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 2017

CORPORATE PROFILE

SHENGLI OIL & GAS PIPE HOLDINGS LIMITED (the "Company") 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 products, natural gas and other related products.

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Ji Rongdi (alias Jee Rongdee) *(Chairman)*
Mr. Zhang Bizhuang *(Chief Executive Officer)*
Mr. Jiang Yong *(Vice President)*
Mr. Wang Kunxian *(Vice President)*
Ms. Han Aizhi *(Vice President)*
Mr. Song Xichen *(Vice President)*

Independent non-executive Directors

Mr. Chen Junzhu, *ACCA, CICPA*
Mr. Wu Geng
Mr. Qiao Jianmin

AUDIT COMMITTEE

Mr. Chen Junzhu *(Chairman), ACCA, CICPA*
Mr. Wu Geng
Mr. Qiao Jianmin

REMUNERATION COMMITTEE

Mr. Wu Geng *(Chairman)*
Mr. 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 and member of the nomination committee on 25 March 2017)
Mr. Zhang Bizhuang
Mr. Wu Geng
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

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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

STOCK CODE

1080

COMPANY WEBSITE

www.slogp.com

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB2,155,750,000, representing a decrease of approximately RMB969,528,000 when compared to 2016.
- Gross profit margin was approximately 5.3%, representing an increase of approximately 1.9 percentage points when compared to 2016.
- The loss for the year attributable to owners of the Company amounted to approximately RMB250,831,000, representing an increase of approximately RMB40,338,000 when compared to 2016.
- Basic loss per share attributable to owners of the Company was approximately RMB7.66 cents, representing an increase of approximately RMB0.92 cents when compared to 2016.

CHIEF EXECUTIVE OFFICER'S STATEMENT

Zhang Bizhuang
Executive Director &
Chief Executive Officer

Dear shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of the Company, I hereby present to you the audited results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2017 (the "Year under Review").

In 2017, the global economy experienced accelerated growth and stable recovery. With approximately 75% of state economies achieving positive growth and developed economies maintaining strong growth momentum, the report of the Organization for Economic Cooperation and Development showed that the growth pace of world GDP had reached 3.7%. Given continued efforts on the supply-side structural reform, China realised an economic growth of 6.9% and became the main driver of global economic growth on the back of further optimisation of economic structure and remarkable enhancement of development efficiency. Driven by macro-economy, the global demand for petroleum sustained strong growth, while the oil and gas industry fully rebounded, as evidenced by the steady recovery of international oil and gas prices in 2017.

For the domestic market, since the three leading petroleum companies, namely, China National Petroleum Corporation ("CNPC"), China Petrochemical Corporation ("SINOPEC") and China National Offshore Oil Corporation ("CNOOC") (the "Three Barrels"), mainly focused on the exploration and implementation of the structural reform of the oil and gas industry as well as the reform of state-enterprises during 2017, the number of major transnational and domestic oil and gas pipeline projects commencing construction remained below the benchmark. During the Year under Review, under the backdrop of underwhelming development of large-scale oil and gas pipeline projects, the Group actively adjusted its marketing strategy, made greater efforts on the expansion of local markets, and identified good investment opportunities in a proactive approach to diversify streams of revenue. Meanwhile, the Group took various cost-reducing measures to maintain its overall operating efficiency.

ACHIEVING PROMINENT SALES PERFORMANCE IN LOCAL MARKETS BY CONSOLIDATING CORE BUSINESSES AND EXPANDING INTO NEW BUSINESSES

Driven by the respective 13th Five-Year Plans for the development of petroleum and the development of natural gas (collectively the "Oil and Gas 13th FYPs"), the construction of domestic pipeline networks for crude oil, refined petroleum and natural gas was gaining pace. Local pipeline projects commenced construction in a row, which boosted the demand for products of the Group effectively. As one of the largest manufacturers of oil and natural gas pipelines in China, the Group excelled its peers in terms of brand, quality, technology and equipment, and also possessed extensive experience in and proven track record for the construction of domestic pipeline projects. Accordingly, the Group succeeded in expanding the sales in local markets during the Year under Review. 95% of the sales contracts and orders of Shandong Shengli Steel Pipe Co., Ltd.* (山東勝利鋼管有限公司) ("Shandong Shengli Steel Pipe") were derived from local markets during the Year under Review, which was a record-high percentage for the local markets component. Shengli Steel Pipe (Dezhou) Co., Ltd.* (勝利鋼管(德州)有限公司) ("Dezhou Shengli Steel Pipe") followed the strategy of consolidating core businesses while developing new businesses, and succeeded in securing 10 new customers while maintaining solid relationship with existing customers.

DIVERSIFICATION OF REVENUE SOURCES WHILE ACHIEVING COST REDUCTION TO ENSURE STABLE OPERATING EFFICIENCY

During the Year under Review, the Group implemented a series of major cost-reducing and efficiency-enhancing initiatives to ensure stable operating efficiency.

With regard to cost control of raw material, Shandong Shengli Steel Pipe, Dezhou Shengli Steel Pipe and Xinjiang Shengli Steel Pipe Co., Ltd.* (新疆勝利鋼管有限公司) ("Xinjiang Shengli Steel Pipe") increased its consumption of rolled coils and steel pipes inventories during the opportune time when steel price kept rising, so that the Group could effectively reduce the costs of the procurement of raw materials and expedite the collection of funds. Moreover, the Group centralised the procurement of raw materials from domestic sources and was able to increase bargaining power and enjoy greater discounts with bulk purchases. Thus, the costs of raw material procurement of the Group were efficaciously lowered.

As for labour costs control, the Group further improved the contracting system of certain positions of Shandong Shengli Steel Pipe to form an allocation mechanism that is correlated with efficiency and tallies with the amount of work. Under this system, employees are fully motivated, achieving notable results as to economic and management efficiency. During the Year under Review, through optimising its staff structure and positions setting, the Group greatly improved its working efficiency and managed to maximise efficiency with reduced staff.

In addition, on 2 June 2017, the Group acquired the entire equity interests of Bayston Investments Limited, the parent company of Shengli Steel Pipe Co., Ltd.* (勝利鋼管有限公司) ("Shengli Steel Pipe") for a consideration of RMB180,000,000, in order to secure the rights of use and ownership of all the properties of Shengli Steel Pipe, so as to reduce rental expenses and operating costs. The properties owned by Shengli Steel Pipe are used by Shandong Shengli Steel Pipe mainly for production and operation purposes and as offices. Through this acquisition, the Group minimised the uncertainty of rental expenses, increased the stability of principal operations, and expanded the financing sources.

While various production and operating costs were effectively controlled and saw gradual decline, the Group put greater efforts on the collection of overdue receivables and achieved satisfactory results during the Year under Review. For customers having prolonged overdue amounts without any repayment plan, the Group resorted to legal proceedings to effectively protect its legal rights. During the Year under Review, the Group collected 91% of the receivables overdue for more than 3 years.

Furthermore, Shandong Shengli Steel Pipe leased the rooftop of the pre-welding and precision-welding plant and the anti-corrosion plant (line 1) to a photovoltaic solar technology company during the Year under Review, which allowed efficient use of idle resources and generated stable rental income for the Group.

ADHERING TO INNOVATION TO MAINTAIN LEADING POSITION IN PIPE TECHNOLOGY

With the firm belief that an enterprise can only fight off its rivalries amid intensifying competition and remain competitive and vigorous with the predominance in core technologies, the Group has been adhering to innovation and attaching great importance to technological investment over the years.

During the Year under Review, Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) ("Hunan Shengli Steel Pipe") completed the single furnace trial production of X80-grade SAWL pipes with two specifications for Sino-Russian Eastern Natural Gas Pipeline Project (the "Sino-Russian Eastern Pipeline") in April 2017. It demonstrated Hunan Shengli Steel Pipe's leading SAWL pipes technology in the industry and its capability to produce X80-grade SAWL pipes of large-diameter and high wall thickness used in Sino-Russian Eastern Pipeline, adding to its technological reserve for producing same type of pipes in the future.

Besides, the Group obtained authorisation from the State Patent Office for two utility model patents, namely, "polishing head for pipe-end of small-diameter welded pipes" (小管徑焊接鋼管管端修磨機頭) and "application device of helical steel pipes" (螺旋鋼管套用裝置), during the Year under Review, while two applications for invention patents and two applications for utility model patents were successfully submitted and accepted. Furthermore, the Group published 20 theses in Welded Pipe and Tube (《焊管》), Steel Pipe (《鋼管》) as well as international academic conferences, in addition to taking part in the formulation and revision of 3 industry standards in

the oil and natural gas industry. These standards not only contribute to the regulation of the development of domestic pipes industry and the enhancement of the technology standard of products, but also strengthen the Group's influence in the industry and highlight its leading technology of submerged-arc welded pipes well ahead of its domestic peers.

OPTIMISING OUR INDUSTRIAL MIX TO ASSURE STABLE DEVELOPMENT IN THE LONG TERM

With a view to strengthening its resistance to risks and viability, the Group has been exploring and attempting new opportunities for business development in recent years in a bid to avoid the risk associated with the offering of a single product and broaden its revenue sources, providing sufficient cash flow for future expansion of core businesses.

On 27 September 2017, Zhejiang Shengguan Industrial Co., Ltd.* (浙江勝管實業有限公司) ("Zhejiang Shengguan"), an indirect wholly-owned subsidiary of the Company, entered into equity transfer and capital increase agreement with Shanghai Xinfeng Enterprise Group Co., Ltd.* (上海新鋒企業集團有限公司) ("Shanghai Xinfeng"), Xinfeng Holdings (Beijing) Co., Ltd.* (新鋒控股(北京)有限公司), Shanghai Xinfeng Tianyuan Investment Centre (Limited Partnership)* (上海新鋒天源投資中心(有限合夥)) and Beijing Zhongdian Jieneng Investment Centre (Limited Partnership)* (北京中電潔能投資中心(有限合夥)) to acquire 31.88% equity interests of Shanghai Xinfeng for a consideration of RMB261,420,000. Shanghai Xinfeng is principally engaged in clean energy businesses such as wind farm studies and design; development of turbines and spare parts of wind generators, machinery and equipment and software in computerised systems for wind farms, etc. The Group's non-controlling participation in the investment was a further move to set foot on the new energy businesses and was expected to generate continuous and stable income.

Other than the new energy sector, the Group also actively identified business opportunities in the bulk trading industry to develop its bulk trading business of crude oil and refined petroleum during the Year under Review. On 10 August 2017, the Group acquired 45% equity interests of Shanghai Guoxin Industrial Co., Ltd.* (上海國心實業有限公司) ("Shanghai Guoxin") for a consideration of RMB225,000,000. Shanghai Guoxin is principally engaged in the sales of nonferrous metals, metal materials, petroleum products, fuel products, mineral products, chemical feedstock and products, coal and charcoal. Such acquisition was expected to broaden the Group's revenue sources, which conformed to the long term development strategy of the Group.

During the Year under Review, the Group made timely adjustment to its asset structure as it moved to dispose of companies which had prolonged unsatisfactory performance to independent third parties, including Shengli Investment Company ("Shengli Investment"), Dome Integration Housing Industrial Holding Co. Ltd. ("Dome BVI"), Shandong Muxin Investment Co., Ltd.* (山東沐鑫投資有限公司) ("Shandong Muxin") and Gaoqing Xian Minfu Microfinance Co., Ltd.* (高青縣民福小額貸款有限公司) ("Minfu Microfinance"), based on careful consideration of market developments and the operating conditions of our investment projects. According to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the above transactions do not constitute discloseable transactions. Shengli Investment was established by the Group for the purpose of investing in well exploration and drilling projects in the early years. Owing to the impact of policies and developments in the oil industry, the investment was unlikely to be recouped in the near future. In order to reduce expenses, the Group disposed of Shengli Investment's equity interests in full for a price of USD1 on 20 June 2017. Dome BVI was a joint venture in which the Group had held 40% shares, the subsidiary of which was principally engaged in the production, installation and sales of integrated modular houses. Owing to constraints in the national economic environment and technologies for integrated houses, Dome BVI had been experiencing great difficulties in its production operations over the years, with continued losses since its commencement of production. To reduce loss, the Group transferred the entire equity interests of Dome BVI held by it for a price of USD80 on 27 June 2017. On 18 September 2017 and 27 September 2017, the Group transferred the entire equity interests of Shandong Muxin and Minfu Microfinance which had prolonged unsatisfactory performance at a price of RMB6.50 million (while Shandong Muxin waived the debt owed by Shandong Shengli Steel Pipe of RMB5.80 million) and RMB9.15 million, respectively.

ADAPTING TO THE MARKET TREND AND SEIZING THE OPPORTUNITIES TO SPEED UP DEVELOPMENT

The PRC government has promulgated a series of favourable policies to support the development of oil and gas industry and facilitate the construction of oil and gas pipeline networks. According to the Medium-/Long-term Planning for Oil and Gas Pipeline Networks ("Planning for Oil and Gas Pipeline Networks") announced by National Development and Reform Commission ("NDRC") in July 2017, it is targeted that the scale of oil and gas pipeline networks will reach 169,000 and 240,000 kilometres in 2020 and 2025, respectively, representing an increase of 50% and 110% as compared to 2015. The new golden decade for the construction of long-distance oil and gas pipelines will soon commence, during which the number of transnational and domestic large-scale oil and gas pipeline projects commencing construction will gradually pick up. The construction of large-scale pipeline projects will be expedited as the industry returns to a growth cycle.

Moreover, Nuer • Baikeli, the director of the National Energy Administration, expressly indicated in the National Energy Working Conference that proactive initiatives shall be carried out to drive the reform on pipeline network system in 2018. It is believed that the restructuring of the oil and gas sector will be beneficial to the Group in securing large-scale pipeline projects as the pipeline networks will then be open to third parties.

Shandong Shengli Steel Pipe, a wholly-owned subsidiary of the Group, has over 40 years of experience in producing SAWH pipes and has been a distinguished supplier for the Three Barrels over the years. Hunan Shengli Steel Pipe, a holding subsidiary of the Group with advanced machine units for SAWL pipes and SAWH pipes, became a grade A supplier of CNPC and was qualified as an official supplier of CNOOC during the Year under Review. It also entered into purchase framework agreement with SINOPEC, which has reinforced the Group's overall competitive strengths and conducive to the Group's future tender for transnational and domestic major pipeline projects.

Looking forward, we will strive to overcome difficulties by fully equipping ourselves. On one hand, we will maintain our competitiveness of core technologies of pipes, while grasping any opportunities with a forward-looking vision, so as to achieve breakthroughs in the development of core businesses. On the other hand, we will actively explore new projects for partnership to avoid the risks associated with the fluctuations in pipe industry, in a bid to realise the strategy aimed at the sustainable, stable and healthy development of the Group.

Last but not least, I would like to take this opportunity to express gratitude to our shareholders and customers for their long-term support and trust. Thanks are also owed to our management and staff who join hands with us to forge a better future. By seizing opportunities to accelerate its development and maximise efficiency, the Group will continue to deliver long-term value to shareholders.

Zhang Bizhuang
Executive Director & Chief Executive Officer

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The global energy industry has entered a new cycle amid recovery of global economy which has prompted significant increase in international oil prices. On domestic level, the introduction of numerous national policies since the beginning of the year fully demonstrates the government's determination in facilitating the healthy development of the oil and gas industry. Under the effective leadership of the Oil and Gas 13th FYPs in tandem with the support of various national policies, the demand in the oil and gas industry has gradually ramped up with accelerating trend. While the planned additions of domestic oil and gas pipelines as set out in the 13th FYPs are 35% higher than that in the 12th FYPs, the dependency on external oil and gas resources is on the rise. As such, the demand for the construction of large-scale pipeline projects is expected to be driven, and therefore the Group is confident that the industry will return to a growth cycle and embrace an upcoming construction boom. Nevertheless, since the number of large-scale pipeline projects of the Three Barrels that had actually commenced construction was very limited during the Year under Review, the Group has set its sales and business focus on domestic local markets. By actively developing new customers on the basis of consolidating existing customers, the

Group has continued to build up its market influence and accumulated extensive experience in local pipeline projects. During the Year under Review, 95% of the manufacturing orders of the Group were contributed by local markets.

As at 31 December 2017, 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.

During the Year under Review, the Group also actively explored business opportunities in such industries as new energy industry and bulk trading industry, with the aim of identifying investment projects that are attuned to the development strategies of the Group and able to contribute stable revenue to strengthen cash flow. Meanwhile, the Group spread the risk of excessive concentration of business and enhanced its revenue and profitability with diversified business mix.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year of 2017, the Group recorded a decrease in total revenue, amounting to approximately RMB2,155,750,000 (2016: approximately RMB3,125,278,000) as compared to the corresponding period of last year. Gross profit margin increased to approximately 5.3% as compared to the corresponding period of last year. The losses attributable to owners of the Company amounted to approximately RMB250,831,000 (2016: approximately RMB210,493,000) during the Year under Review. The Board does not recommend the payment of any final dividend.

Pipes Business

As one of China's largest oil and gas pipe manufacturers with leading product quality, top-rated facilities, advanced technique and a comprehensive quality check and assurance system, the Group is one of the few suppliers of large-diameter pipes designed to sustain the high pressure in long-distance transportation of crude oil, refined petroleum and natural gas, including SAWH pipes and SAWL pipes. It is also the only privately-owned enterprise qualified to supply to major oil and natural gas pipeline projects in China.

As at 31 December 2017, pipes produced by the Group with a cumulative total length of approximately 28,650 kilometres were used in the world's oil and gas pipelines, of which 94.8% were installed in the PRC, while the remaining 5.2% were installed overseas.

During the Year under Review, major SAWH pipes projects that the Group participated in were, amongst others, West-East Gas Pipeline III Zhongwei — Jingbian Connection Line (西氣東輸三線中衛 — 靖邊聯絡線工程), Hangjin Banner — Yinchuan Natural Gas Pipeline Connection Line (杭錦旗至銀川天然氣管道聯絡線), Gas Pipeline Project

in North Outer Ring, Linyi City (臨沂市北外環輸氣管道工程), 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), Hangjin Banner — Otog Banner Natural Gas Pipeline Connection Line (杭錦旗至鄂托克旗天然氣管道聯絡線).

Major anti-corrosion pipeline projects undertaken by the Group included West-East Gas Pipeline III Zhongwei — Jingbian Connection Line (西氣東輸三線中衛 — 靖邊聯絡線工程), Hangjin Banner — Yinchuan Natural Gas Pipeline Connection Line (杭錦旗至銀川天然氣管道聯絡線), 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), West Hunan Natural Gas Pipeline Truck Line Project (Longshan-Huayuan Section) (大湘西天然氣管道支幹線項目(龍山—花垣段)), Hangjin Banner — Otog Banner Natural Gas Pipeline Connection Line (杭錦旗至鄂托克旗天然氣管道聯絡線).

SAWL pipes manufactured by the Group were used in Lanshan, Rizhao — Ju County Oil Pipeline Project (日照嵐山—莒縣項目輸油管線工程), 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), Hangjin Banner — Yinchuan Natural Gas Pipeline Connection Line (杭錦旗至銀川天然氣管道聯絡線) and Wenchuan — Tibet Bridge Project (汶川至西藏公路大橋項目).

For the year ended 31 December 2017, total revenue of the Group's pipes business amounted to approximately RMB915,189,000 (2016: approximately RMB748,380,000) and accounted for approximately 42.5% of the Group's total revenue, comprising: (1) revenue from the sale of SAWH pipes of approximately RMB714,755,000 (2016: approximately RMB560,711,000); (2) revenue from the sale of SAWL pipes of approximately RMB121,358,000 (2016:

approximately RMB112,206,000); (3) revenue from the anti-corrosion processing business of approximately RMB79,076,000 (2016: approximately RMB74,582,000); (4) revenue from the cold-formed section steel business of RMBNil (2016: approximately RMB881,000).

Trading business

For the year ended 31 December 2017, the total revenue of the Group's trading business amounted to approximately RMB1,240,561,000, accounting for approximately 57.5% of the Group's total revenue (2016: approximately RMB2,376,898,000).

FUTURE PROSPECTS

At the beginning of 2017, the NDRC announced the Oil and Gas 13th FYPs to further elaborate the previously announced Planning for Energy Development during the 13th FYP (《能源發展「十三五」規劃》) and clearly depict the blueprint for oil and gas development during the 13th FYPs. Subsequently in July, the NDRC and the National Energy Administration announced the Planning for Oil and Gas Pipeline Networks, which set out the medium and long-term goal of the development of oil and gas pipeline networks. It is targeted that the scale of nationwide oil and gas pipeline networks will reach 240,000 kilometres in 2025 and all the major pipeline networks for refined petroleum and natural gas in provincial cities in the country will be connected. It also encouraged various capital investments from the society in oil and gas infrastructure, construction and operation.

According to the Certain Opinions on the Deepening of Oil and Gas Structural Reform (《關於深化石油天然氣體制改革的若干意見) (the "Opinion on the Deepening of Oil and Gas Structural Reform") published by the Central Government of the Chinese Communist Party and the State Council in May 2017, it is expected that the state's demand for petroleum will reach approximately 600 million tonnes and that for natural gas will reach 550 billion cubic metres in 2030. Given the continuous rise of crude oil consumption, China's dependency on external petroleum supply has increased substantially, with the import volume of petroleum reaching a historical high of 419,570,000 tonnes and the dependency on external supply exceeding 65% to reach 67.4% in 2017. As such, the Group believes that the construction of transnational large-scale pipelines will be expedited with the support of government policies.

As detailed in the Opinion on the Deepening of Oil and Gas Structural Reform, in the critical period of energy transformation of the country, oil and gas pipeline networks are not only essential parts connecting the upstream and downstream of the oil and gas industry, but also crucial components of the modern energy system and the modern comprehensive transportation system. It also emphasised the fortified determination of carrying out oil and gas structural reform, which will greatly change the dominance in the construction of oil and gas pipeline networks to allow privately-owned enterprises with technological strengths and qualifications to receive more pipeline orders. As the only privately-owned enterprise qualified to supply to major oil and natural gas pipeline projects in China, we believe that this will be a good chance to promote the Group's core businesses to a new level.

As announced by CNPC on 13 December 2017, the progress of the Sino-Russian Eastern Pipeline has fully sped up as the eleven sections of the Sino-Russian Eastern Pipeline (Heihe — Changling Section) have commenced construction at the same time. Starting construction in June 2015, the Sino-Russian Eastern Pipeline will be built in phases, i.e. North-Section (Heihe — Changling), Mid-Section (Changling — Yongqing) and South-Section (Yongqing — Shanghai). The North-Section is expected to begin operation in October 2019 and the pipeline will be fully opened by the end of 2020. The Sino-Russian Eastern Pipeline begins at the Sino-Russian border in Heihe City, Heilongjiang Province and ends at Shanghai, running through 9 provincial cities including Heilongjiang, Jilin, Inner Mongolia, Liaoning, Hebei, Tianjin, Shandong, Jiangsu and Shanghai, with a total length of 3,371 kilometres. It is the pipeline which has the largest diameter and is able to sustain the highest pressure designed for the long-distance transmission of natural gas.

In 2018, the construction of 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), the Ordos — Anping — Cangzhou Gas Pipeline Project (鄂爾多斯—安平—滄州輸氣管道工程) (the "Ordos — Anping — Cangzhou Pipeline") and the Rizhao — Puyang — Luoyang Crude Oil Pipeline Project (日照—濮陽—洛陽原油管道工程) (the "Rizhao — Puyang — Luoyang Pipeline") of SINOPEC has fully commenced.

The Xinjiang Gas Pipeline involves mainly the construction of 1 trunk line and 6 branch lines with a total length of 8,400 kilometres. The trunk line begins at Mori County, Changji Prefecture, Xinjiang and ends at Shaoguan, Guangdong Province, with a designed gas transmission capacity of 30 billion cubic metres per year. In the fourth quarter of 2017, tender process of the first phase of the Xinjiang Gas Pipeline was initiated progressively. On 22 January 2018, the first phase of trunk line construction (Qianjiang — Shaoguan Section) of the Xinjiang Gas Pipeline officially commenced. Being the first phase of trunk line construction, Qianjiang — Shaoguan Section starts at Qianjiang, Hubei Province as the hub station and ends at Shaoguan, Guangdong Province as the terminal, passing through 8 cities of 3 provinces, i.e. Hubei, Hunan and Guangdong, with a total length of 830 kilometres.

The Ordos — Anping — Cangzhou Pipeline officially approved by the NDRC in July 2017 has a total investment amount of RMB34.4 billion. It comprises 1 trunk line and 5 branch lines, with a total length of about 2,293 kilometres. Spanning from the west at Shenmu, Shaanxi Province to the east at Cangzhou, Hebei Province and from the south at Puyang, Henan Province connected to Wen-23 gas storage bank to the north at Xiong'an New Area, the pipeline passes through five provinces, namely Inner Mongolia, Shaanxi, Shanxi, Hebei and Henan, with a designed gas transmission capacity of 30 billion cubic metres per year.

The Rizhao — Puyang — Luoyang Pipeline starts at Lanshan, Rizhou as the origin station and ends at Luoyang as the terminal, with a total length of 768 kilometres. As planned, both of the oil pipeline project and the oil refining restructuring project will be completed in 2019. Establishment of project department and project startup meeting for pipeline construction was held in Zoucheng, Shandong Province on 16 August 2017.

According to the planned transmission of oil and gas in Shandong Province during the 13th FYPs, the long-distance transmission pipeline for crude oil in the province will reach 5,200 kilometres or above, the pipeline for refined petroleum will reach 4,000 kilometres or above and the trunk line of the pipeline for natural gas will reach 8,950 kilometres by 2020. It is anticipated that pipeline networks for crude oil, refined petroleum and natural gas consisting of over 20 new pipelines will be built, and the newly constructed pipeline networks in the province will reach over 7,000 kilometres by the end of the 13th FYPs.

Looking forward, with major national projects such as the Xinjiang Gas Pipeline, the Ordos — Anping — Cangzhou Pipeline, the Rizhao — Puyang — Luoyang Pipeline, the Sino-Russian Eastern Pipeline, The Inner Mongolia Western Coal-based Natural Gas Transmission Pipeline (蒙西煤制天然氣外輸管道) commencing construction, together with the advancement of the construction of oil and gas pipeline networks in Shandong Province, the oil and gas industry will enter into a new phase of expansion. Leveraging on the strengths afforded by its production capacity, the advantageous geographic location of its subsidiaries, its pioneering pre-welding and precision-welding technologies and the proven track record for the supply to large-scale national pipeline projects of CNPC and SINOPEC, in particular its qualification as long-term stable supplier of SINOPEC, the Group is confident in constantly securing orders for large-scale national pipeline projects.

As at the end of February 2018, the Group has obtained orders amounted to approximately 180,000 tonnes, which was similar to the total production volume for the year of 2017 and nearly 70% of which were derived from national pipeline projects, laying a solid foundation for the Group in delivering prominent results in 2018.

FINANCIAL REVIEW

Revenue

The Group's sales revenue decreased from approximately RMB3,125,278,000 for the year ended 31 December 2016 to approximately RMB2,155,750,000 for the year ended 31 December 2017. For the year ended 31 December 2017, amongst the Group's two core business segments, (1) pipes business reported revenue of approximately RMB915,189,000 (2016: approximately RMB748,380,000) mainly due to the increase in the proportion of sales of pipes which have a higher revenue contribution as compared to pipes processing, and the increase in selling prices of certain pipes due to the inclusion of transportation fees and service fees during the Year under Review as compared to last year; and (2) trading business recorded a revenue of approximately RMB1,240,561,000 (2016: approximately RMB2,376,898,000) due to the suspension of metal commodity trading business in accordance with business realignment since October 2017.

Cost of sales

The Group's cost of sales decreased by approximately 32.4% from approximately RMB3,017,488,000 for the year ended 31 December 2016 to approximately RMB2,041,103,000 for the year ended 31 December 2017. During the year ended 31 December 2017, amongst the Group's principal business segments, (1) cost of sales for pipes business was approximately RMB818,003,000 (2016: approximately RMB676,303,000); and (2) cost of sales for trading business was approximately RMB1,223,100,000 (2016: approximately RMB2,341,185,000).

Gross profit

The gross profit of the Group increased from approximately RMB107,790,000 for the year ended 31 December 2016 to approximately RMB114,647,000 for the year ended 31 December 2017. Meanwhile, the gross profit margin of the Group increased to approximately 5.3% for the year ended 31 December 2017 from approximately 3.4% for the year ended 31 December 2016, mainly due to the decline in trading business with lower gross profit margin as a percentage of total revenue during the Year under Review, and the increase in gross profit of pipes business as a result of the inclusion of transportation fees and service fees in the selling prices of certain pipes.

Other income and gains

Other income and gains of the Group decreased from approximately RMB24,656,000 for the year ended 31 December 2016 to approximately RMB18,843,000 for the year ended 31 December 2017, which was mainly due to the decrease in rental income and interest income of subsidiaries of the Company during the Year under Review.

Selling and distribution costs

Selling and distribution costs of the Group increased from approximately RMB37,239,000 for the year ended 31 December 2016 to approximately RMB81,267,000 for the year ended 31 December 2017. Such increase in selling and distribution costs was principally due to the substantial increase in transportation fees and service fees borne by the Group during the Year under Review.

Administrative expenses

The Group's administrative expenses decreased by approximately 3.4% from approximately RMB213,684,000 for the year ended 31 December 2016 to approximately RMB206,389,000 for the year ended 31 December 2017. The main reason was that the Group resorted to legal proceedings to collect four long-term significant receivables and reversed some of the allowance for receivables during the Year under Review.

Finance costs

The Group incurred finance costs of approximately RMB46,484,000 for the year ended 31 December 2017 (2016: approximately RMB41,945,000). The finance costs comprised mainly interest incurred from bank loans. The change in finance costs was principally due to the increase in lending rate during the Year under Review.

Impairment loss recognised

The Group recorded an impairment loss of approximately RMB88,504,000 (2016: approximately RMB76,698,000) for the year ended 31 December 2017. During the Year under Review, the Group recognised impairment loss in respect of three prepayments and other receivables and certain of the related investment companies and property, plant and equipment, including the impairment loss recognised on advance to Dome BVI, a joint venture, as disclosed in the 2017 interim report of the Company. The Group recognised impairment loss in respect of advance to a joint venture and certain of the property, plant and equipment in the previous year.

Net current liabilities

As at 31 December 2017, the Group had net current liabilities of approximately RMB279,569,000. The main reason was that the Group made new investments and transferred some of the current assets to non-current assets in response to industry realignment, resulting in net current liabilities during the Year under Review. According to the planning for national oil and gas pipeline networks and the industry cycle, large-scale pipeline projects have commenced construction progressively since the end of 2017. Currently, the Group has secured some of the orders, which are mainly the orders for processing raw materials for SINOPEC. By organising funds and devising reasonable production plan, the Group is confident in grasping every opportunity, so as to ensure stable production operation in the long term.

Loss on disposal of investments

The Group recorded loss on disposal of investments of approximately RMB8,197,000 (2016: Nil) for the year ended 31 December 2017, mainly due to the loss incurred upon disposal of several companies with unsatisfactory results including Shengli Investment, Dome BVI, Shandong Muxin and Minfu Microfinance in accordance with business realignment during the Year under Review.

Income tax expenses

Hong Kong profits tax is calculated at the rate of 16.5% (2016: 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% (2016: 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% (2016: 25%). Income tax expenses for the year ended 31 December 2017 was approximately RMB1,694,000 (2016: income tax credit of approximately RMB9,923,000).

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 2017 was approximately RMB310,816,000, compared to the audited total comprehensive loss of the Group of approximately RMB231,770,000 for the year ended 31 December 2016.

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 2016 and 2017 were primarily related to the purchase of property, plant and equipment.

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

	2017 RMB'000	2016 RMB'000
Purchase of property, plant and equipment	**89,401**	30,923
Prepaid land lease payments	**94,160**	—
	183,561	30,923

Indebtedness

Borrowings

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

	2017 RMB'000	2016 RMB'000
Borrowings:		
Bank loans — Unsecured	**289,003**	590,000
Bank loans — Secured	**177,000**	—
Bank loans — Secured and guaranteed	**307,500**	335,000
Bank loans — Guaranteed	**49,000**	49,000
Other loans — Unsecured	**69,380**	—
Total	**891,883**	974,000

Included in the borrowings is approximately RMB891,883,000 repayable within one year. The following table sets forth the annual interest rates of the Group's loans:

	2017 %	2016 %
Effective interest rate per annum	4.52–10	4.35–4.79

As at 31 December 2017, the borrowings of the Group amounted to approximately RMB891,883,000 (2016: approximately RMB974,000,000).

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 2017, the Group's revenue, expenses, assets and liabilities were primarily denominated in Renminbi. The Directors consider that the Group currently has limited foreign exchange exposure and has not entered into any hedging arrangement for its foreign exchange risk. The Group will closely monitor the foreign currency movement and will assess the need to adopt any measures in relation to foreign exchange risk from time to time.

Utilisation of the proceeds from 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 from the initial public offering increased to approximately RMB1,269,900,000. As at 31 December 2017, approximately RMB1,269,900,000 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"), except for upgrading a cold-formed section steel production line as this project has been suspended.

As at 31 December 2017, the accumulated use of the capital raised is set out below:

	Amount allocated RMB'000	**Actual expenditure as at 31 December 2017** RMB'000
Projects		
Construction of one set of SAWH pre-welding and precision-welding production lines with production capacity of 360,000 tonnes per annum and two anti-corrosion coating production lines	440,000	525,267
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	264,000
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	480,633
Total	1,269,900	1,269,900

The Group will continue to pursue a prudent treasury management policy and is in a sound liquidity position with sufficient cash to cope with daily operation and capital requirement for future development.

Liquidity And Financial Resources And Capital Structure

As at 31 December 2017, cash and cash equivalents of the Group amounted to approximately RMB36,065,000 (2016: approximately RMB228,350,000). As at 31 December 2017, the Group had borrowings of approximately RMB891,883,000 (2016: approximately RMB974,000,000). Details of borrowings are set out in note 30 to the consolidated financial statements.

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 2017, the gearing ratio of the Group was approximately 44.2% (2016: approximately 41.3%). The Group continued to maintain an appropriate gearing ratio to ensure proper balance between the continuity and flexibility of funding.

Foreign Exchange Risk

In 2017, the Group's businesses are mainly transacted and settled in functional currency of subsidiaries, so the Group has limited 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.

Treasury Policy

The Group adopts a prudent financial management strategy in implanting the treasury policy. Thus a sound liquidity position was able to be maintained throughout the Year under Review. The Group continues to assess its customers' credit and financial positions so as to minimize the credit risks. In order to control the liquidity risks, the Board would closely monitor the liquidity position of the Group to ensure its assets, liabilities and other flow structure committed by the Group would satisfy the funding needs from time to time.

Change of Auditor

The Group did not change the auditor over the past three years.

Significant Investments Held, Material Acquisitions and Disposals

Except for what has been disclosed in this report, the Group had no significant investments held or material acquisitions and disposals of subsidiaries, associates and joint ventures during the year ended 31 December 2017.

Future Plans for Material Investments or Capital Assets

Except for what has been disclosed in this report, the Group did not have other plans for material investments or capital assets at the date of this report.

* *For identification purpose only*

EXECUTIVE DIRECTORS

Mr. Ji Rongdi (alias Jee Rongdee), aged 50, has been serving as our executive Director and the chairman of 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 business. During the period from 2004 to 2013, he served as the chairman of Sunlight Group Inc. (陽光集團) and was mainly responsible for the international trading of new energy sources and the manufacturing and sales of photovoltaic silicon wafers. From 2000 to 2004, Mr. Ji served as the general manager in Cute International Group in the United States and was responsible for the operation of the company and re-export business of stationery. During the period from 1994 to 1999, he worked as the regional manager of AXA Group in the United States and was mainly responsible for financial sales.

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 50, 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 Shengli Steel Pipe. He was an executive director of Shandong Shengli Steel Pipe from December 2007 to December 2008 and has been the chairman of Shandong Shengli Steel Pipe since December 2008. 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 50, has been appointed as our executive Director and vice president in 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 49, 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 2008. 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 50, 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 Shengli Steel Pipe 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 2008. 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 53, 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 2016. 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 a legal executive 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) and standing deputy president of Zhejiang University Returned Overseas Entrepreneurs' Club* (浙江大學海歸校友創業俱樂部). Mr. Qiao has profound experience in advanced technology and new energy. He acted as the technical director in China Seven Star New Energy Holdings Limited from 2014 to 2016. 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 recognised as an outstanding talent specializing in professional science in the United States in 1994 and was recognised as a preeminent scientist by the government of the United States. He founded International Technology University (國際科技大學) which was engaged in hi-tech education for postgraduates in the United States in 1994.

COMPANY SECRETARY

Mr. Hong Kam Le, aged 38, 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 consolidated financial statements for the year ended 31 December 2017.

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries of the Company are set out in note 19 to the consolidated financial statements.

Further discussion and analysis of the Group's principal activities as required by Schedule 5 of the Companies Ordinance, including a review of the Group's business and an indication of likely development in the Group's business, can be found in the Management Discussion and Analysis set out on page 10 to 20 of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

Business Risk and Uncertainties

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. The underwhelming development of transnational and domestic major oil and gas pipeline projects commencing construction has resulted in a significant impact on the Group's pipes business in the Year under Review. Please also refer to the Chief Executive Officer's Statement for further discussion on the business risk we face and how we manage such risk.

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.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the shareholders by reason of their holding the Company's securities.

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 received certification of the ISO 14001 environmental management system, which shows that the Group's environmental management system has reached international standard. 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 with the relevant laws and regulations that have a significant impact on the business and operation of the Company and its subsidiaries in all material aspects.

DIVIDENDS

The Board does not recommend the payment of final dividend for the year ended 31 December 2017. No shareholder has waived or agreed to waive any dividends.

CLOSURE OF REGISTER OF MEMBERS

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

From Monday, 18 June 2018 to Friday, 22 June 2018, 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 Friday,15 June 2018.

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 47.1% (2016: 48.9%) of the total sales and the top five suppliers accounted for approximately 58.6% (2016: 72.4%) of the total purchases for the year. In addition, the Group's largest customer accounted for approximately 10.7% (2016: 10.7%) of the total sales and the Group's largest supplier accounted for approximately 27.4% (2016: 31.2%) 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.

RELATIONSHIPS WITH EMPLOYEES, AND KEY CUSTOMERS AND SUPPLIERS

The Group is in good relationship with its employees and we have policies in place to ensure our employees' remuneration, and welfare package as competitive among other players in the industry and they receive adequate 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 2017, the Group's donation to charity organisations amounted to RMB110,000 in aggregate, all of which has been applied towards poverty, education, elderly, medical and disability assistance and other charitable activities.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2017 and the financial positions of the Company and the Group as at 31 December 2017 are set out in the consolidated financial statements on pages 70 to 151.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the share premium, contributed surplus and profit which in aggregate amounted to approximately RMB1,096 million as at 31 December 2017 (2016: approximately RMB1,122 million). Details of the reserves of the Company as at 31 December 2017 are set out in note 33 to the consolidated financial statements.

FIXED ASSETS

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the Year under Review are set out in note 32 to the consolidated 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)*
Mr. Zhang Bizhuang *(Chief Executive Officer)*
Mr. Jiang Yong *(Vice President)*
Mr. Wang Kunxian *(Vice President)*
Ms. Han Aizhi *(Vice President)*
Mr. Song Xichen *(Vice President)*

Independent Non-executive Directors

Mr. Chen Junzhu, *ACCA, CICPA*
Mr. Wu Geng
Mr. Qiao Jianmin

Pursuant to article 84(1) of the articles of association of the Company, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation. Each of the Directors has entered into a service contract or an appointment letter with the Company for a term of three years. Pursuant to the articles of association, Mr. Zhang Bizhuang, Ms. Han Aizhi and Mr. Wu Geng 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 2017, 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 2017
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 as defined below.

Save as disclosed above, as at 31 December 2017, 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 2017, the Group secured bank loan of approximately RMB177,000,000 (31 December 2016: nil) by pledge of certain of the property, plant and equipment amounting to approximately RMB243,274,000 (31 December 2016: nil) and certain of the land lease amounting to approximately RMB170,687,000 (31 December 2016: nil).

As at 31 December 2017, an amount of approximately RMB72,800,000 (31 December 2016: RMB147,400,000) out of bank loans of the Group of approximately RMB307,500,000 (31 December 2016: RMB335,000,000) was guaranteed by a non-controlling shareholder of a subsidiary. At the same time, the bank loans were secured by pledge of certain of the property, plant and equipment amounting to approximately RMB342,077,000 (31 December 2016: approximately RMB319,792,000) and certain of the land lease amounting to approximately RMB41,237,000 (31 December 2016: RMB19,126,000).

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 share option scheme shall remain in force and effect in all other respects. All options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the New Scheme. An offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1.0 in total by the grantee. The exercise period of the share options granted is determined by the Board 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 share option scheme or any other schemes of the Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. The Company shall send to our shareholders a circular containing the details and information required under the 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. 300,000 share options held by an employee were lapsed following his departure in 2017.

On 3 January 2012, the Board granted 24,000,000 share options to 81 directors and senior management of the Company and its subsidiaries and other personnel approved by the Board, including four Directors of the Company, at an exercise price of HK$0.80 per share under the Old Scheme. 1,260,000 share options held by three members of the management were lapsed following their departure in 2013. 300,000 share options held by two employees were lapsed following their departure in 2014. 300,000 share options held by two employees were lapsed following their departure in 2015. 600,000 share options held by four employees were lapsed following their departure in 2016. 420,000 share options held by two employees were lapsed following their departure in 2017.

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. 2,760,000 share options held by three employees were lapsed following their departure in 2017.

On 28 January 2015, the Board granted 60,000,000 share options to 24 directors and senior management of the Company and its subsidiaries and other personnel approved by the Board, including four Directors of the Company, at an exercise price of HK$0.40 per share under the Old Scheme. 2,700,000 share options held by two employees were lapsed following their departure in 2017.

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. 65,443,500 share options held by two employees were lapsed following their departure in 2017.

For the year ended 31 December 2017, movements of options granted under the share option schemes are set out below:

Name	Capacity	Exercise price	Outstanding as at 1 January 2017	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2017	Approximate percentage of the issued share capital of the Company as at 31 December 2017	Notes
Directors									
Ji Rongdi (alias Jee Rongdee)	Beneficial owner	HK$0.415	1,200,000	0	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	1,200,000	0	0	0	1,200,000	0.037%	(6)
Jiang Yong	Beneficial owner	HK$0.40	1,200,000	0	0	0	1,200,000	0.037%	(5)
Jiang Yong	Beneficial owner	HK$0.415	1,200,000	0	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	1,200,000	0	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	1,200,000	0	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	1,200,000	0	0	0	1,200,000	0.037%	(6)
Chen Junzhu	Beneficial owner	HK$0.40	1,200,000	0	0	0	1,200,000	0.037%	(5)
Chen Junzhu	Beneficial owner	HK$0.415	1,200,000	0	0	0	1,200,000	0.037%	(6)
Wu Geng	Beneficial owner	HK$0.40	1,200,000	0	0	0	1,200,000	0.037%	(5)
Wu Geng	Beneficial owner	HK$0.415	1,200,000	0	0	0	1,200,000	0.037%	(6)
Qiao Jianmin	Beneficial owner	HK$0.40	1,200,000	0	0	0	1,200,000	0.037%	(5)
Qiao Jianmin	Beneficial owner	HK$0.415	1,200,000	0	0	0	1,200,000	0.037%	(6)
Employees									
Employees	Beneficial owner	HK$2.03	9,300,000	0	0	300,000	9,000,000	0.275%	(1)
Employees	Beneficial owner	HK$0.80	17,220,000	0	0	420,000	16,800,000	0.513%	(2)
Employees	Beneficial owner	HK$0.50	53,400,000	0	0	2,760,000	50,640,000	1.547%	(3)
Employees	Beneficial owner	HK$0.40	45,900,000	0	0	2,700,000	43,200,000	1.319%	(4)
Employees	Beneficial owner	HK$0.40	52,800,000	0	0	0	52,800,000	1.613%	(5)
Employees	Beneficial owner	HK$0.415	174,043,500	0	0	65,443,500	108,600,000	3.317%	(6)
Total			419,083,500	0	0	71,623,500	347,460,000	10.612%	

Notes:

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

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

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

As at 31 December 2017, 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%
Shandong Peninsula Ocean Blue Economic Investment Company Limited	Interest in controlled corporation(4)	248,058,000	7.576%
Du Jichun	Interest of spouse(5)	99,300,000	3.033%
	Interest in controlled corporation(6)	153,130,224	4.677%

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.

(4) Shandong Peninsula Ocean Blue Economic Investment Company Limited holds 100% the issued share capital of Waynew Investments Limited. It is therefore deemed to be interested in the shares of the Company held by Waynew Investments Limited by virtue of the SFO.

(5) Ms. Du Jichun is the spouse of Mr. Zhang Bizhuang. By virtue of the provisions of Divisions 2 and 3 of Part XV of the SFO, Ms. Du Jichun is deemed to be interested in all the shares in which Mr. Zhang Bizhuang was interested.

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

Save as disclosed above, as at 31 December 2017, 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 or underlying shares 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, including contracts for the provision of services, had been entered into between the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December 2017.

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 2017, the Company has maintained a public float of not less than 25% as required under the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

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

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any material contingent liabilities (2016: nil).

HUMAN RESOURCES AND REMUNERATION POLICIES FOR DIRECTORS AND SENIOR MANAGEMENT

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 2017, the Group employed a work force of 1,155 employees (including Directors). The total salaries and related costs (including the Directors' fees and labour cost) amounted to approximately RMB92,595,000 (2016: approximately RMB83,840,000). During the year ended 31 December 2017, there were no arrangements under which any Director waived or agreed to waive any emoluments.

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 of the Company (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.

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 consolidated financial statements.

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 37 to the consolidated financial statements constituted connected transactions under Chapter 14A of the Listing Rules. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules with respect to such transactions.

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.

Subsequent to the expiring of the terms of the framework purchase agreement, on 10 January 2018, Hunan Shengli Steel Pipe entered into the new framework purchase agreement with Hunan Xiangtian and Hunan Lianyuan, pursuant to which Hunan Xiangtian and Hunan Lianyuan agreed to supply certain steel plates and steel coils to Hunan Shengli Steel Pipe, respectively. The terms of the new framework purchase agreements are from 10 January 2018 to 31 December 2018.

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 2017.

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 (Chapter 622, Laws of Hong Kong) when the Report of the Directors prepared by the Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance (Chapter 622, Laws of Hong Kong).

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 ANDA CPA Limited 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.

At the annual general meeting held on 16 June 2017, the Company re-appointed ZHONGHUI ANDA as auditors of the Company for the year ended 31 December 2017.

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

25 March 2018

* *For identification purposes only*

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. The Company has applied the principles and code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules.

During the period from 1 January 2017 to 24 March 2017, 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 has complied with the code provision A.5.1 of the Code and all other provisions set out in the Code. For details, please refer to the announcement of the Company dated 26 March 2017.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted 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 2017, 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)*
Mr. Zhang Bizhuang *(Chief Executive Officer)*
Mr. Jiang Yong *(Vice President)*
Mr. Wang Kunxian *(Vice President)*
Ms. Han Aizhi *(Vice President)*
Mr. Song Xichen *(Vice President)*

Independent non-executive Directors

Mr. Chen Junzhu, *ACCA, CICPA*
Mr. Wu Geng
Mr. Qiao Jianmin

The biographical details of all Directors are set out in pages 21 to 24 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 2017, the Board held 12 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 under Review, 12 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)*	12/12
Mr. Zhang Bizhuang *(Chief Executive Officer)*	12/12
Mr. Jiang Yong *(Vice President)*	12/12
Mr. Wang Kunxian *(Vice President)*	12/12
Ms. Han Aizhi *(Vice President)*	12/12
Mr. Song Xichen *(Vice President)*	12/12
Independent non-executive Directors	
Mr. Chen Junzhu	12/12
Mr. Wu Geng	12/12
Mr. Qiao Jianmin	12/12

Appointment, Re-election and Removal of Directors

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

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

Independent non-executive Directors

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

Continuous Professional Development

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. Mr. Chen Junzhu serves as the chairman. The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2017.

During the year ended 31 December 2017, 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	2/2

During the year ended 31 December 2017, the Audit Committee had performed the following functions: reviewing the half-year and full year results, approving the audit proposal of the auditors, reviewing the report of the auditors, formulating the plan of internal audit for 2017, reviewing the internal audit report summary for 2016 and the internal audit report for the first half of 2017, as well as reviewing the risk management and internal control system.

Remuneration Committee

Composition

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 2017, 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. Chen Junzhu	1/1
Mr. Ji Rongdi (alias Jee Rongdee) (appointed as member of Remuneration Committee on 25 March 2017)	0/0
Mr. Zhang Bizhuang (resigned as member of Remuneration Committee on 25 March 2017)	1/1

During the year ended 31 December 2017, 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.

The Company has adopted the New Scheme on 20 May 2016. The purpose of the New Scheme is to give the Eligible Persons (as mentioned on page 31 of this annual 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 2017 is set out below:

Remuneration band	Number of individuals
0 – HK$1,000,000	3
HK$1,000,001 – HK$1,300,000	3
HK$1,300,001 – HK$1,600,000	4
HK$1,600,001 or above	2

Nomination Committee

Composition

The nomination committee of the Company (the "Nomination Committee") was established on 21 November 2009. The revised terms of reference and procedures of the Nomination Committee were approved by the Board and came into effect on 11 November 2013 to ensure they continue to meet the needs of the Company and to ensure compliance with the Code. The principal duties of the Nomination Committee of the Company include: (a) reviewing the structure, size and diversity of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's strategy; (b) identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; (c) assessing the independence of independent non-executive Directors of the Company; (d) making recommendations to the Board on the appointment or re-appointment of Directors of the Company and reviewing the succession planning for the chairman, the chief executive officer of the Group as well as the senior management, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future, together with the Board, as appropriate; (e) reviewing the board diversity policy as appropriate, and reviewing the measurable objectives that the Board has set for implementing the board diversity policy and the progress on achieving the objectives; (f) attending annual general meetings of the Company and answering questions raised in the annual general meetings. 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 2017, the Nomination Committee held one meeting. Details of the attendance of each member are as follows:

Name of Nomination Committee Member	Attendance
Mr. Qiao Jianmin *(Chairman)* (appointed as chairman and member of Nomination Committee on 25 March 2017)	0/0
Mr. Zhang Bizhuang	1/1
Mr. Wu Geng	1/1
Mr. Ji Rongdi (alias Jee Rongdee) (resigned as chairman and member of Nomination Committee on 25 March 2017)	1/1

During the year ended 31 December 2017, 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 2017. The Company recognises 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 2017, the Company had achieved all of the five measurable objectives of the board diversity policy listed above. The Nomination Committee will continue to monitor the implementation of the board diversity policy and review the policy as appropriate to ensure its effectiveness.

CORPORATE GOVERNANCE FUNCTION

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

ACCOUNTABILITY AND AUDIT

Directors' and Auditors' Responsibilities for the Consolidated Financial Statements

The Board acknowledges its responsibility to prepare the Group's consolidated financial statements for each financial period to give a true and fair view of the financial position, results and cash flows of the Group for the period. In preparing the consolidated financial statements for the year ended 31 December 2017, the Board has selected appropriate accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the consolidated financial statements on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

AUDITORS' REMUNERATION

During the year ended 31 December 2017, the remuneration paid or payable to ZHONGHUI ANDA CPA Limited, in respect of their audit and non-audit services were as follows:

Type of Services	**Total** HKD'000
Audit Services	2,100
Non-audit Services	
— Review on interim report	560
— Report on continuing connected transactions	15
— Review on preliminary results announcement	15
— Circular on major transactions	196
— Special audit and statutory audit for subsidiaries	124
Total	3,010

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 independent 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 at any time, 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 under Review, one general meeting was held. Details of the attendance of each Director are as follows:

Name of Director	**Attendance**
Executive Directors	
Mr. Ji Rongdi (alias Jee Rongdee) *(Chairman)*	1/1
Mr. Zhang Bizhuang *(Chief Executive Officer)*	1/1
Mr. Jiang Yong *(Vice President)*	1/1
Mr. Wang Kunxian *(Vice President)*	1/1
Ms. Han Aizhi *(Vice President)*	1/1
Mr. Song Xichen *(Vice President)*	1/1
Independent non-executive Directors	
Mr. Chen Junzhu, *ACCA, CICPA*	1/1
Mr. Wu Geng	1/1
Mr. Qiao Jianmin	1/1

Shareholders' Rights

Procedures by which shareholders may convene extraordinary general meetings and putting forward proposals at general meetings

Pursuant to the articles of association of the Company, any one or more shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right to vote at general meetings of the Company shall at all times have the right, by written requisition to the Board (by mail to the Company at Room 2111, 21st Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong or by email to ir@slogp.com), to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two months after the deposit of such requisition. If, within 21 days after such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

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

Procedures by which enquiries may be put to the Board

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

Significant Change in Constitutional Documents

During the year ended 31 December 2017, there has been no significant change in the Company's constitutional documents.

Company Secretary

Mr. Hong Kam Le is the Company Secretary of the Company, who is a representative of an external service provider. Mr. Hong's main contact person is Ms. Han Aizhi, the executive Director of the Company. Mr. Hong confirmed that he had taken not less than 15 hours' relevant professional training during the Year under Review.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THIS REPORT

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 2017, 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, sales 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, 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 environmental and social 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 domestic and international experience to manage its manufacturing, sales and anti-corrosion processing of pipes, with a view to enhancing employees' awareness as to quality, environment and occupational health and safety. 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 and Hunan have established management systems for quality, environment and occupational health and safety. 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, occupational health and safety 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, identification and assessment of environmental factors, assessment of compliance, 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 of the Group. 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 of the Group in 2017 were approximately 16,600 tonnes (2016: approximately 17,200 tonnes) of carbon dioxide equivalent.

Total hazardous waste produced (A1.3)

The total hazardous waste produced in 2017 was approximately 130 tonnes (2016: approximately 510 tonnes). Approximately 0.712 kilogram of hazardous waste was produced for each tonne of products made.

Total non-hazardous waste produced (A1.4)

The total non-hazardous waste produced in 2017 was approximately 150 tonnes (2016: approximately 180 tonnes). Approximately 0.785 kilogram of hazardous waste was produced for each tonne of products made.

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

The greenhouse gas generated indirectly by the Group's consumption of electricity and water and discharge of domestic sewage was approximately 16,100 tonnes (2016: approximately 16,600 tonnes), representing 96.94% 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)".

Results achieved:

Remarkable outcome was attained for emissions reduction as the carbon dioxide equivalent of total greenhouse gas emissions decreased by approximately 3.86% in 2017 as compared to 2016.

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 polluted 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 approximately 23% in 2017 as compared to 2016.

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 direct and indirect energy consumption in total in 2017 was approximately 25,800 kilowatt hours in ’000s (2016: approximately 25,100 kilowatt hours in ’000s) and the energy consumption per tonne of product was approximately 0.138 kilowatt hour in ’000s (2016: approximately 0.1 kilowatt hour in ’000s).

Water consumption in total and intensity (A2.2)

The water consumption in total in 2017 was approximately 182,000 cubic metres (2016: approximately 208,000 cubic metres) and the water consumption per tonne of product was approximately 0.97 cubic metre (2016: approximately 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 material consumption to raise energy efficiency during production process;

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

3. Raising employees’ awareness on energy saving through trainings, putting up slogans, etc.;

4. Close cooperation with power companies in accordance with production forecast and application to electrical companies for capacity reduction based on planned electricity consumption when necessary.

Results achieved

Total energy consumption of the Group decreased by approximately 0.27% in 2017 as compared to 2016.

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

Description of water source that is fit for purpose

The water source that is fit for purpose 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 in 2017.

Plan of 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.;

4. Implementation of various measures such as organising water-saving corporate activities.

Results achieved

Total water consumption of the Group decreased by approximately 7.74% as compared to 2016. Shandong Shengli Steel Pipe was awarded the title of "provincial water-saving enterprise" because of its great water efficiency.

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 2017, a total of approximately 153,900 (2016: approximately 162,600) pipe-end protectors, approximately 2,600 (2016: approximately 25,500) pipe-end seals and approximately 253,300 (2016: 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 resulted from production process 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 which have a significant impact on the Company. 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 statutory 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 discrimination 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 mental 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 2017, the Group had a total of 1,155 (2016: 1,204) employees, with men-to-women ratio of 3:1 (2016: 5:2). The ratio of office management staff to production and operating staff was 1:3 (2016: 1:3). Approximately 87.1% of the employees were stationed at Shandong and Hunan production bases. Approximately 93.59% of the employees were 50 years old or below, while approximately 35.15% of employees were 30 years old or below.

In 2017, the turnover rate of the Group's employees was approximately 15.32%, mainly representing the loss of production and operating staff in Shandong and Hunan production bases , most of whom were male employees aged under 30.

Aspect B2: Health and Safety

The Group has formulated provisions on the administration of occupational 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 which have a significant impact on the Company. 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 occupational health and safety conditions and raising the occupational health and safety awareness of employees.

Occupational 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 occupational health and safety targets to its frontline production teams and related management departments. Departmental targets are set and monitored as planned, while occupational 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 2017, the Group did not experience any fatal work-related incidents or accidents involving serious injury. 2 employees suffered from slight work-related injury, representing approximately 0.17% of the total number of employees, which resulted in 15 work-loss days.

Aspect B3: Development and Training

Pursuant to relevant requirements, the Group compares the knowledge 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. The implementation rate of training programmes in 2017 was 100%. Internal trainings carried out in 2017 include safety education training (level 3), position skills training and rules on safe operation. External trainings carried out in 2017 include training for special equipment operating personnel, product standard training, metallographic analytical skills training, and training for administrator of hazardous chemical substances.

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 Implementation Rules on the Labour Contract Law of the PRC (《中華人民共和國勞動合同法實施條例》), 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 which have a significant impact on the Company. 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 is required to enter 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 condition.

Operating Practices

Aspect B5: Supply Chain Management

The Group has formulated the Procedures for Control of Suppliers (《供方控制程序》), which sets 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 2017, the Group had approximately 211 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 Company's ESG standards. With regard to suppliers in possession of administrative licences of regulations and safety technical guidelines, the Group not only examines the quality, environment and safety certification and its validity of the suppliers, but also confirms the qualification of them.

The Group exerts influence on the environmental, occupational 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 of the Company.

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 which have a significant impact on the Company to strengthen the control over production process and the control over environmental, occupational 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.

In 2017, the Group did not experience 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 2017, a total of two utility model patents were obtained and another two applications for invention patent and two applications for utility model patent were successfully submitted and accepted, while 20 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 2017, 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.

In 2017, the Group did not receive any complaints in respect of products and services:

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 sets 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 which have a significant impact on the Company, 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 2017, 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 2017, the Group made external donation of RMB110,000, 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

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 website and public mailbox, setting up promotional showcase, organising appreciation meeting for employees and arranging exchanges and visits.

ZHONGHUI

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 70 to 151, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2 to the consolidated financial statements which mentions that the Group incurred loss attributable to owners of the Company of approximately RMB250,831,000 for the year ended 31 December 2017 and as at 31 December 2017 the Company had net current liabilities of approximately RMB279,569,000. These conditions indicate a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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. In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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 RMB882,774,000 and RMB255,492,000, respectively as at 31 December 2017 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.

INVESTMENT IN ASSOCIATES

Refer to Note 22 to the consolidated financial statements

The Group tested the amount of investment in associates for impairment. This impairment test is significant to our audit because the balance of investment in associates of RMB386,865,000 as at 31 December 2017 is 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 included, among others:

— Evaluating the Group's impairment assessment;

— Assessing the financial information of the associates; and

— Obtaining and checking to evidence to support the Group's impairment assessment.

We consider that the Group's impairment test for investment in associates is supported by the available evidence.

TRADE AND BILLS RECEIVABLES

Refer to Note 25 to the consolidated financial statements

The Group tested the amount of trade and bills receivables for impairment. This impairment test is significant to our audit because the balances of trade and bills receivables of RMB523,612,000 as at 31 December 2017 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 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, 24 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	9	**2,155,750**	3,125,278
Cost of sales and services		**(2,041,103)**	(3,017,488)
Gross profit		**114,647**	107,790
Other income and gains	9	**18,843**	24,656
Selling and distribution costs		**(81,267)**	(37,239)
Administrative expenses		**(206,389)**	(213,684)
Other expenses		**(1,263)**	(6,183)
Share of losses of:			
Joint ventures		**(2,376)**	(9,015)
Associates		**(2,596)**	(12,414)
Impairment loss recognised		**(88,504)**	(76,698)
Loss on disposal of investments, net		**(8,197)**	—
Gain on bargaining purchase of associates		**9,966**	—
Finance costs	10	**(46,484)**	(41,945)
LOSS BEFORE TAX	11	**(293,620)**	(264,732)
Income tax (expense)/credit	13	**(1,694)**	9,923
LOSS FOR THE YEAR		**(295,314)**	(254,809)
Other comprehensive income/(loss) that may be subsequently reclassified to profit or loss:			
Exchange differences reclassified to profit or loss on disposal of subsidiaries		**436**	—
Exchange differences on translation of financial statements of foreign operations		**(15,938)**	23,039
		(15,502)	23,039
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(310,816)**	(231,770)
LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(250,831)**	(210,493)
Non-controlling interests		**(44,483)**	(44,316)
		(295,314)	(254,809)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(266,333)**	(187,454)
Non-controlling interests		**(44,483)**	(44,316)
		(310,816)	(231,770)
LOSS PER SHARE (RMB cents)	14		
— Basic		**(7.66)**	(6.74)
— Diluted		**(7.66)**	(6.74)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**882,774**	922,711
Prepaid land lease payments	17	**249,299**	162,713
Goodwill	18	**2,525**	2,525
Deposits paid for acquisition of investments	20	**203,214**	197,505
Investment in joint ventures	21	**—**	5,647
Investment in associates	22	**386,865**	36,356
Deferred tax assets	23	**22,927**	26,788
		1,747,604	1,354,245
CURRENT ASSETS			
Inventories	24	**169,906**	196,158
Trade and bills receivables	25	**523,612**	982,103
Prepayments, deposits and other receivables	26	**213,978**	504,699
Prepaid land lease payments	17	**6,193**	3,769
Pledged deposits	27	**20,096**	18,398
Cash and cash equivalents	27	**36,065**	228,350
		969,850	1,933,477
CURRENT LIABILITIES			
Trade and bills payables	28	**152,104**	345,080
Other payables and accruals	29	**189,564**	172,205
Borrowings	30	**891,883**	946,500
Tax payable		**15,014**	19,397
Deferred income	31	**854**	854
		1,249,419	1,484,036
NET CURRENT (LIABILITIES)/ASSETS		**(279,569)**	449,441
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,468,035**	1,803,686

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT LIABILITIES			
Deferred income	31	5,609	6,463
Borrowings	30	—	27,500
Deferred tax liabilities	23	343	359
		5,952	34,322
NET ASSETS		1,462,083	1,769,364
EQUITY			
Equity attributable to owners of the Company			
Issued capital	32	283,911	283,911
Reserves	33	1,078,072	1,336,891
		1,361,983	1,620,802
Non-controlling interests		100,100	148,562
Total equity		1,462,083	1,769,364

The consolidated financial statements on pages 70 to 151 were approved and authorised for issue by the Board of Directors on 24 March 2018 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 2017

	Attributable to owners of the Company									
	Issued capital RMB'000	Share premium* RMB'000	Statutory surplus reserve* RMB'000	Share option reserve* RMB'000	Other reserve* RMB'000	Foreign currency translation reserve* RMB'000	Retained profits* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
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
At 1 January 2017	**283,911**	**1,230,106**	**62,484**	**58,193**	**(9)**	**32,041**	**(45,924)**	**1,620,802**	**148,562**	**1,769,364**
Acquisition of non-controlling interests (Note 35(c))	**—**	**—**	**—**	**—**	**—**	**—**	**(5,021)**	**(5,021)**	**(3,979)**	**(9,000)**
Share-based payment	**—**	**—**	**—**	**12,535**	**—**	**—**	**—**	**12,535**	**—**	**12,535**
Total comprehensive loss for the year	**—**	**—**	**—**	**—**	**—**	**(15,502)**	**(250,831)**	**(266,333)**	**(44,483)**	**(310,816)**
At 31 December 2017	**283,911**	**1,230,106**	**62,484**	**70,728**	**(9)**	**16,539**	**(301,776)**	**1,361,983**	**100,100**	**1,462,083**

* 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 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(293,620)	(264,732)
Adjustments for:			
Finance costs		46,484	41,945
Interest income		(885)	(7,293)
Share of losses of joint ventures		2,376	9,015
Share of losses of associates		2,596	12,414
Depreciation		119,280	122,023
Amortisation of prepaid land lease payments		5,150	3,738
Gain on disposal of property, plant and equipment, net		(11)	(66)
Gain on bargaining purchase of associates		(9,966)	—
Gain on disposal of subsidiaries, net		(3,892)	—
Loss on disposal of an associate		12,090	—
Gain on disposal of a joint venture		(1)	—
Reversal of allowance for trade receivables		(19,627)	(6,515)
Impairment loss recognised on investment in a joint venture		—	3,270
Impairment loss recognised on investment in an associate		10,428	—
Impairment loss recognised on property, plant and equipment		9,973	22,773
Impairment loss recognised on advance to a joint venture		8,943	48,224
Impairment loss recognised on other receivables		59,159	2,431
Write down of inventories		1,518	3,034
Share option expenses		12,535	14,865
Recognise of deferred income		(854)	(854)
Operating (loss)/profit before working capital changes		(38,324)	4,272
Change in inventories		24,734	(40,244)
Change in trade and bills receivables		481,859	(199,994)
Change in prepayments, deposits and other receivables		224,475	(56,714)
Change in trade and bills payables		(193,008)	34,858
Change in other payables and accruals		12,405	22,506
Cash generated from/(used in) operations		512,141	(235,316)
Income tax (paid)/refunded		(2,232)	430
Net cash generated from/(used in) operating activities		509,909	(234,886)

For the year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of associates		(375,000)	—
Purchase of property, plant and equipment		(90,780)	(30,923)
Additions of prepaid land lease payments		(94,160)	—
Proceeds from disposal of items of property, plant and equipment		96	88
Proceeds from disposal of joint ventures		1	—
Proceeds from disposal of an associate		9,150	—
Net cash inflow arising from disposal of subsidiaries	35(a)(b)	6,268	—
Change in pledged deposits		(1,698)	189,191
Interest received		885	7,293
Repayments from advance to entities		—	18,567
Advance to entities		—	(33,717)
Advance to a joint venture		—	(19,498)
Deposits paid for acquisition of investments		—	(44,850)
Net cash (used in)/generated from investing activities		(545,238)	86,151
CASH FLOWS FROM FINANCING ACTIVITIES			
New borrowings		837,883	919,000
Repayment of loans		(920,000)	(1,053,273)
Purchase of non-controlling interests	35(c)	(9,000)	—
Interest paid		(43,006)	(41,945)
Proceeds from issue of shares		—	127,324
Net cash used in financing activities		(134,123)	(48,894)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(169,452)	(197,629)
Cash and cash equivalents at beginning of year		228,350	393,881
Effect of foreign exchange		(22,833)	32,098
Cash and cash equivalents at end of year		36,065	228,350

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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 the Hong Kong Special Administrative Region ("Hong Kong") and the People's Republic of China (the "PRC") are located at Room 2111, 21st Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, 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.

The Group incurred loss attributable to owners of the Company of approximately RMB250,831,000 for the year ended 31 December 2017, the Group had net current liabilities of approximately RMB279,569,000 as at 31 December 2017. These conditions indicate that the existence of a material uncertainty may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

These financial statements have been prepared on a going concern basis, the validity of which depends upon the financial support of the major shareholders, at a level sufficient to finance the working capital requirements of the Group. The major shareholders have agreed to provide adequate funds for the Group to meet its liabilities as they fall due. The directors are therefore of the opinion that it is appropriate to prepare the financial statements on a going concern basis. Should the Group be unable to continue as a going concern, adjustments would have to be made to the financial statements to adjust the value of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities, respectively.

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 2017. 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 the 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation (continued)

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

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

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

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

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

Joint arrangements

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint arrangements (continued)

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill

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

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

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

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

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

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

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

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

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

(c) Translation on consolidation

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

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

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

Share-based payments

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

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

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

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

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

Related parties

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

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

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

  (ii) has significant influence over the Group; or

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

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

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

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

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

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

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

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

  (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 2017. 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 approximately RMB9,973,000 (2016: approximately RMB22,773,000) 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.

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

Key sources of estimation uncertainty (continued)

(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 2017 were approximately RMB497,174,000 (2016: approximately RMB971,932,000) and approximately RMB213,978,000 (2016: approximately RMB504,699,000), respectively.

(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 RMB386,865,000 (2016: approximately RMB36,356,000) and Nil (2016: approximately RMB5,647,000), 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 2017 was approximately RMB22,927,000 (2016: approximately RMB26,788,000).

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

Key sources of estimation uncertainty (continued)

(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 2017 was approximately RMB169,906,000 (2016: approximately RMB196,158,000).

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:

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(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 2017, if the RMB had weakened 10 per cent (2016: 10 per cent) against the Hong Kong dollar ("HK$") with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB9,000 (2016: approximately RMB30,028,000) 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 (2016: 10 per cent) against the Hong Kong dollar with all other variables held constant, consolidated profit after tax for the year would have been approximately RMB9,000 (2016: approximately RMB30,028,000) higher, arising mainly as a result of the foreign exchange gain on certain trade receivables and trade payables denominated in Hong Kong dollar.

(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 2017, 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 approximately RMB744,000 (2016: approximately RMB1,074,000) 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 approximately RMB744,000 (2016: approximately RMB1,074,000) 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.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(c) Credit risk (continued)

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 29% (2016: approximately 17%) and approximately 55% (2016: approximately 48%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

(d) Liquidity risk

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

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

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

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

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(d) Liquidity risk (continued)

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

2017

	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	**915,426**	**—**	**—**	**—**	**915,426**
Trade and bills payables	**152,104**	**—**	**—**	**—**	**152,104**
Financial liabilities included in other payables and accruals	**117,445**	**—**	**—**	**—**	**117,445**
	1,184,975	**—**	**—**	**—**	**1,184,975**

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)

(e) Categories of financial instruments

	2017 RMB'000	2016 RMB'000
Financial assets:		
Loans and receivables		
Trade and bills receivables	**523,612**	982,103
Financial assets included in prepayments, deposits and other receivables	**66,529**	87,046
Pledged deposits	**20,096**	18,398
Cash and cash equivalents	**36,065**	228,350
	646,302	1,315,897
Financial liabilities:		
Financial liabilities at amortised cost		
Trade and bills payables	**152,104**	345,080
Financial liabilities included in other payables and accruals	**117,445**	83,607
Borrowings	**891,883**	974,000
	1,161,432	1,402,687

(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 2017, the Group has two (2016: two) reportable segments which comprise of 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, polyethylene, lead minerals, lead concentrate, zinc minerals, zinc concentrate, zinc oxide and zinc calcine ("Trading Business"). 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.

8. OPERATING SEGMENT INFORMATION (continued)

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 taking into account the allocation of interest income, finance costs, impairment loss recognised on investment in a joint venture, impairment loss recognised on advance to a joint venture, impairment loss recognised on investment in an associate, gain on disposal of subsidiaries, loss on disposal of an associate, gain on disposal of 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 associates and items not directly related to the core business of the segments.

Segment revenue and results

For the year ended 31 December 2017

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:				
Sales to external customers	915,189	1,240,561	—	2,155,750
Intersegment sales	38,399	—	(38,399)	—
Total revenue	953,588	1,240,561	(38,399)	2,155,750
Segment results	(61,350)	(108,062)		(169,412)
Interest income				885
Impairment loss recognised on advance to a joint venture				(8,943)
Impairment loss recognised on investment in an associate				(10,428)
Gain on disposal of subsidiaries, net				3,892
Loss on disposal of an associate				(12,090)
Gain on disposal of a joint venture				1
Unallocated expenses				(51,041)
Finance costs				(46,484)
Loss before tax				(293,620)

8. OPERATING SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

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 assets

As at 31 December 2017

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment assets	**1,997,203**	**35,841**	**—**	**2,033,044**
Unallocated assets				**684,410**
Total consolidated assets				**2,717,454**

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

8. OPERATING SEGMENT INFORMATION (continued)

Segment liabilities

As at 31 December 2017

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment liabilities	**340,111**	**3,665**	**—**	**343,776**
Unallocated liabilities				**911,595**
Total consolidated liabilities				**1,255,371**

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

8. OPERATING SEGMENT INFORMATION (continued)

Other segment information

2017

	Pipes Business RMB'000	Trading Business RMB'000	Unallocated RMB'000	Consolidated RMB'000
Share of loss of:				
Joint ventures	—	—	(2,376)	(2,376)
Associates	—	—	(2,596)	(2,596)
Write down of inventories	1,518	—	—	1,518
(Reversal of allowance)/ allowance for trade receivables	(52,391)	32,764	—	(19,627)
Impairment loss recognised on advance to a joint venture	—	—	8,943	8,943
Impairment loss recognised on other receivables	8,086	51,073	—	59,159
Impairment loss recognised on investment in an associate	—	—	10,428	10,428
Gain on disposal of subsidiaries, net	—	—	(3,892)	(3,892)
Loss on disposal of an associate	—	—	12,090	12,090
Gain on disposal of a joint venture	—	—	(1)	(1)
Depreciation and amortisation	124,009	304	117	124,430
Investment in associates	—	—	386,865	386,865
Capital expenditure	183,559	2	—	183,561

8. OPERATING SEGMENT INFORMATION (continued)

Other segment information (continued)

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

Geographical information

(a) Revenue from external customers

	For the year ended 31 December 2017 RMB'000	2016 RMB'000
Mainland China	**2,141,735**	3,111,538
Other countries	**14,015**	13,740
	2,155,750	3,125,278

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

8. OPERATING SEGMENT INFORMATION (continued)

Other segment information (continued)

(b) Non-current assets

	As at 31 December	
	2017 RMB'000	2016 RMB'000
Mainland China	1,482,350	1,129,704
Hong Kong	242,327	197,753
	1,724,677	1,327,457

The non-current asset information above is based on the location of assets and excludes deferred tax assets.

Information about major customers

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

	Segment	2017 RMB'000	2016 RMB'000
Customer A	Trading business	225,050	333,319
Customer B	Trading business	239,409	325,739
Customer C	Trading business	—*	316,613
Customer D	Trading business	—*	334,685

* Revenue from these customers did not exceed 10% of total revenue in the respective years.

For the year ended 31 December 2017

9. REVENUE, OTHER INCOME AND GAINS

	2017 RMB'000	2016 RMB'000
Revenue		
Sales of steel pipes	836,113	673,798
Trading business	1,240,561	2,376,898
Rendering of services related to pipe business	79,076	74,582
	2,155,750	3,125,278
Other income		
Interest income	885	7,293
Rental income	1,107	6,525
Others	7,820	1,943
	9,812	15,761
Other gains		
Gain on sales of materials	4,333	7,192
Gain on disposal of property, plant and equipment, net	11	66
Others	4,687	1,637
	9,031	8,895
	18,843	24,656

10. FINANCE COSTS

	2017 RMB'000	2016 RMB'000
Interest of borrowings	46,484	41,945

11. LOSS BEFORE TAX

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

	2017 RMB'000	2016 RMB'000
Cost of inventories sold*	**1,982,410**	2,965,588
Cost of services	**58,693**	51,900
Employees benefits expenses (including directors' remuneration (note 12)):		
Wages, salaries and bonus	**73,343**	63,692
Performance related bonus	**—**	—
Pension scheme contributions	**5,542**	4,128
Welfare and other expenses	**1,175**	1,155
Equity-settled share option expense	**12,535**	14,865
	92,595	83,840
Depreciation of property, plant and equipment	**119,280**	122,023
Amortisation of prepaid land lease payments	**5,150**	3,738
Reversal of allowance for trade receivables	**(19,627)**	(6,515)
Impairment loss recognised on investment in a joint venture	**—**	3,270
Impairment loss recognised on property, plant and equipment	**9,973**	22,773
Impairment loss recognised on advance to a joint venture	**8,943**	48,224
Impairment loss recognised on other receivables	**59,159**	2,431
Impairment loss recognised on investment in an associate	**10,428**	—
Gain on disposal of property, plant and equipment, net	**(11)**	(66)
Gain on disposal of subsidiaries, net (Note 35(a)(b))	**(3,892)**	—
Loss on disposal of an associate	**12,090**	—
Gain on disposal of a joint venture	**(1)**	—
Operating lease payments	**12,736**	8,372
Exchange loss, net	**4,465**	19,378
Auditors' remuneration	**1,776**	1,540

* Included in the cost of inventories sold is an amount of approximately RMB1,518,000 (2016: approximately RMB3,034,000) related to the write down of inventories for the year ended 31 December 2017.

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 2017					
		Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Performance related bonus RMB'000	Social security contribution RMB'000	Equity-settled share option expense RMB'000	Total remuneration RMB'000
Executive Directors:							
Zhang Bizhuang	(i)	260	1,327	—	56	263	1,906
Jiang Yong		260	1,040	—	—	180	1,480
Han Aizhi		260	1,054	—	48	230	1,592
Song Xichen		260	1,054	—	48	230	1,592
Wang Kunxian		260	1,047	—	49	230	1,586
Ji Rongdi, alias Jee Rongdee	(ii)	260	1,343	—	46	107	1,756
Independent non-executive Directors:							
Chen Junzhu		347	—	—	—	180	527
Wu Geng		347	—	—	—	180	527
Qiao Jianmin	(iv)	347	—	—	—	180	527
		2,601	6,865	—	247	1,780	11,493

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

(a) (continued)

		For the year ended 31 December 2016					
		Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Performance related bonus RMB'000	Social security contribution RMB'000	Equity-settled share option expense RMB'000	Total remuneration RMB'000
Executive Directors:							
Zhang Bizhuang	(i)	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	(ii)	62	600	—	32	29	723
Independent non-executive Directors:							
Guo Changyu	(iii)	—	—	—	—	—	—
Chen Junzhu		257	—	—	—	115	372
Wu Geng		257	—	—	—	115	372
Qiao Jianmin	(iv)	187	—	—	—	115	302
		1,198	2,871	—	146	2,437	6,652

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 from 2016. His emoluments disclosed above included those for services rendered by him as the chairman and chief executive officer.

(ii) 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.

(iii) Resigned on 12 April 2016.

(iv) Appointed on 12 April 2016.

During the year, there was no arrangement under which a director waived or agreed to waive any emoluments.

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

(b) Five Highest Paid Individuals' emoluments

Five (2016: 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 were as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and other benefits in kind	—	452
Performance related bonus	—	—
Social security contributions	—	32
Equity settled share option expenses	—	434
	—	918

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

	Number of employee	
	2017	2016
Emolument band:		
HK$1,000,000 — HK$1,500,000	—	1

(c) No emoluments have been paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the two years ended 31 December 2017 and 2016.

13. INCOME TAX (EXPENSE)/CREDIT

	2017 RMB'000	2016 RMB'000
Current — PRC Enterprise Income Tax ("EIT")		
— Charge for the year	1,309	662
Current — Hong Kong		
— Charge for the year	—	104
— Over-provision in prior years	(3,460)	—
Deferred tax (note 23)	3,845	(10,689)
Income tax expense/(credit)	1,694	(9,923)

Hong Kong profits tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year.

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

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

13. INCOME TAX (EXPENSE)/CREDIT (continued)

A reconciliation of the income tax expense/(credit) 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 expense/(credit) at the Group's effective income tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

	2017 RMB'000	2016 RMB'000
Loss before tax	**(293,620)**	(264,732)
Tax at the applicable tax rate of companies within the Group of 25% (2016: 25%)	**(73,405)**	(66,183)
Expenses not deductible for tax	**207,115**	38,943
Income not taxable for tax	**(177,208)**	(33,644)
Tax loss not recognised	**44,228**	46,039
Effect of different tax rates of subsidiaries	**3,181**	(435)
Tax effect of losses attributable to joint ventures and associates	**1,243**	5,357
Over-provision in prior years	**(3,460)**	—
Tax at the Group's effective rate	**1,694**	(9,923)

Notes:

At the end of the reporting period the Group has unused tax losses of approximately RMB573,687,000 (2016: approximately RMB458,048,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB50,608,000 (2016: approximately RMB70,168,000) of such losses. No deferred tax asset has been recognised in respect of the remaining approximately RMB523,079,000 (2016: approximately RMB387,880,000) due to the unpredictability of future profit streams. All tax losses will expire in 2022.

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 2017 and 2016, 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 RMB140,143,000 and RMB286,948,000, respectively. In the opinion of the Directors, it is not probable that its principal operating subsidiary, Shandong Shengli Steel Pipe Co., Ltd.# ("Shandong Shengli Steel Pipe") (山東勝利鋼管有限公司) will distribute such earnings in the foreseeable future.

The English name is for identification only

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 RMB250,831,000 (2016: approximately RMB210,493,000) and the weighted average number of 3,274,365,600 (2016: 3,122,278,000) ordinary shares in issue during the year.

(b) Diluted loss per share

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2017 and 2016 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 2017 (2016: 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 2017						
COST:						
At 1 January 2017	396,304	1,055,508	15,940	15,540	11,359	1,494,651
Additions	84,891	1,307	619	191	2,393	89,401
Transfers	2,033	606	—	—	(2,639)	—
Disposals	—	(6,314)	—	(200)	—	(6,514)
At 31 December 2017	483,228	1,051,107	16,559	15,531	11,113	1,577,538
ACCUMULATED DEPRECIATION AND IMPAIRMENT:						
At 1 January 2017	64,785	485,139	13,126	8,890	—	571,940
Provided during the year	20,477	95,851	1,149	1,803	—	119,280
Impairment loss recognised	9,952	—	—	21	—	9,973
Disposals	—	(6,308)	—	(121)	—	(6,429)
At 31 December 2017	95,214	574,682	14,275	10,593	—	694,764
CARRYING AMOUNTS:						
At 31 December 2017	388,014	476,425	2,284	4,938	11,113	882,774

16. PROPERTY, PLANT AND EQUIPMENT (continued)

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Electronic equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 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

As at 31 December 2017, the Group was in the process of applying for the title certificates of buildings with an aggregate net book value of approximately RMB10,907,000 (2016: approximately RMB9,339,000). The directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the abovementioned buildings in due course, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2017.

The Group carried out reviews of the recoverable amount of certain property, plant and equipment in 2017 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 2017 and 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 RMB9,973,000 (2016: 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 RMB25,628,000 (2016: approximately RMB76,706,000). The recoverable amount of the relevant assets of approximately RMB15,655,000 (2016: 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 Shandong Sanyuan Assets Appraisal Co., Ltd.# (山東三元資產評估有限公司) (2016: Pan-China Assets Appraisal Co., Ltd. ("Pan-China")), an independent firm of professional valuers.

The English names are for identification only

17. PREPAID LAND LEASE PAYMENTS

	2017 **RMB'000**	2016 RMB'000
Carrying amount at 1 January	**166,482**	171,591
Additions	**94,160**	—
Impairment loss recognised during the year	**—**	(1,371)
Amortisation for the year	**(5,150)**	(3,738)
Carrying amount at 31 December	**255,492**	166,482
Current portion	**(6,193)**	(3,769)
Non-current portion	**249,299**	162,713

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

As at 31 December 2017, 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 RMB10,122,000 (2016: approximately RMB10,358,000). 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 2017.

18. GOODWILL

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% (2016: 13%) and cash flows beyond the five-year-period were extrapolated using a growth rate of 5% (2016: 5%) by reference to the long-term average growth rate.

The carrying amount of goodwill allocated to the following cash-generating units:

	2017 **RMB'000**	2016 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 2017 (2016: Pipes business cash-generating unit). 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 at 31 December 2017 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
Bayston Investments Limited	The BVI	RMB6,140	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
Guangdong Shengli Trading Co., Ltd. ("Guangdong Shengli")# (廣東勝利貿易有限公司) (Note i)	The PRC	RMB100,000,000	100%	Trading of metal commodity

19. SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and operation	Nominal value of issued and paid-up share/registered paid-up capital	Percentage of equity interests attributable to the Company	Principal activities
Xinjiang Shengli Steel Pipe Co., Ltd. ("Xinjiang Shengli Steel Pipe")# (新疆勝利鋼管有限公司) (Note iii)	The PRC	RMB180,000,000	56.43%	Manufacturing and selling of SAWH pipelines and provision of anti-corrosion service for oil and gas pipelines and other construction and manufacturing applications
Hunan Shengli Xianggang Steel Pipe Co., Ltd. ("Hunan Shengli Steel Pipe")# (湖南勝利湘鋼鋼管有限公司) (Note iv)	The PRC	RMB464,000,000	56.90% (2016: 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 i)	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
Zibo MuRun Texgtile Co., Ltd# (淄博沐潤紡織有限公司) (Note ii)	The PRC	RMB500,000/ RMB5,000,000	100%	Trading of commodity
Zhonghai Shengguan Petrochemical (dalian) Co., Ltd# (中海勝管石油化工(大連)有限公司) (Note ii)	The PRC	RMB7,000,000/ RMB30,000,000	100%	Trading of metal commodity

19. SUBSIDIARIES (continued)

Company name	Place of incorporation/ registration and operation	Nominal value of issued and paid-up share/registered paid-up capital	Percentage of equity interests attributable to the Company	Principal activities
Shengli Steel Pipe Co., Ltd# (勝利鋼管有限公司) (Note i)	The PRC	RMB79,898,000	100%	Anti-corrosion technical service and rental service
Zhejiang Shengguan Industrial Co., Ltd.# (浙江勝管實業有限公司) (Note ii)	The PRC	RMB376,000,000/ RMB450,000,000	100%	Trading of commodity
Rizhao Shun Yu Industrial Co., Ltd.# (日照順裕工貿有限公司) (Note ii)	The PRC	RMB1,942,500	100%	Manufacturing, processing and sale of SAWL and SAWH pipelines
Shengli Enterprise Holdings Limited ("Shengli Enterprise")	Hong Kong	HK$10,000	100%	Trading of metal commodity
Shengli (Hong Kong) Enterprises Company Limited (勝利(香港)企業有限公司)	Hong Kong	HK$10,000	100%	Investment Holding
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

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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	
	2017	2016	**2017**	2016
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%	**43.10%**	45.04%
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 31 December:				
Non-current assets	**68,724**	76,571	**466,044**	511,827
Current assets	**11,989**	14,968	**261,397**	307,353
Non-current liabilities	**(5,609)**	(6,463)	**—**	(27,500)
Current liabilities	**(19,443)**	(20,149)	**(551,461)**	(524,644)
Net assets	**55,661**	64,927	**175,980**	267,036
Accumulated NCI	**24,253**	28,289	**75,847**	120,273
Year ended 31 December:				
Revenue	**1,196**	—	**219,799**	173,193
Loss for the year	**(9,266)**	(25,521)	**(91,056)**	(73,703)
Total comprehensive loss	**(9,266)**	(25,521)	**(91,056)**	(73,703)
Loss allocated to NCI	**(4,037)**	(11,119)	**(40,446)**	(33,197)
Dividends paid to NCI	**—**	—	**—**	—
Net cash generated from/(used in) operating activities	**113**	(579)	**19,392**	(61,090)
Net cash used in investing activities	**—**	(1)	**(15,749)**	(24,065)
Net cash (used in)/generated from financing activities	**(141)**	—	**(46,094)**	107,875
Net (decrease)/increase in cash and cash equivalents	**(28)**	(580)	**(42,451)**	22,720

As at 31 December 2017, the bank and cash balances of these subsidiaries in the PRC denominated in RMB amounted to approximately RMB5,558,000 (2016: approximately RMB48,038,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

20. DEPOSITS PAID FOR ACQUISITION OF INVESTMENTS

	2017 RMB'000	2016 RMB'000
Deposit paid for proposed acquisition of the allotted and issued share capital of:		
— Blossom Time Group Limited (note)	**203,214**	197,505

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 22 December 2017, a wholly owned subsidiary of the Company (the "Transferee") and the shareholder of Blossom Time Group Limited (the "Transferor") entered into the fifth supplemental agreement (the "Fifth Supplemental Agreement") to the share transfer agreement, pursuant to which the parties agreed to extend the long stop date to 30 September 2018. 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

	2017 RMB'000	2016 RMB'000
Unlisted investments in the PRC:		
Share of net assets	—	8,917
Impairment losses	—	(3,270)
	—	5,647

21. INVESTMENT IN JOINT VENTURES (continued)

Details of the Group's joint ventures at 31 December 2017 are as follows:

Company name	Place of incorporation/ operations	Registered paid-up capital	Percentage of equity interests attributable to the Group	
			2017	2016
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	**N/A**	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	**N/A**	40%

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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)	
	2017	2016	**2017**	2016
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	**N/A**	90%/50%	**N/A**	40%/40%
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 31 December:				
Non-current assets	—	1,414	—	31,007
Current assets	—	5,857	—	148,407
Current liabilities	—	(3)	—	(173,474)
Net assets	—	7,268	—	5,940
Group's share of net assets	—	6,541	—	2,376
Cash and cash equivalents included in current assets	—	1,055	—	1,395
Current financial liabilities (excluding trade and other payables and provision) included in current liabilities	—	—	—	—
Year ended 31 December:				
Revenue	—	—	**5**	397
Depreciation and amortisation	—	11	**3,648**	—
Interest income	—	—	—	—
Interest expense	—	—	—	—
Income tax expense	—	—	—	—
Loss from continuing operation	—	(32)	**(5,940)**	(22,466)
Loss after tax from discontinued operations	—	—	—	—
Other comprehensive income	—	—	—	—
Total comprehensive loss	—	(32)	**(5,940)**	(22,466)
Dividends received from joint ventures	—	—	—	—

21. INVESTMENT IN JOINT VENTURES (continued)

As at 31 December 2017, the bank and cash balances of the Group's joint ventures in the PRC denominated in RMB amounted to Nil (2016: approximately RMB2,450,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

22. INVESTMENT IN ASSOCIATES

	2017 RMB'000	2016 RMB'000
Unlisted investments in the PRC:		
Share of net assets	386,865	36,356

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 2017	2016	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	N/A	30%	Micro-financing and other financial advisory services
Shanghai Guoxin Industrial Co., Ltd.# ("Shanghai Guoxin") (上海國心實業有限公司)	The PRC/The PRC	RMB500,000,000	45%	N/A	Trading of metal commodity
Shanghai Xinfeng Enterprise Group Co., Ltd.# ("Shanghai Xinfeng") (上海新鋒企業集團有限公司)	The PRC/The PRC	RMB820,000,000	31.88%	N/A	Designing and Construction of wind farms

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22. INVESTMENT IN ASSOCIATES (continued)

The following table shows information of the associates that is material to the Group. The associates 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 associates.

	Shanghai Guoxin	Shanghai Xinfeng	Minfu Microfinance	
	2017	**2017**	**2017**	2016
Principal place of business/ country of incorporation	**PRC/PRC**	**PRC/PRC**	**PRC/PRC**	PRC/PRC
Principal activities	**Trading of metal commodity**	**Designing and Construction of wind farms**	**Micro-financing and other financial advisory services**	
% of ownership interests/ voting rights held by the Group	**45%/45%**	**31.88%/31.88%**	**N/A**	30%/30%
	RMB'000	**RMB'000**	**RMB'000**	RMB'000
At 31 December:				
Non-current assets	**23,490**	**423,064**	**—**	8,096
Current assets	**838,848**	**1,116,981**	**—**	113,848
Current liabilities	**(425,035)**	**(658,616)**	**—**	(758)
Non-current liabilities	**—**	**(285,197)**	**—**	—
Net assets	**437,303**	**596,232**	**—**	121,186
Group's share of net assets	**196,786**	**190,079**	**—**	36,356
Year ended 31 December:				
Revenue	**501,257**	**8,058**	**185**	441
Profit/(loss) from continuing operations	**2,767**	**2,052**	**(14,985)**	(41,380)
Profit after tax from discontinued operations	**—**	**—**	**—**	—
Other comprehensive income	**—**	**—**	**—**	—
Total comprehensive income/(loss)	**2,767**	**2,052**	**(14,985)**	(41,380)
Dividends received from the associate	**—**	**—**	**—**	—

As at 31 December 2017, the bank and cash balances of the Group' associates in the PRC denominated in RMB amounted to approximately RMB9,465,000 (2016: approximately RMB590,000). 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:

	2017 RMB'000	2016 RMB'000
Deferred tax assets		
As at 1 January	26,788	16,116
Deferred tax (charged)/credited to the consolidated profit or loss during the year (note 13)	(3,861)	10,672
Gross deferred tax assets as at 31 December	22,927	26,788
Deferred tax liabilities		
As at 1 January	359	376
Deferred tax credited to the consolidated profit or loss during the year (note 13)	(16)	(17)
Gross deferred tax liabilities as at 31 December	343	359
Net deferred tax assets as at 31 December	22,584	26,429

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

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

	2017 RMB'000	2016 RMB'000
Deferred tax assets		
Accrued interest on borrowings	**782**	604
Government grants received but not yet recognised as income	**1,616**	1,829
Excess of carrying value over fair value of identifiable assets and liabilities in acquisition of subsidiaries	**934**	1,120
Impairment loss recognised on property, plant and equipment	**6,943**	5,693
Tax losses	**12,652**	17,542
Gross deferred tax assets	**22,927**	26,788
Deferred tax liabilities		
Excess of fair value of identifiable assets and liabilities over carrying value in acquisition of subsidiaries	**343**	359
Gross deferred tax liabilities	**343**	359
Net deferred tax asset	**22,584**	26,429

24. INVENTORIES

	2017 RMB'000	2016 RMB'000
Raw materials	**67,053**	90,986
Work in progress	**9,310**	6,466
Finished and semi-finished goods	**93,543**	98,706
	169,906	196,158

25. TRADE AND BILLS RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	**629,243**	1,124,815
Less: allowance for impairment of trade receivables	**(132,069)**	(152,883)
	497,174	971,932
Bills receivables	**26,438**	10,171
	523,612	982,103

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

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

	2017 RMB'000	2016 RMB'000
Within 3 months	**336,443**	833,662
3 to 6 months	**84,075**	65,224
6 months to 1 year	**33,832**	16,797
1 to 2 years	**34,804**	19,225
Over 2 years	**8,020**	37,024
	497,174	971,932

25. TRADE AND BILLS RECEIVABLES

Included in the trade receivables of approximately RMB27,773,000 (2016: approximately RMB90,505,000) are quality guarantee deposits receivable from customers.

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:

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	438,067	854,876
1 to 3 months past due	5,397	45,903
3 to 6 months past due	10,729	22,429
6 months to 1 year past due	35,271	13,332
1 year to 2 years past due	5,802	4,200
Over 2 years past due	1,908	31,192
	497,174	971,932

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:

	2017 RMB'000	2016 RMB'000
Balance at beginning of the year	152,883	159,077
Reversal of allowance for the year	(19,627)	(6,515)
Exchange differences	(1,187)	321
Balance at end of year	132,069	152,883

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

	2017 RMB'000	2016 RMB'000
Advance to a joint venture (note a)	—	25,516
Advance to suppliers (note b)	73,372	125,510
Advances to entities (note a)	12,703	3,717
Advances to shareholders of an entity (note c)	30,000	30,000
Loan to employees (note d)	690	690
Other tax receivables (note e)	62,326	62,655
Prepayment	3,436	2,905
Prepayment to metal commodity suppliers (note f)	—	53,547
Tender deposits to customers	8,315	2,936
Trade deposits paid to metal commodity suppliers (note g)	—	170,100
Others	23,136	27,123
	213,978	504,699

Notes:

(a) At 31 December 2016, included in the advance to a joint venture is a loan of approximately RMB47,962,000 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 RMB8,943,000 has been recognised during the year (2016: approximately RMB48,224,000). In 2017, a subsidiary of the Company entered into a sale and purchase agreement with an independent third party to dispose 40% of the issued share capital of a joint venture, representing 100% of the investment in a joint venture. The amount has been reclassified to advance to entities during the year. At 31 December 2016, included in the advances to entities is a loan of approximately RMB3,700,000 which was unsecured, bears an interest rate of 4.35% per annum and repayable within one year. An impairment loss of approximately RMB8,086,000 (2016: Nil) has been recognised on advances to entities during the year.

(b) 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.

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

(d) Loan to employees are unsecured, bearing interests at 6% (2016: 6%) per annum and have no fixed repayment term.

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

(f) At 31 December 2016, prepayment to metal commodity suppliers amounted to approximately RMB53,547,000. An impairment loss of approximately RMB51,072,000 (2016: Nil) has been recognised during the year.

(g) These trade deposits were paid to metal commodity suppliers to secure trade payables of approximately RMB176,051,000 as at 31 December 2016. The deposits were interest-free and refundable within one year. These metal commodity suppliers were independent third parties of the Group.

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2017 RMB'000	2016 RMB'000
Cash and bank balances	56,161	246,748
Less: Pledged deposits	(20,096)	(18,398)
	36,065	228,350
Cash and cash equivalents and pledged deposits denominated in RMB	52,130	227,717

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

	2017 RMB'000	2016 RMB'000
Trade payables	132,104	340,418
Bills payables	20,000	4,662
	152,104	345,080

28. TRADE AND BILLS PAYABLES (continued)

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

	2017 RMB'000	2016 RMB'000
Within 3 months	**73,836**	303,336
3 to 6 months	**33,759**	24,517
6 months to 1 year	**17,790**	6,684
1 to 2 years	**4,365**	2,293
Over 2 years	**2,354**	3,588
	132,104	340,418

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

	2017 RMB'000	2016 RMB'000
Receipt in advances from customers	**70,348**	80,182
Payable on acquisition of property, plant and equipment	**52,322**	56,136
Security deposits received from employees	**690**	710
Interest payable on other borrowings	**3,478**	—
Other tax payables	**1,771**	8,416
Others	**60,955**	26,761
	189,564	172,205

30. BORROWINGS

	Notes	2017 Effective interest rate (%)	2017 Maturity (year)	2017 RMB'000	2016 Effective interest rate (%)	2016 Maturity (year)	2016 RMB'000
Bank loans — Unsecured		**4.57%–4.95%**	**2018**	**289,003**	4.35%–4.57%	2017	590,000
Bank loans — Secured	(a)	**4.60%–5.01%**	**2018**	**177,000**	—	—	—
Bank loans — Secured and guaranteed	(b)	**4.79%–4.81%**	**2018**	**307,500**	4.75%–4.79%	2017–2018	335,000
Bank loans — Guaranteed		**4.52%**	**2018**	**49,000**	4.52%	2017	49,000
Other loans — Unsecured	(c)	**10.00%**	**2018**	**69,380**	—	—	—
				891,883			974,000

The borrowings are repayable as follows:

	2017 RMB'000	2016 RMB'000
On demand or within one year	**891,883**	946,500
In the second year	**—**	27,500
In the third to fifth years, inclusive	**—**	—
	891,883	974,000
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(891,883)**	(946,500)
Amount due for settlement after 12 months	**—**	27,500

30. BORROWINGS (continued)

Notes:

(a) The Group's bank loans were secured by pledge of certain of the Group's properties, plant and equipment amounting to approximately RMB243,274,000 (2016: Nil) and prepaid land lease amounting to approximately RMB170,687,000 (2016: Nil).

(b) The Group's bank loans were secured by pledge of certain of the Group's properties, plant and equipment amounting to approximately RMB342,077,000 (2016: approximately RMB319,792,000), prepaid land lease amounting to approximately RMB41,237,000 (2016: approximately RMB19,126,000) and an amount of approximately RMB72,800,000 (2016: approximately RMB147,400,000) out of bank loans of approximately RMB307,500,000 (2016: approximately RMB335,000,000) were guaranteed by a non-controlling shareholder of a subsidiary.

(c) The loan refers to advance from Directors and employees of approximately RMB69,380,000 (2016: Nil) which is unsecured, bears an interest rate of 10% per annum and repayable within one year.

31. DEFERRED INCOME

	2017 **RMB'000**	2016 RMB'000
Government grants:		
As at 1 January	**7,317**	8,171
Recognised as other income during the year	**(854)**	(854)
As at 31 December	**6,463**	7,317
Less: Current portion	**(854)**	(854)
Non-current portion	**5,609**	6,463

In August 2011, Xinjiang Shengli Steel Pipe 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 2017 and 2016	5,000,000,000	500,000
Issued and fully paid:	**Number of shares**	**RMB'000**
At 1 January 2016	2,728,638,000	238,438
Issue of shares (note (i))	545,727,600	45,473
At 31 December 2016, 1 January 2017 and at 31 December 2017	3,274,365,600	283,911

	Number of shares in issue	Issued capital HK$'000	Issued capital RMB'000
At 31 December 2016 and 31 December 2017	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 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.

33. RESERVES (continued)

(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.

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 2017 are as follows:

	Share premium RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2016	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 and 1 January 2017	1,230,445	58,193	(166,550)	1,122,088
Share-based payment	—	12,535	—	12,535
Total comprehensive loss for the year	—	—	(38,476)	(38,476)
At 31 December 2017	1,230,445	70,728	(205,026)	1,096,147

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	2017	2016
Granted on 10 February 2010	(a)	22,200,000	22,500,000
Granted on 3 January 2012	(b)	21,120,000	21,540,000
Granted on 23 September 2014	(c)	69,840,000	72,600,000
Granted on 28 January 2015	(d)	57,300,000	60,000,000
Granted on 26 April 2016	(e)	57,600,000	57,600,000
Granted on 11 October 2016	(f)	119,400,000	184,843,500
		347,460,000	419,083,500

	2017		2016	
	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	419,083,500	0.53	178,200,000	0.70
Granted during the year	—	—	242,443,500	0.41
Forfeited during the year	(71,623,500)	0.43	(1,560,000)	0.62
Outstanding at the end of the year	347,460,000	0.47	419,083,500	0.53

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 and 300,000 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 and 2017 respectively.

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, 600,000 and 420,000 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, 2016 and 2017 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, 960,000 and 2,760,000 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, 2016 and 2017 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%

2,700,000 share options out of the total 60,000,000 share options granted on 28 January 2015 were forfeited during the year ended 31 December 2017.

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%

65,443,500 share options out of the total 184,843,500 share options granted on 11 October 2016 were forfeited during the year ended 31 December 2017.

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 2017, the Group recognised share-based payments of RMB12,535,000 (2016: RMB14,865,000), 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 210,360,000 (2016: 112,440,000).

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Disposal of Shengli Investment Company

On 20 June 2017, the Group disposed 100% of the issued share capital of Shengli Investment Company and its subsidiaries for a cash consideration of US$1 (equivalent to approximately RMB7) to an independent third party.

Net assets at the date of disposal were as follows:

	RMB'000
Cash and cash equivalents	80
Net amounts due to the Group	(18,233)
Net liabilities disposed of	(18,153)
Impairment loss on amounts due from the disposed subsidiary	18,233
Release of the related foreign currency translation reserves	436
Loss on disposal of subsidiaries	(516)
Total consideration — satisfied by cash	—
Net cash outflow arising on disposal:	
Cash consideration received	—
Cash and cash equivalents disposed of	(80)
	(80)

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Disposal of Shandong Muxin Investment Co., Ltd.#

On 18 September 2017, the Group disposed 100% of the issued share capital of Shandong Muxin Investment Co., Ltd.# (山東沐鑫投資有限公司) for a cash consideration of approximately RMB6,500,000 to an independent third party.

Net assets at the date of disposal were as follows:

	RMB'000
Available for sales financial assets (note)	193
Investment in joint ventures	3,271
Prepayments, deposits and other receivables	1
Net amounts due from the Group	53
Cash and cash equivalents	152
Trade payables	3
Accruals and other payables	(1,581)
Net liabilities disposed of	2,092
Gain on disposal of a subsidiary	4,408
Total consideration — satisfied by cash	6,500
Net cash inflow arising on disposal:	
Cash consideration received	6,500
Cash and cash equivalents disposed of	(152)
	6,348

Note:

It representing 10% of investment in an associate in the Group, which disposed during the year.

The English name is for identification only

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(c) Purchase of non-controlling interests

During the year, the Group acquired 1.94% interests in a 54.96% subsidiary from the non-controlling shareholder at a cash consideration of approximately RMB9,000,000. The effect of the acquisition on the equity attributable to the owners of the Company is as follows:

	RMB'000
Share of net assets in the subsidiary acquired	3,979
Consideration	(9,000)
Loss on acquisition recognised directly in equity	(5,021)

(d) Changes in liabilities arising from financing activities

The following table shows the Group's changes in liabilities arising from financing activities during the year:

	Borrowings RMB'000
At 1 January 2016	1,099,536
Changes in cash flows	(176,218)
Non-cash changes	
— interest charged	41,945
— exchange differences	8,737
At 31 December 2016 and 1 January 2017	974,000
Changes in cash flows	(125,123)
Non-cash changes	
— interest charged	43,006
At 31 December 2017	891,883

36. COMMITMENTS

(a) Commitments under operating leases

As lessor

The Group leases its factory properties under an operating lease arrangement for twenty-one years.

At 31 December 2017, 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:

	2017 **RMB'000**	2016 RMB'000
Within one year	**922**	6,612
In the second to fifth years, inclusive	**1,229**	—
After fifth years	**3,034**	—
	5,185	6,612

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:

	2017 **RMB'000**	2016 RMB'000
Within one year	**4,320**	1,811
In the second to fifth years, inclusive	**2,114**	33,132
After fifth years	**—**	46,010
	6,434	80,953

36. 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:

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for	22,834	22,994

(c) Investment commitments

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

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for	117,278	39,927

37. 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
Prodigy Dome Integration Housing Production (Shandong) Co., Ltd ("Dome (Shandong"))	A wholly owned joint venture of the Company disposed during 2017
Minfu Microfinance	An associate of the Company disposed during 2017
Shenzhen Taihe	A joint venture of the Company disposed during 2017

37. RELATED PARTY TRANSACTIONS (continued)

(b) Significant related party transactions

During the years ended 31 December 2017 and 2016, the Group had the following material transactions with related parties:

	2017 RMB'000	2016 RMB'000
Rental income received from Dome (Shandong)	—	5,909
Interest income from Dome (Shandong)	—	1,056
Advances from directors	2,450	—
Interest expenses to directors	126	—

(c) Key management compensation

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

	2017 RMB'000	2016 RMB'000
Fees	2,601	1,191
Salaries, allowances and other benefits in kind	11,137	5,403
Performance related bonus	—	—
Social security contributions	348	233
Equity-settled share option expense	12,535	6,396
	26,621	13,223

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

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	114	220
Investments in subsidiaries	1,380,232	1,405,741
	1,380,346	1,405,961
CURRENT ASSETS		
Prepayments, deposits and other receivables	693	1,008
Cash and cash equivalents	1,657	2,039
	2,350	3,047
CURRENT LIABILITIES		
Other payables and accruals	2,638	3,009
	2,638	3,009
NET CURRENT (LIABILITIES)/ASSETS	(288)	38
NET ASSETS	1,380,058	1,405,999
EQUITY		
Issued capital	283,911	283,911
Reserves	1,096,147	1,122,088
Total equity	1,380,058	1,405,999

39. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 24 March 2018.

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				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**2,155,750**	3,125,278	1,953,960	2,009,062	2,556,717
(Loss)/profit before tax	**(293,620)**	(264,732)	(345,402)	(232,197)	24,080
Income tax credit/(expense)	**(1,694)**	9,923	(8,528)	(7,548)	(11,699)
(Loss)/profit for the year	**(295,314)**	(254,809)	(353,930)	(239,745)	12,381
Attributable to:					
Owners of the Company	**(250,831)**	(210,493)	(302,130)	(219,176)	17,826
Non-controlling interests	**(44,483)**	(44,316)	(51,800)	(20,569)	(5,445)
	(295,314)	(254,809)	(353,930)	(239,745)	12,381

ASSETS AND LIABILITIES

	As at 31 December				
	2017	2016	2015	2014	2013
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**2,717,454**	3,287,722	3,445,151	3,839,251	4,372,069
Total liabilities	**(1,255,371)**	(1,518,358)	(1,586,206)	(1,647,595)	(2,029,971)
Net assets	**1,462,083**	1,769,364	1,858,945	2,191,656	2,342,098
Attributable to:					
Owners of the Company	**1,361,983**	1,620,802	1,666,067	1,946,978	2,076,851
Non-controlling interests	**100,100**	148,562	192,878	244,678	265,247
	1,462,083	1,769,364	1,858,945	2,191,656	2,342,098