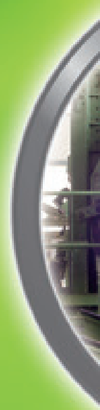
SHENGLI OIL & GAS PIPE HOLDINGS LIMITED
勝利油氣管道控股有限公司

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1080

Annual Report 2016

CORPORATE PROFILE



SHENGLI OIL & GAS PIPE HOLDINGS LIMITED (the "Company" together with its subsidiaries, the "Group") is one of the largest oil and gas pipe 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, natural gas and other related products. We are one of the few suppliers in China producing pipes of large-diameter, high wall thickness, high steel grade and high pressure.

As at the end of December 2016, 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.

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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
Mr. Qiao Jianmin (appointed on 12 April 2016)
Mr. Guo Changyu (resigned on 12 April 2016)

AUDIT COMMITTEE

Mr. Chen Junzhu *(Chairman), ACCA, CICPA*
Mr. Wu Geng
Mr. Qiao Jianmin (appointed as member of the audit committee on 12 April 2016)
Mr. Guo Changyu (resigned as member of the audit committee on 12 April 2016)

REMUNERATION COMMITTEE

Mr. Wu Geng *(Chairman)*
Mr. Ji Rongdi (alias Jee Rongdee) (appointed as member of the remuneration committee on 25 March 2017)
Mr. Chen Junzhu, *ACCA, CICPA*
Mr. Zhang Bizhuang (resigned as member of the remuneration committee on 25 March 2017)

NOMINATION COMMITTEE

Mr. Qiao Jianmin *(Chairman)*
(appointed as chairman of the nomination committee on 25 March 2017)
Mr. Zhang Bizhuang
Mr. Wu Geng
Mr. Guo Changyu (resigned as chairman and member of the nomination committee on 12 April 2016)
Mr. Ji Rongdi (alias Jee Rongdee) (resigned as chairman and member of the nomination committee on 25 March 2017)

COMPANY SECRETARY

Mr. Hong Kam Le

AUTHORISED REPRESENTATIVES

Ms. Han Aizhi
Mr. Hong Kam Le

REGISTERED OFFICE

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

HEADQUARTERS IN CHINA

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

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

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
(the "Stock Exchange")

STOCK CODE

1080

COMPANY WEBSITE

www.slogp.com

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB3,125,278,000, representing an increase of approximately RMB1,171,318,000 when compared to 2015.
- Gross profit margin was approximately 3.4%, representing an increase of approximately 1.4 percentage points when compared to 2015.
- The loss for the year attributable to owners of the Company amounted to approximately RMB210,493,000, representing a decrease of approximately RMB91,637,000 when compared to 2015.
- Basic loss per share attributable to owners of the Company was approximately RMB6.74 cents, representing a decrease of approximately RMB4.33 cents when compared to 2015.

CHIEF EXECUTIVE OFFICER'S STATEMENT

Dear shareholders,

On behalf of the Company, I hereby present to you the audited results of the Group for the year ended 31 December 2016 ("the Year under Review").

In 2016, there were uncertainties in the factors affecting the growth prospects of the crude oil industry, as the global economy experienced a slowdown in growth with Brazil and Russia going into economic recession, while other markets were mostly dominated by sluggish sentiments. Nevertheless, 2016 was also the first year of the 13th Five-Year Plan ("13th FYP") for Economic and Social Development of the People's Republic of China. To facilitate systematic, healthy and sustainable stable growth of the oil and gas industry, the National Development and Reform Commission of the People's Republic of China ("NDRC") formulated the Planning for the Development of Petroleum during the 13th FYP (《石油發展「十三五」規劃》) ("Petroleum 13th FYP") and the Planning for the Development of Natural Gas during the 13th FYP (《天然氣發展「十三五」規劃》) ("Natural Gas 13th FYP"). The Group also seized this opportunity to adjust its marketing strategy and develop the new energy business market proactively, supported by costs and expenditures reduction as well as streamlining and reorganisation of business segments, so as to maintain its overall operational efficiency.

Zhang Bizhuang
Executive Director &
Chief Executive Officer

VIGOROUS DEVELOPMENT OF DOMESTIC LOCAL MARKETS WITH ADJUSTMENT IN MARKETING STRATEGY

In view of austere market conditions underpinned by the underwhelming development of major pipeline projects by China National Petroleum Corporation ("CNPC") and China Petrochemical Corporation ("Sinopec"), as well as increasing protection for CNPC's internal markets, the Group took timely actions to conduct re-analysis in the market and adjust its marketing strategy. Instead of focusing on key national projects and addressing the local markets only to a lesser extent as we did in the past, we shifted our emphasis to domestic local markets with an aim to give full play to our strengths in brand name, quality, technology and equipment. As at 31 December 2016, the Group's outstanding orders amounted to approximately 35,000 tonnes, of which local markets accounted for 86.7%. Shandong Shengli Steel Pipe Co., Ltd.* (山東勝利鋼管有限公司) ("Shandong Shengli Steel Pipe"), the largest domestic subsidiary of the Group, signed up a number of new customers in Shandong Province and elsewhere, auguring well for ongoing efforts to develop these markets in 2017.

In the meantime, Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) ("Hunan Shengli Steel Pipe"), another domestic subsidiary of the Group, completed network entry procedures in respect of the three leading petroleum companies, namely, CNPC, Sinopec and China National Offshore Oil Corporation ("CNOOC") (the "Three Barrels"), and became a qualified supplier for the Three Barrels. This qualification indicates its readiness to bid for national pipeline projects while also providing a solid foundation for developing local markets.

FOCUSING ON TECHNOLOGICAL RESEARCH & DEVELOPMENT ("R&D") AND EQUIPMENT UPGRADE

Technology provides the driving force behind the development of an enterprise. The Group has placed a strong emphasis on investments in technologies and persisted in technological innovation over the years, as it believes that core technologies represent a crucial factor underpinning the competitiveness of a company.

During the Year under Review, Shandong Shengli Steel Pipe completed assessment organised by CNPC for the circumferential weld process for new welding materials to be used in West-East Gas Pipeline III (西氣東輸三線) in July 2016. In September, we also completed assessment for the circumferential weld process for new welding materials to be used in the fourth Shaanxi-Beijing Gas Pipeline Project (陝京四線輸氣管道工程) and the quality authentication test for X90-grade submerged-arc helical welded pipes ("SAWH pipes") organised by CNPC. Such efforts effectively reduced its purchase costs and also enhanced its product competitiveness. In addition, The R&D capabilities of the Group have been significantly enhanced after the testing laboratory of Hunan Shengli Steel Pipe was awarded the Certificate for Approved Laboratory by China National Accreditation Service for Conformity Assessment and became a national-grade R&D platform during the Year under Review.

Moreover, the technical personnel of the Group were actively engaged in technological R&D and equipment upgrade, as they completed 11 technological upgrades, including the domestic production of certain equipment in the pre-welding and precision-welding unit, while obtaining during the Year under Review four national utility model patents, namely "piston rod of lifting carrier roller in hydraulic press" (水壓機升降托輥導向桿), "automatic stabilising mechanism for inner welding arm of pre-welding and precision-welding" (預精焊內焊臂自動穩定機構), "gauge stick for size adjustment of immersion ultrasonic testing probes" (水浸法超聲波檢測探頭尺寸調節尺) and "self-positioning pipe welding aligning device" (自定位管道對焊對口器).

PRODUCTION EFFICIENCY ENHANCED BY OPTIMISED ALLOCATION OF JOB POSITIONS

To strengthen supervision, control, appraisal and management of subsidiaries, the Group reshuffled the business departments according to their functions in early 2016 and introduced more detailed provisions for internal control and risk management. An organizational structure and administrative regime with well-defined powers and duties, systematic operation and effective checks was formed to supervise the subsidiaries and procure them to optimise resource allocation for better production and operational efficiency.

Shandong Shengli Steel Pipe, the largest domestic subsidiary of the Group, improved its operating efficiency by optimising job allocation and streamlining headcount according to production procedures, staff mix and skill categories. For certain positions, a contract system was adopted to measure performance and determine remuneration on the basis of the actual volume of work done. This arrangement has effectively lowered labour costs, while staff motivation has been enhanced as income per capita has increased because of the reduction in headcount, resulting in positive benefits for both the enterprise and the employees.

VIGOROUS COST REDUCTION THROUGH ENHANCED MANAGEMENT OF TRADE RECEIVABLES AND CENTRALISED PROCUREMENT OF RAW MATERIALS

In a vigorous effort to achieve cost savings, the Group further strengthened its internal management for efficiency enhancement, while continuing to improve the competitiveness of its products. In early 2016, the Group formulated measures regulating the collection of trade receivables, providing for stringent supervision over the amounts of trade receivables to be collected, as well as the establishment of a dedicated business department comprising sales, legal and corporate management professionals to investigate and clear up overdue trade receivables in a centralized manner. Our turnover of cash flow was enhanced as the department procured timely collections following proactive communications and negotiations with customers through various means.

Furthermore, in order to lower production costs, the Group consolidated and centralised the procurement of raw materials from domestic sources, as opposed to the previous practice of each subsidiary conducting its own purchases. As prices typically go down with increasing volumes of purchase, the Group was able to enjoy greater discounts with bulk purchases. As a result, the Group reported further reductions in operating costs on lower prices for raw materials purchased following the adjustment of the procurement method.

ACTIVE DEVELOPMENT OF INNOVATIVE BUSINESSES IN TANDEM WITH NATIONAL PLANNING

In view of the prospects of the pipe manufacturing industry and developments of investment projects in recent years, the Group was actively identifying projects in industries encouraged by the government in tandem with national industrial development planning, in addition to assuring stable development of its business in oil and gas pipeline products, with a view to the implementation of a prudent development strategy.

Established by the Group in Shanghai during the first half of 2016, Shanghai Shengguan New Energy Technology Co., Ltd* (上海勝管新能源科技有限公司) ("Shanghai Shengguan") is principally engaged in the new energy business and the bulk trading of fuel oil, chemical feedstock, oil products and related finished products.

In the new energy business, our centralised and distributed optical solar power generation projects were progressing in a systematic manner as planned. In connection with bulk trading, we commenced operations in fuel oil, chemical feedstock, oil products and related finished products during the second half of 2016. The commencement of this business will generate stable revenue and profit for the Group and also enhance the brand influence as a solid assurance for the Group's stable development.

CREATING VALUE FOR THE LONG TERM BY ADJUSTING BUSINESS MIX

Looking to the future, the Group will continue to ensure stable operation of its pipes business. As one of China's largest oil and natural gas pipeline manufacturers, the Group has geared up to develop new markets and enhance its brand influence in view of the slackened progress of major pipeline projects. Meanwhile, in addition to launching the streamlining and reorganisation of business segments, we will continue to enhance the operation of the new energy business and the bulk trading business for fuel oil, chemical feedstock, oil products and related finished products, with a view to broadening our revenue stream to increase overall income.

Last but not least, I would like to take this opportunity to express gratitude to our shareholders and customers, as well as all members of our management and staff for their solidarity and commitment. The Group will continue to seize any opportunities arising and plan proactively to deliver long-term value to shareholders.

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW

Global economic growth in 2016 was lacklustre given fluctuations in recovery in the wake of a deep correction. The global energy market was undergoing profound changes, as oil demand and supply in the Chinese as well as international markets were generally loose, while international oil prices remained volatile and depressed. In China, the economy was under the "New Normal" and comprehensive efforts to enhance structural reforms gave rise to new opportunities to the oil and gas pipeline industry. The oil and gas industry was expected to progress against the backdrop of reforms for low oil prices, as the 13th FYP provided a new starting point for the industry with new scenarios and challenges.

The segregation of "oil and gas trunk pipelines" from the Three Barrels, as announced in the "Opinion on Key Tasks in the Deepening of Economic Structural Reforms in 2016" (《關於2016年深化經濟體制改革重點工作的意見》) prepared by the NDRC and issued with the approval of the PRC State Council during the Year under Review, was set to be an important feature in the reform of the oil and gas industry. The aim of this reform was to turn the

operation of pipelines into a completely independent and market-based business. Small and medium oil and gas companies would be able to engage in generally fair competition with the sizeable Three Barrels on strengths other than scale, to the benefit of the nation's oil and gas industry in the long run.

The project for Line 2 of the Sino-Russian Crude Oil Pipeline (中俄原油管道二線工程) ("Sino-Russian Line 2") commenced construction in August 2016. As at 25 November 2016, pipeline with a length of 425.76 kilometres had been taken into possession, while stock-taking had been completed in respect of 669.48 kilometres and welding had been completed for 268.53 kilometres. The building of Sino-Russian Line 2 represents an important measure to expedite the construction of a strategic energy access for the security of China's energy supply.

BUSINESS REVIEW

A review of developments in the industry in 2016 indicates that major pipeline projects from CNPC and Sinopec continued to underwhelm. To address difficulties facing the industry in general, the Group made timely moves to adjust its marketing strategy, stepping up with the development of local markets in an effort to increase its influence in such markets. There was a 24.8% increase in the total number of orders for local pipeline projects acquired by the Group during the Year under Review, as compared to last year.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2016, the Group's production capacities for SAWH pipes and SAWL pipes were 1.45 million tonnes per annum and 400,000 tonnes per annum, respectively, while its ancillary anti-corrosion production line had an annual production volume of 10.80 million square metres. Such capabilities have continued to enhance the Group's strengths in technology and production capacity as compared to its peers.

While assuring stable development of its oil and gas pipeline products, the Group was also engaged in vigorous efforts to commence the bulk trading business for fuel oil, chemical feedstock, oil products and related finished products, as well as the new energy business, in resource-based upstream sectors and emerging sectors encouraged by the government, with a view to realising the Group's strategy for sustainable, stable and healthy development.

Pipes Business

As one of the largest oil and gas pipeline manufacturers in the PRC boasting superior quality in products, excellent facilities, advanced processes and a comprehensive quality assurance system, the Group is focused on the design, manufacturing, anti-corrosion processing and servicing of pipes (including SAWH pipes and SAWL pipes) used for the transportation of crude oil, refined petroleum and natural gas. It is also one of the few domestic suppliers of large-diameter pipes capable of sustaining the high pressure in long-distance transportation.

As at 31 December 2016, pipes produced by the Group with a cumulative total length of approximately 27,200 kilometres were used in the world's oil and gas pipelines, of which 94.5% were installed in the PRC, while the remaining 5.5% were installed overseas.

During the Year under Review, SAWH pipes manufactured by the Group were used in: major national pipeline projects including Tianjin LNG Transportation Trunk Project (天津液化天然氣項目輸氣幹線工程), West-East Gas Pipeline III Zhongwei — Jingbian Connection Line (西氣東輸三線中衛 — 靖邊聯絡線工程), the fourth Shaanxi-Beijing Gas Pipeline Project (陝京四線輸氣管道工程), Sino-Russian Line 2 and Yizheng — Changling Dual Crude Oil Pipeline Project (Section II of Yizheng — Jiujiang Section) (儀征 — 長嶺原油管道複線儀征至九江段第二標段工程); major regional pipeline projects including Dongjiakou Port — Weifang — Central Shandong and Northern Shandong Oil Pipeline Project (董家口港 — 濰坊 — 魯中魯北輸油管道工程), Wantong Fossil Fuel Oil And Refined Oil Transportation Project in Dongying Port (東營港 — 萬通石化燃料油成品油輸油工程), Hohhot — Zhangjiakou — Yanqing Gas Pipeline Project (呼和浩特 — 張家口 — 延慶輸氣管道工程) and Zhangze Electric Insulation Pipeline Project in Huairen County, Shanxi (山西懷仁縣漳澤電力保溫管項目); as well as major anti-corrosion pipeline projects including Tianjin LNG Transportation Trunk Project (天津液化天然氣項目輸氣幹線工程), West-East Gas Pipeline III Zhongwei — Jingbian Connection Line (西氣東輸三線中衛 — 靖邊聯絡線工程), the fourth Shaanxi-Beijing Gas Pipeline Project (陝京四線輸氣管道工程) and Sino-Russian Line 2. SAWL pipes manufactured by the Group were used in the Tailings Transportation System Project in Pulang Copper Mine (普朗銅礦尾礦輸送系統工程), Taiyuan — Qingxu Gas Pipeline Project (太原 — 清徐輸氣管道工程), Wenchuan-Tibet Bridge Project (汶川至西藏公路大橋項目) and Wantong Fossil Fuel Oil And Refined Oil Transportation Project in Dongying Port (東營港 — 萬通石化燃料油成品油輸油工程).

For the year ended 31 December 2016, total revenue of the Group's pipes business amounted to approximately RMB748,380,000 (2015: approximately RMB431,682,000) and accounted for approximately 23.9% of the Group's total revenue, comprising: (1) revenue from the sale of SAWH pipes of approximately RMB560,711,000 (2015: approximately RMB362,605,000); (2) revenue from the sale of SAWL pipes of approximately RMB112,206,000 (2015: approximately RMB24,141,000); (3) revenue from the anti-corrosion processing business of approximately

RMB74,582,000 (2015: approximately RMB44,874,000); and (4) revenue from the cold-formed section steel business of approximately RMB881,000 (2015: approximately RMB62,000) and derived wholly from the disposal of overstocked inventory.

Trading business

In order to capitalise on the business networks of its current customers and other existing resources, the Group established Shanghai Shengguan as a wholly-owned subsidiary in Shanghai during the first half of 2016, on top of its existing trading business. Specialised trading business teams were set up to be engaged in the bulk trading of fuel oil, chemical feedstock, oil products and related finished products which commanded a higher profit margin. Our domestic subsidiaries, including Shandong Shengli Steel Pipe, Shengli Steel Pipe (Dezhou) Co., Ltd.* (勝利鋼管（德州）有限公司) ("Dezhou Shengli Steel Pipe"), Zhonghai Shengguan Petrochemical (Dalian) Co., Ltd.* (中海勝管石油化工（大連）有限公司) ("Zhonghai Shengguan") and Hunan Shengli Steel Pipe, have also obtained qualifications for engaging in the trade of fuel oil and chemical products. Business models for bulk commodity trade developed by Shanghai Shengguan and Shandong Shengli Steel Pipe during the Year under Review following diligent research have provided important examples for other Group subsidiaries looking to commence this business in 2017.

For the year ended 31 December 2016, the total revenue of the Group's trading business amounted to approximately RMB2,376,898,000, accounting for approximately 76.1% of the Group's total revenue (2015: approximately RMB1,522,278,000).

New energy business

To ensure stability in income and avoid volatility risks associated with the pipes industry, the Group was engaged in vigorous effort to develop new businesses while assuring stable operations of oil and gas pipes, in tandem with its strategy of seeking sustainable, stable and healthy development. In this connection, Shanghai Shengguan was established by the Group during the first half of 2016 to engage in the new energy business. As of now, Shanghai Shengguan has started a solar energy project, which is currently progressing as scheduled.

FUTURE PROSPECTS

In December 2016, the NDRC announced the Petroleum 13th FYP and Natural Gas 13th FYP to further elaborate the previously announced Planning for Energy Development during the 13th FYP (《能源發展「十三五」規劃》). The planning indicates that, during the 13th FYP, the length of refined oil pipelines will increase by 57% from 21,000 kilometres to 33,000 kilometres, while the length of crude oil pipelines will increase by 18.5% from 27,000 kilometres to 32,000 kilometres, and the length of natural gas pipelines will increase by 62.5% from 64,000 kilometres to 104,000 kilometres. Improvements will be made to the four major import channels: the main initiative for the northwestern strategic corridor would be the construction of West-East Gas Pipeline III (mid-section), Pipeline IV and Pipeline V, as well as Line D of the Central Asia — China Gas Pipeline. For the northeastern strategic corridor, the focus would be on the construction of Sino-Russian Eastern Natural Gas Pipeline. For the southwestern strategic corridor, the primary task would be constructing branch lines of the China — Myanmar Natural Gas Pipeline for supplying Yunnan, Guizhou, Guangxi and Sichuan. For the offshore corridor, the construction of ancillary pipeline networks for LNG receiving stations will be expedited.

During the Year under Review, the NDRC granted official approval to the Xinjiang Coal-based Gas Transmission Pipeline Project (新疆煤制氣外輸管道工程項目) (the "Xinjiang Gas Pipeline", previously known as the Xinjiang — Guangdong — Zhejiang Pipeline) of Sinopec. The Xinjiang Gas Pipeline project involves mainly the construction of 1 trunk line and 6 branch lines with a total length of 8,400 kilometres. The Chinese section of the Sino-Russian Eastern Natural Gas Pipeline (中俄東線天然氣管道) starts at the Sino-Russian border in Heihe City, Heilongjiang Province and ends at Shanghai, with a planned total length of 3,170 kilometres. The Chinese section will be completed and commence gas transmission by the end of 2018. The Ordos — Anping — Cangzhou Gas Pipeline project (鄂爾多斯 — 安平 — 滄州輸氣管道工程) approved by the PRC Ministry of Environmental Protection in December 2016 comprises 1 trunk line, 5 branch lines and 2 uplink branch lines with a total length of 2,293 kilometres. The trunk line has a total length of 928 kilometres, a diameter of 1,219 millimetres, a designed pressure of 12 MPa and a designed transmission capacity of 30 billion cubic metres per year.

As one of the largest oil and natural gas pipeline manufacturers in China, the Group has participated in the construction of almost all long-distance oil and gas pipelines in China, including cross-border pipelines.

While seeking stable development of oil and gas pipeline products, the Group has been actively seeking new opportunities for partnerships. Greater effort will be made to expand the new energy business, with a main focus on providing one-stop integrated solutions which cover the joint development and construction of power station projects, asset management for owner's projects, operation of power stations and financial services to high-end customers of the new energy industry, as well as engaging in investments in green projects featuring low carbon concept. These initiatives aim at realising a reasonable centralised deployment and effective use of resources, maintaining the impetus for growth and strong profitability of the Group.

The Planning for Energy Development during the 13th FYP (《能源發展「十三五規劃」》) and the Planning for Renewable Energy Development during the 13th FYP (《可再生能源發展「十三五」規劃》) officially issued at the end of 2016 expressly indicate that, the 13th FYP will mark the conclusive stage of building a better-off society, and also serve as a propeller of energy reform. Via the concrete establishment and consistent implementation of the development philosophy of innovation, coordination, greening, openness and sharing, the energy reform will step forward with an emphasis on changing the methods of generating and utilising energy. The ultimate goal is to establish a low carbon modern energy system that is clean, safe and highly efficient, which will mark a major milestone on the history of energy reform.

On the national level, the installed wind power capacity in China will reach 210 million kilowatts or above, while the solar photovoltaic power capacity will reach 110 million kilowatts or above in 2020, the end of the 13th FYP. By that time, the utilisation of renewable energy will represent a reduction in carbon dioxide emission of approximately 1.4 billion tonnes, a reduction in sulphur dioxide emission of approximately 10 million tonnes, a reduction in nitrogen oxides emission of approximately 4.3 million tonnes, a reduction in smoke emission of approximately 5.8 million tonnes and a reduction in annual water use of approximately 3.8 billion cubic metres, with over 13 million job vacancies created. The new energy industry has achieved outstanding results in economic, environmental and social aspects, and will continue to uphold its advantages for future development.

On the international level, following the implementation of the "One Belt, One Road" initiative, the development of overseas market of the new energy business will be an upcoming trend. It is also mentioned repeatedly in the Planning for Energy Development during the 13th FYP (《能源發展「十三五」規劃》) and the Planning for Renewable Energy Development during the 13th FYP (《可再生能源發展「十三五」規劃》) that, the new energy

industry of China should embrace the trend of economic globalisation and global energy transformation leveraging on its comparative advantages of the renewable energy industry. The "One Belt, One Road" initiative will foster the international development of the renewable energy industry chain and enhance the competitiveness of the renewable energy industry of China on the international stage, encouraging proactive participation in and facilitation of global energy transformation.

The integrated service of the new energy sector is based on the demand for the construction, operation and maintenance of new energy power stations and project withdrawal, as well as the demand for exporting new energy equipment in China to international markets. Most of the domestic and overseas enterprises in the new energy industry only provide some of these services. Accordingly, the Group has established a business philosophy and business model with a core focus on high-end integrated services, which will be bound to achieve robust growth as domestic and overseas demands increase.

The Group has been actively engaged in the bulk trading of fuel oil, chemical feedstock, oil products and related finished products based on its upstream customer resources and favourable geographical location, drawing on its experience in metal trading gained in recent years while utilising bank credit facilities available to its domestic subsidiaries, in a bid to broaden its revenue source and secure continuous and stable income. Business models for bulk commodity trade developed by Shanghai Shengguan and Shandong Shengli Steel Pipe during the Year under Review following diligent research have provided important examples for other Group subsidiaries looking to commence this business in 2017. This business is expected to become another major source of the Group's revenue and profit in 2017.

In addition, on 29 March 2015, the Group entered into an agreement through Gold Apple Holdings Limited to acquire 56% of the allotted and issued share capital of Blossom Time Group Limited. At present, detailed exploration and assessment have been completed and the mining license is pending final approval. For details, please refer to the announcement of the Group dated 24 January 2017.

The Group has streamlined its existing businesses and investment projects by reorganising, terminating and disposing of capital intensive business segments or companies with low profitability and intense market competition in a timely manner, thus enhancing its overall operational ability.

Looking to the future, the Group will continue to bring into play the strengths afforded by its production capacity, the advantageous geographic location of its subsidiaries and its pre-welding and precision-welding technologies, as it strives to seize business opportunities arising from the growth of pipes industry in the future to assure stability in income. Meanwhile, the Group will continue to commit strong efforts to the development of novel businesses, such as the new energy business, in a bid to enrich its revenue source and deliver stronger returns to shareholders while maintaining its core business of pipes manufacturing.

FINANCIAL REVIEW

Revenue

The Group's sales revenue increased from approximately RMB1,953,960,000 for the year ended 31 December 2015 to approximately RMB3,125,278,000 for the year ended 31 December 2016. For the year ended 31 December 2016, amongst the Group's two core business segments, (1) pipes business reported revenue of approximately RMB748,380,000 (2015: approximately RMB431,682,000) mainly due to the increase in provision of anti-corrosion processing business and sales of pipes, as well as the significant increase in the proportion of sales of pipes which have a higher revenue contribution as compared to pipes processing during the Year under Review; and (2) trading business recorded a revenue of approximately RMB2,376,898,000 (2015: approximately RMB1,522,278,000) due to the increase in sales revenue contributed by the newly developed trading business of subsidiaries of the Group.

Cost of sales

The Group's cost of sales increased by approximately 57.5% from approximately RMB1,915,857,000 for the year ended 31 December 2015 to approximately RMB3,017,488,000 for the year ended 31 December 2016. During the year ended 31 December 2016, amongst the Group's principal business segments, (1) cost of sales for pipes business was approximately RMB676,303,000 (2015: approximately RMB424,080,000); and (2) cost of sales for trading business was approximately RMB2,341,185,000 (2015: RMB1,491,777,000).

Gross profit

The gross profit of the Group increased from approximately RMB38,103,000 for the year ended 31 December 2015 to approximately RMB107,790,000 for the year ended 31 December 2016, mainly due to higher gross profit contribution as a result of the increase in sales in pipes business and the decrease in unit processing cost during the Year under Review. Moreover, provision was made on impairment of assets in accordance with relevant accounting policies in the previous year, while such charge for the Year under Review decreased significantly. Meanwhile, the gross profit margin of the Group increased to 3.4% for the year ended 31 December 2016 from 2.0% for the year ended 31 December 2015.

Other income and gains

Other income and gains of the Group decreased from approximately RMB46,971,000 for the year ended 31 December 2015 to approximately RMB24,656,000 for the year ended 31 December 2016, which was mainly due to the fact that one-off compensation was received in connection with the disposal of Beijing Golden Fortune Investment Co., Ltd.* (北京慧基泰展投資有限公司) last year, while there was no such income in the Year under Review. Besides, the Group secured bank loans by pledge of bank deposits and received interest income from deposits last year, while such interest income was no longer available following the end of such business during the Year under Review.

Selling and distribution costs

Selling and distribution costs of the Group increased from approximately RMB33,706,000 for the year ended 31 December 2015 to approximately RMB37,239,000 for the year ended 31 December 2016. Such increase in selling and distribution costs was principally due to the increase in transportation fee as a result of the increase in sales in pipes business during the Year under Review.

Administrative expenses

The Group's administrative expenses decreased by 28.8% from approximately RMB299,925,000 for the year ended 31 December 2015 to approximately RMB213,684,000 for the year ended 31 December 2016. The main reason was that provision was made on impairment of assets in accordance with relevant accounting policies in the previous year, while such charge for the Year under Review decreased significantly.

Finance costs

The Group incurred finance costs of approximately RMB41,945,000 for the year ended 31 December 2016 (2015: approximately RMB58,119,000). The finance costs comprised exclusively interest incurred by bank loans. The change in finance costs was principally due to the gradual decline in interest rates on bank loans during the Year under Review together with the decrease in bank loan facilities as compared to last year.

Income tax expenses

Hong Kong profits tax is calculated at the rate of 16.5% (2015: 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% (2015: 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% (2015: 25%). Income tax credit for the year ended 31 December 2016 was approximately RMB9,923,000 (2015: income tax expenses of approximately RMB8,528,000), mainly attributable to the one-off tax expenses of Shandong Shengli Steel Pipe incurred by the accumulated profit distribution for the previous years last year, while there was no such expense during the Year under Review.

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 2016 was approximately RMB231,770,000, compared to the audited total comprehensive loss of the Group of approximately RMB345,102,000 for the year ended 31 December 2015.

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 2015 and 2016 were primarily related to the purchase of property, plant and equipment.

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

	2016 **RMB'000**	2015 RMB'000
Purchase of property, plant and equipment	**30,923**	48,044
Prepaid land lease payments	**—**	173
	30,923	48,217

Indebtedness

Borrowings

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

	2016 **RMB'000**	2015 RMB'000
Borrowings:		
Bank loans — Unsecured	**590,000**	565,000
Bank loans — Secured	**—**	272,036
Bank loans — Secured and guaranteed	**335,000**	130,000
Bank loans — Guaranteed	**49,000**	132,500
Total	**974,000**	1,099,536

Included in the borrowings is approximately RMB946,500,000 repayable within one year. The following table sets forth the annual interest rates of the Group's bank loans:

	2016 **%**	2015 %
Effective interest rate per annum	**4.35–4.79**	1.54–6.80

As at 31 December 2016, the borrowings of the Group amounted to approximately RMB974,000,000 (2015: approximately RMB1,099,536,000).

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 2016, the Group's revenue, expenses, assets and liabilities were primarily denominated in Renminbi. The directors of the Company ("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 the proceeds of initial public offering

The net proceeds obtained by the Group from the initial public offering were approximately RMB1,098,500,000. After the exercise of the over-allotment option on 13 January 2010, the net proceeds of the initial public offering increased to approximately RMB1,269,900,000. As at 31 December 2016, approximately RMB851,363,000 out of the total net proceeds from the initial public offering has been utilised in the manner specified in the Company's prospectus dated 9 December 2009 (the "Prospectus") and the balance of approximately RMB418,537,000 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 2016, the accumulated use of the capital raised is set out below:

	Amount allocated RMB'000	**Actual expenditure as at 31 December 2016** 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	523,442
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	72,921
Total	1,269,900	851,363

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.

* *For identification purpose only*

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Ji Rongdi (alias Jee Rongdee), aged 49, has been serving as our executive Director and the chairman of the board of Directors (the "Board") since April 2016, responsible for the new energy and finance business of the Group. Mr. Ji has extensive experience in finance and new energy. From 1994 to 1999, he worked as the regional manager of AXA Group in the United States and was mainly responsible for financial sales. From 2000 to 2004, he served as the general manager in Cute International Group in the United States and was responsible for the operation of the company and re-export business of stationery. 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.

Mr. Ji 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 49, 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 49, has been serving as our executive Director and vice president since August 2012, responsible for the Group's finance management. 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 48, 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 of quality production 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 49, 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 52, has been our executive Director since April 2012, and has been serving as vice president since August 2012. He is responsible for the asset 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Junzhu, aged 41, 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 45, 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 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 57, 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), standing deputy president of Zhejiang University Returned Overseas Entrepreneurs' Club* (浙江大學海歸校友創業俱樂部) and the general manager of Hangzhou Hanyu Technology Company Limited* (杭州漢宇科技有限公司). 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. He 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, he served as a senior technical officer in Piconetics, Inc. in the United States. He 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, he 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. He 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. He 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 37, 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.

* *For identification purpose only*

REPORT OF THE DIRECTORS

The Directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2016.

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 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 8 to 18 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.

Details of the Group's development, performance and operation in the environmental aspect are set out in the Environmental, Social and Governance Report on page 52 to 64 of this annual report.

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 2016.

CLOSURE OF REGISTER OF MEMBERS

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

From Tuesday, 13 June 2017 to Friday, 16 June 2017, 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 Monday, 12 June 2017.

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

MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for approximately 48.9% (2015: 77.9%) of the total sales and the top five suppliers accounted for approximately 72.4% (2015: 85.8%) of the total purchases for the year. In addition, the Group's largest customer accounted for approximately 10.7% (2015: 11.1%) of the total sales and the Group's largest supplier accounted for approximately 31.2% (2015: 48.9%) of the total purchases for the year.

To the best knowledge of the Directors, at no time during the Year under Review, 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 share capital 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 2016, the Group's donation amounted to RMB200,000 in aggregate, all of which has been applied towards poverty, education, elderly, medical and disability assistance and other charitable activities.

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

On 23 March 2016, the Company and not less than six subscribers entered into the subscription agreements in relation to the issue of subscription shares to each of the subscribers at the subscription price of HK$0.28 per subscription share. These six subscribers were individual, corporate, institutional or other professional investors. The subscribers and their ultimate beneficial owners (if applicable) were independent third parties and none of them became a substantial shareholder (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) of the Company upon completion of the subscriptions. The closing price of the share of the Company as quoted on the Stock Exchange on the date of entering into the subscription agreements was HK$0.34 per share. The Board considered that the subscriptions not only broadened the shareholders' base of the Company but they also represented a good opportunity to raise additional funds at a reasonable cost for the Company. Conditions precedent of the subscriptions were the Stock Exchange granting the approval for the listing of and permission to deal in the subscription shares; and compliance with all the applicable requirements under the Listing Rules and other regulatory bodies. The above conditions precedent were fulfilled on 12 April 2016 and the subscriptions were completed.

As at 31 December 2016, the actual use of proceeds from the fund raising activity carried out by the Company in April 2016 is as follows:

Date of announcement	Fund raising activity	Net proceeds	Intended use of proceeds as announced	Actual use of proceeds
23 March 2016	Subscription in relation to the issue of 545,727,600 ordinary shares at the subscription price of HK$0.28 per share under the general mandate to not less than six subscribers. The aggregate nominal value of the subscription shares (with a par value of HK$0.10 each) was HK$54,572,760. The completion of the subscription took place on 12 April 2016 and 545,727,600 subscription shares had been issued to the subscribers.	Approximately HK$152,400,000 and the net price per subscription share was approximately HK$0.279.	Approximately 60% will be used for expansion of the Group's businesses, in particular, new-energy business development; and approximately 40% will be used for capital commitment for the acquisition of 56% of the allotted and issued share capital of Blossom Time as disclosed in the announcements of the Company dated 29 March 2015, 29 September 2015, 27 May 2016 and 24 January 2017.	As at 31 December 2016, approximately HK$101,900,000 was used for expansion of the Group's business, being new-energy business development and approximately HK$50,500,000 was used for the acquisition of the related share capital of Blossom Time Group Limited.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2016 and the financial positions of the Company and the Group as at 31 December 2016 are set out in the financial statements on pages 69 to 151.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the share premium, contributed surplus and profit which in aggregate amounted to RMB1,122 million as at 31 December 2016 (2015: RMB1,049 million). Details of the reserves of the Company as at 31 December 2016 are set out in note 33 to the financial statements.

FIXED ASSETS

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 32 to the financial statements.

DIRECTORS

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

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
Mr. Qiao Jianmin (appointed on 12 April 2016)
Mr. Guo Changyu (resigned on 12 April 2016)

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. Jiang Yong, Mr. Wang Kunxian and Mr. Song Xichen shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the 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 2016, the interests or short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Name of Director	Capacity	Number of issued ordinary shares held	Number of shares subject to options granted under the share option schemes	Percentage of the issued share capital of the Company as at 31 December 2016
Ji Rongdi (alias Jee Rongdee)	Interest in controlled corporation(1)	620,000,000		18.935%
	Beneficial owner		1,200,000(7)	0.037%
Zhang Bizhuang	Interest in controlled corporation(2)	153,130,224		4.677%
	Beneficial owner	79,800,000(3)	19,500,000(7)	3.033%
Jiang Yong	Beneficial owner		2,400,000(7)	0.073%
Wang Kunxian	Interest in controlled corporation(4)	26,708,760		0.816%
	Beneficial owner		11,460,000(7)	0.350%
Han Aizhi	Interest in controlled corporation(5)	26,708,760		0.816%
	Beneficial owner		13,200,000(7)	0.403%
Song Xichen	Interest in controlled corporation(6)	26,708,760		0.816%
	Beneficial owner		11,460,000(7)	0.350%
Chen Junzhu	Beneficial owner		2,400,000(7)	0.073%
Wu Geng	Beneficial owner		2,400,000(7)	0.073%
Qiao Jianmin	Beneficial owner		2,400,000(7)	0.073%

Notes:

(1) MEFUN GROUP LIMITED acquired 620,000,000 shares of the Company (representing 18.935% of the issued shares of the Company) held by Zhongheng International Investment Limited at an average price of HK$0.295 on 2 February 2016. Mr. Ji Rongdi owns 88% of the issued share capital of RXJ HOLDING LIMITED, which in turn owns 42.5% of the issued share capital of MEFUN GROUP LIMITED. Accordingly, Mr. Ji Rongdi is deemed to be interested in the shares of the Company held by MEFUN GROUP LIMITED by virtue of the SFO.

(2) Goldmics Investments Limited ("Goldmics Investments") holds 153,130,224 shares of the Company, representing 4.677% of the issued shares of the Company. Mr. Zhang Bizhuang holds 40% interest of the issued share capital of Goldmics Investments, and Ms. Du Jichun, his spouse, holds the remaining 60% interest. Therefore, Mr. Zhang Bizhuang is deemed to be interested in the shares of the Company held by Goldmics Investments by virtue of the SFO.

(3) On 17 September 2015, Mr. Zhang Bizhuang acquired 79,800,000 shares of the Company at an average consideration 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.

(4) Glad Sharp Limited ("Glad Sharp") holds 26,708,760 shares of the Company, representing 0.816% of the issued shares of the Company. Mr. Wang Kunxian owns the entire issued share capital of Glad Sharp and is therefore deemed to be interested in the shares of the Company held by Glad Sharp by virtue of the SFO.

(5) Crownova Limited ("Crownova") holds 26,708,760 shares of the Company, representing 0.816% of the issued shares of the Company. Ms. Han Aizhi owns the entire issued share capital of Crownova and is therefore deemed to be interested in the shares of the Company held by Crownova by virtue of the SFO.

(6) Winfun Investments Limited ("Winfun") holds 26,708,760 shares of the Company, representing 0.816% of the issued shares of the Company. Mr. Song Xichen holds 50% interest of the issued share capital of Winfun, and Ms. Xu Li, his spouse, holds the remaining 50% interest. Therefore, Mr. Song Xichen is deemed to be interested in the shares of the Company held by Winfun by virtue of the SFO.

(7) Underlying shares subject to the share options issued pursuant to the share option schemes.

Save as disclosed above, as at 31 December 2016, none of the Directors or chief executives of the Company had or were deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations which were required to be recorded in the register required to be kept under section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Save as disclosed above, at no time during the 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.

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2016, the Group did not have bank loan which was secured by pledge of bank deposits (31 December 2015: bank loans of approximately RMB173,036,000 were secured by pledge of bank deposits of RMB179,000,000).

As at 31 December 2016, an amount of RMB147,400,000 (31 December 2015: RMB52,000,000) out of bank loans of the Group of RMB335,000,000 (31 December 2015: RMB130,000,000) was guaranteed by a non-controlling shareholder of a subsidiary. At the same time, the bank loans of RMB335,000,000 were further secured by pledge of certain of the property, plant and equipment amounting to approximately RMB319,792,000 (31 December 2015: approximately RMB323,575,000) and certain of the land use rights amounting to approximately RMB19,126,000 (31 December 2015: nil) to obtain the bank loans.

As at 31 December 2016, the Group's bank loans of RMB49,000,000 (31 December 2015: RMB132,500,000) was not guaranteed by a non-controlling shareholder of a subsidiary (31 December 2015: RMB58,300,000).

SHARE OPTION SCHEME

At the extraordinary general meeting held on 20 May 2016, the shareholders of the Company approved and adopted a new share option scheme (the "New Scheme") and terminated the then existing share option scheme (the "Old Scheme"). The Old Scheme was adopted on 21 November 2009, which was valid for a period of 10 years from the date of adoption. The Company has granted all share options under the Old Scheme, and all outstanding share options granted prior to the termination of the Old Scheme will remain in force.

The purpose of the New Scheme is to give the Eligible Persons (as defined in the New Scheme) an opportunity to have a personal stake in the Company and help motivate them to optimize their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain 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 to below are the "Eligible Persons" under the New Scheme, which include:

(a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group ("Executive"), any full-time or part-time employee, or any person for the time being seconded to work full-time or part-time for any member of the Group ("Employee");

(b) a director or proposed director (including an independent non-executive director) of any member of the Group;

(c) a direct or indirect shareholder of any member of the Group;

(d) a supplier of goods or services to any member of the Group;

(e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group;

(f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and

(g) an associate (as defined under the Listing Rules) of any of the persons referred to in paragraphs (a) to (c) above.

The principal terms of the New Scheme are summarized as follows:

The New Scheme was adopted for a period of 10 years commencing from 20 May 2016 and will remain in force until 19 May 2026. The Company may at any time terminate the operation of the New Scheme by resolution in general meeting. Upon termination of the New Scheme as aforesaid, no further options shall be granted but the provisions of the New Scheme shall remain in force and effect in all other respects. All options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the New Scheme. An offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1.0 in total by the grantee. The exercise period of the share options granted is determined by the Board of the Company, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options. The subscription price in respect of any particular share option shall be such price as the Board may in its discretion determine at the time of grant of the relevant share option (and shall be stated in the letter containing the offer of the grant of the share option) but shall not be less than whichever is the highest of:

(a) the nominal value of a share;

(b) the closing price of a share as stated in the Stock Exchange's daily quotations sheet on the date of offer; and

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

The maximum number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other schemes of the Group shall not in aggregate exceed 327,436,560 shares, being 10% of the shares in issue as of the date of adoption (the "Scheme Mandate Limit"), provided that:

(a) The Company may at any time as the Board may think fit 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 New Scheme and any other schemes of the Company shall not exceed 10% of the shares in issue as of the date of approval by shareholders in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the New Scheme and any other schemes of the Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the New 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 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 full exercise of outstanding options granted under the New Scheme and any other schemes of the Group shall not exceed 30% of the Company's issued share capital from time to time. No options may be granted under the New Scheme and any other share option schemes of the Company if this will result in such limit being exceeded.

No option may be granted to any one person such that the total number of shares issued and to be issued upon exercise of options granted and to be granted to that person in any 12-month period exceeds 1% of the Company's issued share capital from time to time. Where any further grant of options to such 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/her/its associate(s) abstaining from voting. The Company shall send a circular to our shareholders disclosing the identity of the Eligible Person, the number and terms of the options to be granted (and options previously granted) to such Eligible Person, and containing the details and information required under the Listing Rules. The number and terms (including the subscription price) of the options to be granted to such Eligible Person must be fixed before the approval of the shareholders of the Company and the date of the Board meeting proposing such grant shall be taken as the offer date for the purpose of calculating the subscription price of those options.

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

On 3 January 2012, the Board granted 24,000,000 share options to 81 directors and senior management of the Company and its subsidiaries and other personnel approved by the Board, including four Directors of the Company, at an exercise price of HK$0.80 per share under the Old Scheme. 1,260,000 share options held by three members of the management were lapsed following their departure in 2013. 300,000 share options held by two employees were lapsed following their departure in 2014. 300,000 share options held by two employees were lapsed following their departure in 2015. 600,000 share options held by four employees were lapsed following their departure in 2016.

On 23 September 2014, the Board granted 74,400,000 share options to 57 directors and senior management of the Company and its subsidiaries and other personnel approved by the Board, including four Directors of the Company, at an exercise price of HK$0.50 per share under the Old Scheme. 840,000 share options held by two employees were lapsed following their departure in 2015. 960,000 share options held by two employees were lapsed following their departure in 2016.

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

On 26 April 2016, the Board granted 57,600,000 share options to 36 directors and senior management of the Company and its subsidiaries and other personnel approved by the Board, including four Directors of the Company at an exercise price of HK$0.40 per share under the Old Scheme.

On 11 October 2016, the Board granted 184,843,500 share options to 58 directors and senior management of the Company and its subsidiaries and other personnel approved by the Board, including nine Directors of the Company, at an exercise price of HK$0.415 per share under the New Scheme.

For the year ended 31 December 2016, movements of options granted under the share option schemes are set out below:

Name	Capacity	Exercise price	Outstanding as at 1 January 2016	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2016	Approximate percentage of the issued share capital of the Company as at 31 December 2016	Notes
Directors									
Ji Rongdi (alias Jee Rongdee)	Beneficial owner	HK$0.415	0	1,200,000	0	0	1,200,000	0.037%	(6)
Zhang Bizhuang	Beneficial owner	HK$2.03	7,200,000	0	0	0	7,200,000	0.220%	(1)
Zhang Bizhuang	Beneficial owner	HK$0.80	1,200,000	0	0	0	1,200,000	0.037%	(2)
Zhang Bizhuang	Beneficial owner	HK$0.50	5,700,000	0	0	0	5,700,000	0.174%	(3)
Zhang Bizhuang	Beneficial owner	HK$0.40	4,200,000	0	0	0	4,200,000	0.128%	(4)
Zhang Bizhuang	Beneficial owner	HK$0.415	0	1,200,000	0	0	1,200,000	0.037%	(6)
Jiang Yong	Beneficial owner	HK$0.40	0	1,200,000	0	0	1,200,000	0.037%	(5)
Jiang Yong	Beneficial owner	HK$0.415	0	1,200,000	0	0	1,200,000	0.037%	(6)
Wang Kunxian	Beneficial owner	HK$2.03	1,500,000	0	0	0	1,500,000	0.046%	(1)
Wang Kunxian	Beneficial owner	HK$0.80	960,000	0	0	0	960,000	0.029%	(2)
Wang Kunxian	Beneficial owner	HK$0.50	4,500,000	0	0	0	4,500,000	0.137%	(3)
Wang Kunxian	Beneficial owner	HK$0.40	3,300,000	0	0	0	3,300,000	0.101%	(4)
Wang Kunxian	Beneficial owner	HK$0.415	0	1,200,000	0	0	1,200,000	0.037%	(6)
Han Aizhi	Beneficial owner	HK$2.03	3,000,000	0	0	0	3,000,000	0.092%	(1)
Han Aizhi	Beneficial owner	HK$0.80	1,200,000	0	0	0	1,200,000	0.037%	(2)
Han Aizhi	Beneficial owner	HK$0.50	4,500,000	0	0	0	4,500,000	0.137%	(3)
Han Aizhi	Beneficial owner	HK$0.40	3,300,000	0	0	0	3,300,000	0.101%	(4)
Han Aizhi	Beneficial owner	HK$0.415	0	1,200,000	0	0	1,200,000	0.037%	(6)
Song Xichen	Beneficial owner	HK$2.03	1,500,000	0	0	0	1,500,000	0.046%	(1)
Song Xichen	Beneficial owner	HK$0.80	960,000	0	0	0	960,000	0.029%	(2)
Song Xichen	Beneficial owner	HK$0.50	4,500,000	0	0	0	4,500,000	0.137%	(3)
Song Xichen	Beneficial owner	HK$0.40	3,300,000	0	0	0	3,300,000	0.101%	(4)
Song Xichen	Beneficial owner	HK$0.415	0	1,200,000	0	0	1,200,000	0.037%	(6)
Chen Junzhu	Beneficial owner	HK$0.40	0	1,200,000	0	0	1,200,000	0.037%	(5)
Chen Junzhu	Beneficial owner	HK$0.415	0	1,200,000	0	0	1,200,000	0.037%	(6)
Wu Geng	Beneficial owner	HK$0.40	0	1,200,000	0	0	1,200,000	0.037%	(5)
Wu Geng	Beneficial owner	HK$0.415	0	1,200,000	0	0	1,200,000	0.037%	(6)
Qiao Jianmin	Beneficial owner	HK$0.40	0	1,200,000	0	0	1,200,000	0.037%	(5)
Qiao Jianmin	Beneficial owner	HK$0.415	0	1,200,000	0	0	1,200,000	0.037%	(6)
Employees									
Employees	Beneficial owner	HK$2.03	9,300,000	0	0	0	9,300,000	0.284%	(1)
Employees	Beneficial owner	HK$0.80	17,820,000	0	0	600,000	17,220,000	0.526%	(2)
Employees	Beneficial owner	HK$0.50	54,360,000	0	0	960,000	53,400,000	1.631%	(3)
Employees	Beneficial owner	HK$0.40	45,900,000	0	0	0	45,900,000	1.402%	(4)
Employees	Beneficial owner	HK$0.40	0	52,800,000	0	0	52,800,000	1.613%	(5)
Employees	Beneficial owner	HK$0.415	0	174,043,500	0	0	174,043,500	5.315%	(6)
Total			178,200,000	242,443,500	0	1,560,000	419,083,500	12.799%	

Notes:

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

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

(3) The share options granted by the Company are exercisable for 6 years. The grantees may exercise up to one-third, two-thirds and 100% of the respective total share options granted from the first, second and third anniversaries of the date of grant (i.e. 23 September 2014), respectively. These share options are exercisable at HK$0.50 each according to the rules of the Old Scheme during the period from 23 September 2014 to 22 September 2020.

(4) The share options granted by the Company are exercisable for 6 years. The grantees may exercise up to one-third, two-thirds and 100% of the respective total share options granted from the first, second and third anniversaries of the date of grant (i.e. 28 January 2015), respectively. These share options are exercisable at HK$0.40 each according to the rules of the Old Scheme during the period from 28 January 2015 to 27 January 2021.

(5) The share options granted by the Company are exercisable for 5 years. The grantees may exercise up to one-third, two-thirds and 100% of the respective total share options granted from the first, second and third anniversaries of the date of grant (i.e. 26 April 2016), respectively. These share options are exercisable at HK$0.40 each according to the rules of the Old Scheme during the period from 26 April 2016 to 25 April 2021.

(6) The share options granted by the Company are exercisable for 5 years. The grantees may exercise up to one-third, two-thirds and 100% of the respective total share options granted from the first, second and third anniversaries of the date of grant (i.e. 11 October 2016), respectively. These share options are exercisable at HK$0.415 each according to the rules of the New Scheme during the period from 11 October 2016 to 10 October 2021.

Further details in respect of the share option schemes are disclosed in note 34 to the financial statements.

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

As at 31 December 2016, the following persons (other than Directors or chief executives of the Company) were interested in 5% or more of the issued share capital of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or required to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules:

Name of shareholder	Capacity	Number of issued ordinary shares/ underlying shares held	Percentage of the issued share capital of the Company
MEFUN GROUP LIMITED	Beneficial owner(1)	620,000,000	18.935%
HZJ Holding Limited	Interest in controlled corporation(2)	620,000,000	18.935%
RXJ Holding Limited	Interest in controlled corporation(2)	620,000,000	18.935%
Waynew Investments Limited	Beneficial owner(3)	248,058,000	7.576%

Notes:

(1) MEFUN GROUP LIMITED acquired 620,000,000 shares of the Company (representing 18.935% of the issued shares of the Company) held by Zhongheng International Investment Limited at an average price of HK$0.295 on 2 February 2016.

(2) HZJ Holding Limited and RXJ Holding Limited hold 42.5% and 42.5% of the issued share capital of MEFUN GROUP LIMITED respectively. These two companies are therefore deemed to be interested in the shares of the Company held by MEFUN GROUP LIMITED by virtue of the SFO.

(3) On 3 November 2014, the Company issued shares to Waynew Investments Limited under general mandate. Waynew Investments Limited holds 248,058,000 shares of the Company, representing 7.576% of the issued shares of the Company.

Save as disclosed above, as at 31 December 2016, 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 2016.

COMPETING BUSINESS

During the Year under Review 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 2016, the Company has maintained a public float of not less than 25% as required under the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

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.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, cash and cash equivalents of the Group amounted to approximately RMB228,350,000 (2015: RMB393,881,000). As at 31 December 2016, the Group had interest-bearing bank loans of approximately RMB974,000,000 (2015: RMB1,099,536,000).

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 2016, the gearing ratio of the Group was 41.3% (2015: 34.0%).

CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any material contingent liabilities (2015: nil).

FOREIGN EXCHANGE RISK

In 2016, 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 2016, the Group employed a work force of 1,204 employees (including Directors). The total salaries and related costs (including the Directors' fees) amounted to approximately RMB83,840,000 (2015: approximately RMB90,184,000).

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

RETIREMENT SCHEMES

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

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 36 to the financial statements constituted connected transactions under Chapter 14A of the Listing Rules. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules with respect to such transactions.

Purchase of steel plates and steel coils from Hunan Valin Xiangtan Steel Co., Ltd.* (湖南華菱湘潭鋼鐵有限公司) ("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 Co., Ltd.* (湘潭鋼鐵有限公司) ("Xiangtan Steel") is a substantial shareholder of Hunan Shengli Steel Pipe, which is a non-wholly owned subsidiary of the Company, Xiangtan Steel is therefore 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 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.

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 the Company's securities during the year ended 31 December 2016.

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 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.

At the annual general meeting held on 20 May 2016, the Company re-appointed ZHONGHUI ANDA as auditors of the Company for the year ended 31 December 2016.

By order of the board
Zhang Bizhuang
Executive Director & Chief Executive Officer

26 March 2017

* *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 of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules during the period from 1 January 2016 to 31 December 2016. During the year ended 31 December 2016, the Company has complied with all other provisions set out in the Code with the exception of code provision A.5.1.

According to code provision A.5.1, a nomination committee shall comprise a majority of independent non-executive directors. Given that the Company had undergone some shareholding changes involving change of substantial shareholders in February 2016, the Board considered that it is necessary to have a greater involvement of Mr. Ji Rongdi (alias Jee Rongdee), the chairman of the Board and an executive Director, with the work of the nomination committee of the Company and the continuing support from Mr. Zhang Bizhuang, who has been an executive Director for many years and has a thorough understanding of the structure, business strategy and daily operation of the Company. The Board considered such arrangement with the participation of more executive Directors in the nomination committee was beneficial to the Company in reviewing the board composition to complement the Company's corporate strategy at that time.

Following the change of composition of the nomination committee of the Company with effect from 25 March 2017, the Company will comply with the code provision A.5.1 of the Code. For details, please refer to the paragraph headed "Change of Composition of the Board Committees" below.

CHANGE OF COMPOSITION OF THE BOARD COMMITTEES

The Board hereby announces the following changes with effect from 25 March 2017:

1. Mr. Ji Rongdi (alias Jee Rongdee), the chairman of the Board and an executive Director, ceased to act as the chairman and a member of the nomination committee of the Company and was appointed as a member of the remuneration committee of the Company;

2. Mr. Qiao Jianmin, an independent non-executive Director, was appointed as the chairman and a member of the nomination committee of the Company; and

3. Mr. Zhang Bizhuang, an executive Director and the chief executive officer of the Company, ceased to act as a member of the remuneration committee of the Company.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the required standard for securities transactions by Directors. The Company has made specific enquiries with all Directors and all Directors confirmed that for the year ended 31 December 2016, 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

The Board comprises six executive Directors and three independent non-executive Directors. The current Board members of the Company 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
Mr. Qiao Jianmin (appointed on 12 April 2016)
Mr. Guo Changyu (resigned on 12 April 2016)

The biographical details of all Directors are set out in pages 19 to 22 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 2016, the Board held 13 meetings, 4 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, 13 Board meetings were held. Details of the attendance of each Director are as follows:

Name of Director	**Attendance**
Executive Directors	
Mr. Ji Rongdi *(alias Jee Rongdee) (Chairman)* (appointed on 12 April 2016)	9/9
Mr. Zhang Bizhuang *(Chief Executive Officer)* (resigned as Chairman on 12 April 2016)	13/13
Mr. Jiang Yong *(Vice President)*	13/13
Mr. Wang Kunxian *(Vice President)*	13/13
Ms. Han Aizhi *(Vice President)*	13/13
Mr. Song Xichen *(Vice President)*	13/13
Independent non-executive Directors	
Mr. Chen Junzhu	13/13
Mr. Wu Geng	13/13
Mr. Qiao Jianmin (appointed on 12 April 2016)	9/9
Mr. Guo Changyu (resigned on 12 April 2016)	4/4

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. Chen Junzhu, Mr. Wu Geng and Mr. Qiao Jianmin to be independent from the Company.

Continuous Professional Development

Each of the newly appointed Directors, namely Mr. Ji Rongdi (alias Jee Rongdee) and Mr. Qiao Jianmin, 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. Ji Rongdi (alias Jee Rongdee), Mr. Zhang Bizhuang, Mr. Jiang Yong, Mr. Wang Kunxian, Ms. Han Aizhi, Mr. Song Xichen, Mr. Chen Junzhu, Mr. Wu Geng and Mr. Qiao Jianmin, 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.

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 on 1 January 2016, and (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 and internal control system of the Group. All members of the Audit Committee are appointed by the Board. The Audit Committee currently consists of three independent non-executive Directors, namely, Mr. Chen Junzhu, Mr. Wu Geng and Mr. Qiao Jianmin (appointed on 12 April 2016). Mr. Chen Junzhu serves as the chairman. The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2016.

During the year ended 31 December 2016, 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. Wu Geng	2/2
Mr. Qiao Jianmin (appointed on 12 April 2016)	1/1
Mr. Guo Changyu (resigned on 12 April 2016)	1/1

During the year ended 31 December 2016, 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, reviewing the plan of internal audit for 2016, reviewing the internal audit report summary for 2015 and the internal audit report for the first half of 2016, 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 and Mr. Chen Junzhu, and one executive Director, namely Mr. Ji Rongdi (alias Jee Rongdee) (appointed on 25 March 2017). Mr. Wu Geng currently serves as the chairman. Mr. Zhang Bizhuang, an executive Director, resigned as member of the Remuneration Committee on 25 March 2017.

During the year ended 31 December 2016, 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)*	1/1
Mr. Zhang Bizhuang	1/1
Mr. Chen Junzhu	1/1

During the year ended 31 December 2016, 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 New Scheme (as defined under Share Option Scheme in page 29 of this annual report) on 20 May 2016. The purpose of the New Scheme is to give the Eligible Persons (as mentioned on pages 29 to 30 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 2016 is set out below:

Remuneration band	Number of individuals
HK$0–500,000	3
HK$500,001–700,000	7
HK$700,001 above	2

Nomination Committee

Composition

The nomination committee of the Company (the "Nomination Committee") was established on 21 November 2009 in accordance with the requirements of the Listing Rules. 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. The Nomination Committee currently consists of two independent non-executive Directors, namely Mr. Qiao Jianmin (appointed on 25 March 2017) and Mr. Wu Geng, and one executive Director, namely Mr. Zhang Bizhuang. Mr. Qiao Jianmin currently serves as the chairman. Mr. Ji Rongdi (alias Jee Rongdee) resigned as chairman and member of the Nomination Committee on 25 March 2017.

During the year ended 31 December 2016, the Nomination Committee held one meeting. Details of the attendance of each member are as follows:

Name of Nomination Committee Member	Attendance
Mr. Ji Rongdi *(alias Jee Rongdee) (Chairman)* (appointed on 12 April 2016)	0/0
Mr. Zhang Bizhuang	1/1
Mr. Wu Geng	1/1
Mr. Guo Changyu (resigned on 12 April 2016)	1/1

During the year ended 31 December 2016, 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 2016. 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 31 December 2016, 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 Financial Statements

The Board acknowledges its responsibility to prepare the Group's 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 financial statements for the year ended 31 December 2016, the Board has selected appropriate accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

AUDITORS' REMUNERATION

During the year ended 31 December 2016, the remuneration paid or payable to ZHONGHUI ANDA, in respect of their audit and non-audit services were as follows:

Type of Services	**Total** RMB'000
Audit Services	1,800
Non-audit Services	
— Review on interim report	520
— Report on continuing connected transactions	15
— Review on preliminary results announcement	15
Total	2,350

RISK MANAGEMENT AND INTERNAL CONTROL

The Group has established the Administrative Measure for Information Disclosure (《信息披露管理辦法》), the Administrative Measure for Internal Audit (《內部審計管理辦法》), the Administrative Measure for Connected Transactions (《關連交易管理辦法》), the Internal Reporting System for Contingency Matters (《應急事件內部通報預案》) and other systems to identify, assess and manage material risks of the Group. The risk management and internal control systems of the Group are characterised by distinct division between power and authority, clear procedures, high transparency and efficiency.

The Board is responsible for maintaining reliable and effective risk management and internal control systems to safeguard the interests of shareholders and the assets of the Group. The Group's risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group has set up strict internal audit functions, including organising internal audit every half year, conducting supervision and examination on financial management, contract management, human resources management, significant investment projects, etc., identifying problems and overseeing the rectification and correction of these problems, and reporting to the Audit Committee and the Board any material issues identified in the internal audit and the rectification and correction thereof for their review. The Board holds meetings to review the effectiveness of the risk management and internal control systems of the Group in terms of financial, operation and compliance controls through the Audit Committee twice a year and ensures the adequacy of resources, staff qualifications and experience, training programmes for employees and budget of the accounting, internal audit and financial reporting functions. In addition, the Company's external auditors communicate with the Board about the risk management and internal control issues identified in the audit every year.

In order to ensure the truthfulness, accuracy, completeness and timeliness of information disclosure and safeguard the legal interests of shareholders, the Company has established the Administrative Measure of Information Disclosure (《信息披露管理辦法》) in strict compliance with the related requirements of the Listing Rules, the SFO and the Guidelines on Disclosure of Inside Information issued by the Securities and Futures Commission. The Company discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours as provided in the SFO. Before the information is fully disclosed to the public, the Company ensures the information is kept strictly confidential. If the Company believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Company would immediately disclose the information to the public. The Company has notified related personnel of the implementation of the Administrative Measure of Information Disclosure (《信息披露管理辦法》) and provided related trainings, so as to ensure such personnel understand the procedures of handling and disclosing inside information.

The Board is of the view that the Company's risk management and internal control systems during the Year under Review were efficient and adequate. No significant risks which would affect the operation of the Group have been identified.

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 keep abreast of the concerns of investors in a timely manner, 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.

During the year ended 31 December 2016, two general meetings were held. Details of the attendance of each Director are as follows:

Name of Director	Attendance
Executive Directors	
Mr. Ji Rongdi (alias Jee Rongdee) *(Chairman)* (appointed on 12 April 2016)	2/2
Mr. Zhang Bizhuang *(Chief Executive Officer)* (resigned as Chairman on 12 April 2016)	2/2
Mr. Jiang Yong *(Vice President)*	2/2
Mr. Wang Kunxian *(Vice President)*	2/2
Ms. Han Aizhi *(Vice President)*	2/2
Mr. Song Xichen *(Vice President)*	2/2
Independent non-executive Directors	
Mr. Chen Junzhu, *ACCA, CICPA*	2/2
Mr. Wu Geng	2/2
Mr. Qiao Jianmin (appointed on 12 April 2016)	2/2
Mr. Guo Changyu (resigned on 12 April 2016)	0/0

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 2016, there has been no significant change in the Company's constitutional documents.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

This report is the first environmental, social and governance ("ESG") report of the Group.

This report has been prepared in accordance with the requirements of the Environmental, Social and Governance Reporting Guide (the "ESG Reporting Guide of the Stock Exchange") as set out in Appendix 27 to the Listing Rules. It mainly concludes the development and performance of the Group's environmental and social responsibilities during the financial year ended 31 December 2016, and discloses to such stakeholders as shareholders, employees, the government, customers and the community the Group's ESG operation.

This report illustrates how the Group has complied with the "comply or explain" provisions as set out in the ESG Reporting Guide of the Stock Exchange.

This report has been reviewed and approved by the Board of the Company.

SCOPE OF REPORT

This report covers the principal businesses of the Group, including the manufacturing, sale and supporting anti-corrosion processing of SAWH pipes and SAWL pipes. The primary targets of this report are different manufacturing bases and their corresponding offices, encompassing the manufacturing bases in Zibo, Dezhou and Rizhao in Shandong Province, Xiangtan in Hunan Province, Urumqi in Xinjiang Uygur Autonomous Region in China, and offices located at Guangzhou in Guangdong Province, Shanghai, Hong Kong, the United States, etc.

ADOPTION OF STANDARDS

The Group has mainly adopted the People's Republic of China (the "PRC") National Standard for Environmental Management Systems — Requirements with Guidance for Use (《中華人民共和國國家標準環境管理體系要求及使用指南》) (GB/T24001/ISO14001), the PRC National Standard for Occupational Health and Safety Management Systems — Requirements (《中華人民共和國國家標準職業健康安全管理體系要求》) (GB/T28001) and the PRC National Standard for Quality Management Systems — Requirements (《中華人民共和國國家標準質量管制體系要求》) (GB/T19001 idt ISO9001), the Basic Requirements of Quality Assurance System for Manufacture, Installation, Alteration and Repair of Special Equipment (《特種設備製造、安裝、改造、維修質量保證體系基本要求》) (TSG Z0004) issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC and the Quality Management System Specification for Manufacturing Organizations to the Petroleum and Natural Gas Industry (《石油天然氣行業製造企業質量管制體系規範》) (API Spec Q1) issued by the American Petroleum Institute for its ESG management, and has established related manuals, procedures, management systems and operating guidelines.

In as early as 1995, Shandong Shengli Steel Pipe, the largest pipe manufacturing base of the Group, introduced advanced international experience to manage its manufacturing, sale and supporting anti-corrosion processing of pipes, with a view to enhancing employees' awareness as to quality, environment and occupational health. It is one of the early adopters of advanced international standards in management in the industry. Currently, all of the Group's manufacturing bases in Shandong, Hunan and Xinjiang have established management systems for quality, environment and occupational health. Continuous improvements are made to these systems to maintain its effectiveness, while product quality is assured by the implementation of environmental, healthy, safe and civilised production. Other offices have also set up their own systems with reference to the above management systems for environment, occupational health and safety and the requirements of laws and regulations of their respective place of incorporation with an aim to step up environmental and social management as well as governance standards.

REPORT ON ENVIRONMENTAL ASPECT (ASPECTS A1–A3)

The Group attaches great importance to environmental management and endeavours to create a clean environment and protect natural resources by complying with the laws and regulations of the PRC and place of incorporation as well as industry practices.

Environmental targets:

1. The discharge of contaminated wastes entirely conforms to required standards;

2. The consumption of raw materials is controlled within the contracting criteria;

3. No complaints are lodged by related parties in respect of environmental control;

4. No material environmental accidents.

Each subsidiary delegates the environmental targets to its frontline production teams and related management departments. Departmental environmental targets are set and monitored on a monthly basis, while environmental management is included as part of the performance assessment of each department, which is monitored and overseen by particular department on a regular and ad hoc basis.

The environmental aspect is emphasised in the supervision and management measures carried out by the Group including daily check, joint inspection, internal audit, external audit and management evaluation, so that any matters of concern can be identified, rectified, prevented and continuously improved. Incessant effort has been made to strengthen environmental management and mitigate the impact on environment and natural resources.

Aspect A1: Emissions

Management of Emissions

The Group is in strict compliance with the Environmental Protect Law of the PRC (《中華人民共和國環境保護法》), the Law of the PRC on Prevention and Control of Water Pollution (《中華人民共和國水污染防治法》), the Law of the PRC on Prevention and Control of Environmental Pollution by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), the Law of the PRC on Promoting Clean Production (《中華人民共和國清潔生產促進法》), the National Catalogue of Hazardous Wastes (《國家危險廢物名錄》), the Regulations on the Safety Administration of Dangerous Chemicals (《危險化學品安全管理條例》), the Technological Policies on Prevention and Control of Pollution by Waste Batteries (《廢電池污染防治技術政策》) and other laws and regulations.

The Group has set up corresponding procedures and systems, for example, the Planning Procedures for Identification, Evaluation and Control of Environmental Factors (《環境因素識別、評價與控制策劃程序》), the Control on Production Process and Control on Environmental, Occupational Health and Safety Operation (《生產程序控制及環境職業健康安全運行控制》), the Procedures for Administration of Pollutants (《污染物管理程序》), the Procedures for Administration of Dangerous Chemicals (《危險化學品管理程序》), and the Rules on Handling Chemical Drug Wastes (《化學藥品廢棄物處理規定》), which stipulate the control requirements for emissions of offices and production plants. The aim of such procedures and systems is to impose effective control on emissions, thus improving the environmental conditions of the Group.

Types of emissions (A1.1)

The major types of emissions by production and office work are as follows:

Emissions from production

Greenhouse gases: carbon dioxide, methane, nitrous oxide, etc. emitted during travel and operation of production vehicles such as forklifts, cranes and pipe grabbers, directly generated by plasma and oxyacetylene cutting and indirectly generated through water and electricity consumption;

Discharges into water and land: waste water from production and domestic sewage;

Hazardous wastes: waste mineral oil, oil-bearing wastes, waste acid/alkali, waste fixing/developer solutions, obsolete chemical reagents, waste ink cartridges, waste toner cartridges, waste oil transformers, waste oil drums, waste paint buckets, waste rechargeable/disposable batteries, waste plastic films, waste mercury lamps/waste fluorescent lamps, industrial wastes, etc.;

Non-hazardous wastes: domestic wastes and green wastes.

Emissions from office work

Greenhouse gases: carbon dioxide, methane and nitrous oxide, etc. directly generated during travel of vehicles and use of natural gas in canteens, and indirectly generated through the consumption of water and electricity;

Discharges into water and land: domestic sewage and canteen sewage;

Hazardous wastes: waste ink cartridges, waste toner cartridges, waste rechargeable/disposable batteries, waste fluorescent lamps, etc.;

Non-hazardous wastes: domestic wastes, canteen wastes, green wastes, etc.

Greenhouse gas emissions in total (A1.2)

The total greenhouse gas emissions in 2016 were approximately 17,200 tonnes of carbon dioxide equivalent.

Total hazardous waste produced (A1.3)

The total hazardous waste produced in 2016 was approximately 510 tonnes.

Total non-hazardous waste produced (A1.4)

The total non-hazardous waste produced in 2016 was approximately 180 tonnes.

Measures to mitigate emissions and results achieved (A1.5)

The greenhouse gas equivalent generated indirectly by the Group's consumption of electricity and water and discharge of domestic sewage was approximately 16,600 tonnes, representing 96% of the total emissions. The major measures taken to mitigate emissions were reducing electricity and water consumption, the details of which are set out in "Energy use efficiency initiatives and results achieved (A2.3)" and "Description of water source that is fit for purpose, water efficiency initiatives and results achieved (A2.4)".

Treatment of hazardous and non-hazardous wastes, reduction initiatives and results achieved (A1.6)

Treatment:

1. Setting up specific rubbish bins for a variety of wastes including scrap iron, industrial wastes, domestic wastes and oil-bearing wastes in production plants, storing collected wastes by category and delivering them to units with waste treatment qualification for waste disposal or recycling;

2. For acidic or alkaline reagents that require neutralisation, the resulting pH value of the reagents after neutralisation should reach 6-9 before being discharged with appropriate amount of water.

Reduction initiatives:

1. Strengthening skills trainings for employees to enhance their skills level and competence;

2. Reinforcing management of specific wastes and establishing a system of returning old materials and receiving new materials to reduce waste emissions.

3. Heightening the assessment criteria of raw material and energy consumption indicators to facilitate the launch of emission reduction initiatives without prejudice to product quality.

Results achieved:

Remarkable outcome was attained for emissions reduction as evidenced by the fact that the intensity of hazardous wastes of the Group decreased by 7% in 2016 as compared to 2015.

Aspect A2: Use of Resources

Policies on the efficient use of resources

The Group has formulated the Procedures for Control of Energy and Resources (《能源、資源控制程序》), which stipulates the administrative measures for the general use of energy and resources to enhance energy and resources management. Corporate management department is responsible for setting up annual target based on production needs and organising monitoring and assessment work.

Direct and indirect energy consumption in total and intensity (A2.1)

The energy consumed by the Group comprises mainly electricity, gasoline, diesel fuel and natural gas. The energy consumption in total in 2016 were approximately 25,100 kilowatthours in '000s and the energy consumption per tonne of product was 0.1 kilowatthour in '000s.

Water consumption in total and intensity (A2.2)

The water consumption in total in 2016 were approximately 208,000 cubic metres and the water consumption per tonne of product was 0.86 cubic metre.

Energy use efficiency initiatives and results achieved (A2.3)

The Group boosted energy use efficiency by way of promoting the upgraded assessment mechanism, adoption of new approaches and new technologies:

1. Further optimisation of the assessment mechanism for energy consumption to raise energy efficiency during production process;

2. Reasonable layout for lighting system for production and use of energy efficient lighting products;

3. Application to electrical companies for capacity reduction based on production forecast;

4. Raising employees' awareness on energy saving through trainings, putting up slogans, etc.

Results achieved

Satisfactory result was attained for the improvement of electricity efficiency as the intensity of energy consumption of the Group decreased by 17% in 2016 as compared to 2015.

Description of water source that is fit for purpose, water efficiency initiatives and results achieved (A2.4)

Description of water source

The water source of the Group is the running water supplied by the government, which guarantees reliable quality and ample supply. There has been no suspension of water supply without any reason.

Enhancement of water efficiency

The water consumption of the Group mainly comprises water used in offices, canteens and for production use including those used in hydrostatic pressure tests and ultrasonic tests. The following measures were taken to enhance water efficiency:

1. Reuse of water for production use;

2. Promoting the use of water-saving taps and sanitary wares equipped with automatic open or close device;

3. Raising employees' awareness on water saving through trainings, putting up slogans, etc.

Results achieved

Satisfactory result was attained for the improvement of water efficiency as the intensity of water consumption of the Group decreased by 18% in 2016 as compared to 2015.

Total packaging material used (A2.5)

Pipe-end protectors, pipe-end seals and nylon separation ropes are used in simple packaging of our products according to clients' need.

In 2016, a total of approximately 162,600 pipe-end protectors, approximately 25,500 pipe-end seals and approximately 270,500 nylon separation ropes were used.

Aspect A3: The Environment and Natural Resources

Policies on minimising the impact on environment and natural resources

The Group has formulated the Planning Procedures for Identification, Evaluation and Control of Environmental Factors (《環境因素識別、評價與控制策劃程序》) and the Procedures for Control of Energy and Resources (《能源、資源控制程序》), which set out policies on minimising the impact on environment and natural resources. These policies also designate control requirements for identifying, evaluating and updating environmental factors and administrative measures for the general use of energy and resources, so as to promote clean production.

Significant impacts of activities on the environment and natural resources and the actions taken to manage them (A3.1)

The Group considers environmental factors that have global influence, cause deep concern of the community, receive reasonable complaints from related parties, affect corporate image, and are included in the National Catalogue of Hazardous Wastes (《國家危險廢物名錄》) as significant environmental factors. These factors comprise four aspects, namely consumption of energy and resources, emission of hazardous wastes, fire smoke and noise. The following measures were taken to control the resultant impact:

1. Enhancing maintenance and ensure proper functioning of equipment with the installation of devices for sewage treatment, smoke recovery and noise elimination to reduce environmental impact;

2. Centralising the storage of wastes by category and, if necessary, sealing and storing it in specific containers and entrusting units with appropriate qualification for disposal;

3. Intensifying trainings and conducting regular supervisions and inspections to prevent any adverse impact caused by improper operation on the environment;

4. Enhancing skills levels and competence of employees, setting up assessment criteria and promoting energy-saving and consumption reduction;

5. Planting grass lawn and trees in the surroundings of factories and roadsides and designating specific personnel to conduct green management in a bid to reduce environmental impact caused in production process and create a green production environment;

6. Formulating corresponding contingency plan and conducting regular drills.

REPORT ON SOCIAL ASPECT (ASPECTS B1–B8)

Employment and Labour Practices

Aspect B1: Employment

The Group has set up the Provisions on Administration of Staff Recruitment (《員工招聘管理規定》), the Provisions on Administration of Labour Contracts (《勞動合同管理規定》), the Provisions on Administration of Staff Leave (《員工請假管理規定》), the Provisions on Administration of Labour Discipline (《勞動紀律管理規定》), the Administrative System for Staff Rewards and Punishments (《員工獎懲管理制度》), the Ranking Measure for Operating Positions (《操作崗位分級辦法》), the Ranking Measure for Professional Technical Positions (《專業技術崗位分級辦法》), the Ranking Measure for General Management Positions (《一般管理崗位分級辦法》), the Administrative and Assessment Measures for Intermediate and Senior Management (《中高層管理人員管理考核辦法》) and other systems in accordance with the Constitution of the PRC (《中華人民共和國憲法》), the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), the Law of the PRC on the Protection of Rights and Interests of Women (《中華人民共和國婦女權益保障法》), the Administrative Rules for Training and Assessment of Special Equipment Operators (《特種設備作業人員培訓考核管理規則》) and other laws and regulations. These systems set out express requirements in respect of compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare of employees. Comprehensive promotion mechanism, reasonable remuneration structure and good benefits and welfare are also offered to attract, motivate and retain talents.

Compensation and dismissal

The Group offers competitive remuneration packages depending on the nature, responsibilities, skills levels of positions as well as other factors such as working environment, working hours, hardship and rewards and punishments. In addition, we offer sales commission, options and other incentives.

The Group has established administrative systems such as the Procedures for Administration of Human Resources (《人力資源管理程序》) and the Provisions on Administration of Labour Contracts (《勞動合同管理規定》), which provide express requirements for dismissal. Such systems are amended and finalised by human resources department to ensure compliance with applicable laws and regulations.

Recruitment and promotion

The Group prepares annual recruitment plan based on annual demand forecast. Meanwhile, the Group organises recruitment programmes according to the Provisions on Administration of Staff Recruitment (《員工招聘管理規定》) by setting up selection, interview and overall evaluation process to ensure recruited personnel conform to the Company's requirements.

Employees of the Group are categorised on the basis of their position types, including operating, technical and management positions, with each position divided into different grades. Smooth career progression is offered to employees who can compete for senior positions when they fulfil the criteria of seniority and performance.

Working hours and rest periods

The Group has complied with the laws and regulations and industry practices with regard to working hours and rest periods. Some employees need to work in non-working hours or statuary holidays out of work demands, to which end the Group has formulated various compensation systems such as overtime pay and rotating days-off.

Equal opportunity, diversity and anti-discrimination

The Group opposes to discriminate and does not discriminate against employees because of, among others, gender, disability, pregnancy, family status, race and religion. Employees are provided with equal and diversified development opportunities.

Other benefits and welfare

The Group operates canteens and bachelor's quarters in certain places of business, providing catering services and accommodation to employees with reasonable price, and also arranges commuting shuttle buses for employees for free. In summer, the Group distributes cooling products to employees and conducts regular occupational health checks for staff at special positions, while in traditional festivals like Lunar New Year and Mid-Autumn Festival, festive benefits are distributed. For the sake of physical and metal relaxation as well as physical training of employees, various recreational and sports activities have been organised, such as the "International Women's Day" and the "Staff Athletic Meet".

As at 31 December 2016, the Group had a total of 1,204 employees, with men-to-women ratio of 5:2. The ratio of office management staff to production and operating staff was 1:3. 96% of the employees were stationed at Shandong and Hunan production bases. 96% of the employees were 50 years old or below, while 44% of employees were 30 years old or below.

In 2016, the turnover rate of the Group's employees was about 30%, mainly representing the loss of production and operating staff in Shandong and Hunan production bases.

Aspect B2: Health and Safety

The Group has formulated provisions on the administration of health and safety including the Planning Procedures for Identification of Origin of Hazards and Evaluation and Control of Risks (《危險源辨識與風險評價和控制策劃程序》), the Control on Production Process and Control on Environmental, Occupational Health and Safety Operation (《生產程序控制及環境職業健康安全運行控制》), the Procedures for Administration of On-site Safety Protection (《現場安全防護管理程序》), the Procedures for Administration of Labour Protection (《員工勞動保護管理程序》), and the Provisions on Administration of Fire Protection (《消防安全管理規定》) in compliance with the Law of the PRC on Safe Production (《中華人民共和國安全生產法》), the Fire Protection Law of the PRC (《中華人民共和國消防法》), the Law of the PRC on Prevention and Control of Radioactive Pollution (《中華人民共和國放射性污染防治法》), the Measures for Regular Supervision and Administration of Hazardous Factors of Occupational Diseases of Employers (《用人單位職業病危害因素定期監測管理規範》), the Provisions on Administration of Labour Protection Articles (《勞動防護用品管理規定》), the Administrative Measures for Occupational Health of Radiological Personnel (《放射工作人員職業健康管理辦法》), the Administrative Measures for Occupational Health Surveillance (《職業健康監護管理辦法》), the Regulation on Work-Related Injury Insurances (《工傷保險條例》) and other laws and regulations. The purpose of these provisions is to prevent the occurrence of safety issues/accidents by strengthening the control over origin of hazards, fostering the enhancement of health and safety conditions and raising the health and safety awareness of employees.

Health and safety targets:

1. No occupational diseases;

2. Minor accident rate of less than 5% and no material accidents;

3. Passing rate of 98% or above in inspections on occupational factors in worksites and workplaces.

Each subsidiary delegates the health and safety targets to its frontline production teams and related management departments. Departmental targets are set and monitored as planned, while health and safety management is included as part of the performance assessment of each department, which is monitored and overseen by particular department on a regular and ad hoc basis. In 2016, the Group did not experience any fatal work-related incidents.

Aspect B3: Development and Training

Pursuant to relevant requirements, the Group compares the awareness and competence necessary for its staff at positions of different levels and functions with those possessed by its existing employees, and determines the training needs for its employees according to the difference between the former and the latter.

The Group enhances the competence of its employees by a combination of internal trainings and external trainings. Internal trainings include safety education training (level 3), training on management system awareness, training on API related standards, training on craftsmanship, basic knowledge of job positions, position skills training, etc. External trainings include EMBA programme for management, training for renewing or obtaining license for special process and special operation personnel, training for safety personnel qualification, training on skills and knowledge for professional technical staff, training on equipment maintenance and repair, etc.

With a view to nurturing technical and management talents, the Group appointed outstanding employees to attend on-job training programme for master in engineering in Shandong University and EMBA training course in Shandong University of Technology in 2016. Besides, one employee has been pursuing a doctor's degree in University of Petroleum (East China), specialising in the research of steel-welding of pipes.

In 2016, 100% of the Group's employees received trainings, with the average training hours of male and female employees being 22 hours and 21 hours respectively. The average training hours of senior management, intermediate management and other employees were 35 hours, 46 hours and 20 hours respectively.

Aspect B4: Labour Standards

The Group has formulated labour systems such as the Provisions on Administration of Staff Recruitment (《員工招聘管理規定》) and the Provisions on Administration of Labour Contracts (《勞動合同管理規定》) in strict compliance with the Labour Contract Law of the PRC (《中華人民共和國勞動合同法》), the Law of the PRC on the Protection of Minors (《中華人民共和國未成年人保護法》), the Provisions on the Prohibition of Using Child Labour (《禁止使用童工規定》) and relevant laws and regulations. These systems specify staff recruitment procedures, which avoid recruitment of child labour and ensure fulfilment of entry requirements by recruited staff through examining their identification card and graduation certificate. The Group enters into written labour contracts with employees upon their entry, which can be terminated upon mutual agreement of the Group and the employees in accordance with the provisions on termination of contracts. There is no forced labour conditions.

Operating Practices

Aspect B5: Supply Chain Management

The Group has formulated the Procedures for Control of Suppliers (《供方控制程序》), which set out the requirements for the evaluation, selection, re-evaluation and control over suppliers to ensure the products procured meet the procurement requirements. As at 31 December 2016, the Group had approximately 200 eligible suppliers, all of which are located in the PRC, providing raw materials, equipment, accessories, labour protection articles and transportation services. Based on the degree of impact of products and services rendered by suppliers in terms of product quality, environment and health and safety, the Company distinguishes between essential suppliers and general suppliers and conducts evaluation, selection and control accordingly.

The Group selects suppliers which are able to provide premium products and services and observe the Group's ESG standards. With regard to suppliers in possession of administrative licences of regulations and safety guidelines, the Group not only examines the quality, environment and health and safety certification and its validity of the suppliers, but also confirms the qualification of them.

The Group exerts influence on the environmental, health and safety aspects of its suppliers and facilitates their improvement work on the back of the well-established win-win cooperation relationship, so as to better manage potential environmental and social risks.

Aspect B6: Product Responsibility

The Group strictly abides by the Law of the PRC on Product Quality (《中華人民共和國產品質量法》), the Law of the PRC on the Safety of Special Equipment (《中華人民共和國特種設備安全法》), the Trademark Law of the PRC (《中華人民共和國商標法》), the Patent Law of the PRC (《中華人民共和國專利法》), the Basic Requirements of Quality Assurance System for Manufacture, Installation, Alteration and Repair of Special Equipment (《特種設備製造、安裝、改造、維修質量保證體系基本要求》), the Provisions on the Supervision and Inspection on Pressure Pipe Units (《壓力管道元件製造監督檢驗規則》) and other laws and regulations to strengthen the control over production process and the control over environmental, health and safety operation.

Health and Safety

The Group currently owns a provincial research centre for steel pipe engineering technology for the transmission of oil and natural gas and a nationally recognised quality testing laboratory, equipped with skilful production inspection teams and state-of-the-art production inspection facilities and devices. Solid quality assurance systems such as the Planning Procedures for Product Realisation (《產品實現策劃程序》), the Procedures for Product Surveillance and Survey Control (《產品監視和測量控制程序》) and the Procedures for Control of Defective Goods (《不合格品控制程序》), as well as systems for safety management and position duties have also been established. Leveraging on its advantages in respect of production, technology, economics and management and its strength, the Group provides customers with premium, healthy and safe products.

The Group has not experienced any return of products sold or delivered out of safety and health reasons.

Advertising and Labelling

The Group has formulated the Administrative Measures for Information Disclosure (《信息披露管理辦法》), the Provisions on Administration of Advertisement and Promotion (《宣傳報導管理規定》), the Provisions on Administration of Corporate Information Disclosure (《企業信息公示管理規定》) and the Provisions on Administration of Product Labelling (《產品標識管理規定》) to ensure the accuracy, truthfulness and objectiveness of the information disseminated and information on product labels.

Privacy Matters

The Group has formulated the Administrative System for Technology (《科技管理制度》), the Incentive Scheme for Technological Theses and Patents (《科技論文和專利獎勵辦法》), the Provisions on Administration of Computer Systems (《電腦系統管理規定》), the Provisions on Administration of Corporate Email (《企業郵箱管理規定》), etc. to determine the management requirements for privacy matters such as intellectual property rights and information security.

Employees are encouraged to apply for patents and publish theses. In 2016, a total of four utility model patents were obtained and 18 technological theses were published and released in national professional journals and industry annual meeting. No complaints or proceedings regarding the infringement of intellectual property rights were received or brought against the Group.

To ensure information security, full-time or part-time staff are deployed to perform centralised management of computer systems and networks. Through enhancing the management of labour discipline and streamlining work procedures, the risk of leakage of corporate information is kept to minimal. In 2016, no complaints or proceedings regarding the leakage of information were received or brought against the Group.

Methods of redress

The Group has formulated the Procedures for Control of Customer-Related Process (《與顧客有關過程的控制程序), the Procedures for Control of Defective Goods (《不合格品控制程序》) and the Contingency Plan for Quality Risks (《質量風險應急預案》), which set out expressly the procedures and time limit for handling product complaints and product returns.

After receiving product complaints, the Group will take the initiative to communicate with customers and negotiate about the ways to deal with the complaints. For on-site product quality issues, responsible staff will be assigned to customers' site to identify, evaluate and record the matter of concern of products within 24 hours. Complaints in other aspects will be investigated and handled in three days, and the outcome of investigation will be reported back to the complaining customers.

Aspect B7: Anti-corruption

The Group has established the Administrative System for Staff Awards and Punishments (《員工獎懲管理制度》), which set out the types, measures and procedures of awards and punishments, in strict compliance with the Criminal Law of the PRC (《中華人民共和國刑法》), the Law of the PRC on Tenders and Bids (《中華人民共和國招標投標法》), the Contract Law of the PRC (《中華人民共和國合同法》) and other laws and regulations, with an aim to avoid bribery, extortion, fraud and money laundering. Severe punishment will be imposed on those who violate the laws and discipline for their own benefit, while lenient punishment or mitigation or remission of punishment will be administered to those who make voluntary confession or blow the whistle on others to avoid losses.

The Group conducts stringent management on procurement and tender process, where corruption is likely to take place. Approaches which enable multi-participants and multi-stage approval such as contract review and tender meetings are adopted, reviewed and monitored on a regular basis, so as to prevent bribery, extortion, fraud and money laundering. Meanwhile, various channels to report instances of corruption to senior management of the Group have been established, including via phone call, mail, letter and the "General Manager's Mailbox". In 2016, the Group did not encounter any corruption proceedings or cases.

Community

Aspect B8: Community Investment

The Group proactively communicates with the community in which it operates and makes contribution to charity events as well as recreational and sports activities.

Active participation in charity events

In 2016, Shandong Shengli Steel Pipe made external donation of RMB200,000, which has been applied towards poverty, education, elderly, medical and disability assistance and other charitable activities.

Active participation in local and community recreational and sports activities

In 2016, Hunan Shengli Steel Pipe sponsored the "City Athletic Meet" (城市運動會) organised in Xiangtan in Hunan Province on account of its eagerness to support the development of local sport industry. The Group has renovated and constructed playgrounds and basketball courts in certain places of business in addition to the acquisition of fitness equipment, providing venues and facilities for community recreational and sports activities to employees.

Participation of stakeholders

The Group allows stakeholders including shareholders, employees, customers and the public to understand, supervise and take part in the operation of the Company by way of, among others, publishing announcements, convening general meetings, establishing the "Shengguan Group News" (勝管集團報), setting up promotional showcase, organising appreciation meeting for employees and arranging exchanges and visits.

INDEPENDENT AUDITOR'S REPORT

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

OPINION

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 69 to 151, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accountants Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PROPERTY, PLANT AND EQUIPMENT AND PREPAID LAND LEASE PAYMENTS

Refer to Notes 16 and 17 to the consolidated financial statements

The Group tested the amount of property, plant and equipment and prepaid land lease payments for impairment. This impairment test is significant to our audit because the balances of property, plant and equipment and prepaid land lease payments of RMB922,711,000 and RMB166,482,000, respectively as at 31 December 2016 are material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

Our audit procedures for those using value-in-use calculations included, among others:

— Assessing the identification of the related cash generating units;

— Assessing the arithmetical accuracy of the value-in-use calculations;

— Comparing the actual cash flows with the cash flow projections;

— Assessing the reasonableness of the key assumptions (including revenue growth, profit margins, terminal growth rates and discount rates); and

— Checking impairment data to supporting evidence.

Our audit procedures for those using fair value less costs of disposal included, among others:

— Assessing the competence, independence and integrity of the external valuer engaged by client;

— Obtaining the external valuation reports and meeting with the external valuer to discuss and challenge the valuation process, methodologies used and market evidence to support significant judgments and assumptions applied in the valuation model;

— Checking key assumptions and input data in the valuation model to supporting evidence;

— Checking arithmetical accuracy of the valuation model; and

— Assessing the disclosure of the fair value measurement in the consolidated financial statements.

We consider that the Group's impairment tests for property, plant and equipment and prepaid land lease payments are supported by the available evidence.

TRADE AND BILLS RECEIVABLES AND PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Refer to Notes 25 and 26 to the consolidated financial statements

The Group tested the amount of trade and bills receivables and prepayments, deposits and other receivables for impairment. This impairment test is significant to our audit because the balances of trade and bills receivables and prepayments, deposits and other receivables of RMB982,103,000 and RMB504,699,000, respectively as at 31 December 2016 are material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on estimates.

Our audit procedures included, among others:

— Assessing the Group's procedures on granting credit limits and credit periods to customers;

— Assessing the Group's relationship and transaction history with the customers;

— Evaluating the Group's impairment assessment;

— Assessing ageing of the debts;

— Assessing creditworthiness of the customers;

— Checking subsequent settlements from the customers; and

— Assessing the disclosure of the Group's exposure to credit risk in the consolidated financial statements.

We consider that the Group's impairment test for trade and bills receivables and prepayments, deposits and other receivables is supported by the available evidence.

OTHER INFORMATION IN THE ANNUAL REPORT

The directors are responsible for the other information. The other information comprises all the information in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon. The other information is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:
http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/
This description forms part of our auditor's report.

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

Hong Kong, 25 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	9	**3,125,278**	1,953,960
Cost of sales and services		**(3,017,488)**	(1,915,857)
Gross profit		**107,790**	38,103
Other income and gains	9	**24,656**	46,971
Selling and distribution costs		**(37,239)**	(33,706)
Administrative expenses		**(213,684)**	(299,925)
Other expenses		**(6,183)**	(2,562)
Share of results of:			
Joint ventures		**(9,015)**	(11,596)
An associate		**(12,414)**	9
Impairment loss recognised		**(76,698)**	(24,577)
Finance costs	10	**(41,945)**	(58,119)
LOSS BEFORE TAX	11	**(264,732)**	(345,402)
Income tax credit/(expense)	13	**9,923**	(8,528)
LOSS FOR THE YEAR		**(254,809)**	(353,930)
Other comprehensive income that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**23,039**	8,828
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(231,770)**	(345,102)
LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(210,493)**	(302,130)
Non-controlling interests		**(44,316)**	(51,800)
		(254,809)	(353,930)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(187,454)**	(293,302)
Non-controlling interests		**(44,316)**	(51,800)
		(231,770)	(345,102)
LOSS PER SHARE (RMB cents)	14		
— Basic		**(6.74)**	(11.07)
— Diluted		**(6.74)**	(11.07)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**922,711**	1,036,606
Prepaid land lease payments	17	**162,713**	167,824
Goodwill	18	**2,525**	2,525
Deposits paid for acquisition of investments	20	**197,505**	152,655
Investment in joint ventures	21	**5,647**	17,934
Investment in an associate	22	**36,356**	48,770
Other assets		**—**	827
Deferred tax assets	23	**26,788**	16,116
		1,354,245	1,443,257
CURRENT ASSETS			
Inventories	24	**196,158**	158,949
Trade and bills receivables	25	**982,103**	775,914
Prepayments, deposits and other receivables	26	**504,699**	461,794
Prepaid land lease payments	17	**3,769**	3,767
Pledged deposits	27	**18,398**	207,589
Cash and cash equivalents	27	**228,350**	393,881
		1,933,477	2,001,894
CURRENT LIABILITIES			
Trade and bills payables	28	**345,080**	310,222
Other payables and accruals	29	**172,205**	149,699
Borrowings	30	**946,500**	1,044,536
Tax payable		**19,397**	18,202
Deferred income	31	**854**	854
		1,484,036	1,523,513
NET CURRENT ASSETS		**449,441**	478,381
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,803,686**	1,921,638
NON-CURRENT LIABILITIES			
Deferred income	31	**6,463**	7,317
Borrowings	30	**27,500**	55,000
Deferred tax liabilities	23	**359**	376
		34,322	62,693
NET ASSETS		**1,769,364**	1,858,945

As at 31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	32	**283,911**	238,438
Reserves	33	**1,336,891**	1,427,629
		1,620,802	1,666,067
Non-controlling interests		**148,562**	192,878
Total equity		**1,769,364**	1,858,945

The consolidated financial statements on pages 69 to 151 were approved and authorised for issue by the Board of Directors on 25 March 2017 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 2016

	Attributable to owners of the Company									
	Issued capital	**Share premium***	**Statutory surplus reserve***	**Share option reserve***	**Other reserve***	**Foreign currency translation reserve***	**Retained profits***	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 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
At 1 January 2016	**238,438**	**1,148,255**	**62,484**	**43,328**	**(9)**	**9,002**	**164,569**	**1,666,067**	**192,878**	**1,858,945**
Issue of shares	**45,473**	**81,851**	**—**	**—**	**—**	**—**	**—**	**127,324**	**—**	**127,324**
Share-based payment	**—**	**—**	**—**	**14,865**	**—**	**—**	**—**	**14,865**	**—**	**14,865**
Total comprehensive income/(loss) for the year	**—**	**—**	**—**	**—**	**—**	**23,039**	**(210,493)**	**(187,454)**	**(44,316)**	**(231,770)**
At 31 December 2016	**283,911**	**1,230,106**	**62,484**	**58,193**	**(9)**	**32,041**	**(45,924)**	**1,620,802**	**148,562**	**1,769,364**

* 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 2016

	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	**(264,732)**	(345,402)
Adjustments for:		
Finance costs	**41,945**	58,119
Interest income	**(7,293)**	(14,485)
Share of results of joint ventures	**9,015**	11,596
Share of results of an associate	**12,414**	(9)
Depreciation	**122,023**	117,451
Amortization of prepaid land lease payments	**3,738**	3,767
Gain on disposal of property, plant and equipment, net	**(66)**	(89)
(Reversal of allowance)/allowance for trade receivables	**(6,515)**	108,647
Impairment loss recognised on investment in a joint venture	**3,270**	—
Impairment loss recognised on available-for-sale investment	**—**	11,428
Impairment loss recognised on property, plant and equipment	**22,773**	—
Impairment loss recognised on goodwill	**—**	7,385
Impairment loss recognised on advance to a joint venture	**48,224**	1,286
Impairment loss recognised on other receivables	**2,431**	4,478
Write down of inventories	**3,034**	35,285
Share option expenses	**14,865**	12,391
Recognise of deferred income	**(854)**	(854)
Operating profit before working capital changes	**4,272**	10,994
Change in inventories	**(40,244)**	(17,426)
Change in trade and bills receivables	**(199,994)**	134,133
Change in prepayments, deposits and other receivables and other assets	**(56,714)**	(12,461)
Change in trade and bills payables	**34,858**	(29,669)
Change in other payables and accruals	**22,506**	62,919
Cash used in operations	**(235,316)**	148,490
Income tax refunded/(paid)	**430**	(26,655)
Net cash (used in)/generated from operating activities	**(234,886)**	121,835

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(30,923)**	(48,044)
Additions of prepaid land lease payments	**—**	(173)
Proceeds from disposal of items of property, plant and equipment	**88**	1,353
Proceeds from disposal of non-current assets held for sale	**—**	250,000
Change in pledged deposits	**189,191**	(1,143)
Interest received	**7,293**	14,485
Repayments from advance to entities	**18,567**	—
Advance to entities	**(33,717)**	(18,567)
(Advance to)/repayment from a joint venture	**(19,498)**	25,326
Deposits paid for acquisition of investments	**(44,850)**	(152,655)
Net cash generated from investing activities	**86,151**	70,582
CASH FLOWS FROM FINANCING ACTIVITIES		
New borrowings	**919,000**	1,110,036
Repayment of loans	**(1,053,273)**	(1,075,964)
Interest paid	**(41,945)**	(58,119)
Proceeds from issue of shares	**127,324**	—
Net cash used in financing activities	**(48,894)**	(24,047)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	**(197,629)**	168,370
Cash and cash equivalents at beginning of year	**393,881**	216,007
Effect of foreign exchange	**32,098**	9,504
Cash and cash equivalents at end of year	**228,350**	393,881

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, Zhongbu Town, Zhangdian District, Zibo City, Shandong Province 255082, the PRC, and 8 Binjiang Road, Gaoxin District, Xiangtan City, Hunan Province 411101, the PRC, respectively.

The 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 2016. 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. 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.

Intra-group 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation (continued)

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.

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint arrangements (continued)

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

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

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

Associates

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates (continued)

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

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

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

Business combination and goodwill

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill (continued)

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

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

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

Foreign currency translation

(a) Functional and presentation currency

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

(c) Translation on consolidation

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

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

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

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

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

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

Property, plant and equipment

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

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

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 or over the term of the leases
Plant and machinery	10 years
Motor vehicles	6 years
Electronic equipment and others	4–5 years

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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

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

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

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

Leases

Operating leases

The Group as lessee

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

The Group as lessor

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

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 2016. 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.

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

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) Impairment loss on property, plant and equipment and prepaid land lease payments

The Group carried out review of the recoverable amount of certain property, plant and equipment and prepaid land lease payments by assessing value-in-use calculations. It estimates the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. The Directors have exercised their judgement and are satisfied that the method of calculations is reflective of the current market conditions. Based on this calculations, no impairment of property, plant and equipment and prepaid land lease payments have been made since the carrying amounts of certain property, plant and equipment are lower than their value-in-use.

In addition, the Group appointed an independent professional valuer to assess the fair values of certain property, plant and equipment and prepaid land lease payments. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The Directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions. Based on this valuation, impairment loss of property, plant and equipment of RMB22,773,000 (2015: nil) has been made since the carrying amounts of certain property, plant and equipment are higher than their fair values.

(b) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation 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 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.

(c) 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 2016 were approximately RMB971,932,000 (2015: RMB759,481,000) and RMB504,699,000 (2015: RMB461,794,000), respectively.

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

Key sources of estimation uncertainty (continued)

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

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

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 consolidated results of operations. At the end of the reporting period, the carrying value of interests in an associate and joint ventures were approximately RMB36,356,000 (2015: RMB48,770,000) and approximately RMB5,647,000 (2015: RMB17,934,000), respectively.

(e) 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 2016 was approximately RMB26,788,000 (2015: RMB16,116,000).

(f) 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 2016 was RMB196,158,000 (2015: RMB158,949,000).

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 RMB, so the Group has minimal exposure to foreign currency risk.

At 31 December 2016, if the RMB had weakened 10 per cent (2015: 3 per cent) against the Hong Kong dollar with all other variables held constant, consolidated profit after tax for the year would have been RMB30,028,000 (2015: RMB8,048,000) lower, arising mainly as a result of the foreign exchange loss on certain trade receivables and trade payables denominated in Hong Kong dollar. If the RMB had strengthened 10 per cent (2015: 3 per cent) against the Hong Kong dollar with all other variables held constant, consolidated profit after tax for the year would have been RMB30,028,000 (2015: RMB8,048,000) higher, arising mainly as a result of the foreign exchange gain on certain trade receivables and trade payables denominated in Hong Kong dollar.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(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 30 to the consolidated financial statements.

At 31 December 2016, 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 RMB1,074,000 (2015: RMB2,774,000) higher, arising mainly as a result of lower interest expense on bank loan. 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 RMB1,074,000 (2015: RMB2,774,000) lower, arising mainly as a result of higher interest expense on bank loan and other borrowings.

(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 equivalent, 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 17% (2015: 23%) and 48% (2015: 75%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(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.

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:

2016

	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	962,350	35,222	—	—	997,572
Trade and bills payables	345,080	—	—	—	345,080
Financial liabilities included in other payables and accruals	83,607	—	—	—	83,607
	1,391,037	35,222	—	—	1,426,259

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Liquidity risk (continued)

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

(e) Categories of financial instruments

	2016 RMB'000	2015 RMB'000
Financial assets:		
Loans and receivables		
Trade and bills receivables	**982,103**	775,914
Financial assets included in prepayments, deposits and other receivables	**87,046**	99,371
Pledged deposits	**18,398**	207,589
Cash and cash equivalents	**228,350**	393,881
	1,315,897	1,476,755
Financial liabilities:		
Financial liabilities at amortised cost		
Trade and bills payables	**345,080**	310,222
Financial liabilities included in other payables and accruals	**83,607**	77,444
Borrowings	**974,000**	1,099,536
	1,402,687	1,487,202

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(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.

8. OPERATING SEGMENT INFORMATION

During the year ended 31 December 2016, the Group has two (2015: two) reportable segments which comprise pipes business and trading business. The pipes business segment produces submerged-arc helical welded pipes, submerged-arc longitudinal welded pipe and cold-formed section steel which are mainly used for the oil and infrastructure industry ("Pipes Business"). The trading business mainly involve trading of electrolytic copper, aluminum ingot, aluminum oxide, nickel and polyethylene. 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, impairment loss recognised on investment in a joint venture, impairment loss recognised on goodwill, impairment loss recognised on available-for-sale investment, impairment loss recognised on advance to a joint venture and central administration costs including directors' fees, share-based payments, foreign currency exchange gains/losses, share of results of joint ventures and an associate 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 2016

	Pipes Business RMB'000	Trading business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:				
Sales to external customers	748,380	2,376,898	—	3,125,278
Intersegment sales	13,155	—	(13,155)	—
Total revenue	761,535	2,376,898	(13,155)	3,125,278
Segment results	(118,478)	(208)		(118,686)
Interest income				7,293
Impairment loss recognised on investment in a joint venture				(3,270)
Impairment loss recognised on advance to a joint venture				(48,224)
Unallocated expenses				(59,900)
Finance costs				(41,945)
Loss before tax				(264,732)

8. OPERATING SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

For the year ended 31 December 2015

	Pipes Business RMB'000	Trading business 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	(236,780)	(7,627)		(244,407)
Interest income				14,485
Impairment loss recognised on goodwill				(7,385)
Impairment loss recognised on available-for-sale investment				(11,428)
Impairment loss recognised on advance to a joint venture				(1,286)
Unallocated expenses				(37,262)
Finance costs				(58,119)
Loss before tax				(345,402)

8. OPERATING SEGMENT INFORMATION (continued)

Segment assets

As at 31 December 2016

	Pipes Business RMB'000	Trading business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment assets	**2,106,021**	**667,336**	**—**	**2,773,357**
Unallocated assets				**514,365**
Total consolidated assets				**3,287,722**

As at 31 December 2015

	Pipes Business RMB'000	Trading business 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

8. OPERATING SEGMENT INFORMATION (continued)

Segment liabilities

As at 31 December 2016

	Pipes Business RMB'000	Trading business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment liabilities	**343,397**	**177,851**	**—**	**521,248**
Unallocated liabilities				**997,110**
Total consolidated liabilities				**1,518,358**

As at 31 December 2015

	Pipes Business RMB'000	Trading business 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

8. OPERATING SEGMENT INFORMATION (continued)

Other segment information

2016

	Pipes Business RMB'000	Trading business RMB'000	Unallocated RMB'000	Consolidated RMB'000
Share of results of:				
Joint ventures	—	—	(9,015)	(9,015)
An associate	—	—	(12,414)	(12,414)
Write down of inventories	3,034	—	—	3,034
(Reversal of allowance)/allowance for trade receivables	(13,557)	7,042	—	(6,515)
Impairment loss recognised on other receivables	2,431	—	—	2,431
Impairment loss recognised on advance to a joint venture	—	—	48,224	48,224
Depreciation and amortisation	125,323	310	128	125,761
Investment in joint ventures	—	—	5,647	5,647
Investment in an associate	—	—	36,356	36,356
Capital expenditure	30,921	2	—	30,923

2015

	Pipes Business RMB'000	Trading business RMB'000	Unallocated RMB'000	Consolidated RMB'000
Share of results of:				
Joint ventures	—	—	(11,596)	(11,596)
An associate	—	—	9	9
Write down of inventories	35,285	—	—	35,285
Allowance for trade receivables	79,230	29,417	—	108,647
Impairment loss recognised on other receivables	4,478	—	—	4,478
Impairment loss recognised on advance to a joint venture	—	—	1,286	1,286
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

8. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	For the year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Mainland China	**3,111,538**	1,942,967
Other countries	**13,740**	10,993
	3,125,278	1,953,960

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

(b) Non-current assets

	As at 31 December	
	2016	2015
	RMB'000	RMB'000
Mainland China	**1,129,704**	1,274,110
Hong Kong	**197,753**	153,031
	1,327,457	1,427,141

The non-current asset information above is based on the location of assets and excludes 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	2016 RMB'000	2015 RMB'000
Customer A	Trading business	**333,319**	358,530
Customer B	Trading business	**325,739**	378,129
Customer C	Trading business	**316,613**	373,217
Customer D	Trading business	**—**	216,276
Customer E	Trading business	**334,685**	196,126

9. REVENUE, OTHER INCOME AND GAINS

	2016 RMB'000	2015 RMB'000
Revenue		
Sales of steel pipes	673,798	386,808
Trading business	2,376,898	1,522,278
Rendering of services related to pipe business	74,582	44,874
	3,125,278	1,953,960
Other income		
Interest income	7,293	14,485
Rental income	6,525	6,567
Penalty income (note)	—	15,084
Others	1,943	3,875
	15,761	40,011
Other gains		
Gain on sales of materials	7,192	4,415
Exchange gains, net	—	1,091
Gain on disposal of property, plant and equipment, net	66	89
Others	1,637	1,365
	8,895	6,960
	24,656	46,971

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

	2016 RMB'000	2015 RMB'000
Interest of borrowings	**41,945**	58,119

11. LOSS BEFORE TAX

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

	2016 RMB'000	2015 RMB'000
Cost of inventories sold*	**2,965,588**	1,885,952
Cost of services	**51,900**	29,905
Employees benefits expenses (including directors' remuneration (note 12)):		
Wages, salaries and bonus	**63,692**	60,241
Performance related bonus	**—**	—
Pension scheme contributions	**4,128**	6,228
Welfare and other expenses	**1,155**	11,324
Equity-settled share option expense	**14,865**	12,391
	83,840	90,184
Depreciation of property, plant and equipment	**122,023**	117,451
Amortisation of prepaid land lease payments	**3,738**	3,767
(Reversal of allowance)/allowance for trade receivables	**(6,515)**	108,647
Impairment loss recognised on goodwill	**—**	7,385
Impairment loss recognised on investment in a joint venture	**3,270**	—
Impairment loss recognised on available-for-sale investment	**—**	11,428
Impairment loss recognised on property, plant and equipment	**22,773**	—
Impairment loss recognised on advance to a joint venture	**48,224**	1,286
Impairment loss recognised on other receivables	**2,431**	4,478
Gain on disposal of property, plant and equipment, net	**(66)**	(89)
Operating lease payments	**8,372**	14,795
Exchange loss/(gains), net	**19,378**	(1,091)
Auditors' remuneration	**1,540**	1,407

* Included in the cost of inventories sold is an amount of RMB3,034,000 (2015: RMB35,285,000) related to the write down of inventories for the year ended 31 December 2016.

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 2016					
		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)	87	527	—	33	574	1,221
Jiang Yong		87	428	—	—	115	630
Han Aizhi		87	448	—	27	458	1,020
Song Xichen		87	447	—	27	458	1,019
Wang Kunxian		87	421	—	27	458	993
Ji Rongdi, alias Jee Rongdee	(iv)	62	600	—	32	29	723
Independent non-executive Directors:							
Guo Changyu	(v)	—	—	—	—	—	—
Chen Junzhu		257	—	—	—	115	372
Wu Geng		257	—	—	—	115	372
Qiao Jianmin	(vi)	187	—	—	—	115	302
		1,198	2,871	—	146	2,437	6,652

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

(a) (continued)

		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	(ii)	116	—	—	—	—	116
Chen Junzhu		241	—	—	—	—	241
Wu Geng	(iii)	190	—	—	—	—	190
		947	2,086	—	60	3,387	6,480

Notes:

(i) Mr. Zhang Bizhuang was resigned as the chairman of the Company on 12 April 2016, but remain as the 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) Retired on 26 June 2015.

(iii) Appointed on 19 March 2015.

(iv) Mr. Ji Rongdi, alias Jee Rongdee was appointed on 12 April 2016, also the chairman of the Company during the year. His emoluments disclosed above included those for services rendered by him as the chairman and chief executive officer.

(v) Resigned on 12 April 2016.

(vi) Appointed on 12 April 2016.

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

(b) Five Highest Paid Individuals' emoluments

Four (2015: four) 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 2016 were as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and other benefits in kind	452	437
Performance related bonus	—	—
Social security contributions	32	15
Equity settled share option expenses	434	745
	918	1,197

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

	Number of employee	
	2016	2015
Emolument band:		
HK$1,000,000–HK$1,500,000	1	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 2016 and 2015.

13. INCOME TAX CREDIT/(EXPENSE)

	2016 **RMB'000**	2015 RMB'000
Current — PRC Enterprise Income Tax ("EIT")		
— Charge for the year	**662**	30
— Under-provision in prior years	**—**	67
Current — Hong Kong		
— Charge for the year	**104**	3,541
Current — PRC dividend withholding tax	**—**	27,000
Deferred tax (note 23)	**(10,689)**	(22,110)
Income tax (credit)/expense	**(9,923)**	8,528

Hong Kong profits tax is calculated at 16.5% (2015: 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 CREDIT/(EXPENSE) (continued)

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

	2016 RMB'000	2015 RMB'000
Loss before tax	**(264,732)**	(345,402)
Tax at the applicable tax rate of companies within the Group of 25% (2015: 25%)	**(66,183)**	(86,351)
Expenses not deductible for tax	**38,943**	53,091
Income not taxable for tax	**(33,644)**	(35,463)
Tax loss not recognised	**46,039**	49,142
Effect of different tax rates of subsidiaries	**(435)**	(1,855)
Profits and losses attributable to joint ventures and an associate	**5,357**	2,897
Under-provision in prior years	**—**	67
PRC dividend withholding tax	**—**	27,000
Tax at the Group's effective rate	**(9,923)**	8,528

Notes:

At the end of the reporting period the Group has unused tax losses of approximately RMB458,048,000 (2015: RMB361,002,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB70,168,000 (2015: RMB50,796,000) of such losses. No deferred tax asset has been recognised in respect of the remaining approximately RMB387,880,000 (2015: RMB310,206,000) due to the unpredictability of future profit streams. All tax losses will expire in 2021.

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 2016 and 2015, the aggregate amounts of temporary differences associated with undistributed earnings of the subsidiaries in the Mainland China for which deferred tax liabilities have not been recognised were approximately RMB286,948,000 and RMB600,602,000, 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 RMB210,493,000 (2015: RMB302,130,000) and the weighted average number of 3,122,278,000 (2015: 2,728,638,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2016 and 2015 in respect of a dilution as there was no dilutive potential ordinary shares 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 2016 (2015: 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 2016						
COST:						
At 1 January 2016	327,174	1,047,130	15,735	15,105	59,127	1,464,271
Additions	6,290	7,518	715	447	15,953	30,923
Transfers	62,840	881	—	—	(63,721)	—
Disposals	—	(21)	(510)	(12)	—	(543)
At 31 December 2016	396,304	1,055,508	15,940	15,540	11,359	1,494,651
ACCUMULATED DEPRECIATION AND IMPAIRMENT:						
At 1 January 2016	48,053	360,721	12,128	6,763	—	427,665
Provided during the year	14,994	103,403	1,493	2,133	—	122,023
Impairment loss recognised	1,738	21,029	—	6	—	22,773
Disposals	—	(14)	(495)	(12)	—	(521)
At 31 December 2016	64,785	485,139	13,126	8,890	—	571,940
CARRYING AMOUNTS:						
At 31 December 2016	331,519	570,369	2,814	6,650	11,359	922,711

16. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings	Plant and machinery	Motor vehicles	Electronic equipment and others	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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 AND IMPAIRMENT:						
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

As at 31 December 2016, the Group was in the process of applying for the title certificates of buildings with an aggregate net book value of approximately RMB9,339,000 (2015: RMB160,870,000). The directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned 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 2016.

The Group carried out reviews of the recoverable amount of certain property, plant and equipment in 2016 based on value-in-use calculations. Accordingly, no impairment loss is recognised during the year.

16. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group carried out reviews of the recoverable amount of certain property, plant and equipment in 2016, having regard to its ongoing growth and the market conditions of the Group's products. The reviews led to the recognition of an impairment loss of approximately RMB22,773,000, which has been recognised in profit or loss for the property, plant and equipment which has an aggregate carrying amounts at the end of the reporting period of approximately RMB76,706,000. The recoverable amount of the relevant assets of approximately RMB53,933,000 has been determined on the basis of their fair value less costs of disposal measured by reference to market evidence of recent transactions for similar plant and machinery (level 2 fair value measurements) and depreciated replacement cost for buildings (level 3 fair value measurements) by Pan-China Assets Appraisal Co., Ltd. ("Pan-China"), an independent firm of professional valuers.

17. PREPAID LAND LEASE PAYMENTS

	2016 **RMB'000**	2015 RMB'000
Carrying amount at 1 January	**171,591**	175,185
Additions	**—**	173
Impairment loss recognised during the year	**(1,371)**	—
Amortisation for the year	**(3,738)**	(3,767)
Carrying amount at 31 December	**166,482**	171,591
Current portion	**(3,769)**	(3,767)
Non-current portion	**162,713**	167,824

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

As at 31 December 2016, 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 RMB10,358,000 (2015: RMB10,594,000). The directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned land in due course, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2016.

18. GOODWILL

	2016 RMB'000	2015 RMB'000
Carrying amount at 1 January	**2,525**	9,910
Impairment loss recognised during the year	**—**	(7,385)
Carrying amount at 31 December	**2,525**	2,525

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

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 13% (2015: 14%) and cash flows beyond the five-year-period were extrapolated using a growth rate of 5% (2015: 3%) by reference to the long-term average growth rate.

18. GOODWILL (continued)

Impairment testing of goodwill (continued)

Xinjiang business cash-generating unit

At 31 December 2015, before impairment testing, goodwill of RMB7,385,000 was allocated to Xinjiang Business cash-generating unit. Due to changes in market condition, the Group has revised its cash flow forecasts for this cash-generating unit. 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 in 2015.

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

	2016	2015
	RMB'000	RMB'000
Pipes business	**2,525**	2,525

Key assumptions were used in the value in use calculation of the Pipes business cash-generating unit for 31 December 2016 (2015: 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 submerged-arc helical welded pipes (the"SAWH") pipelines and provision of anti-corrosion service for oil and gas pipelines and other construction and manufacturing applications and trading of commodity
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 and trading of commodity
Shandong Muxin Investment Co., Ltd. ("Shandong Muxin")# (山東沐鑫投資有限公司) (Note ii)	The PRC	RMB30,000,000	100%	Equity investment, investment management, and investment consultation
Guangdong Shengli Trading Co., Ltd. ("Guangdong Shengli")# (廣東勝利貿易有限公司) (Note i)	The PRC	RMB100,000,000	100%	Trading of metal commodity
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 and selling of SAWH pipelines and provision of anti-corrosion service for oil and gas pipelines and other construction and manufacturing applications

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
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 submerged-arc longitudinal welded pipes (the"SAWL") and SAWH pipelines and provision of anti-corrosion service for oil and gas pipelines and other construction and manufacturing applications and trading of commodity
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
Shanghai Shengguan New Energy Technology Co., Ltd. ("Shanghai Shengguan")# (上海勝管新能源科技有限公司) (Note ii)	The PRC	RMB50,000,000/ RMB100,000,000	100%	New energy technical development and trading of environmental energy equipment, fuel oil and chemical products 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	
	2016	2015	**2016**	2015
Principal place of business/country of incorporation	**PRC/PRC**	PRC/PRC	**PRC/PRC**	PRC/PRC
% of ownership interests/voting rights held by NCI	**43.57%**	43.57%	**45.04%**	45.04%
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 31 December:				
Non-current assets	**76,571**	106,520	**511,827**	537,056
Current assets	**14,968**	16,729	**307,353**	144,710
Non-current liabilities	**(6,463)**	(7,317)	**(27,500)**	(55,000)
Current liabilities	**(20,149)**	(25,483)	**(524,644)**	(286,027)
Net assets	**64,927**	90,449	**267,036**	340,739
Accumulated NCI	**28,289**	39,409	**120,273**	153,469
Year ended 31 December:				
Revenue	**—**	—	**173,193**	39,084
Loss for the year	**(25,521)**	(34,487)	**(73,703)**	(81,648)
Total comprehensive loss	**(25,521)**	(34,487)	**(73,703)**	(81,648)
Loss allocated to NCI	**(11,119)**	(15,026)	**(33,197)**	(36,774)
Dividends paid to NCI	**—**	—	**—**	—
Net cash (used in)/generated from operating activities	**(579)**	257	**(61,090)**	(41,157)
Net cash used in investing activities	**(1)**	—	**(24,065)**	(31,239)
Net cash generated from financing activities	**—**	—	**107,875**	58,780
Net (decrease)/increase in cash and cash equivalents	**(580)**	257	**22,720**	(13,616)

As at 31 December 2016, the bank and cash balances of the these subsidiaries in the PRC denominated in RMB amounted to approximately RMB48,038,000 (2015: RMB25,898,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

20. DEPOSITS PAID FOR ACQUISITION OF INVESTMENTS

	2016 RMB'000	2015 RMB'000
Deposit paid for proposed acquisition of the allotted and issued share capital of:		
— Blossom Time Group Limited (note)	**197,505**	152,655

Note:

The amount represented deposits paid for proposed acquisition of 56% of the allotted and issued share capital of 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.

Pursuant to the Company's announcement dated 24 January 2017, a wholly owned subsidiary of the Company (the "Transferee") and the shareholder of Blossom Time Group Limited (the "Transferor") entered into a third supplemental agreement (the "Third Supplemental Agreement") to the Share Transfer Agreement, pursuant to which the Parties agreed to extended the Long Stop Date to 30 April 2017. If any of the Closing Conditions have not been fulfilled or waived on or before the Long Stop Date or due to the Transferor's failure to perform its obligations under the Share Transfer Agreement, the Transferor shall refund to the Transferee all the payment in relation to the Consideration that had been made by the Transferee before the Long Stop Date (with interest of 3% per annum) at a time and in the manner to be agreed between the Parties.

21. INVESTMENT IN JOINT VENTURES

	2016 RMB'000	2015 RMB'000
Unlisted investments in the PRC:		
Share of net assets	**8,917**	17,934
Impairment losses	**(3,270)**	—
	5,647	17,934

21. INVESTMENT IN JOINT VENTURES (continued)

Details of the Group's joint ventures at 31 December 2016 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/ 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/ The PRC	USD200	40%

The English name is for identification only

(a) Shenzhen Taihe

On 27 January 2011, Shandong Muxin, an indirect wholly-owned subsidiary of the Company, entered into an 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.

21. INVESTMENT IN JOINT VENTURES (continued)

(a) Shenzhen Taihe (continued)

On 30 October 2014, Shandong Muxin entered into a revised partnership agreement with the Individual which agreed to reduced 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.

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 2016 and 2015, the Group's share of loss of Shenzhen Taihe were approximately RMB29,000 and RMB399,000, respectively.

21. INVESTMENT IN JOINT VENTURES (continued)

(b) Dome (BVI)

On 17 September 2012, Siu Thai, a direct wholly-owned subsidiary of the Company, entered into a shareholders' agreement with 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 other four parties subscribed for 35%, 7.75%, 4.75% and 12.5% of the share capital of Dome (BVI) for a consideration of RMB100,000,000, RMB87,500,000, RMB19,375,000, RMB11,875,000 and RMB31,250,000, respectively, payable by way of cash within one year from the date of the shareholders' agreement. Upon completion of the issuance of shares by Dome (BVI) to the JV Shareholders, Siu Thai has 40% 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 (2015: RMB37,599,000) to the JV Group. During the year ended 31 December 2016, the Group's share of loss of JV Group approximately of RMB8,986,000 (2015: RMB11,197,000).

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)**	
	2016	2015	**2016**	2015
Principal place of business/country of incorporation	**PRC/PRC**	PRC/PRC	**PRC/BVI**	PRC/BVI
Principal activities	**Equity investment, investment management, and investment consultation**		**Processing, manufacturing and distribution of dome integration houses**	
% of ownership interests/voting rights held by the Group	**90%/50%**	90%/50%	**40%/40%**	40%/40%
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 31 December:				
Non-current assets	**1,414**	1,425	**31,007**	38,066
Current assets	**5,857**	5,879	**148,407**	165,192
Current liabilities	**(3)**	(3)	**(173,474)**	(174,851)
Net assets	**7,268**	7,301	**5,940**	28,407
Group's share of net assets	**6,541**	6,571	**2,376**	11,363
Cash and cash equivalents included in current assets	**1,055**	1,076	**1,395**	1,327
Current financial liabilities (excluding trade and other payables and provision) included in current liabilities	**—**	—	**—**	—
Year ended 31 December:				
Revenue	**—**	—	**397**	487
Depreciation and amortisation	**11**	—	**—**	7,296
Interest income	**—**	3	**—**	—
Interest expense	**—**	—	**—**	—
Income tax expense	**—**	—	**—**	—
Loss from continuing operation	**(32)**	(443)	**(22,466)**	(27,994)
Loss after tax from discontinued operations	**—**	—	**—**	—
Other comprehensive income	**—**	—	**—**	—
Total comprehensive loss	**(32)**	(443)	**(22,466)**	(27,994)
Dividends received from joint ventures	**—**	—	**—**	—

21. INVESTMENT IN JOINT VENTURES (continued)

As at 31 December 2016, the bank and cash balances of the Group's joint ventures in the PRC denominated in RMB amounted to approximately RMB2,450,000 (2015: RMB2,403,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

22. INVESTMENT IN AN ASSOCIATE

	2016 **RMB'000**	2015 RMB'000
Unlisted investments in the PRC:		
Share of net assets	**36,356**	48,770

Particulars of the associate of the Group are as follows:

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

The English name is for identification only

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.

22. INVESTMENT IN AN ASSOCIATE (continued)

	Minfu Microfinance	
	2016	2015
Principal place of business/country of incorporation	**PRC/PRC**	PRC/PRC
Principal activities	**Micro-financing and other financial advisory services**	
% of ownership interests/voting rights held by the Group	**30%/30%**	30%/30%
	RMB'000	RMB'000
At 31 December:		
Non-current assets	**8,096**	14,342
Current assets	**113,848**	149,078
Current liabilities	**(758)**	(854)
Non-current liabilities	**—**	—
Net assets	**121,186**	162,566
Group's share of net assets	**36,356**	48,770
Year ended 31 December:		
Revenue	**441**	2,613
(Loss)/profit from continuing operations	**(41,380)**	28
(Loss)/profit after tax from discontinued operations	**—**	—
Other comprehensive income	**—**	—
Total comprehensive (loss)/income	**(41,380)**	28
Dividends received from the associate	**—**	—

As at 31 December 2016, the bank and cash balances of the Group' associate in the PRC denominated in RMB amounted to approximately RMB590,000 (2015: amounted to approximately RMB916,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

23. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

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

	2016 RMB'000	2015 RMB'000
Deferred tax assets		
As at 1 January	16,116	26,522
Deferred tax credited/(charged) to the profit or loss during the year (note 13)	10,672	(10,406)
Gross deferred tax assets as at 31 December	26,788	16,116
Deferred tax liabilities		
As at 1 January	376	32,892
Deferred tax credited to the consolidated profit or loss during the year (note 13)	(17)	(32,516)
Gross deferred tax liabilities as at 31 December	359	376
Net deferred tax assets as at 31 December	26,429	15,740

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

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

	2016 RMB'000	2015 RMB'000
Deferred tax assets		
Accrued interest on borrowings	**604**	68
Government grants received but not yet recognised as income	**1,829**	2,043
Excess of carrying value over fair value of identifiable assets and liabilities in acquisition of subsidiaries	**1,120**	1,306
Impairment loss recognised on property, plant and equipment	**5,693**	—
Tax losses	**17,542**	12,699
Gross deferred tax assets	**26,788**	16,116
Deferred tax liabilities		
Excess of fair value of identifiable assets and liabilities over carrying value in acquisition of subsidiaries	**359**	376
Gross deferred tax liabilities	**359**	376
Net deferred tax asset	**26,429**	15,740

24. INVENTORIES

	2016 RMB'000	2015 RMB'000
Raw materials	**90,986**	77,011
Work in progress	**6,466**	6,062
Finished and semi-finished goods	**98,706**	75,876
	196,158	158,949

25. TRADE AND BILLS RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**1,124,815**	918,558
Less: allowance for impairment of trade receivables	**(152,883)**	(159,077)
	971,932	759,481
Bills receivables	**10,171**	16,433
	982,103	775,914

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:

	2016 RMB'000	2015 RMB'000
Within 3 months	**833,662**	607,480
3 to 6 months	**65,224**	38,124
6 months to 1 year	**16,797**	46,749
1 to 2 years	**19,225**	47,302
Over 2 years	**37,024**	19,826
	971,932	759,481

Included in the trade receivables of RMB90,505,000 (2015: RMB115,086,000) are quality guarantee deposits receivable from customers.

25. 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:

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**854,876**	693,265
1 to 3 months past due	**45,903**	8,968
3 to 6 months past due	**22,429**	10,157
6 months to 1 year past due	**13,332**	7,903
1 year to 2 years past due	**4,200**	18,893
Over 2 years past due	**31,192**	20,295
	971,932	759,481

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:

	2016 RMB'000	2015 RMB'000
Balance at beginning of the year	**159,077**	50,430
(Reversal of allowance)/allowance for the year	**(6,515)**	108,647
Exchange differences	**321**	—
Balance at end of year	**152,883**	159,077

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

	2016 RMB'000	2015 RMB'000
Advance to suppliers (note a)	**125,510**	65,892
Trade deposits paid to metal commodity suppliers (note b)	**170,100**	218,000
Advance to a joint venture (note c)	**25,516**	54,242
Loan to employees (note d)	**690**	690
Tender deposits to customers	**2,936**	3,402
Other tax receivables (note e)	**62,655**	68,375
Rent prepaid	**—**	3,834
Advances to entities (note f)	**3,717**	18,567
Advances to shareholders of an entity (note g)	**30,000**	—
Prepayment to metal commodity suppliers	**53,547**	—
Prepayment	**2,905**	2,920
Others	**27,123**	25,872
	504,699	461,794

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 RMB176,051,000 (2015: RMB224,353,000) 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 RMB48,672,000 (2015: RMB34,664,000) which is unsecured, bears an interest rate of 3% per annum and repayable within one year. The remaining balance is unsecured, non-interest bearing and repayable within one year. An impairment loss of approximately RMB48,224,000 has been recognised during the year (2015: RMB1,286,000).

(d) Loan to employees are unsecured, bearing interests at 6% (2015: 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 RMB3,700,000 is unsecured, interest bearing at 4.35% per annum and repayable within 1 year.

(g) Included in the advances is a loan of RMB30,000,000 is secured by 20% of the equity interest in an entity, interest bearing at 4.35% per annum and repayable within 1 year.

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2016 RMB'000	2015 RMB'000
Cash and bank balances	**246,748**	601,470
Less: Pledged deposits	**(18,398)**	(207,589)
	228,350	393,881

Cash and cash equivalents and pledged deposits denominated in:

	2016 RMB'000	2015 RMB'000
RMB	**227,717**	567,544
USD	**9,380**	22,824
HK$	**9,464**	10,707
SGD	**187**	395
	246,748	601,470

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.

28. TRADE AND BILLS PAYABLES

	2016 RMB'000	2015 RMB'000
Trade payables	**340,418**	310,222
Bills payables	**4,662**	—
	345,080	310,222

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

	2016 RMB'000	2015 RMB'000
Within 3 months	**303,336**	257,804
3 to 6 months	**24,517**	26,746
6 months to 1 year	**6,684**	6,759
1 to 2 years	**2,293**	15,859
over 2 years	**3,588**	3,054
	340,418	310,222

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.

29. OTHER PAYABLES AND ACCRUALS

	2016 RMB'000	2015 RMB'000
Receipt in advances from customers	80,182	69,188
Payable on acquisition of property, plant and equipment	56,136	55,407
Security deposits received from employees	710	710
Other tax payables	8,416	3,067
Others	26,761	21,327
	172,205	149,699

30. BORROWINGS

		2016			2015		
	Notes	Effective interest rate (%)	Maturity (year)	RMB'000	Effective interest rate (%)	Maturity (year)	RMB'000
Bank loans — Unsecured		4.35%–4.57%	2017	590,000	4.95%–5.88%	2016	565,000
Bank loans — Secured	(a)	—	—	—	1.54%–6.50%	2016	272,036
Bank loans — Secured and guaranteed	(b)	4.75%–4.79%	2017–2018	335,000	5.06%–5.89%	2016	130,000
Bank loans — Guaranteed	(c)	4.52%	2017	49,000	4.78%–6.80%	2016–2018	132,500
				974,000			1,099,536

30. BORROWINGS (continued)

The borrowings are repayable as follows:

	2016 RMB'000	2015 RMB'000
On demand or within one year	946,500	1,044,536
In the second year	27,500	27,500
In the third to fifth years, inclusive	—	27,500
	974,000	1,099,536
Less: Amount due for settlement within 12 months (shown under current liabilities)	(946,500)	(1,044,536)
Amount due for settlement after 12 months	27,500	55,000

Notes:

(a) The Group's bank loans were secured by pledge of bank deposits of RMB179,000,000 at 31 December 2015.

(b) The Group's bank loans were secured by pledge of certain of the Group's properties, plant and equipment amounting to RMB319,792,000 (2015: RMB323,575,000), prepaid land lease payments amounting to RMB19,126,000 (2015: Nil) and an amount of RMB147,400,000 (2015: RMB52,000,000) out of bank loans of RMB335,000,000 (2015: RMB130,000,000) were guaranteed by a non-controlling shareholder of a subsidiary.

(c) As at 31 December 2016, an amount of Nil (2015: RMB58,300,000) out of bank loans of RMB49,000,000 (2015: RMB132,500,000) were guaranteed by a non-controlling shareholder of a subsidiary.

31. DEFERRED INCOME

	2016 RMB'000	2015 RMB'000
Government grants:		
As at 1 January	8,171	9,025
Recognised as other income during the year	(854)	(854)
As at 31 December	7,317	8,171
Less: Current portion	(854)	(854)
Non-current portion	6,463	7,317

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.

32. SHARE CAPITAL

Ordinary shares of HK$0.1 each	Number of shares	HK$'000
Authorised:		
At 31 December 2016 and 2015	5,000,000,000	500,000

Issued and fully paid:	Number of shares	RMB'000
At 1 January 2015, 31 December 2015 and at 1 January 2016	2,728,638,000	238,438
Issue of shares (note (i))	545,727,600	45,473
At 31 December 2016	3,274,365,600	283,911

32. SHARE CAPITAL (continued)

	Number of shares in issue	Issued capital HK$'000	Issued capital RMB'000
At 31 December 2015	2,728,638,000	272,864	238,438
At 31 December 2016	3,274,365,600	327,437	283,911

Note:

(i) Issue of shares

Pursuant to the Company's announcement dated 23 March 2016, the Company and the subscriber entered into the a subscription agreement in relation to the issue of 545,727,600 subscription shares to the subscriber at a subscription price of HK$0.28 (RMB0.23) per subscription share. The issue of shares was completed on 12 April 2016 and the premium on the issue of subscription shares, amounting to approximately RMB81,851,000 was credited to the Company's share premium account.

33. 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.

33. 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 2016 are as follows:

	Share premium	Share option reserve	Accumulated losses	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2015	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
Issue of shares	81,851	—	—	81,851
Share-based payment	—	14,865	—	14,865
Total comprehensive loss for the year	—	—	(23,813)	(23,813)
At 31 December 2016	1,230,445	58,193	(166,550)	1,122,088

34. 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	2016	2015
Granted on 10 February 2010	(a)	**22,500,000**	22,500,000
Granted on 3 January 2012	(b)	**21,540,000**	22,140,000
Granted on 23 September 2014	(c)	**72,600,000**	73,560,000
Granted on 28 January 2015	(d)	**60,000,000**	60,000,000
Granted on 26 April 2016	(e)	**57,600,000**	—
Granted on 11 October 2016	(f)	**184,843,500**	—
		419,083,500	178,200,000

	2016		2015	
	Number of share options	Weighted average exercise price HK$	Number of share options	Weighted average exercise price HK$
Outstanding at the beginning of the year	**178,200,000**	**0.70**	119,340,000	0.84
Granted during the year	**242,443,500**	**0.41**	60,000,000	0.40
Forfeited during the year	**(1,560,000)**	**0.62**	(1,140,000)	0.58
Outstanding at the end of the year	**419,083,500**	**0.53**	178,200,000	0.70

34. SHARE-BASED PAYMENTS (continued)

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 during the year ended 31 December 2011.

34. 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%

1,260,000, 300,000, 300,000 and 600,000 share options out of the total 24,000,000 share options granted on 3 January 2012 were forfeited during the year ended 31 December 2013, 2014, 2015 and 2016 respectively.

34. 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 and 960,000 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 and 2016 respectively.

34. 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%

34. SHARE-BASED PAYMENTS (continued)

Notes: (continued)

(e) Pursuant to the Company's announcement on 26 April 2016, the Company granted to eligible participants a total of 57,600,000 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 5-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 26 April 2016, being the date of grant, was HK$0.39 per share.

The aggregate fair values of the options determined at the date of grant based on the Binomial model, was HK$10,646,000.

The following assumptions were used to calculate the fair values of share options granted on 26 April 2016:

Grant date share price (per share)	HK$0.39
Exercise price (per share)	HK$0.40
Contractual life	5 years
Expected volatility (%)	62.7%
Dividend yield (%)	0.00%
Risk-free interest rate (%)	1.06%

34. SHARE-BASED PAYMENTS (continued)

Notes: (continued)

(f) Pursuant to the Company's announcement on 11 October 2016, the Company granted to eligible participants a total of 184,843,500 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$0.415 per share.

The share options granted has a 5-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 11 October 2016, being the date of grant, was HK$0.405 per share.

The aggregate fair values of the options determined at the date of grant based on the Binomial model, was HK$35,350,000.

The following assumptions were used to calculate the fair values of share options granted on 11 October 2016:

Grant date share price (per share)	HK$0.405
Exercise price (per share)	HK$0.415
Contractual life	5 years
Expected volatility (%)	62.9%
Dividend yield (%)	0.00%
Risk-free interest rate (%)	0.70%

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 recognised in profit or loss with a corresponding adjustment to the share option reserve.

For the year ended 31 December 2016, the Group recognised share-based payments of RMB14,865,000 (2015: RMB12,391,000), 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 112,440,000 (2015: 69,160,000).

35. 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 2016, 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:

	2016 RMB'000	2015 RMB'000
Within one year	6,612	6,612
In the second to fifth years, inclusive	—	6,612
	6,612	13,224

Operating lease receivable as at 31 December 2016 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:

	2016 RMB'000	2015 RMB'000
Within one year	1,811	10,328
In the second to fifth years, inclusive	33,132	35,895
After fifth years	46,010	61,347
	80,953	107,570

35. COMMITMENTS (continued)

(b) Capital commitments

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

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for	22,994	20,594

(c) Investment commitments

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

	2016 RMB'000	2015 RMB'000
Contracted, but not provided for	39,927	38,024

36. RELATED PARTY TRANSACTIONS

(a) Related parties of the Group

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

Name of related party	Relationship with the Company
Shengli Steel Pipe Co., Ltd. ("Shengli Steel Pipe")	A company jointly controlled by a Director during the year ended 31 December 2015
Dome (Shandong)	A wholly owned subsidiary of Dome (HK)
Minfu Microfinance	An associate of the Company
Shenzhen Taihe	A joint venture of the Company

36. RELATED PARTY TRANSACTIONS (continued)

(b) Significant related party transactions

During the years ended 31 December 2016 and 2015, the Group had the following material transactions with related parties:

	2016 RMB'000	2015 RMB'000
Rental expense paid to Shengli Steel Pipe	—	4,473
Rental income received from Dome (Shandong)	5,909	5,981
Interest income from Dome (Shandong)	1,056	979

(c) Key management compensation

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

	2016 RMB'000	2015 RMB'000
Fees	1,191	947
Salaries, allowances and other benefits in kind	5,403	3,342
Performance related bonus	—	—
Social security contributions	233	108
Equity-settled share option expense	6,396	5,620
	13,223	10,017

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

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	220	325
Investments in subsidiaries	1,405,741	1,280,775
	1,405,961	1,281,100
CURRENT ASSETS		
Prepayments, deposits and other receivables	1,008	870
Cash and cash equivalents	2,039	8,040
	3,047	8,910
CURRENT LIABILITIES		
Other payables and accruals	3,009	2,387
	3,009	2,387
NET CURRENT ASSETS	38	6,523
NET ASSETS	1,405,999	1,287,623
EQUITY		
Issued capital	283,911	238,438
Reserves	1,122,088	1,049,185
Total equity	1,405,999	1,287,623

38. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 25 March 2017.

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 financial statements and restated/reclassified as appropriate, is set out below.

RESULTS

	Year ended 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	HK$'000	HK$'000	RMB'000
Revenue	**3,125,278**	1,953,960	2,009,062	2,556,717	1,920,855
(Loss)/profit before tax	**(264,732)**	(345,402)	(232,197)	24,080	71,959
Income tax credit/(expense)	**9,923**	(8,528)	(7,548)	(11,699)	(16,371)
(Loss)/profit for the year	**(254,809)**	(353,930)	(239,745)	12,381	55,588
Attributable to:					
Owners of the Company	**(210,493)**	(302,130)	(219,176)	17,826	62,775
Non-controlling interests	**(44,316)**	(51,800)	(20,569)	(5,445)	(7,187)
	(254,809)	(353,930)	(239,745)	12,381	55,588

ASSETS AND LIABILITIES

	As at 31 December				
	2016	2015	2014	2013	2012
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**3,287,722**	3,445,151	3,839,251	4,372,069	3,587,484
Total liabilities	**(1,518,358)**	(1,586,206)	(1,647,595)	(2,029,971)	(1,322,423)
Net assets	**1,769,364**	1,858,945	2,191,656	2,342,098	2,265,061
Attributable to:					
Owners of the Company	**1,620,802**	1,666,067	1,946,978	2,076,851	2,074,369
Non-controlling interests	**148,562**	192,878	244,678	265,247	190,692
	1,769,364	1,858,945	2,191,656	2,342,098	2,265,061