910

Impairment testing of goodwill

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

— Pipes business cash-generating unit

— Xinjiang business cash-generating unit

18. GOODWILL (continued)

Impairment testing of goodwill (continued)

Pipes business cash-generating unit

The recoverable amount of the 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% (2014: 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

At 31 December 2015, before impairment testing, goodwill of RMB7,385,000 was allocated to Xinjiang Business CGU. Due to changes in market condition, the Group has revised its cash flow forecasts for this CGU. The goodwill allocated to Xinjiang business has therefore been reduced to its recoverable amount through recognition of an impairment loss against goodwill of RMB7,385,000 during the year.

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

	2015 **RMB'000**	2014 RMB'000
Pipes business	**2,525**	2,525
Xinjiang business	**—**	7,385
	2,525	9,910

Key assumptions were used in the value in use calculation of the Pipes business and Xinjiang business cash-generating unit for 31 December 2015 (2014: Pipes business and Xinjiang business cash-generating units). 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.

19. SUBSIDIARIES

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

Company name	Place of incorporation/ registration and operation	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. ("Shengli BVI")	The British Virgin Islands (the "BVI")	USD1	100%	Investment holding
Siu Thai Holdings Limited ("Siu Thai")	The BVI	USD1	100%	Investment holding
Gold Apple Holdings Limited	The BVI	USD1	100%	Investment holding
Indirectly held:				
China Petro Equipment Holdings Pte. Ltd.	Republic of Singapore	SGD2	100%	Investment holding
Shandong Shengli Steel Pipe# (山東勝利鋼管有限公司) (Note i)	The PRC	RMB1,153,790,300	100%	Manufacturing, processing and sale of SAWH pipelines and provision of anti-corrosion service for oil and gas pipelines and other construction and manufacturing applications
Shengli Steel Pipe (Dezhou) Co., Ltd.# ("Shengli Steel Pipe Dezhou") (勝利鋼管（德州）有限公司) (Note ii)	The PRC	RMB80,000,000	100%	Manufacturing, processing and sale of SAWH pipelines and provision of anti-corrosion service 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)	The PRC	RMB20,000,000	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)	The PRC	RMB100,000,000	100%	Trading of metal commodity

19. SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and operation	Nominal value of issued and paid-up share/registered paid-up capital	Percentage of equity interests attributable to the Company	Principal activities
Xinjiang Shengli Steel Pipe Co., Ltd.# ("Xinjiang Shengli Steel Pipe") (新疆勝利鋼管有限公司) (Note iii)	The PRC	RMB180,000,000	56.43%	Manufacturing, processing and sale of SAWH pipelines and provision of anti-corrosion service for oil and gas pipelines and other construction and manufacturing applications
Hunan Shengli Xianggang Steel Pipe Co., Ltd.# ("Hunan Shengli Steel Pipe") (湖南勝利湘鋼鋼管有限公司) (Note iv)	The PRC	RMB464,000,000	54.96%	Manufacturing, processing and sale of SAWL and SAWH pipelines and provision of anti-corrosion service for oil and gas pipelines and other construction and manufacturing applications
Zhuhai Hengqin New Area Hongjie Commerce & Trade Development Co., Ltd# ("Zhuhai Hengqin") (珠海橫琴新區鴻傑商貿發展有限公司) (Note ii)	The PRC	RMB10,000,000	100%	Trading of metal commodity
Shengli Investment Company	Texas, United States of America	USD100,000	100%	Investment holding
Shengli Enterprise Holdings Limited ("Shengli Enterprise")	Hong Kong	HK$10,000	100%	Trading of metal commodity
Macao Shengling Commerce & Trade Limited (澳門勝嶺商貿一人有限公司)	Macao	MOP25,000	100%	Trading of metal commodity

The English names are for identification only

Notes:

(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

19. 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 Steel Pipe		Hunan Shengli Steel Pipe	
	2015	2014	**2015**	2014
Principal place of business/ country of incorporation	**The PRC/ The PRC**	The PRC/ The PRC	**The PRC/ The PRC**	The PRC/ The PRC
% of ownership interests/voting rights held by NCI	**43.57%**	43.57%	**45.04%**	45.04%
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 31 December:				
Non-current assets	**106,520**	124,379	**537,056**	549,593
Current assets	**16,729**	27,866	**144,710**	149,280
Non-current liabilities	**(7,317)**	(8,171)	**(55,000)**	(82,500)
Current liabilities	**(25,483)**	(19,138)	**(286,027)**	(193,986)
Net assets	**90,449**	124,936	**340,739**	422,387
Accumulated NCI	**39,409**	54,435	**153,469**	190,243
Year ended 31 December:				
Revenue	**—**	33,770	**39,084**	12,846
Loss for the year	**(34,487)**	(12,892)	**(81,648)**	(33,194)
Total comprehensive loss	**(34,487)**	(12,892)	**(81,648)**	(33,194)
Loss allocated to NCI	**(15,026)**	(5,618)	**(36,774)**	(14,951)
Dividends paid to NCI	**—**	—	**—**	—
Net cash generated from/(used in) operating activities	**257**	(11,160)	**(41,157)**	(33,053)
Net cash used in investing activities	**—**	(467)	**(31,239)**	(55,492)
Net cash generated from financing activities	**—**	—	**58,780**	106,000
Net increase/(decrease) in cash and cash equivalents	**257**	(11,627)	**(13,616)**	17,455

As at 31 December 2015, the bank and cash balances of the these subsidiaries in the PRC denominated in RMB amounted to approximately RMB25,898,000 (2014: RMB39,257,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

20. DEPOSITS PAID FOR ACQUISITION OF INVESTMENTS

	2015 RMB'000	2014 RMB'000
Deposit paid for acquisition of the equity interest of:		
— Blossom Time Group Limited (note)	**152,655**	—

Note:

The amount represented deposits paid for acquisition of 56% equity interest in Blossom Time Group Limited, a company established in the BVI. The principal activities of its subsidiaries are mainly engaged in investments and minerals business. As at the end of the reporting period and up to the date of this report, the share transfer is still subject to the fulfilment or waiver of certain conditions.

21. INVESTMENT IN JOINT VENTURES

	2015 RMB'000	2014 RMB'000
Unlisted investments in the PRC:		
Share of net assets	**17,934**	29,530

Details of the Group's joint ventures at 31 December 2015 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)	The PRC	RMB10,000,000	90%
Dome Integration Housing Industrial Holding Co. Ltd. ("Dome (BVI)") (哆咪集成房屋工業控股有限公司)	The BVI	USD200	40%

The English name is for identification only

21. INVESTMENT IN JOINT VENTURES (continued)

(a) Shenzhen Taihe

On 27 January 2011, Shandong Muxin, an indirect wholly-owned subsidiary of the Company entered into a partnership agreement with an individual (the "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.

On 30 October 2014, Shandong Muxin entered into a revised partnership agreement with the Individual which agreed to reduce the paid-up capital of Shenzhen Taihe from RMB20,000,000 to RMB10,000,000 (the "Capital Reduction"), the ownership of interests attributable to both parties remains unchanged. The Capital Reduction was completed on 14 November 2014. The audited return on investment of Shenzhen Taihe will be distributed to the partners in the following revised terms and 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, this provision shall be ceased only when this provision exceeded 5% of paid-in capital injected by all partners.

(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.

21. INVESTMENT IN JOINT VENTURES (continued)

(a) Shenzhen Taihe (continued)

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 2015 and 2014, the Group's share of loss of Shenzhen Taihe were approximately RMB399,000 and RMB643,000, respectively.

(b) Dome (BVI)

On 17 September 2012, Siu Thai, a direct wholly-owned subsidiary of the Company, entered into a shareholders' agreement with four other parties of Dome (BVI), according to which Siu Thai and each of the four other parties (collectively referred to as the "JV Shareholders") subscribed for, and Dome (BVI) allotted 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 four other 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% interest in Dome (BVI) and Dome (BVI) becomes a joint venture company of the Group.

According to the shareholders' agreement, Dome (BVI) incorporated a limited liability company under the laws of Hong Kong, Dome Integration Housing Industrial Group Company Limited ("Dome (HK)") and Dome (HK) established two limited liability companies under the laws of the PRC, Prodigy Dome Integration Housing Production (Shandong) Co., Ltd. ("Dome (Shandong)"), and Prodigy Dome Integration Housing Sales (Chongqing) Co., Ltd. ("Dome (Chongqing)"). Dome (Shandong) is primarily engaged in the business of the processing, manufacturing and distribution of dome integration houses, and Dome (Chongqing) is primarily engaged in the wholesale, retail and assembly of dome integration housing. Dome (BVI), Dome (HK), Dome (Shandong) and Dome (Chongqing) 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 (2014: RMB37,599,000) to the JV Group. During the year ended 31 December 2015, the Group's share of loss of JV Group was approximately RMB11,197,000 (2014: RMB11,779,000).

21. 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)	
	2015	2014	**2015**	2014
Principal place of business/ country of incorporation	**The PRC/ The PRC**	The PRC/ The PRC	**The PRC/ The BVI**	The PRC/ The BVI
Principal activities	**Equity investment, investment management, and investment consultation**		**Processing, manufacturing and sale 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	**1,425**	1,533	**38,066**	37,094
Current assets	**5,879**	6,214	**165,192**	200,101
Current liabilities	**(3)**	(3)	**(174,853)**	(180,795)
Net assets	**7,301**	7,744	**28,405**	56,400
Group's share of net assets	**6,571**	6,970	**11,363**	22,560
Cash and cash equivalents included in current assets	**1,076**	1,441	**1,327**	1,681
Current financial liabilities (excluding trade and other payables and provision) included in current liabilities	**—**	—	**—**	—
Year ended 31 December:				
Revenue	**—**	—	**487**	1,939
Depreciation and amortisation	**—**	129	**7,296**	7,296
Interest income	**3**	383	**—**	—
Interest expense	**—**	—	**—**	—
Income tax expense	**—**	—	**—**	—
Loss from continuing operation	**(443)**	(715)	**(27,994)**	(29,447)
Profit after tax from discontinued operations	**—**	—	**—**	—
Other comprehensive income	**—**	—	**—**	—
Total comprehensive loss	**(443)**	(715)	**(27,994)**	(29,447)
Dividends received from joint ventures	**—**	—	**—**	—

21. INVESTMENT IN JOINT VENTURES (continued)

As at 31 December 2015, the bank and cash balances of the Group's joint ventures in the PRC denominated in RMB amounted to RMB2,403,000 (2014: RMB3,122,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

22. INVESTMENT IN AN ASSOCIATE

	2015 **RMB'000**	2014 RMB'000
Unlisted investment in the PRC:		
Share of net assets	**48,770**	48,761

Details of the associate of the Group is as follows:

Company name	Place of incorporation/ operations	Registered paid-up capital	Percentage of equity interests attributable to the Group	Principal activities
Gaoqing Xian Minfu Microfinance Co., Ltd.# ("Minfu Microfinance") (高青縣民福小額貸款有限公司)	The PRC	RMB150,000,000	30%	Micro-financing and other financial advisory services

The English name is for identification only

22. 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.

	Minfu Microfinance	
	2015	2014
Principal place of business/ country of incorporation	**The PRC/ The PRC**	The PRC/ The PRC
Principal activities	**Micro-financing and other financial consultation services**	
% of ownership interests/voting rights held by the Group	**30%/30%**	30%/30%
	RMB'000	RMB'000
At 31 December:		
Non-current assets	**14,342**	14,658
Current assets	**149,078**	151,777
Current liabilities	**(854)**	(3,897)
Non-current liabilities	**—**	—
Net assets	**162,566**	162,538
Group's share of net assets	**48,770**	48,761
Year ended 31 December:		
Revenue	**2,613**	4,185
Profit from continuing operations	**28**	1,156
Profit after tax from discontinued operations	**—**	—
Other comprehensive income	**—**	—
Total comprehensive income	**28**	1,156
Dividends received from the associate	**—**	—

As at 31 December 2015, the bank and cash balances of the Group's associate in the PRC denominated in RMB amounted to approximately RMB916,000 (2014: RMB2,877,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

23. AVAILABLE-FOR-SALE INVESTMENT

	2015 RMB'000	2014 RMB'000
An unlisted equity investment, at cost	—	11,428

It is 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.

Due to changes in market condition, the investment cost has been reduced to its recoverable amount through recognition of an impairment loss of RMB11,428,000 during the year.

24. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

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

	2015 RMB'000	2014 RMB'000
Deferred tax assets		
As at 1 January	26,522	31,046
Deferred tax charged to the profit or loss during the year (note 14)	(10,406)	(4,524)
Gross deferred tax assets as at 31 December	16,116	26,522
Deferred tax liabilities		
As at 1 January	32,892	32,909
Deferred tax credited to the consolidated profit or loss during the year (note 14)	(32,516)	(17)
Gross deferred tax liabilities as at 31 December	376	32,892
Net deferred tax assets/(liabilities) as at 31 December	15,740	(6,370)

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

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

	2015 RMB'000	2014 RMB'000
Deferred tax assets		
Accrued interest on borrowings	**68**	1,299
Government grants received but not yet recognised as income	**2,043**	2,043
Excess of carrying value over fair value of identifiable assets and liabilities in acquisition of subsidiaries	**1,306**	1,494
Tax losses	**12,699**	21,686
Gross deferred tax assets	**16,116**	26,522
Deferred tax liabilities		
Excess of fair value of identifiable assets and liabilities over carrying value in acquisition of subsidiaries	**376**	392
Fair value gains of a derivative financial instrument	**—**	32,500
Gross deferred tax liabilities	**376**	32,892
Net deferred tax asset/(liabilities)	**15,740**	(6,370)

25. INVENTORIES

	2015 RMB'000	2014 RMB'000
Raw materials	**77,011**	104,503
Work in progress	**6,062**	1,358
Finished and semi-finished goods	**75,876**	70,947
	158,949	176,808

26. TRADE AND BILLS RECEIVABLES

	2015 RMB'000	2014 RMB'000
Trade receivables	918,558	1,056,992
Less: allowance for impairment of trade receivables	(159,077)	(50,430)
	759,481	1,006,562
Bills receivables	16,433	12,132
	775,914	1,018,694

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:

	2015 RMB'000	2014 RMB'000
Within 3 months	607,480	773,899
3 to 6 months	38,124	48,804
6 months to 1 year	46,749	85,520
1 to 2 years	47,302	62,991
Over 2 years	19,826	35,348
	759,481	1,006,562

Included in the trade receivables of RMB115,086,000 (2014: RMB143,723,000) are quality guarantee deposits receivable from customers.

26. TRADE AND BILLS RECEIVABLES (continued)

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

	2015 RMB'000	2014 RMB'000
Neither past due nor impaired	693,265	875,240
1 to 3 months past due	8,968	10,486
3 to 6 months past due	10,157	10,080
6 months to 1 year and past due	7,903	30,443
1 year to 2 years and past due	18,893	74,005
Over 2 years and past due	20,295	6,308
	759,481	1,006,562

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 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.

Reconciliation of allowance for trade receivables:

	2015 RMB'000	2014 RMB'000
Balance at beginning of the year	50,430	—
Allowance for the year	108,647	50,430
Balance at end of year	159,077	50,430

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

	2015 RMB'000	2014 RMB'000
Advance to suppliers (note a)	**65,892**	55,276
Trade deposits paid to metal commodity suppliers (note b)	**218,000**	219,366
Advance to a joint venture (note c)	**54,242**	80,854
Loan to employees (note d)	**690**	690
Tender deposits to customers	**3,402**	3,657
Other tax receivables (note e)	**68,375**	63,451
Rent prepaid (note 38(d))	**3,834**	7,668
Advances to entities (note f)	**18,567**	—
Prepayment	**2,920**	3,124
Others	**25,872**	25,349
	461,794	459,435

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 RMB224,353,000 (2014: RMB220,537,000) 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 RMB34,664,000 (2014: RMB26,714,000) which is unsecured, interest bearing at 3% per annum and repayable within one year. The remaining balance is unsecured, non-interest bearing and repayable within one year. An advance of RMB40,000,000 was paid to the joint venture for the supply of raw materials during the year ended 31 December 2014 and is fully settled during the year 2015. An impairment loss of approximately RMB1,286,000 has been recognized during the year 2015.

(d) Loan to employees are unsecured, interest bearing at 6% (2014: 6%) per annum and have no fixed repayment term.

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

(f) Included in the advances is a loan of RMB9,000,000, which is unsecured, interest bearing at 4.5% per annum and repayable within one year and a loan of RMB9,567,000, which is secured, interest bearing at 3% per annum and repayable within one year.

28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2015 RMB'000	2014 RMB'000
Cash and bank balances	601,470	422,453
Less: Pledged deposits	(207,589)	(206,446)
	393,881	216,007

Cash and cash equivalents and pledged deposits denominated in:

	2015 RMB'000	2014 RMB'000
RMB	567,544	324,267
USD	22,824	32,992
HK$	10,707	64,617
SGD	395	577
	601,470	422,453

The RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control 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.

29. NON-CURRENT ASSETS HELD FOR SALE

The major classes of assets classified as held for sale at 31 December 2014 are as follows:

	2015 RMB'000	2014 RMB'000
Investment in an associate		
— Golden Fortune	—	200,548
Derivative financial instrument	—	183,000
	—	383,548
Less: Impairment loss recognized	—	(33,548)
	—	350,000

During the year ended 31 December 2014, the investment in an associate and derivative financial instrument, which are expected to be sold within twelve months, had been classified as non-current assets held for sale and are presented separately in the consolidated statement of financial position. An impairment loss of approximately RMB33,548,000 has been recognized during the year ended 31 December 2014 as the carrying amount is higher than the fair value less costs to sell (the purchase consideration).

During the year ended 31 December 2015, the whole amount of RMB350 million is settled and the Disposal is completed.

30. TRADE AND BILLS PAYABLES

	2015 RMB'000	2014 RMB'000
Trade payables	310,222	322,543
Bills payables	—	17,348
	310,222	339,891

30. TRADE AND BILLS PAYABLES (continued)

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

	2015 **RMB'000**	2014 RMB'000
Within 3 months	**257,804**	268,909
3 to 6 months	**26,746**	13,889
6 months to 1 year	**6,759**	29,429
1 to 2 years	**15,859**	9,130
Over 2 years	**3,054**	1,186
	310,222	322,543

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.

31. OTHER PAYABLES AND ACCRUALS

	2015 **RMB'000**	2014 RMB'000
Receipt in advances from customers	**69,188**	11,489
Payable on acquisition of property, plant and equipment	**55,407**	50,544
Security deposits received from employees	**710**	710
Deposits received from disposal of an associate (note 29)	**—**	100,000
Other tax payables	**3,067**	3,178
Others	**21,327**	20,859
	149,699	186,780

32. BORROWINGS

		2015			2014		
	Notes	Effective interest rate (%)	Maturity (year)	RMB'000	Effective interest rate (%)	Maturity (year)	RMB'000
Bank loans — Unsecured		**4.95%–5.88%**	**2016**	**565,000**	6.00%–6.30%	2015	540,000
Bank loans — Secured	(a)	**1.54%–6.50%**	**2016**	**272,036**	2.73%–6.44%	2015	279,789
Bank loans — Secured and guaranteed	(b)	**5.06%–5.89%**	**2016**	**130,000**	—	—	—
Bank loans — Guaranteed	(c)	**4.78%–6.80%**	**2016–2018**	**132,500**	6.30%–6.60%	2015–2018	245,000
				1,099,536			1,064,789

The borrowings are repayable as follows:

	RMB'000	RMB'000
On demand or within one year	**1,044,536**	982,289
In the second year	**27,500**	27,500
In the third to fifth years, inclusive	**27,500**	55,000
	1,099,536	1,064,789
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(1,044,536)**	(982,289)
Amount due for settlement after 12 months	**55,000**	82,500

Notes:

(a) The Group's bank loans were secured by pledge of bank deposits of RMB179,000,000 (2014: RMB173,900,000).

(b) The Group's bank loans were secured by pledge of certain of the Group's properties, plant and equipment amounting to RMB323,575,000 and an amount of RMB52,000,000 out of bank loans of RMB130,000,000 were guaranteed by a non-controlling shareholder of a subsidiary.

(c) As at 31 December 2015 and 2014, an amount of RMB58,300,000 (2014: RMB83,600,000) out of bank loans of RMB132,500,000 (2014: RMB245,000,000) were guaranteed by a non-controlling shareholder of a subsidiary.

33. DEFERRED INCOME

	2015 RMB'000	2014 RMB'000
Government grants:		
As at 1 January	**9,025**	10,084
Recognised as other income during the year	**(854)**	(1,059)
As at 31 December	**8,171**	9,025
Less: Current portion	**(854)**	(854)
Non-current portion	**7,317**	8,171

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.

34. SHARE CAPITAL

Ordinary shares of HK$0.1 each	Number of shares	HK$'000
Authorised:		
At 31 December 2015 and 2014	5,000,000,000	500,000

Issued and fully paid:	Number of shares	RMB'000
At 1 January 2014	2,480,580,000	218,786
Issue of shares (note (i))	248,058,000	19,652
At 31 December 2014 and at 31 December 2015	2,728,638,000	238,438

34. SHARE CAPITAL (continued)

	Number of shares in issue	Issued capital HK$'000	Issued capital RMB'000
At 31 December 2014 and at 31 December 2015	2,728,638,000	272,864	238,438

Note:

(i) **Issue of shares**

Pursuant to the Company's announcement dated 3 November 2014, the Company and the subscriber entered into the a subscription agreement in relation to the issue of 248,058,000 subscription shares to the subscriber at a subscription price of HK$0.45 (RMB0.36) per subscription share. The Issue of shares was completed on 14 November 2014 and the premium on the issue of subscription shares, amounting to approximately RMB68,781,000 was credited to the Company's share premium account.

35. RESERVES

(a) Statutory surplus reserve

As stipulated by the relevant law and regulations for foreign investment enterprises in 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.

35. 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 2015 are as follows:

	Share premium RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2014	1,082,908	27,839	(106,755)	1,003,992
Issue of shares	68,781	—	—	68,781
Final 2013 dividend paid	(3,095)	—	—	(3,095)
Share-based payment	—	3,098	—	3,098
Total comprehensive loss for the year	—	—	(14,034)	(14,034)
At 31 December 2014	1,148,594	30,937	(120,789)	1,058,742
Share-based payment	—	12,391	—	12,391
Total comprehensive loss for the year	—	—	(21,948)	(21,948)
At 31 December 2015	1,148,594	43,328	(142,737)	1,049,185

36. 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:

	Notes	2015	2014
Granted on 10 February 2010	(a)	**22,500,000**	22,500,000
Granted on 3 January 2012	(b)	**22,140,000**	22,440,000
Granted on 23 September 2014	(c)	**73,560,000**	74,400,000
Granted on 28 January 2015	(d)	**60,000,000**	—
		178,200,000	119,340,000

36. SHARE-BASED PAYMENTS (continued)

	2015 Number of share options	2015 Weighted average exercise price HK$	2014 Number of share options	2014 Weighted average exercise price HK$
Outstanding at the beginning of the year	**119,340,000**	**0.84**	45,240,000	1.41
Granted during the year	**60,000,000**	**0.40**	74,400,000	0.50
Forfeited during the year	**(1,140,000)**	**0.58**	(300,000)	0.80
Outstanding at the end of the year	**178,200,000**	**0.70**	119,340,000	0.84

Notes:

(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.

36. SHARE-BASED PAYMENTS (continued)

Notes: (continued)

(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.

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$8,208,000.

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%

300,000 and 300,000 share options out of the total 24,000,000 share options granted on 3 January 2012 were forfeited during the year ended 31 December 2014 and 2015 respectively.

36. SHARE-BASED PAYMENTS (continued)

Notes: (continued)

(c) Pursuant to the Company's announcement on 23 September 2014, the Company granted to eligible participants a total of 74,400,000 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$0.50 per share.

The share options granted has a 6-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 23 September 2014, being the date of grant, was HK$0.50 per share.

The aggregate fair values of the options determined at the date of grant based on the Binomial model, was HK$17,741,000.

The following assumptions were used to calculate the fair values of share options granted on 23 September 2014:

Grant date share price (per share)	HK$0.50
Exercise price (per share)	HK$0.50
Contractual life	6 years
Expected volatility (%)	59.9%
Dividend yield (%)	0.83%
Risk-free interest rate (%)	1.58%

840,000 share options out of the total 74,400,000 share options granted on 23 September 2014 were forfeited during the year ended 31 December 2015.

36. SHARE-BASED PAYMENTS (continued)

Notes: (continued)

(d) Pursuant to the Company's announcement on 28 January 2015, the Company granted to eligible participants a total of 60,000,000 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$0.40 per share.

The share options granted has a 6-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 28 January 2015, being the date of grant, was HK$$0.395 per share.

The aggregate fair values of the options determined at the date of grant based on the Binomial model, was HK$11,265,000.

The following assumptions were used to calculate the fair values of share options granted on 28 January 2015:

Grant date share price (per share)	HK$0.395
Exercise price (per share)	HK$0.400
Contractual life	6 years
Expected volatility (%)	58.8%
Dividend yield (%)	0.83%
Risk-free interest rate (%)	1.15%

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 2015, the Group recognized share-based payments of RMB12,391,000 (2014: RMB3,098,000), 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 69,160,000 (2014: 37,460,000).

37. 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 2015, 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:

	2015 **RMB'000**	2014 RMB'000
Within one year	**6,612**	6,612
In the second to fifth years, inclusive	**6,612**	13,224
	13,224	19,836

Operating lease receivable as at 31 December 2015 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:

	2015 **RMB'000**	2014 RMB'000
Within one year	**10,328**	1,813
In the second to fifth years, inclusive	**35,895**	29,073
After fifth years	**61,347**	69,016
	107,570	99,902

37. COMMITMENTS (continued)

(a) Commitments under operating leases (continued)

As lessee (continued)

Operating lease commitments as at 31 December 2015 mainly represent rental payable by the Group to a third party (2014: 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, 20 December 2011 and 24 December 2014.

Leases are negotiated for lease terms of 20 years and the lease payment will be adjusted for every 3 years. The Group has prepaid the lease payments for 0.5 financial years from 1 January 2016 to 30 June 2016 during the year ended 31 December 2015.

(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:

	2015 RMB'000	2014 RMB'000
Contracted, but not provided for	**20,594**	49,338

(c) Investment commitments

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

	2015 RMB'000	2014 RMB'000
Contracted, but not provided for	**38,024**	29,712

38. RELATED PARTY TRANSACTIONS

(a) Related parties of the Group

The Directors 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 (note 38(c))
Dome (Shandong)	A wholly owned subsidiary of Dome (HK)
Minfu Microfinance	An associate of the Company
Shenzhen Taihe	A joint venture of the Company

(b) Significant related party transactions

During the years ended 31 December 2015 and 2014, the Group had the following material transactions with related parties:

	2015 RMB'000	2014 RMB'000
Rental expense paid to Shengli Steel Pipe	**4,473**	8,110
Rental income received from Dome (Shandong)	**5,981**	6,015
Interest income from Minfu Microfinance	**—**	1,604
Interest income from Dome (Shandong)	**979**	817

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. During 2015, the Director ceased to be a shareholder of Shengli Steel Pipe. The annual rental for year 2015 and 2014 is approximately RMB8 million. Details of the operating lease arrangements are disclosed in note 37(a) to the consolidated financial statements.

38. RELATED PARTY TRANSACTIONS (continued)

(d) Balances with related parties

	2015 RMB'000	2014 RMB'000
Shengli Steel Pipe	—	10,000
Less: Current portion (note 27)	—	(7,668)
Non-current portion disclosed as other assets	—	2,332

(e) Key management compensation

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

	2015 RMB'000	2014 RMB'000
Fees	947	1,059
Salaries, allowances and other benefits in kind	3,342	4,403
Performance related bonus	—	—
Social security contributions	108	95
Equity-settled share option expense	5,620	1,214
	10,017	6,771

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

39. EVENT AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, a subsidiary of the Company entered into a capital increase agreement with an entity, pursuant to which, the subsidiary has conditionally agreed to contribute RMB15,625,000 to the entity's share capital, resulting in the subsidiary obtaining 20% of the equity interest in that entity. The completion is conditionally upon certain condition precedent. Please refer to the Company's announcement dated 8 March 2016 for details.

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2015 RMB'000	2014 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	325	423
Investments in subsidiaries	1,280,775	1,258,172
	1,281,100	1,258,595
CURRENT ASSETS		
Prepayments, deposits and other receivables	870	520
Cash and cash equivalents	8,040	40,655
	8,910	41,175
CURRENT LIABILITIES		
Other payables and accruals	2,387	2,591
	2,387	2,591
NET CURRENT ASSETS	6,523	38,584
NET ASSETS	1,287,623	1,297,179
EQUITY		
Issued capital	238,438	238,438
Reserves	1,049,185	1,058,741
Total equity	1,287,623	1,297,179

41. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 19 March 2016.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited consolidated financial statements and restated/reclassified as appropriate, is set out below.

RESULTS

	Year ended 31 December				
	2015	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**1,953,960**	2,009,062	2,556,717	1,920,855	1,821,836
(Loss)/profit before tax	**(345,402)**	(232,197)	24,080	71,959	115,496
Income tax expenses	**(8,528)**	(7,548)	(11,699)	(16,371)	(23,579)
(Loss)/profit for the year	**(353,930)**	(239,745)	12,381	55,588	91,917
Attributable to:					
Owners of the Company	**(302,130)**	(219,176)	17,826	62,775	93,780
Non-controlling interests	**(51,800)**	(20,569)	(5,445)	(7,187)	(1,863)
	(353,930)	(239,745)	12,381	55,588	91,917

ASSETS AND LIABILITIES

	As at 31 December				
	2015	2014	2013	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**3,445,151**	3,839,251	4,372,069	3,587,484	3,042,491
Total liabilities	**(1,586,206)**	(1,647,595)	(2,029,971)	(1,322,423)	(896,672)
Net assets	**1,858,945**	2,191,656	2,342,098	2,265,061	2,145,819
Attributable to:					
Owners of the Company	**1,666,067**	1,946,978	2,076,851	2,074,369	2,027,940
Non-controlling interests	**192,878**	244,678	265,247	190,692	117,879
	1,858,945	2,191,656	2,342,098	2,265,061	2,145,819