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

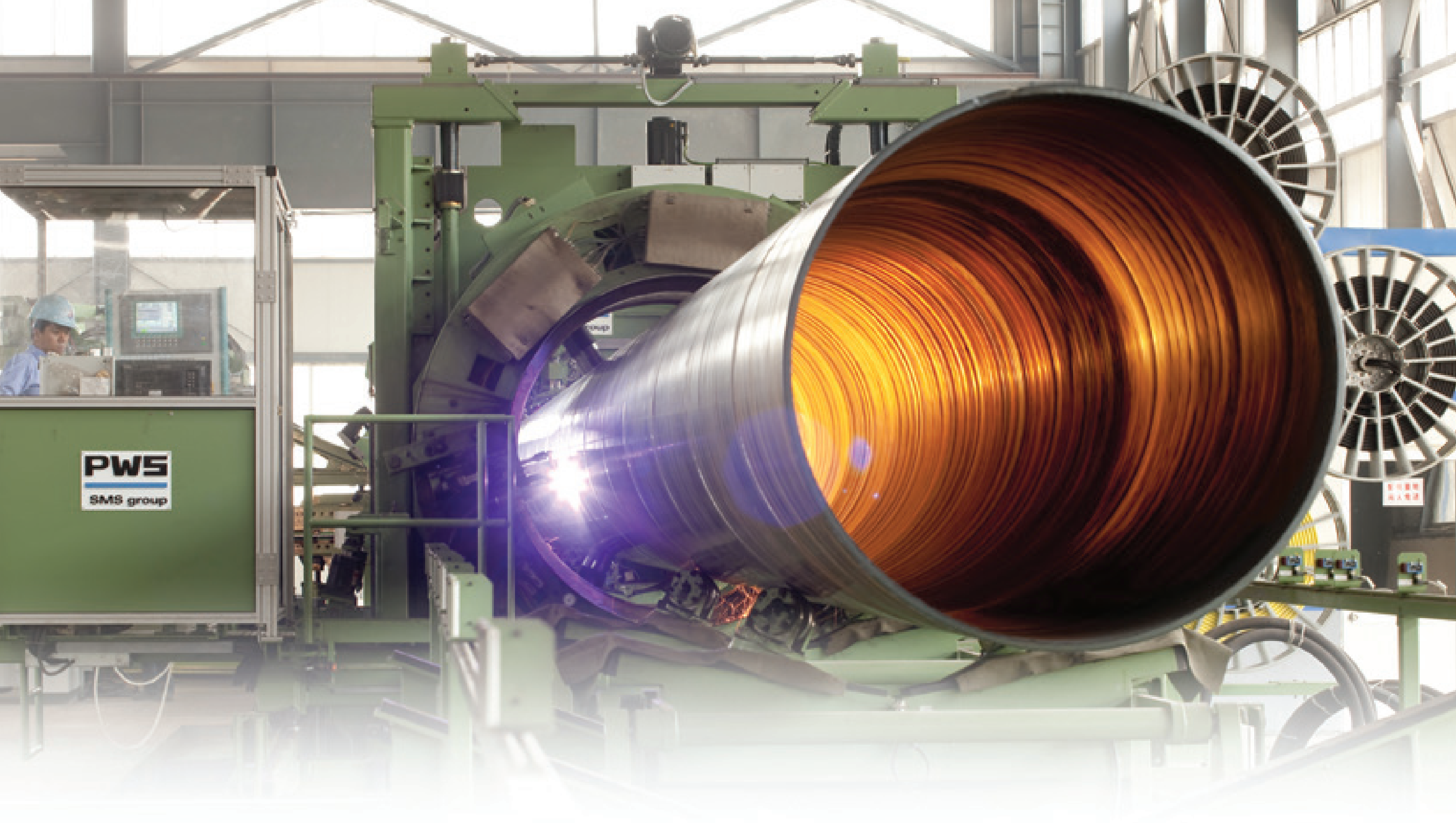
(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1080

ANNUAL REPORT 2018

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.



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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)*
Mr. Ji Rongdi (alias Jee Rongdee) *(Chairman)* (resigned on 29 January 2019)

Non-executive Director

Mr. Wei Jun *(Chairman)* (appointed on 29 January 2019)

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. Chen Junzhu, *ACCA, CICPA*
Mr. Wei Jun
(appointed as member of the remuneration committee on 29 January 2019)
Mr. Ji Rongdi (alias Jee Rongdee)
(resigned as member of the remuneration committee on 29 January 2019)

NOMINATION COMMITTEE

Mr. Qiao Jianmin *(Chairman)*
Mr. Zhang Bizhuang
Mr. Wu Geng

COMPANY SECRETARY

Mr. Hong Kam Le

AUTHORISED REPRESENTATIVES

Ms. Han Aizhi
Mr. Hong Kam Le

REGISTERED OFFICE

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Cayman Islands

HEADQUARTERS IN CHINA

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Shandong Province
the PRC
Postal Code: 255082

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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111 Connaught Road Central,
Hong Kong

PRINCIPAL BANKERS

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

LEGAL ADVISER AS TO HONG KONG LAW

Chungs Lawyers

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

- For the Year under Review, revenue was approximately RMB913,392,000, representing a decrease of approximately RMB1,242,358,000 as compared to that in 2017.
- For the Year under Review, gross profit margin was approximately 22.4%, representing an increase of approximately 17.1 percentage points as compared to that in 2017.
- For the Year under Review, the loss for the year attributable to owners of the Company amounted to approximately RMB54,169,000, representing a decrease of approximately RMB196,662,000 as compared to that in 2017.
- For the Year under Review, basic loss per share attributable to owners of the Company was approximately RMB1.65 cents, representing a decrease of approximately RMB6.01 cents as compared to that in 2017.
- The Board did not recommend the declaration of any final dividend for the year ended 31 December 2018.

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 2018 (the "Year under Review").

In 2018, global economic growth became less balanced while the world economic recovery showed signs of slackening. China's economic growth was facing increasing downward pressure. Confronting with complicated international environment and formidable domestic tasks of reform, development and stabilisation, China adhered to the general principle of making progress while ensuring stability and maintained the economic performance in a reasonable range while attaining continued stable development with positive trend. Under the impact of stabilised international oil prices and the commencement of construction of major national pipeline projects, the oil and gas industry has gradually returned to a growth cycle.

In 2018, benefitting from the oil and gas reforms, structural reforms of pipelines entered the phase of practical operation. With further implementation of the reforms, a new competitive landscape in respect of the whole industrial chain will be generated between domestic enterprises, foreign-invested enterprises and privately-owned enterprises. While the structural reforms of national oil and gas pipeline industry have been making steady progress, a national pipeline company is expected to be set up in 2019. Underpinned by the commencement of a series of large-scale pipeline projects, major national pipelines are expected to embrace an upcoming construction boom.

SECURING MORE ORDERS FOR NATIONAL PIPELINES DURING INDUSTRY GROWTH CYCLE

During the Year under Review, relying on our good performance of large-scale pipelines supply, outstanding product quality, superior technological strength, and advanced production equipment, the Group secured certain orders from an independent third party customer, China Petroleum & Chemical Corporation ("SINOPEC"), including, among others, orders for Qianjiang — Shaoguan Gas Pipeline Project under the Xinjiang Coal-based Gas Transmission Pipeline Project* (新氣管道潛江—韶關輸氣管道工程) (the "Xinjiang Coal Gas Pipeline"), orders for Rizhao — Puyang — Luoyang Crude Oil Pipeline Project* (日照—濮陽—洛陽原油管道工程) and orders for Erdos — Anping — Cangzhou Gas Pipeline Project* (鄂安滄輸氣管道工程) ("Erdos — Anping — Cangzhou Gas Pipeline"). The Group secured pipeline orders in a total amount of approximately 387,000 tonnes throughout the year, representing 1.8 times of that in 2017.

Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) ("Hunan Shengli Steel Pipe"), a non-wholly owned subsidiary of the Group, won the tender of Western Guangdong Natural Gas Trunk Pipeline Network under the Guangdong Pipeline Network* (廣東管網粵西天然氣主幹管網) and Submerged-arc Longitudinal Welded Pipes Project of the Yangjiang — Jiangmen Trunk Line Project* (陽江—江門幹線項目直縫埋弧焊鋼管項目) from China National Offshore Oil Corporation ("CNOOC") in a total amount of over 30,000 tonnes. It is a historic high for single-specification orders for Hunan Shengli Steel Pipe.

ORGANISING ELABORATE PIPE PRODUCTION PLAN WITH RECORD HIGH PRODUCTION VOLUME

In 2018, the Group produced a total of 337,000 tonnes of steel pipes throughout the year. Among these, Shandong Shengli Steel Pipe Co., Ltd.* (山東勝利鋼管有限公司) ("Shandong Shengli Steel Pipe") finished the production of submerged-arc helical welded pipes ("SAWH Pipes") in a total amount of over 200,000 tonnes, which is the highest record for production volume of steel pipes in the recent seven years. Meanwhile, production volume of steel pipes by Hunan Shengli Steel Pipe reached approximately 120,000 tonnes in aggregate, which is the highest record since its operation.

In view of the tight schedule and high quality standard required by national large-scale pipeline projects, the Group consolidated its resources of production, inspection and technology. Together with the reasonable deployment of manpower and elaborately devised production plan, the Group managed to achieve a win-win outcome on the brand and efficiency.

Shandong Shengli Steel Pipe formulated specific measures to improve product acceptance rate and enhance the appearance and welding quality of pipes. The production volume of SAWH pipes in the single month of May exceeded 33,000 tonnes, which is the highest record for production volume in a single month in the recent six years.

Hunan Shengli Steel Pipe gathered its technological strength to assure safe production. The production volume of submerged-arc longitudinal welded pipes ("SAWL Pipes") in the single month of March 2018 reached approximately 12,000 tonnes, being a new record for production volume in a single month for not only the SAWL Pipe Plant of Hunan Shengli Steel Pipe, but also Hunan Shengli Steel Pipe itself.

On 15 August and 20 November 2018, the constructor of Erdos — Anping — Cangzhou Gas Pipeline Project, Sinopec Hebei Construction Investment Natural Gas Company Limited* (中石化河北建投天然氣有限公司) issued commendatory letters and appreciation letters to Shandong Shengli Steel Pipe and Hunan Shengli Steel Pipe, respectively. Shandong Shengli Steel Pipe was highly appreciated for its spirit of shouldering important missions amid formidable circumstances and was expressed sincere gratitude for its endeavour to maintain supply and tremendous support. It was stated in the letter that, the first phase project of Erdos — Anping — Cangzhou Pipeline was included in the "13th Five-Year Plan for Energy Development"* (《能源發展「十三五」規劃》), "13th Five-Year Plan for Natural Gas Development"* (《天然氣發展「十三五」規劃》),"13th Five-Year Plan for Natural Gas Development of Hebei Province"* (《河北省天然氣發展「十三五」規劃》) and "13th Five-Year Plan for Natural Gas Development of Henan Province"* (《河南省天然氣發展

「十三五」規劃》) of the state, being one of the key national projects promoting clean energy production in northern area, coping with atmospheric pollution in Beijing — Tianjin — Hebei, and ensuring natural gas supply. National Development and Reform Commission listed this project as one of the key projects that require regular supervision and inspection. Shandong Shengli Steel Pipe undertook the production of 161 kilometres of SAWH Pipes in the first phase project of Erdos — Anping — Cangzhou Pipeline, from 1 April to 13 August 2018, succeeding in delivering all the pipes with assured quality and quantity to designated site within 135 days as scheduled. It was the first one to complete the production and delivery task out of seven steel pipe manufacturers. This commendatory letter represents full recognition of the Group's capacity in production, quality, and delivery, which enhances the Group's reputation and influence in large-scale pipeline construction, laying a solid foundation for the Group to obtain more orders for national pipeline projects in the future.

ENHANCING PRODUCT QUALITY WITH FOCUS ON TECHNOLOGICAL RESEARCH AND DEVELOPMENT

With the firm belief that core technology is the main factor for an enterprise to maintain leading edge and competitiveness in an industry and that technology is the driving force for sustainable development of an enterprise, the Group has been committed to technological development and corporate innovations over the years.

In 2018, Shandong Shengli Steel Pipe passed the re-evaluation of Shandong Engineering Technical Research Centre* (山東省工程技術研究中心) and was recognised as the "Shandong Provincial Level Enterprise Technology Centre* (山東省省級企業技術中心)". The project initiated by Shandong Shengli Steel Pipe, namely "research on industrialisation of X80 SAWH Pipes of high wall thickness used in polar region* (極地服役大壁厚X80螺旋焊管產業化研究)", as one of the key programmes under the strategic emerging industries, was selected to join the 2017 Technology Development Programme of Zibo, Shandong and received a supportive funding of RMB350,000 from the municipal government of Zibo, Shandong during the Year under Review.

During the Year under Review, in order to satisfy the production and environmental requirements of major national pipelines, the Group invested over RMB4.80 million in 25 technological reforms of equipment, seeking to optimise the quality and efficiency of production while ensuring energy conservation and environmental protection.

In 2018, the Group obtained 4 utility model patents, namely, "steel pipe fracture end guiding device for SAWH Pipes* (螺旋縫埋弧焊管鋼管斷裂對頭導引裝置)", "scraper protecting device for SAWH Pipe uncoiling machine* (螺旋縫埋弧焊管開卷機鏟刀防護裝置)", "strip steel guiding device on plate shearing machine* (剪板機帶鋼導向裝置)" and "plasma smoke recycle and automatic dust disposal device* (等離子煙塵回收自動倒灰裝置)". Also, it published 6 technological theses in national professional journals and industry annual meeting.

DIVERSIFICATION OF REVENUE SOURCES WHILE ACHIEVING ENERGY SAVING AND COST REDUCTION TO ENHANCE ECONOMIC EFFICIENCY

During the Year under Review, the Group continued to implement cost-reducing and efficiency-enhancing initiatives to ensure stable economic efficiency during industry growth cycle.

The Group continued to increase its consumption of rolled coils and steel pipes inventories so as to reduce the costs of procurement of raw materials. Meanwhile, greater effort was put into the collection of trade receivables to lower finance costs by heightening capital utilisation rate.

With regard to production cost control, the Group adopted various measures, including strict control of raw material consumption, the setting up of practical equipment management system which aims at inspecting major equipment on a regular basis to ensure the efficiency of equipment, as well as the formulation of the most cost-saving electricity consumption plan taking into account the actual production situation and local electricity consumption policy. During the Year under Review, approximately RMB2 million of electricity tariff was saved.

In adherence to the philosophy of "talents streamlining", the Group has made great efforts in training talents for high-end, precision and advanced technologies. Hunan Shengli Steel Pipe optimised and consolidated the structure of working teams and positions, with the emphasis on fostering core and multi-skilled specialists and exerting strict control on headcounts. Under tight schedule for intermittent production, Shandong Shengli Steel Pipe seconded some of the management staff and technicians to frontline production with an aim to mitigate staff shortage in the short term. This not only lowered the labour cost, but also aroused the production enthusiasm of our frontline workers.

CONSOLIDATING STEEL PIPE CAPACITY BY DISPOSING OF LOSS-MAKING SUBSIDIARIES

In October 2018, the Group entered into an agreement with an independent third party to dispose of Shengli Steel Pipe (Dezhou) Co., Ltd.* (勝利鋼管 (德州) 有限公司) ("Dezhou Shengli Steel Pipe"). Dezhou Shengli Steel Pipe was principally engaged in undertaking local pipeline projects. In view of its prolonged requirement of sizeable amount of liquidity and loss-making status, the disposal of Dezhou Shengli Steel Pipe was considered to be beneficial to the Group in terms of centralisation of funds and reasonable consolidation of production capacity, ensuring the continuous improvement and enhancement of the Group's profitability. During the Year under Review, the Group deregistered Zibo MuRun Textile Co., Ltd* (淄博沐潤紡織有限公司), an indirect wholly-owned subsidiary of the Group with no substantial business operation, and also disposed of Macao Shengling Commerce & Trade Limited (澳門勝嶺商貿一人有限公司). Pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the above transactions did not constitute discloseable transactions.

WELL-POSITIONED FOR THE UPCOMING GROWTH CYCLE ON THE BACK OF FLEXIBLE ARRANGEMENTS IN NATIONAL AND LOCAL MARKETS

In 2019, the structural reform of the oil and gas industry of the PRC is making steady progress. While the oil and gas industry gradually recovered in 2018, a national pipeline company is expected to be set up in 2019 in preparation for the commencement of large-scale pipeline projects and an upcoming construction boom for major national pipelines. Following the sales strategy of "prioritising major pipeline projects followed by quality social pipeline projects", the Group made flexible arrangements in national and local markets in line with the industry trend while capturing the market of national pipeline projects and urban pipeline networks, enhancing economic efficiency and brand influence.

Last but not least, I would like to take this opportunity to express gratitude to our shareholders and customers, and our management and staff for their dedication. With timely moves to seize business opportunities and proactive planning, the Group will continue to deliver long-term value to our shareholders.

Zhang Bizhuang
Executive Director & Chief Executive Officer

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

In 2018, under the backdrop of global trade conflict, tightened monetary policy by US Federal Reserve System, US dollar appreciation, tightening global liquidity of US dollar and other factors, global economic growth became less balanced. While the pace of global economic recovery slowed down, China's economy was in a critical period in which the transformation from the old driving force to the new one took place. Confronting with complicated international environment and formidable domestic tasks of reform, development and stabilisation, China adhered to the general principle of making progress while ensuring stability, and maintained the economic performance in a reasonable range while attaining continued stable development with positive trend.

It is forecasted in the "2019 Report on the Development of Energy and Chemical Engineering Industry in the PRC* (二零一九中國能源化工產業發展報告)" that a national pipeline network company will be set up in 2019 and a plan for the structural reform of the oil and gas pipeline networks will be introduced. The newly established national pipeline network company will undergo the transformation from "asset management" to "capital management" in line with the current direction of reform on national enterprises in China. Through capitalisation or securitisation of pipeline assets segregated from the three leading petroleum companies, namely SINOPEC, China National Petroleum Corporation ("CNPC") and CNOOC, the newly established national pipeline network company will aim at introducing social capital by way of listing, so as to increase the investment in the construction of pipeline networks. More thorough and fair competition should be introduced to all segments of the industrial chain, so that technically superior private enterprises with outstanding track records like our Group will have more opportunities to participate in the business.

BUSINESS OVERVIEW

Relying on the recovery trend of the industry, the Group put great efforts into the development of principal pipes business. During the Year under Review, the Group's annual production capacity for SAWH Pipes, SAWL Pipes and the supporting anti-corrosion production line was 1.45 million tonnes, 0.4 million tonnes and 10.80 million square meters, respectively, which stabilised the Group's leading position in the industry in terms of the technology and the production capacity.

During the Year under Review, the Group recorded an increase in gross profit, amounting to approximately RMB204,741,000 (2017: approximately RMB114,647,000) as compared to 2017. Gross profit margin increased to approximately 22.4% as compared to last year. It was mainly due to orders for large-scale pipeline projects secured from an independent third party customer, SINOPEC, during the year. During the Year under Review, the loss attributable to owners of the Company amounted to approximately RMB54,169,000 (2017: approximately RMB250,831,000), representing a decrease in loss of 78.4% as compared to last year, mainly due to the significant increase in gross profit and the significant decrease in operating expenses and administrative expenses as compared to 2017.

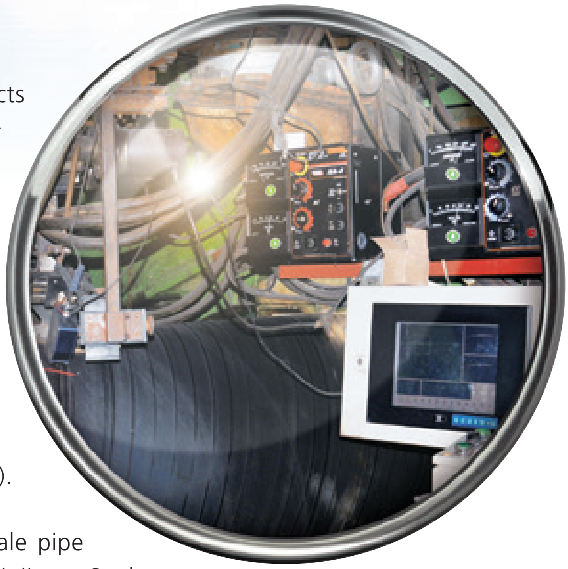
MANAGEMENT DISCUSSION AND ANALYSIS

Pipes Business

As one of China's largest oil and natural gas pipeline manufacturers with top rated facilities, advanced technique and a comprehensive quality inspection 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 qualified privately-owned enterprise supplier for large-scale oil and natural gas pipeline projects in China.

The Group's major customers are large-scale national petroleum and natural gas enterprises such as CNPC and SINOPEC and their subsidiaries. The Group focuses on the design, manufacturing, anti-corrosion processing and servicing of pipes (including SAWH Pipes and SAWL Pipes) that are used to transport crude oil, refined petroleum products and natural gas. Pipes business mainly comprises the sales of pipes, pipes processing service and anti-corrosion processing service.

As at 31 December 2018, pipes produced by the Group with a cumulative total length of approximately 30,160 kilometres were used in trunk lines of the world's oil and gas pipelines, of which 95% were installed in the PRC, while the remaining 5% were installed overseas.



During the Year under Review, national large-scale SAWH Pipes projects that the Group participated in were, among others, Erdos — Anping — Cangzhou Gas Pipeline Project* (鄂安滄輸氣管道工程), Qianjiang — Shaoguan Gas Pipeline Project under Xinjiang Coal Gas Pipeline* (新氣管道潛江—韶關輸氣管道工程), and Rizhao — Puyang — Luoyang Crude Oil Pipeline Project* (日照—濮陽—洛陽原油管道工程). Local large-scale SAWH Pipes projects were, among others, Ganzhou South Branch Line of Natural Gas Pipeline Network Project in Jiangxi Province* (江西省天然氣管網工程贛州南支線項目), New West Outer Ring, Linyi — Pinyi Gas Pipeline Project* (臨沂新西外環至平邑輸氣管線工程), Heat Supply Project in Yinchuan City* (銀川市供熱工程), and Jinan Towngas High-pressure Pipeline Project* (濟南港華高壓管線工程).

SAWL Pipes manufactured by the Group were used in national large-scale pipe projects included Qianjiang — Shaoguan Gas Pipeline Project under Xinjiang Coal Gas Pipeline* (新氣管道潛江—韶關輸氣管道工程), and Erdos — Anping — Cangzhou Gas Pipeline Project* (鄂安滄輸氣管道工程). Local large-scale SAWL Pipes projects included Rizhao Port Huachen Oil Pipeline Project* (日照港華晨輸油管道項目), Emergency Management Project of Earthquake Fracture Zone in Zhonggui Line Tianshui Section* (中貴線天水段地震斷裂帶應急治理項目), High-pressure Ring Pipeline Network in Nanchang* (南昌市環城高壓管網項目), and Rizhao Port — Jingbo Oil Pipeline Project* (日照港—京博輸油管道工程).

Large-scale anti-corrosion pipeline projects undertaken by the Group included Qianjiang — Shaoguan Gas Pipeline Project under Xinjiang Coal Gas Pipeline* (新氣管道潛江—韶關輸氣管道工程), Erdos — Anping — Cangzhou Gas Pipeline Project* (鄂安滄輸氣管道工程), Rizhao — Puyang — Luoyang Crude Oil Pipeline Project* (日照—濮陽—洛陽原油管道工程), New West Outer Ring, Linyi — Pinyi Gas Pipeline Project* (臨沂新西外環至平邑輸氣管線工程), and Jinan Towngas High-pressure Pipeline Project* (濟南港華高壓管線工程).

For the year ended 31 December 2018, total revenue of the Group's pipes business amounted to approximately RMB910,832,000 (2017: approximately RMB915,189,000) and accounted for approximately 99.7% of the Group's total revenue, comprising: (1) revenue from the sale of SAWH Pipes of approximately RMB494,985,000 (2017: approximately RMB714,755,000); (2) revenue from the sale of SAWL Pipes of approximately RMB210,103,000 (2017: approximately RMB121,358,000); (3) revenue from the anti-corrosion processing business of approximately RMB205,744,000 (2017: approximately RMB79,076,000).

Trading Business

Given relatively low gross profit for trading business over a long time, the Group suspended the business of this segment during the Year under Review to reduce cost and focused its attention to capture the opportunities emerging during the recovery of the oil and gas industry. As such, during the Year under Review, the trading business of the Group recorded only a revenue of approximately RMB2,560,000 (2017: approximately RMB1,240,561,000).

FUTURE PROSPECTS

Looking forward, 2019 will be a critical year for the development of oil and gas industry with low cost and high quality. It is expected that the dependency on external oil and gas supply will continue to rise in 2019. Thus, it is of utmost urgency for China to build up its own oil and gas security system and gain more bargaining power in the international oil and gas market. In 2019, domestic production volume of crude oil is expected to reach 190 million tonnes, while the excessive domestic capacity of oil refining may reach 120 million tonnes per annum. With further implementation of various reforms, a new competitive landscape in respect of the whole industrial chain will be generated between domestic enterprises, foreign-invested enterprises and privately-owned enterprises. While the structural reforms of national oil and gas pipeline industry have been making steady progress, a national pipeline company is expected to be set up in 2019. Underpinned by the commencement of a series of large-scale pipeline projects, major national pipelines are expected to embrace an upcoming construction boom.

As one of the largest privately-owned manufacturers of oil and natural gas pipelines in China, the Group will compete for the construction of various long-distance oil and gas transmission pipelines in the PRC as well as cross-border pipelines. The Group will continue to take advantage of its production capacity, the advantageous geographic location of its subsidiaries and its pioneering pre-welding and precision-welding technologies to capture the opportunities emerging during the industry growth cycle. Leveraging on its proven track record for the partnership projects with SINOPEC, CNPC and CNOOC, the Group will actively develop markets at the south of the Yangtze River, in particular target markets at Hunan, Jiangxi and Guangdong, in tandem with the trend of "capital management". Currently, the Group is vigorously participating in tenders for various large-scale projects, in a bid to further consolidate domestic market to ensure stable income in future for the Group and maximise returns for shareholders.

FINANCIAL REVIEW

Revenue

The Group's sales revenue decreased from approximately RMB2,155,750,000 for the year ended 31 December 2017 to approximately RMB913,392,000 for the year ended 31 December 2018. For the year ended 31 December 2018, amongst the Group's two core business segments, (1) pipes business reported revenue of approximately RMB910,832,000 (2017: approximately RMB915,189,000), the change of which is mainly due to the significant increase in the proportion of pipes processing business despite significant increase in sales of pipes and anti-corrosion processing during the Year under Review as compared to 2017, resulting in slight decrease in revenue as compared to the corresponding period of last year; and (2) trading business recorded a revenue of approximately RMB2,560,000 (2017: approximately RMB1,240,561,000). At present, the trading business has been suspended in accordance with business realignment.

Cost of sales

The Group's cost of sales decreased by approximately 65.3% from approximately RMB2,041,103,000 for the year ended 31 December 2017 to approximately RMB708,651,000 for the year ended 31 December 2018. During the year ended 31 December 2018, amongst the Group's principal business segments, (1) cost of sales for pipes business was approximately RMB706,207,000 (2017: approximately RMB818,003,000); and (2) cost of sales for trading business was approximately RMB2,444,000 (2017: approximately RMB1,223,100,000).

Gross profit

The gross profit of the Group increased from approximately RMB114,647,000 for the year ended 31 December 2017 to approximately RMB204,741,000 for the year ended 31 December 2018, mainly due to the significant increase in the sales of pipes and anti-corrosion processing business in pipes business driven by the orders for certain large-scale pipeline projects secured from an independent third party consumer, SINOPEC, this year. In addition, for the sales of pipes, the proportion of the sales of large-scale pipelines of SINOPEC with higher gross profit contribution increased significantly as compared to last year. Meanwhile, the gross profit margin of the Group increased to approximately 22.4% for the year ended 31 December 2018 from approximately 5.3% for the year ended 31 December 2017, mainly due to the significant increase in the proportion of pipes processing business and anti-corrosion processing business in pipes business which have higher gross profit margin, and the suspension of trading business with lower gross profit margin in accordance with business realignment during the Year under Review.

Other income and gains

Other income and gains of the Group increased from approximately RMB18,843,000 for the year ended 31 December 2017 to approximately RMB23,690,000 for the year ended 31 December 2018, which was mainly due to the receipt of government grant and the gain from the partial disposal of idle assets by the Group during the Year under Review.

Selling and distribution costs

Selling and distribution costs of the Group decreased from approximately RMB81,267,000 for the year ended 31 December 2017 to approximately RMB33,760,000 for the year ended 31 December 2018. Such decrease in selling and distribution costs was principally due to the decrease in delivery expenses and service fees borne by the Group as compared to last year and the decrease in related operating expenses as a result of the suspension of trading business during the Year under Review.

Administrative expenses

The Group's administrative expenses decreased by approximately 17.3% from approximately RMB206,389,000 for the year ended 31 December 2017 to approximately RMB170,609,000 for the year ended 31 December 2018, mainly due to the decrease in shutdown expenses as a result of the increase in production volume of pipes business during the Year under Review, the decrease in depreciation charge during the Year under Review as a result of the partial disposal of idle assets; and the decrease in amortisation charge of share options.

Finance costs

The Group incurred finance costs of approximately RMB47,423,000 for the year ended 31 December 2018 (2017: approximately RMB46,484,000). The finance costs were mainly attributable to interests on bank loans.

Impairment loss recognised

The Group recorded an impairment loss of approximately RMB15,782,000 (2017: approximately RMB88,504,000) for the year ended 31 December 2018. During the Year under Review, the Group recognised impairment loss in respect of two other receivables.

Loss on disposal of investments

The Group recorded loss on disposal of investments of approximately RMB13,305,000 (2017: approximately RMB8,197,000) for the year ended 31 December 2018, mainly due to the disposal of Dezhou Shengli Steel Pipe which was in loss-making status as the Group consolidated the production capacities of steel pipes during the Year under Review.

Income tax expenses

Hong Kong profits tax is calculated at the rate of 16.5% (2017: 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% (2017: 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% (2017: 25%). Income tax for the year ended 31 December 2018 was approximately RMB2,500,000 (2017: approximately RMB1,694,000).

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 2018 was approximately RMB47,897,000 (2017: approximately RMB310,816,000).

Net current liabilities

As at 31 December 2018, the Group had net current liabilities of approximately RMB200,951,000. As at 31 December 2017, the Group transferred some of the current assets to non-current assets due to business realignment, resulting in net current liabilities for the first time of approximately RMB279,569,000. The main reason for the decrease in net current liabilities for the year was that the Group secured orders for certain large-scale pipeline projects from an independent third party, SINOPEC, during industry growth cycle in the Year under Review, resulting in significant increase in sales. Meanwhile, the Group made reasonable arrangement of funds and devised elaborate production plan to ensure stable production operation in the long term. The Group will continue with stable operation to gradually reduce its net current liabilities in future.

Capital expenditure

The Group incurred capital expenditure for the acquisition of property, plant and equipment, expansion of production facilities, purchase of machinery for the manufacture of steel pipe products and prepaid land lease payments. Capital expenditure during each of the two years ended 31 December 2017 and 2018 were primarily related to the purchase of property, plant and equipment and land.

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

	2018 **RMB'000**	2017 RMB'000
Purchase of property, plant and equipment	**4,903**	89,401
Prepaid land lease payments	**—**	94,160
	4,903	183,561

Indebtedness

Borrowings

As at 31 December 2018, the borrowings of the Group amounted to approximately RMB848,760,000 (2017: approximately RMB891,883,000).

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

	2018 RMB'000	2017 RMB'000
Borrowings:		
Bank loans — Unsecured	49,000	289,003
Bank loans — Secured	365,000	177,000
Bank loans — Secured and guaranteed	300,000	307,500
Bank loans — Guaranteed	46,000	49,000
Other loans — Unsecured	61,260	69,380
Other loans — Secured	27,500	—
Total	848,760	891,883

Included in the borrowings is approximately RMB848,760,000 repayable within one year. The following table sets forth the annual interest rates of the Group's bank loans:

	2018 %	2017 %
Effective interest rate per annum	4.56–10	4.52–10

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 2018, 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 2018, 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 2018, the accumulated use of the capital raised from initial public offering is set out below:

Projects	**Amount allocated** RMB'000	**Actual expenditure as at 31 December 2018** RMB'000
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

Use of Subscription Proceeds from the Issues of Shares under General Mandate

In November 2014 and March 2016, our Company issued 248,058,000 shares and 545,727,600 shares under its general mandate and the net proceeds raised therefrom were approximately HK$111.28 million and HK$152.40 million, respectively. The proceeds from the issue of shares in November 2014 were fully utilized at the end of 2017, and the proceeds from the issue of shares in March 2016 were fully utilized at the end of 2016. As such, no unutilized proceeds from the above issues of shares were brought forward to the year ended 31 December 2018.

The Group will continue to pursue a prudent treasury management policy and is in a strong liquidity position with sufficient cash to cope with daily operation and capital requirement for future development. The Group did not enter into any hedging arrangement given its ample cash and cash balances.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zhang Bizhuang, aged 51, has been our executive Director and chief executive officer of the Company 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 51, has been appointed as our executive Director and vice president of the Company in August 2012, responsible for the Group's finance management and a mining project in Vietnam. 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 50, has been our vice president of the Company since October 2010, and has been our executive Director of the Company 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. He was a deputy general manager of Shengguan Group from July 2013 to February 2016. He was the technical director of quality production in Shengguan Group from February 2016 to March 2019. He has been the deputy general manager of Shengguan Group since March 2019. He has been responsible for technology development, quality control and production management.

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 51, has been our executive Director of the Company since July 2009, and has been serving as vice president of the Company 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. She was a deputy general manager of Shengguan Group from July 2013 to February 2016. She was the securities investment director in Shengguan Group from February 2016 to March 2019. She has been the deputy general manager of Shengguan Group since March 2019. She has been responsible for overseeing quality management, environment, occupational health and safety system management, investor relations, listing compliance, public relations, external investment business and operational supervision.

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 54, has been our executive Director of the Company since April 2012, and has been serving as vice president of the Company since August 2012. He is responsible for the corporate management and legal affairs 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. He was a deputy general manager of Shengguan Group from July 2013 to February 2016. He was the asset management director in Shengguan Group from February 2016 to March 2019. He has been the management consultant of Shengguan Group since April 2019. He has been responsible for corporate management, finance management, infrastructure and management of the back office.

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.

Mr. Ji Rongdi (alias Jee Rongdee) resigned as the executive Director and the chairman of the board of directors (the "Board") and the member of the Remuneration Committee on 29 January 2019 due to his personal business development. For further details, please refer to the announcement of the Company dated 29 January 2019.

NON-EXECUTIVE DIRECTOR

Mr. Wei Jun, aged 51, is our non-executive Director and the chairman of the Board and joined the Group in January 2019. He currently serves as the general manager of Beijing Zhenhong Xingye Trading Co., Ltd.* (北京臻鴻興業商貿有限公司), responsible for the overall management and international trading of the company. Mr. Wei was the standing deputy general manager of Beijing Jinggang International Trading Limited Company* (北京京鋼國際貿易有限公司), i.e. the department of international trading business of Advanced Technology & Materials Co., Ltd.* (安泰科技股份有限公司) ("Advanced Technology (安泰科技)"), the shares of which are listed on the

Shenzhen Stock Exchange, and was mainly responsible for the overall management and international trading business of the company from 1999 to 2003.He was also the assistant to the director of operating department and the department head of external economics in Central Iron & Steel Research (鋼鐵研究總院), and was mainly engaged in daily management of foreign investment joint ventures and domestic joint ventures, feasibility research on industrial investment, as well as the preparation work for the listing of Advanced Technology (安泰科技) from 1995 to1999.

Mr. Wei graduated from Chongqing University with a degree in Bachelor of Engineering in Metallurgical and Material Engineering in 1990, and obtained a degree in Master of Engineering from China Iron & Steel Research Institute Group* (中國鋼研科技集團公司)(formerly known as the ministry of Metallurgical Industry of Central Iron & Steel Research Institute* (冶金工業部鋼鐵研究總院)("Central Iron & Steel Research (鋼鐵研究總院)") in 1993. He was qualified as a senior engineer in 1996.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Junzhu, aged 42, 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 auditor 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 47, is our independent non-executive Director and joined our Group in March 2015. He currently serves as the director of Drew & Napier LLC in Singapore, and an independent non-executive director, a member of the nomination and remuneration committee and a member of the audit and risk committee of Sasseur Asset Management Pte. Ltd, the manager of Sasseur Real Estate Investment Trust, 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 58, is an independent non-executive Director. He joined the Group in April 2016. He is currently serving as the deputy chairman of Zhejiang Returned Overseas Entrepreneurs' Association* (浙江省海歸創業協會) and standing deputy president of Zhejiang University Returned Overseas Entrepreneurs' Club* (浙江大學海歸校友創業俱樂部). Mr. Qiao has profound experience in advanced technology and new energy. He acted as the technical director in China Seven Star New Energy Holdings Limited from 2014 to 2015. He served as the general manager and a legal representative in Hangzhou Hanyu Technology Company Limited* (杭州漢宇科技有限公司) from 2008 to 2014. 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.

SENIOR MANAGEMENT

Mr. Hong Kam Le, aged 39, is our company secretary and authorized representative and joined our Group in December 2013. He is currently a partner in Chungs Lawyers.

Mr. Hong holds a bachelor's degree in commerce and a bachelor's degree in law from University of Sydney and a postgraduate certificate in laws from University of Hong Kong. Mr. Hong has been a practising solicitor in Hong Kong since 2007.

REPORT OF THE DIRECTORS

The Directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2018.

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL ACTIVITIES

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

Further discussion and analysis of the Group's principal activities as required by Schedule 5 of the Companies Ordinance, including a review of the Group's business and an indication of likely development in the Group's business, can be found in the Management Discussion and Analysis set out on page 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 fluctuation of the 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 indicates the Group's remarkable environmental management performance. The Group will keep reviewing and improving the internal environmental protection system 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 53 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 the 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 2018.

CLOSURE OF REGISTER OF MEMBERS

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

From Tuesday, 18 June 2019 to Friday, 21 June 2019, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the annual general meeting. In order to be eligible to attend and vote at the annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Shop 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 17 June 2019. During the period mentioned above, no transfers of shares will be registered.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for approximately 56.6% (2017: approximately 47.1%) of the total sales and the top five suppliers accounted for approximately 52.3% (2017: approximately 58.6%) of the total purchases for the year. In addition, the Group's largest customer accounted for approximately 18.0% (2017: approximately 10.7%) of the total sales and the Group's largest supplier accounted for approximately 26.2% (2017: approximately 27.4%) 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 associates or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the share capital of the Company) had any interest in these major customers and suppliers.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group is in good relationship with its employees and we have policies in place to ensure competitive remuneration, well-developed welfare package and continuous professional training for our employees.

The Group also maintains a good relationship with its customers and suppliers, without whom its production and operation may be impaired.

CHARITABLE DONATION

For the year ended 31 December 2018, the Group's donation amounted to RMB60,000 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 2018 and the financial positions of the Company and the Group as at 31 December 2018 are set out in the financial statements on pages 70 to 155.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the share premium, contributed surplus and profit which in aggregate amounted to approximately RMB1,084 million as at 31 December 2018 (2017: approximately RMB1,096 million). Details of the reserves of the Company as at 31 December 2018 are set out in note 33 to the financial statements.

FIXED ASSETS

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

SHARE CAPITAL

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

DIRECTORS

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

Executive Directors

Mr. 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)*
Mr. Ji Rongdi *(alias Jee Rongdee) (Chairman)* (resigned on 29 January 2019)

Non-executive Director

Mr. Wei Jun *(Chairman)* (appointed on 29 January 2019)

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. Song Xichen, Mr. Chen Junzhu and Mr. Qiao Jianmin shall retire and Mr. Song Xichen, Mr. Chen Junzhu and Mr. Qiao Jianmin are eligible and will stand for re-election at the forthcoming annual general meeting of the Company.

Pursuant to Article 83(3) of the Articles of Association of the Company, Mr. Wei Jun was appointed as non-executive director on 29 January 2019 and he shall hold office until the forthcoming annual general meeting, and is eligible to offer himself for re-election at the forthcoming annual general meeting.

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers that all of the independent non-executive Directors are independent. None of the Directors 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 2018, 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 2018
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 holds 620,000,000 shares of the Company, representing 18.935% of the issued shares of the Company. On 17 January 2019, Mr. Wei Jun acquired 65.97% interests in MEFUN GROUP LIMITED from, among others, RXJ Holdings Limited, which was owned as to 88% by Mr. Ji Rongdi. As a result of the said acquisition, RXJ Holdings Limited's shareholding in MEFUN GROUP LIMITED become 14.46% and accordingly, Mr. Ji Rongdi ceased to be interested in the shares of the Company held by MEFUN GROUP LIMITED by virtue of the SFO. As a result of the said acquisition, Mr. Wei Jun 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 2018, 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 2018, the Group secured bank loan of approximately RMB365,000,000 (31 December 2017: approximately RMB177,000,000) by pledge of certain of the property, plant and equipment amounting to approximately RMB196,723,000 (31 December 2017: approximately RMB243,274,000) and certain of the land use rights amounting to approximately RMB124,816,000 (31 December 2017: approximately RMB170,687,000).

As at 31 December 2018, an amount of approximately RMB129,300,000 (31 December 2017: approximately RMB72,800,000) out of bank loans of the Group of approximately RMB300,000,000 (31 December 2017: approximately RMB307,500,000) 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 RMB302,442,000 (31 December 2017: approximately RMB342,077,000) and certain of the land use rights amounting to approximately RMB40,320,000 (31 December 2017: approximately RMB41,237,000).

As at 31 December 2018, the Group obtained advance from an entity of approximately RMB27,500,000 (31 December 2017: RMB Nil) by pledge of trade receivables amounting to approximately RMB39,956,000 (31 December 2017: RMB Nil).

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 valid.

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 obtaining 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. 1,200,000 share options held by an employee were lapsed following her departure in 2018.

For the year ended 31 December 2018, movements of options granted under the share option schemes are set out below:

Name	Capacity	Exercise price	Outstanding as at 1 January 2018	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2018	Percentage of the issued share capital of the Company as at 31 December 2018	Notes
Directors									
Ji Rongdi (alias Jee Rongdee)	Beneficial owner	HK$0.415	1,200,000	0	0	0	1,200,000	0.037%	(6)(7)
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	9,000,000	0	0	0	9,000,000	0.275%	(1)
Employees	Beneficial owner	HK$0.80	16,800,000	0	0	0	16,800,000	0.513%	(2)
Employees	Beneficial owner	HK$0.50	50,640,000	0	0	0	50,640,000	1.547%	(3)
Employees	Beneficial owner	HK$0.40	43,200,000	0	0	0	43,200,000	1.319%	(4)
Employees	Beneficial owner	HK$0.40	52,800,000	0	0	0	52,800,000	1.613%	(5)(8)
Employees	Beneficial owner	HK$0.415	108,600,000	0	0	1,200,000	107,400,000	3.28%	(6)(9)
Total			347,460,000	0	0	1,200,000	346,260,000	10.575%	

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 2016 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.

(7) The share options of 1,200,000 shares held by Mr. Ji Rongdi has lapsed following his resignation in January 2019.

(8) The share options of 4,800,000 shares held by an employee has lapsed following his departure in January 2019.

(9) Two share options, each of 1,200,000 shares, held by two employees has lapsed following their departure in January 2019.

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

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

As at 31 December 2018, 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)(3)	620,000,000	18.935%
RXJ Holding Limited	Interest in controlled corporation(2)(3)	620,000,000	18.935%
Waynew Investments Limited	Beneficial owner(4)	248,058,000	7.576%

Notes:

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

(2) HZJ Holding Limited and RXJ Holding Limited held 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 17 January 2019, Mr. Wei Jun acquired 28.04% and 28.03% of the issued share capital of MEFUN GROUP LIMITED from RXJ Holding Limited and HZJ Holding Limited, respectively. As a result of the said acquisition, RXJ Holding Limited and HZJ Holding Limited held 14.46% and 14.47% of the issued share capital of MEFUN GROUP LIMITED, respectively and therefore ceased to be deemed to be interested in the shares of the Company held by MEFUN GROUP LIMITED by virtue of the SFO.

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

Save as disclosed above, as at 31 December 2018, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance had been entered into between the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December 2018.

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 2018, the Company has maintained a public float of not less than 25% as required under the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

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

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2018, cash and cash equivalents of the Group amounted to approximately RMB106,076,000 (2017: approximately RMB36,065,000). As at 31 December 2018, the Group had borrowings of approximately RMB848,760,000 (2017: approximately RMB891,883,000). 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 2018, the gearing ratio of the Group was 41.9% (2017: 44.2%).

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any material contingent liabilities (2017: RMB Nil).

FOREIGN EXCHANGE RISK

In 2018, the Group's businesses have been mainly transacted and settled in functional currency of subsidiaries, so the Group has had minimal exposure to foreign currency risk. The Group did not utilise any forward contracts or other means to hedge its foreign exchange exposure. However, the management will closely monitor the exchange rate fluctuations to ensure sufficient precautionary measures against any adverse impacts are in place.

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group reviews its human resources and remuneration policies periodically with reference to local legislations, market conditions, industry practice and assessment of the performance of the Group and individual employees. As at 31 December 2018, the Group employed a work force of 1,123 employees (including the Directors). The total salaries and related costs (including the Directors' fees) amounted to approximately RMB94,730,000 (2017: approximately RMB92,595,000).

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities and non-controlling interests of the Group for the last five financial years is set out on page 156. This summary does not form part of the audited financial statements.

RETIREMENT SCHEMES

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

CONNECTED TRANSACTIONS

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

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

On 10 January 2018, 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 10 January 2018 to 31 December 2018. The annual cap for the transactions under the framework purchase agreements for the year ended 31 December 2018 is RMB348,000,000. Please refer to the Company's announcement dated 10 January 2018 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 SAWL pipes and SAWH 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 transactions 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.

Purchase of steel plates from Hunan Valin Resource Trading Co., Ltd.* (湖南華菱資源貿易有限公司) ("Valin Resource")

On 28 March 2018, Hunan Shengli Steel Pipe, a non wholly-owned subsidiary of the Company entered into the purchase agreement with Valin Resource, pursuant to which Valin Resource agreed to supply certain steel plates to Hunan Shengli Steel Pipe for a total contract price of approximately RMB41,000,000. Please refer to the announcement of the Company dated 28 March 2018 for further details.

As Xiangtan Steel is a substantial shareholder of Hunan Shengli Steel Pipe, while Hunan Shengli Steel Pipe is a non wholly-owned subsidiary of the Company, Xiangtan Steel is a connected person of the Company. As Xiangtan Steel is wholly owned by Valin Steel, which in turn owns the entire equity in Valin Resource, Valin Resource is an associate of Xiangtan Steel pursuant to the Listing Rules, and is a connected person of the Company at the level of subsidiaries. Accordingly, the transaction under the framework purchase agreement constitutes continuing connected transaction of the Company and is 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; and

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

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

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

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

(2) have been entered into, in all material aspects, in accordance with the terms of the relevant agreements governing the transactions; and

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of their respective securities during the year ended 31 December 2018.

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 Directors' 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 (including any director(s) resigned during the Year) as required by section 470 of the Companies Ordinance when the Report of the Directors prepared by the Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance.

AUDITORS

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

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

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

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

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

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

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

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

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.

At the annual general meeting held on 22 June 2018, the Company re-appointed ZHONGHUI ANDA as auditors of the Company for the year ended 31 December 2018.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

There is no important event affecting the Group which has occurred after the reporting period.

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

24 March 2019

* *For identification purposes only*

CORPORATE GOVERNANCE REPORT

OVERVIEW

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability to the shareholders as a whole. The Board still strives to uphold good corporate governance and adopts sound corporate governance practices. Save as disclosed below, during the period from 1 January 2018 to 31 December 2018, 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 and has complied with all the code provisions and the recommended best practices, as appropriate.

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

The Company has adopted the Model Code for Securities Transactions by the Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the required standard for securities transactions by the Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that during the year ended 31 December 2018, 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 five executive Directors, one non-executive Director and three independent non-executive Directors. The current Board members of the Company are:

Executive Directors

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)*
Mr. Ji Rongdi (alias Jee Rongdee) *(Chairman)* (resigned on 29 January 2019)

Non-executive Director

Mr. Wei Jun *(Chairman)* (appointed on 29 January 2019)

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 2018, the Board held 9 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 the decisions reached.

Throughout the year, 9 Board meetings were held. Details of the attendance of each Director are as follows:

Name of Director	Attendance
Executive Directors	
Mr. Zhang Bizhuang *(Chief Executive Officer)*	9/9
Mr. Jiang Yong *(Vice President)*	9/9
Mr. Wang Kunxian *(Vice President)*	9/9
Ms. Han Aizhi *(Vice President)*	9/9
Mr. Song Xichen *(Vice President)*	9/9
Mr. Ji Rongdi (alias Jee Rongdee) *(Chairman) (resigned on 29 January 2019)*	9/9
Non-executive Director	
Mr. Wei Jun *(Chairman) (appointed on 29 January 2019)*	0/0
Independent non-executive Directors	
Mr. Chen Junzhu	9/9
Mr. Wu Geng	9/9
Mr. Qiao Jianmin	9/9

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 more than 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 1 January 2019, 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 2018.

During the year ended 31 December 2018, 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 2018, 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 2018, reviewing the internal audit report summary for 2017 and the internal audit report for the first half of 2018, as well as reviewing the risk management and internal control system.

Remuneration Committee

Composition

The remuneration committee of the Company (the"Remuneration Committee") was established on 21 November 2009 in compliance with the requirements of the Listing Rules. The primary functions of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration, review and approve proposals for the management's remuneration, and make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. The Remuneration Committee currently consists of two independent non-executive Directors, namely Mr. Wu Geng and Mr. Chen Junzhu, and one non-executive Director, namely Mr. Wei Jun (appointed on 29 January 2019). Mr. Wu Geng currently serves as the chairman. Mr. Ji Rongdi (alias Jee Rongdee), an executive Director, resigned as member of the Remuneration Committee on 29 January 2019.

During the year ended 31 December 2018, 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) (resigned as member of Remuneration Committee on 29 January 2019)	1/1
Mr. Wei Jun (appointed as member of Remuneration Committee on 29 January 2019)	0/0

During the year ended 31 December 2018, the Remuneration Committee had formulated the remuneration policy of Directors, approved the terms in service contracts of Directors and reviewed the distribution of bonus for the year based on assessment on performances of the executive Directors and senior management.

Remuneration Policies For Directors And Senior Management

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

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

The Company has adopted the New Scheme (as defined under Share Option Scheme in page 30 of this annual report) on 20 May 2016. The purpose of the New Scheme is to give the Eligible Persons (as mentioned on page 30 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 2018 is set out below:

Remuneration band	Number of individuals
HK$0–1,000,000	3
HK$1,000,001–1,800,000	7
HK$1,800,001 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. In identifying suitable candidates, the Committee shall consider candidates on merit and against the objective criteria, as well as the relevant statutory requirements and regulations required for the position, with due regard for the benefits of diversity on the Board; (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 will recommend qualified candidates to the Board for approval .

The Nomination Committee currently consists of two independent non-executive Directors, namely Mr. Qiao Jianmin and Mr. Wu Geng, and one executive Director, namely Mr. Zhang Bizhuang. Mr. Qiao Jianmin currently serves as the chairman. During the year ended 31 December 2018, 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)*	1/1
Mr. Zhang Bizhuang	1/1
Mr. Wu Geng	1/1

During the year ended 31 December 2018, 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.

Board Diversity Policy

In addition, the Nomination Committee has adopted the board diversity policy in compliance with the Code in 2018. 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 2018, 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.

Dividend Policy

The Memorandum and Articles of Association of the Company has expressly set out the relevant dividend policy. Major dividend policy includes (a) the Company in general meeting may from time to time declare dividends in any currency to be paid to the Members but no dividend shall be declared in excess of the amount recommended by the Board; (b) dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution dividends may also be declared and paid out of share premium account or any other fund or account which can be authorized for this purpose in accordance with the Law; (c) the Board may from time to time pay to the Members such interim dividends as appear to the Board to be justified by the profits of the Company and in particular if at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferential rights as well as in respect of those shares which confer on the holders thereof preferential rights with regard to dividend and may also pay any fixed dividend which is payable on any shares of the Company half-yearly or on any other dates, whenever such profits, in the opinion of the Board, justifies such payment.

ACCOUNTABILITY AND AUDIT

Directors' and Auditors' Responsibilities for the Financial Statements

The Board acknowledges its responsibility to prepare the Group's financial statements for each financial period to give a true and fair view of the financial position, results and cash flows of the Group for the period. In preparing the financial statements for the year ended 31 December 2018, the Board has selected appropriate accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

AUDITORS' REMUNERATION

During the year ended 31 December 2018, 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
Total	2,690

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

Name of Director	Attendance
Executive Directors	
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
Mr. Ji Rongdi (alias Jee Rongdee) *(Chairman) (resigned on 29 January 2019)*	1/1
Non-executive Director	
Mr. Wei Jun *(Chairman) (appointed on 29 January 2019)*	0/0
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 handling 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 requests 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 2018, there has been no significant change in the Company's constitutional documents.

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 2018, 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 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 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.

Management principle: To create a clean environment by preventing pollution and to observe relevant laws and regulations to ensure health and safety.

Environmental targets (key performance indicators):

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 up and monitored on a monthly basis, while environmental management is included as part of the performance assessment of each department, which is monitored and overseen by particular department on a regular and ad hoc basis.

The environmental aspect is emphasised in the supervision and management measures carried out by the Group including daily check, joint inspection, internal audit, external audit and management evaluation, so that any matters of concern can be identified, rectified and continuously improved with precaution measures. 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 Procedures for Environmental, Occupational Health and Safety Operation* (《生產過程控制及環境職業健康安全運行控制程序》), 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 Company. The aim of such procedures and systems is to impose effective control on emissions, thus improving the environmental conditions of the Company.

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: dust, 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 2018 were approximately 26,256 tonnes (2017: approximately 16,600 tonnes) of carbon dioxide equivalent. Approximately 82.9 kilograms (2017: approximately 88.1 kilograms) of carbon dioxide equivalent were produced for each tonne of products.

Total hazardous waste produced (A1.3)

The total hazardous waste produced in 2018 was approximately 130 tonnes (2017: approximately 130 tonnes). Approximately 0.412 kilogram (2017: approximately 0.712 kilogram) of hazardous waste was produced for each tonne of products.

Total non-hazardous waste produced (A1.4)

The total non-hazardous waste produced in 2018 was approximately 165 tonnes (2017: approximately 150 tonnes). Approximately 0.523 kilogram (2017: approximately 0.785 kilogram) of non-hazardous waste was produced for each tonne of products.

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 25,070 tonnes (2017: approximately 16,100 tonnes), representing approximately 95.48% (2017: approximately 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)".

Remarkable outcome was attained for emissions reduction as the Group's total greenhouse gas emissions in carbon dioxide equivalent for each tonne of products decreased by approximately 6.3% in 2018 as compared to 2017.

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, oil-bearing wastes and recyclable metals 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, establishing a system of returning old materials and receiving new materials or delivering wastes to units with waste treatment qualification for waste disposal to reduce waste emissions;

3. Heightening the assessment criteria of raw material and energy consumption indicators to facilitate the launch of emissions 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 42.1% in 2018 as compared to 2017.

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 2018 was approximately 41,662 kilowatt hours in '000s (2017: approximately 25,800 kilowatt hours in '000s) and the energy consumption per tonne of products was approximately 0.132 kilowatt hour in '000s (2017: approximately 0.138 kilowatt hour in '000s).

Water consumption in total and intensity (A2.2)

The water consumption in total in 2018 was approximately 270,500 cubic metres (2017: approximately 182,000 cubic metres) and the water consumption per tonne of products was approximately 0.35 cubic metre (2017: approximately 0.43 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, use of energy efficient lighting products and renovation of old distribution rooms and capacitor boxes in some of the workshops to procure energy conservation;

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

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

Results achieved

Efficiency was greatly improved as evidenced by the fact that the total energy consumption of the Group per tonne of products decreased in 2018 as compared to 2017.

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.

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 with sensor;

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

Water consumption efficiency was greatly enhanced as evidenced by the fact that the total water consumption of the Group per tonne of products decreased by approximately 18.6% in 2018 as compared to 2017.

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 2018, a total of 223,500 (2017: 153,900) pipe-end protectors, 73,674 (2017: 2,600) pipe-end seals and 417,260 (2017: 253,300) nylon separation ropes were used.

Aspect A3: The Environment and Natural Resources

Policies on minimising the impact on the 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 the 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 have been taken:

1. Enhancing maintenance and ensuring 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 the production process and create a green production environment;

6. Formulating corresponding contingency plan and conducting regular drills.

REPORT ON SOCIAL ASPECT (ASPECTS B1–B8)

Employment and Labour Practices

Aspect B1: Employment

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

Compensation and dismissal

The Group offers competitive remuneration packages depending on the nature, responsibilities, levels of skills required for the 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 is capable to 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 and grants high-temperature subsidy to employees, and conducts regular occupational health checks for staff in specific 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 2018, the Group had a total of 1,123 (2017: 1,155) employees, with men-to-women ratio of 2.6: 1 (2017: 3:1). The ratio of office management staff to production and operating staff was 1: 3.7 (2017: 1:3). Approximately 91% of the employees were stationed at Shandong and Hunan production bases. Approximately 84% of the employees were aged 50 or below, while approximately 31% of employees were aged 30 or below.

In 2018, the turnover rate of the Group's employees was around 15.37% (2017: approximately 15.32%), mainly representing the loss of production and operating staff in Shandong and Hunan production bases.

Aspect B2: Health and Safety

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

Occupational health and safety targets (key performance indicators) are:

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 up 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 2018, the Group did not experience any fatal work-related incidents. 4 employees (2017: 2 employees) suffered from work-related injury, representing approximately 0.35% (2017: approximately 0.17%) of the total number of employees, which resulted in 65 work-loss days (2017: 15 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 2018 was 100% (2017: 100%). Internal trainings carried out in 2018 include safety education training (level 3), position skills training and rules on safe operation. External trainings carried out in 2018 include training for special equipment operating personnel, product standard training, metallographic analytical skills training, and induction 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. These systems specify staff recruitment procedures, which avoid the recruitment of child labour and ensure the 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 2018, the Group had a total of 255 (2017: 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 or services rendered by suppliers in terms of product quality, environment and health and safety, the Company distinguishes between essential suppliers (critical suppliers) and general suppliers (non-critical suppliers) and conducts evaluation, selection and control accordingly.

The Group selects suppliers which are able to provide premium products and services and observe the Group's ESG standards. With regard to suppliers in possession of administrative licences of regulations and safety 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 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 2018, 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 2018, a total of 4 utility model patents were obtained, while 9 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 2018, 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 2018, the Group received 1 complaint in respect of products and services. The complaint was lodged in connection with mild damage caused to the product surface in the course of transportation, which was handled promptly after sales to the satisfaction of customer.

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, 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-participant 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 2018, 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 makes contribution to difficulty relief, charity events as well as recreational and sports activities.

Active participation in charity events

In 2018, the Group made external donation of RMB60,000, 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 promotional showcase, organising appreciation meeting for employees and arranging exchanges and visits.

* *For identification purposes only*

INDEPENDENT AUDITOR'S REPORT

中汇
ZHONGHUI

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

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 155, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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 RMB54,169,000 for the year ended 31 December 2018 and as at 31 December 2018 the Group had net current liabilities of approximately RMB200,951,000. These conditions indicate a material uncertainty which may cast significant doubt on the Group'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 approximately RMB748,805,000 and approximately RMB240,705,000, respectively as at 31 December 2018 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 21 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 approximately RMB416,136,000 as at 31 December 2018 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 24 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 approximately RMB381,199,000 as at 31 December 2018 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 the 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, 23 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	9	**913,392**	2,155,750
Cost of sales and services		**(708,651)**	(2,041,103)
Gross profit		**204,741**	114,647
Other income and gains	9	**23,690**	18,843
Selling and distribution costs		**(33,760)**	(81,267)
Administrative expenses		**(170,609)**	(206,389)
Other expenses		**(2,141)**	(1,263)
Share of losses of:			
Joint ventures		**—**	(2,376)
Associates		**(728)**	(2,596)
Impairment loss recognised		**(15,782)**	(88,504)
Loss on disposal of investments, net		**(13,305)**	(8,197)
Gain on bargaining purchase of associates		**—**	9,966
Finance costs	10	**(47,423)**	(46,484)
LOSS BEFORE TAX	11	**(55,317)**	(293,620)
Income tax expense	13	**(2,500)**	(1,694)
LOSS FOR THE YEAR		**(57,817)**	(295,314)
Other comprehensive income/(loss) that may be subsequently reclassified to profit or loss:			
Exchange differences reclassified to profit or loss on disposal of subsidiaries		**(1)**	436
Exchange differences on translation of financial statements of foreign operations		**9,921**	(15,938)
		9,920	(15,502)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(47,897)**	(310,816)
LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(54,169)**	(250,831)
Non-controlling interests		**(3,648)**	(44,483)
		(57,817)	(295,314)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(44,249)**	(266,333)
Non-controlling interests		**(3,648)**	(44,483)
		(47,897)	(310,816)
LOSS PER SHARE (RMB cents)	14		
— Basic		**(1.65)**	(7.66)
— Diluted		**(1.65)**	(7.66)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	16	748,805	882,774
Prepaid land lease payments	17	234,744	249,299
Goodwill	18	—	2,525
Deposits paid for acquisition of investments	20	213,446	203,214
Investment in associates	21	416,136	386,865
Deferred tax assets	22	16,196	22,927
		1,629,327	1,747,604
CURRENT ASSETS			
Inventories	23	208,436	169,906
Trade and bills receivables	24	381,199	428,285
Contract assets	25	91,492	95,327
Prepayments, deposits and other receivables	26	163,917	213,978
Prepaid land lease payments	17	5,961	6,193
Pledged deposits	27	64,283	20,096
Cash and cash equivalents	27	106,076	36,065
		1,021,364	969,850
CURRENT LIABILITIES			
Trade and bills payables	28	255,707	152,104
Other payables and accruals	29	80,545	119,216
Contract liabilities	25	19,957	70,348
Borrowings	30	848,760	891,883
Tax payable		15,301	15,014
Deferred income	31	2,045	854
		1,222,315	1,249,419
NET CURRENT LIABILITIES		(200,951)	(279,569)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,428,376	1,468,035

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 RMB'000	2017 RMB'000 (Restated)
NON-CURRENT LIABILITIES			
Deferred income	31	**7,079**	5,609
Deferred tax liabilities	22	**326**	343
		7,405	5,952
NET ASSETS		**1,420,971**	1,462,083
EQUITY			
Equity attributable to owners of the Company			
Issued capital	32	**283,911**	283,911
Reserves	33	**1,040,608**	1,078,072
		1,324,519	1,361,983
Non-controlling interests		**96,452**	100,100
Total equity		**1,420,971**	1,462,083

The consolidated financial statements on pages 70 to 155 were approved and authorised for issue by the Board of Directors on 23 March 2019 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 2018

	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 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	—	—	—	—	—	—	(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
At 1 January 2018	**283,911**	**1,230,106**	**62,484**	**70,728**	**(9)**	**16,539**	**(301,776)**	**1,361,983**	**100,100**	**1,462,083**
Share-based payment	**—**	**—**	**—**	**6,785**	**—**	**—**	**—**	**6,785**	**—**	**6,785**
Total comprehensive income/(loss) for the year	**—**	**—**	**—**	**—**	**—**	**9,920**	**(54,169)**	**(44,249)**	**(3,648)**	**(47,897)**
At 31 December 2018	**283,911**	**1,230,106**	**62,484**	**77,513**	**(9)**	**26,459**	**(355,945)**	**1,324,519**	**96,452**	**1,420,971**

* 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 2018

	2018 RMB'000	2017 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(55,317)	(293,620)
Adjustments for:		
Finance costs	47,423	46,484
Interest income	(755)	(885)
Share of losses of joint ventures	—	2,376
Share of losses of associates	728	2,596
Depreciation	118,000	119,280
Amortisation of prepaid land lease payments	5,347	5,150
Gain on disposal of property, plant and equipment, net	(4,928)	(11)
Gain on bargaining purchase of associates	—	(9,966)
Loss/(gain) on disposal of subsidiaries, net	13,305	(3,892)
Loss on disposal of an associate	—	12,090
Gain on disposal of a joint venture	—	(1)
Reversal of allowance for trade receivables	(10,505)	(19,627)
Impairment loss recognised on investment in an associate	—	10,428
Impairment loss recognised on property, plant and equipment	—	9,973
Impairment loss recognised on advance to a joint venture	—	8,943
Impairment loss recognised on other receivables	15,782	59,159
(Reversal of write down)/Write down of inventories	(1,089)	1,518
Share option expenses	6,785	12,535
Recognise of deferred income	(2,012)	(854)
Operating profit/(loss) before working capital changes	132,764	(38,324)
Change in inventories	(37,441)	24,734
Change in trade and bills receivables	57,591	451,748
Change in contract assets	3,835	30,111
Change in prepayments, deposits and other receivables	34,279	224,475
Change in trade and bills payables	103,603	(193,008)
Change in other payables and accruals	(29,404)	22,239
Change in contract liabilities	(50,391)	(9,834)
Cash generated from operations	214,836	512,141
Income tax paid	(508)	(2,232)
Net cash generated from operating activities	214,328	509,909

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 RMB'000	2017 RMB'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in associates	**(30,000)**	(375,000)
Purchase of property, plant and equipment	**(9,000)**	(90,780)
Additions of prepaid land lease payments	**—**	(94,160)
Proceeds from disposal of items of property, plant and equipment	**9,393**	96
Proceeds from disposal of joint ventures	**—**	1
Proceeds from disposal of an associate	**—**	9,150
Net cash inflow arising from disposal of subsidiaries	**20,020**	6,268
Change in pledged deposits	**(44,187)**	(1,698)
Interest received	**755**	885
Net cash used in investing activities	**(53,019)**	(545,238)
CASH FLOWS FROM FINANCING ACTIVITIES		
New borrowings	**809,500**	837,883
Repayment of loans	**(852,623)**	(920,000)
Purchase of non-controlling interests	**—**	(9,000)
Interest paid	**(47,862)**	(43,006)
Net cash used in financing activities	**(90,985)**	(134,123)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**70,324**	(169,452)
Cash and cash equivalents at beginning of year	**36,065**	228,350
Effect of foreign exchange	**(313)**	(22,833)
Cash and cash equivalents at end of year	**106,076**	36,065

1. GENERAL INFORMATION

The Company is a limited company incorporated in the Cayman Islands on 3 July 2009. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal places of business of the Company in Hong Kong 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

The 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 RMB54,169,000 for the year ended 31 December 2018, the Group had net current liabilities of approximately RMB200,951,000 as at 31 December 2018. These conditions indicate the existence of a material uncertainty which 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 board of directors (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 2018. 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 except as stated below.

IFRS 15 "Revenue from Contracts with Customers" has been applied retrospectively and resulted in changes in the consolidated amounts reported in the financial statements as follows:

	RMB'000
As 31 December 2017:	
Decrease in trade receivable	(95,327)
Increase in contract assets	95,327
Decrease in other payables and accruals	(70,348)
Increase in contract liabilities	70,348

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

The consolidated financial statements have been prepared under the historical cost convention. The 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 the consolidated financial statements are disclosed in note 5 to the consolidated financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Consolidation

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

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

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Consolidation (Continued)

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

Joint arrangements

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

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Joint arrangements (Continued)

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

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

Associates

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

Investment in 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Associates (Continued)

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

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

Business combination and goodwill

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

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

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

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, financial assets at fair value through other comprehensive income), 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combination and goodwill (Continued)

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

Foreign currency translation

(a) Functional and presentation currency

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation (Continued)

(c) Translation on consolidation

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

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

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

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

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

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

Property, plant and equipment

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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

Buildings	20–30 years 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.

Leases

Operating leases

The Group as lessee

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

The Group as lessor

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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.

Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the time frame established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets of the Group are classified under the following category:

Financial assets at amortised cost

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

(a) the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

(b) the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

Financial assets at amortised cost (Continued)

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost and contract assets. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("life time expected credit losses") for trade receivables and contract assets or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables and contract assets) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of life time expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

Cash and cash equivalents

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

Financial liabilities and equity instruments

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowings

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

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

Trade and other payables

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

Equity instruments

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

Government grants

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

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

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

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (Continued)

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

(a) the customer simultaneously receives and consumes the benefits provided by the Group's performance;

(b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

(c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is satisfied over time, revenue is recognised by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the product or service.

Other income

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

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

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

Employee benefits

(a) Employee leave entitlements

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

(b) Pension obligations

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme ("MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme in Hong Kong. Contributions are made based on 5% of the employees' relevant income, subject to a ceiling of monthly relevant income of HK$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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowing costs (Continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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) Going concern basis

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. Details are explained in note 2 to financial statements.

(b) 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 2018. 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 these 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, no impairment loss on property, plant and equipment (2017: approximately RMB9,973,000) had been made in 2018.

(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 2018 were approximately RMB375,799,000 (2017: approximately RMB401,847,000) and approximately RMB163,917,000 (2017: approximately RMB213,978,000), respectively.

(d) Impairment loss recognised in respect of investment in associates

Interest in associates 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 investment in associates 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 investment in associates was approximately RMB416,136,000 (2017: approximately RMB386,865,000).

(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 2018 was approximately RMB16,196,000 (2017: approximately RMB22,927,000).

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 2018 was approximately RMB208,436,000 (2017: approximately RMB169,906,000).

6. CAPITAL RISK MANAGEMENT

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

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

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

(a) Foreign currency risk

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

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

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Foreign currency risk (Continued)

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in the functional currency of the Group. The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

(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 2018, 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 RMB412,000 (2017: approximately RMB744,000) 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 RMB412,000 (2017: approximately RMB744,000) lower, arising mainly as a result of higher interest expense on bank loan and other borrowings.

(c) Credit risk

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

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

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

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

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Credit risk (Continued)

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 27% (2017: approximately 29%) and approximately 62% (2017: approximately 55%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

The Group considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following information is used:

— internal credit rating;

— external credit rating (if available);

— actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;

— significant changes in the value of the collateral or in the quality of guarantees or credit enhancements; and

— significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group normally categorises a loan or receivable for write off when a debtor fails to make contractual payments greater than 360 days past due. Where loans or receivables have been written off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Credit risk (Continued)

The Group uses two categories for non-trade loan receivables which reflect their credit risk and how the loan loss provision is determined for each of the categories. In calculating the expected credit loss rates, the Group considers historical loss rates for each category and adjusts for forward looking data.

Category	Definition	Loss provision
Performing	Low risk of default and strong capacity to pay	12 month expected losses
Non-performing	Significant increase in credit risk	Lifetime expected losses

	Shareholders of an entity RMB'000	Entities RMB'000	Employees RMB'000	Total RMB'000
At 31 December 2018				
Advances to	**30,000**	**94,457**	**421**	**124,878**
Provision for loss allowance	**(5,600)**	**(72,924)**	**—**	**(78,524)**
Carrying amounts	**24,400**	**21,533**	**421**	**46,354**
At 31 December 2017				
Advances to	30,000	75,445	690	106,135
Provision for loss allowance	—	(62,742)	—	(62,742)
Carrying amounts	30,000	12,703	690	43,393

All of these loans are considered to have low risk and under the 'Performing' category because they have a low risk of default and have strong ability to meet their obligations.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Credit risk (Continued)

Weighted average expected credit loss rate

	Shareholders of an entity RMB'000	Entities RMB'000	Employees RMB'000	Total RMB'000
2018	**19%**	**77%**	**0%**	
2017	0%	83%	0%	
Loss allowance at 1 Jan 2017	—	(54,656)	—	(54,656)
Increase in provision in 2017	—	(8,086)	—	(8,086)
Loss allowance at 31 Dec 2017	—	(62,742)	—	(62,742)
Increase in provision in 2018	**(5,600)**	**(10,182)**	**—**	**(15,782)**
Loss allowance at 31 Dec 2018	**(5,600)**	**(72,924)**	**—**	**(78,524)**

The increase in loss allowance is due to increase in expected credit loss rates.

(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:

2018

	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	**872,057**	**—**	**—**	**—**	**872,057**
Trade and bills payables	**255,707**	**—**	**—**	**—**	**255,707**
Financial liabilities included in other payables and accruals	**75,831**	**—**	**—**	**—**	**75,831**
	1,203,595	**—**	**—**	**—**	**1,203,595**

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

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Categories of financial instruments

	2018 RMB'000	2017 RMB'000 (Restated)
Financial assets:		
Financial assets at amortised cost		
Trade and bills receivables	**381,199**	428,285
Financial assets included in prepayments, deposits and other receivables	**112,398**	139,901
Pledged deposits	**64,283**	20,096
Cash and cash equivalents	**106,076**	36,065
	663,956	624,347
Financial liabilities:		
Financial liabilities at amortised cost		
Trade and bills payables	**255,707**	152,104
Financial liabilities included in other payables and accruals	**75,831**	117,445
Borrowings	**848,760**	891,883
	1,180,298	1,161,432

(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 2018, the Group has two (2017: two) reportable segments which comprise of pipes business and trading business. The pipes business segment produces submerged-arc helical welded pipes ("SAWH pipes") and submerged-arc longitudinal welded pipe ("SAWL pipes") which are mainly used for the oil and infrastructure industry ("Pipes Business"). The trading business mainly involve trading of coal ("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.

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 advance to a joint venture, impairment loss recognised on investment in an associate, loss/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.

8. OPERATING SEGMENT INFORMATION (Continued)

Segment revenue and results

For the year ended 31 December 2018

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:				
Sales to external customers	910,832	2,560	—	913,392
Intersegment sales	40,261	—	(40,261)	—
Total revenue	951,093	2,560	(40,261)	913,392
Segment results	70,565	(8,951)		61,614
Interest income				755
Impairment loss recognised on other receivables				(15,782)
Loss on disposal of subsidiaries, net				(13,305)
Unallocated expenses				(41,176)
Finance costs				(47,423)
Loss before tax				(55,317)

8. OPERATING SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

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 investment in an associate				(10,428)
Impairment loss recognised on advance to a joint venture				(8,943)
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 assets

As at 31 December 2018

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment assets	**1,804,572**	**29,218**	**—**	**1,833,790**
Unallocated assets				**816,901**
Total consolidated assets				**2,650,691**

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

8. OPERATING SEGMENT INFORMATION (Continued)

Segment liabilities

As at 31 December 2018

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment liabilities	**361,002**	**1,219**	**—**	**362,221**
Unallocated liabilities				**867,499**
Total consolidated liabilities				**1,229,720**

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

8. OPERATING SEGMENT INFORMATION (Continued)

Other segment information

2018

	Pipes Business RMB'000	Trading Business RMB'000	Unallocated RMB'000	Consolidated RMB'000
Share of loss of associates	—	—	728	728
Reversal of allowance for trade receivables	(10,505)	—	—	(10,505)
Loss/(gain) on disposal of subsidiaries, net	13,383	—	(78)	13,305
Depreciation and amortisation	122,993	248	106	123,347
Investment in associates	—	—	416,136	416,136
Capital expenditure	4,900	3	—	4,903

8. OPERATING SEGMENT INFORMATION (Continued)

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
An associate	—	—	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 an associate	—	—	386,865	386,865
Capital expenditure	183,559	2	—	183,561

8. OPERATING SEGMENT INFORMATION (Continued)

(a) Revenue from external customers

	For the year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Mainland China	**913,392**	2,141,735
Other countries	**—**	14,015
	913,392	2,155,750

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

(b) Non-current assets

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Mainland China	**1,362,038**	1,482,350
Hong Kong	**251,093**	242,327
	1,613,131	1,724,677

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

8. OPERATING SEGMENT INFORMATION (Continued)

Information about major customers

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

	Segment	2018 RMB'000	2017 RMB'000
Customer A	Trading business	—	225,050
Customer B	Trading business	—	239,409
Customer C	Pipes business	164,848	—
Customer D	Pipes business	119,710	—
Customer E	Pipes business	98,304	—

9. REVENUE, OTHER INCOME AND GAINS

	2018 RMB'000	2017 RMB'000
Revenue		
Pipes business		
Sales of steel pipes	705,088	836,113
Rendering of services related to pipe business	205,744	79,076
Trading business	2,560	1,240,561
	913,392	2,155,750

9. REVENUE, OTHER INCOME AND GAINS (Continued)

Disaggregation of revenue from contracts with customers

2018

	Pipes Business RMB'000	**Trading Business RMB'000**	**Eliminations RMB'000**	**Consolidated RMB'000**
Geographical markets				
Mainland China	**951,093**	**2,560**	**(40,261)**	**913,392**
Timing of revenue recognition				
At a point in time	**951,093**	**2,560**	**(40,261)**	**913,392**

2017

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Geographical markets				
Mainland China	939,573	1,240,561	(38,399)	2,141,735
Other countries	14,015	—	—	14,015
Total	953,588	1,240,561	(38,399)	2,155,750
Timing of revenue recognition				
At a point in time	953,588	1,240,561	(38,399)	2,155,750

9. REVENUE, OTHER INCOME AND GAINS (Continued)

Sales of steel pipes and rendering of related services

The Group manufactures and sells SAWH pipes and SAWL pipes and provides anti-corrosion processing service to the customers. Sales are recognised when control of the products has transferred, being when the products are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the products and the customer has obtained legal titles to the products.

The products sold to customers are returnable to the Group within one month from delivery to the customers. Revenue from these sales is recognised based on the prices specified in the contracts, net of the estimated sales return. Accumulated experience is used to estimate and provide for the sales return, using the expected value method. A contract liability is recognised for the expected sales return payable to customers in relation to the sales made.

Sales to customers are normally made with credit terms of 90 to 180 days. For new customers, deposits or cash on delivery may be required. Deposits received are recognised as a contract liability.

A receivable is recognised when the products are delivered to the customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

Trading business

The Group sells commodities to the customers. Sales are recognised when control of the commodities has transferred, being when the commodities are delivered to a customer, there is no unfulfilled obligation that could affect the customer's acceptance of the commodities and the customer has obtained legal titles to the commodities.

Sales to customers are normally made with credit terms of 90 to 180 days. For new customers, deposits or cash on delivery may be required. Deposits received are recognised as a contract liability.

A receivable is recognised when the commodities are delivered to the customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

9. REVENUE, OTHER INCOME AND GAINS (Continued)

	2018 RMB'000	2017 RMB'000
Other income		
Interest income	755	885
Rental income	1,002	1,107
Others	5,523	7,820
	7,280	9,812
Other gains		
Gain on sales of materials	276	4,333
Gain on disposal of property, plant and equipment, net	4,928	11
Others	11,206	4,687
	16,410	9,031
	23,690	18,843

10. FINANCE COSTS

	2018 RMB'000	2017 RMB'000
Interest on borrowings	47,423	46,484

11. LOSS BEFORE TAX

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

	2018 RMB'000	2017 RMB'000
Cost of inventories sold*	563,033	1,982,410
Cost of services	145,618	58,693
Employees benefits expenses (including directors' remuneration (note 12)):		
Wages, salaries and bonus	80,936	73,343
Performance related bonus	99	—
Pension scheme contributions	5,304	5,542
Welfare and other expenses	1,606	1,175
Equity-settled share option expense	6,785	12,535
	94,730	92,595
Depreciation of property, plant and equipment	118,000	119,280
Amortisation of prepaid land lease payments	5,347	5,150
Reversal of allowance for trade receivables	(10,505)	(19,627)
Impairment loss recognised on property, plant and equipment	—	9,973
Impairment loss recognised on advance to a joint venture	—	8,943
Impairment loss recognised on other receivables	15,782	59,159
Impairment loss recognised on investment in an associate	—	10,428
Gain on disposal of property, plant and equipment, net	(4,928)	(11)
Loss/(gain) on disposal of subsidiaries, net (Note 35(a), (b))	13,305	(3,892)
Loss on disposal of an associate	—	12,090
Gain on disposal of a joint venture	—	(1)
Operating lease payments	2,718	12,736
Exchange loss, net	113	4,465
Auditors' remuneration	1,862	1,776

* Included in the cost of inventories sold is an amount of approximately RMB1,089,000 (2017: write down of inventories of approximately RMB1,518,000) related to the reversal of write down of inventories for the year ended 31 December 2018.

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 2018					
		Fees	Salaries, allowances and other benefits in kind	Performance related bonus	Social security contribution	Equity-settled share option expense	Total remuneration
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors:							
Zhang Bizhuang		254	1,299	—	64	56	1,673
Jiang Yong		254	1,014	—	—	103	1,371
Han Aizhi		254	1,087	—	54	56	1,451
Song Xichen		254	1,087	—	54	56	1,451
Wang Kunxian		254	1,096	—	65	56	1,471
Ji Rongdi, alias Jee Rongdee	(i)	233	1,237	—	50	56	1,576
Independent non-executive Directors:							
Chen Junzhu		338	—	—	—	103	441
Wu Geng		338	—	—	—	103	441
Qiao Jianmin		338	—	—	—	103	441
		2,517	6,820	—	287	692	10,316

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

(a) (Continued)

		For the year ended 31 December 2017					
		Fees	Salaries, allowances and other benefits in kind	Performance related bonus	Social security contribution	Equity-settled share option expense	Total remuneration
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors:							
Zhang Bizhuang		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	(i)	260	1,343	—	46	107	1,756
Independent non-executive Directors:							
Chen Junzhu		347	—	—	—	180	527
Wu Geng		347	—	—	—	180	527
Qiao Jianmin		347	—	—	—	180	527
		2,601	6,865	—	247	1,780	11,493

Notes:

(i) 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. He resigned on 29 January 2019.

(b) Five Highest Paid Individuals' emoluments

All the five highest paid individuals of the Group were the directors whose emolument is set out in the above during the two years ended 31 December 2018 and 2017.

(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 2018 and 2017.

13. INCOME TAX EXPENSE

	2018 RMB'000	2017 RMB'000
Current — PRC Enterprise Income Tax ("EIT")		
— Charge for the year	796	1,309
Current — Hong Kong		
— Charge for the year	—	—
— Over-provision in prior years	—	(3,460)
Deferred tax (note 22)	1,704	3,845
Income tax expense	2,500	1,694

Hong Kong profits tax is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year.

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

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

13. INCOME TAX EXPENSE (Continued)

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

	2018 RMB'000	2017 RMB'000
Loss before tax	(55,317)	(293,620)
Tax at the applicable tax rate of companies within the Group of 25% (2017: 25%)	(13,829)	(73,405)
Expenses not deductible for tax	12,129	207,115
Income not taxable for tax	(2,942)	(177,208)
Tax loss not recognised	6,441	44,228
Effect of different tax rates of subsidiaries	519	3,181
Tax effect of losses attributable to joint ventures and associates	182	1,243
Over-provision in prior years	—	(3,460)
Tax at the Group's effective rate	2,500	1,694

At the end of the reporting period the Group has unused tax losses of approximately RMB685,431,000 (2017: approximately RMB573,687,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately RMB30,572,000 (2017: approximately RMB50,608,000) of such losses. No deferred tax asset has been recognised in respect of the remaining approximately RMB654,859,000 (2017: approximately RMB523,079,000) due to the unpredictability of future profit streams. All tax losses will expire in 2023.

13. INCOME TAX EXPENSE (Continued)

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 2018 and 2017, 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 RMB110,660,000 and RMB140,143,000, 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 RMB54,169,000 (2017: approximately RMB250,831,000) and the weighted average number of 3,274,365,600 (2017: 3,274,365,600) 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 2018 and 2017 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 2018 (2017: RMB 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 2018						
COST:						
At 1 January 2018	483,228	1,051,107	16,559	15,531	11,113	1,577,538
Additions	1,383	1,248	—	273	1,999	4,903
Transfers	246	647	—	—	(893)	—
Disposals	(2,229)	(26,051)	(1,454)	(104)	—	(29,838)
Disposals of subsidiaries	(15,182)	(36,012)	(768)	(726)	—	(52,688)
At 31 December 2018	467,446	990,939	14,337	14,974	12,219	1,499,915
ACCUMULATED DEPRECIATION AND IMPAIRMENT:						
At 1 January 2018	95,214	574,682	14,275	10,593	—	694,764
Provided during the year	21,793	93,775	694	1,738	—	118,000
Disposals	(2,229)	(21,875)	(1,171)	(98)	—	(25,373)
Disposals of subsidiaries	(4,950)	(30,176)	(721)	(434)	—	(36,281)
At 31 December 2018	109,828	616,406	13,077	11,799	—	751,110
CARRYING AMOUNTS:						
At 31 December 2018	357,618	374,533	1,260	3,175	12,219	748,805

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 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

As at 31 December 2018, the Group was in the process of applying for the title certificates of buildings with an aggregate net book value of approximately RMB7,705,000 (2017: approximately RMB10,907,000). 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 2018.

The Group carried out reviews of the recoverable amount of certain property, plant and equipment in 2018 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 and prepaid land lease payments in 2018 and 2017, 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 RMB Nil (2017: approximately RMB9,973,000), 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 RMB65,720,000 (2017: approximately RMB25,628,000). The recoverable amount of relevant assets of approximately RMB65,720,000 (2017: approximately RMB15,655,000) 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) and Xinjiang Huaguang Wanxiang Assets Evaluation Co., Ltd.# (新疆華光萬象資產評估有限公司) (2017: Shandong Sanyuan Assets Appraisal Co., Ltd.# (山東三元資產評估有限公司)), an independent firm of professional valuers.

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17. PREPAID LAND LEASE PAYMENTS

	2018 **RMB'000**	2017 RMB'000
Carrying amount at 1 January	**255,492**	166,482
Additions	**—**	94,160
Disposal of subsidiaries (Note 35(a))	**(9,440)**	—
Amortisation for the year	**(5,347)**	(5,150)
Carrying amount at 31 December	**240,705**	255,492
Current portion	**(5,961)**	(6,193)
Non-current portion	**234,744**	249,299

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

As at 31 December 2018, 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 RMB9,887,000 (2017: approximately RMB10,122,000). 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 2018.

17. PREPAID LAND LEASE PAYMENTS (Continued)

The Group carried out reviews of the recoverable amount of certain property, plant and equipment and prepaid land lease payments in 2018 and 2017, 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 RMB Nil (2017: RMB Nil), which has been recognised in profit or loss for the prepaid land lease payments which has an aggregate carrying amounts at the end of the reporting period of approximately RMB15,205,000 (2017: approximately RMB15,664,000). The recoverable amount of relevant assets of approximately RMB41,359,000 (2017: approximately RMB38,892,000) 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 land (level 2 fair value measurements) by Shandong Sanyuan Assets Appraisal Co., Ltd.# (山東三元資產評估有限公司) and Xinjiang Huaguang Wanxiang Assets Evaluation Co., Ltd.# (新疆華光萬象資產評估有限公司) (2017: Shandong Sanyuan Assets Appraisal Co., Ltd.# (山東三元資產評估有限公司)), an independent firm of professional valuers.

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18. GOODWILL

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	**2,525**	2,525
Disposal of subsidiaries (Note 35(a))	**(2,525)**	—
Carrying amount at 31 December	**—**	2,525

19. SUBSIDIARIES

Particulars of the Company's major subsidiaries at 31 December 2018 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

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
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 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
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%	Manufacturing, processing and sale of SAWL and SAWH pipelines and provision of anti-corrosion service for oil and gas pipelines and other construction and manufacturing applications and trading of 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
Indirectly held: (Continued)				
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	100%	New energy technical development and trading of environmental energy equipment, fuel oil and chemical products 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	100%	Trading of metal commodity
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	RMB406,000,000	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

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
Indirectly held: (Continued)				
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

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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	
	2018	2017	**2018**	2017
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%**	43.10%
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 31 December:				
Non-current assets	**60,598**	68,724	**418,669**	466,044
Current assets	**11,288**	11,989	**381,467**	261,397
Non-current liabilities	**(4,754)**	(5,609)	**(2,325)**	—
Current liabilities	**(21,439)**	(19,443)	**(620,217)**	(551,461)
Net assets	**45,693**	55,661	**177,594**	175,980
Accumulated NCI	**19,909**	24,253	**76,543**	75,847
Year ended 31 December:				
Revenue	**451**	1,196	**359,650**	219,799
Loss for the year	**(9,968)**	(9,266)	**1,613**	(91,056)
Total comprehensive loss	**(9,968)**	(9,266)	**1,613**	(91,056)
Loss allocated to NCI	**(4,343)**	(4,037)	**695**	(40,446)
Dividends paid to NCI	**—**	—	**—**	—
Net cash generated (used in)/from operating activities	**(143)**	113	**46,701**	19,392
Net cash used in investing activities	**—**	—	**(1,546)**	(15,749)
Net cash (used in)/generated from financing activities	**149**	(141)	**(37,317)**	(46,094)
Net (decrease)/increase in cash and cash equivalents	**6**	(28)	**7,838**	(42,451)

As at 31 December 2018, the bank and cash balances of these subsidiaries in the PRC denominated in RMB amounted to approximately RMB11,072,000 (2017: approximately RMB5,558,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

20. DEPOSITS PAID FOR ACQUISITION OF INVESTMENTS

	2018 RMB'000	2017 RMB'000
Deposit paid for proposed acquisition of the allotted and issued share capital of:		
— Blossom Time Group Limited (note)	213,446	203,214

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 28 September 2018, a wholly owned subsidiary of the Company (the "Transferee") and the shareholder of Blossom Time Group Limited (the "Transferor") entered into the sixth supplemental agreement (the "Sixth Supplemental Agreement") to the share transfer agreement, pursuant to which the parties agreed to use their best effort to negotiate future cooperation methods and solutions to proceed further in their cooperation. If any of the closing conditions have not been fulfilled 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 (with interest of 3% per annum) at a time and in the manner to be agreed between the parties.

21. INVESTMENT IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Unlisted investments in the PRC:		
Share of net assets	416,136	386,865

21. INVESTMENT IN ASSOCIATES (Continued)

Particulars of the associate of the Group are as follows:

Company name	Place of incorporation/ operations	Registered paid-up capital	Percentage of equity interests attributable to the Group		Principal activities
			2018	2017	
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%	45%	Trading of metal commodity
Xinfeng Energy Enterprise Group Co., Ltd.# ("Xinfeng Energy") (新鋒能源集團有限公司) (formerly known as Shanghai Xinfeng Enterprise Group Co., Ltd.# (上海新鋒企業集團有限公司))	The PRC/ The PRC	RMB820,000,000	31.88%	31.88%	Designing and construction of wind farms

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21. 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 2018	Shanghai Guoxin 2017	**Xinfeng Energy 2018**	Xinfeng Energy 2017
Principal place of business/ country of incorporation	**PRC/PRC**	PRC/PRC	**PRC/PRC**	PRC/PRC
Principal activities	**Trading of metal commodity**	Trading of metal commodity	**Designing and construction of wind farms**	Designing and construction of wind farms
% of ownership interests/ voting rights held by the Group	**45%/45%**	45%/45%	**31.88%/ 31.88%**	31.88%/ 31.88%
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 31 December:				
Non-current assets	**27,573**	23,490	**234,508**	423,064
Current assets	**1,627,623**	838,848	**1,159,091**	1,116,981
Current liabilities	**(1,298,325)**	(425,035)	**(420,988)**	(658,616)
Non-current liabilities	**—**	—	**(171,031)**	(285,197)
Net assets	**356,871**	437,303	**801,580**	596,232
Group's share of net assets	**160,592**	196,786	**255,544**	190,079
Year ended 31 December:				
Revenue	**1,152,888**	501,257	**49,044**	8,058
(Loss)/profit from continuing operations	**(1,699)**	2,767	**(2,323)**	2,052
Profit after tax from discontinued operations	**—**	—	**—**	—
Other comprehensive income	**—**	—	**2,436**	—
Total comprehensive (loss)/income	**(1,699)**	2,767	**113**	2,052
Dividends received from the associate	**—**	—	**—**	—

21. INVESTMENT IN ASSOCIATES (Continued)

As at 31 December 2018, the bank and cash balances of the Group' associates in the PRC denominated in RMB amounted to approximately RMB14,206,000 (2017: approximately RMB9,465,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

22. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

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

	2018 **RMB'000**	2017 RMB'000
Deferred tax assets		
As at 1 January	**22,927**	26,788
Deferred tax charged to the consolidated profit or loss during the year (note 13)	**(1,721)**	(3,861)
Disposal of subsidiaries	**(5,010)**	—
Gross deferred tax assets as at 31 December	**16,196**	22,927
Deferred tax liabilities		
As at 1 January	**343**	359
Deferred tax credited to the consolidated profit or loss during the year (note 13)	**(17)**	(16)
Gross deferred tax liabilities as at 31 December	**326**	343
Net deferred tax assets as at 31 December	**15,870**	22,584

22. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES (Continued)

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

	2018 RMB'000	2017 RMB'000
Deferred tax assets		
Accrued interest on borrowings	660	782
Government grants received but not yet recognised as income	1,402	1,616
Excess of carrying value over fair value of identifiable assets and liabilities in acquisition of subsidiaries	747	934
Impairment loss recognised on property, plant and equipment	5,745	6,943
Tax losses	7,642	12,652
Gross deferred tax assets	16,196	22,927
Deferred tax liabilities		
Excess of fair value of identifiable assets and liabilities over carrying value in acquisition of subsidiaries	326	343
Gross deferred tax liabilities	326	343
Net deferred tax asset	15,870	22,584

23. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	66,261	67,053
Work in progress	5,836	9,310
Finished and semi-finished goods	136,339	93,543
	208,436	169,906

24. TRADE AND BILLS RECEIVABLES

	2018 RMB'000	2017 RMB'000 (Restated)
Trade receivables	**498,778**	533,916
Less: allowance for impairment of trade receivables	**(122,979)**	(132,069)
	375,799	401,847
Bills receivables	**5,400**	26,438
	381,199	428,285

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:

	2018 RMB'000	2017 RMB'000 (Restated)
Within 3 months	**192,512**	314,498
3 to 6 months	**45,244**	35,101
6 months to 1 year	**90,892**	20,407
1 to 2 years	**43,588**	24,311
Over 2 years	**3,563**	7,530
	375,799	401,847

Reconciliation of allowance for trade receivables:

	2018 RMB'000	2017 RMB'000
Balance at beginning of the year	**132,069**	152,883
Reversal of allowance for the year	**(10,505)**	(19,627)
Exchange differences	**1,415**	(1,187)
Balance at end of year	**122,979**	132,069

24. TRADE AND BILLS RECEIVABLES (Continued)

The Group applies the simplified approach under IFRS 9 "Financial Instruments" to provide for expected credit losses using the lifetime expected loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due. The expected credit losses also incorporate forward looking information.

	Current	Within 1 year past due	1 to 2 years past due	Over 2 years past due	Total
At 31 December 2018					
Weighted average expected loss rate	**0%**	**0%**	**6%**	**99%**	**25%**
Receivable amount (RMB'000)	**238,571**	**132,363**	**3,592**	**124,252**	**498,778**
Loss allowance (RMB'000)	**—**	**—**	**(221)**	**(122,758)**	**(122,979)**
At 31 December 2017					
Weighted average expected loss rate	0%	0%	85%	93%	25%
Receivable amount (RMB'000)	360,731	27,504	41,635	104,046	533,916
Loss allowance (RMB'000)	—	—	(35,479)	(96,590)	(132,069)

25. CONTRACT ASSETS AND LIABILITIES

Disclosures of revenue-related items:

	As at 31 December 2018 RMB'000	As at 31 December 2017 RMB'000	As at 1 January 2017 RMB'000
Total contract assets — Pipe business	**91,492**	95,327	65,216
Total contract liabilities — Pipe business	**(19,957)**	(70,348)	(80,182)
Total contract receivables (included in trade receivables)	**375,263**	401,610	404,680
Transaction prices allocated to performance obligations unsatisfied at end of year and expected to be recognised as revenue in:			
— 2018	**—**	104,615	
— 2019	**448,827**	92,639	
	448,827	197,254	

Year ended 31 December	**2018 RMB'000**	2017 RMB'000
Revenue recognised in the year that was included in contract liabilities at beginning of year	**70,348**	80,182

25. CONTRACT ASSETS AND LIABILITIES (Continued)

Significant changes in contract assets and contract liabilities during the year:

	2018 Contract assets RMB'000	2018 Contract liabilities RMB'000	2017 Contract assets RMB'000	2017 Contract liabilities RMB'000
Increase due to operations in the year	38,468	(254,101)	39,664	(263,995)
Transfer of contract assets to receivables	(42,303)	—	(9,553)	—
Transfer of contract liabilities to revenue	—	303,903	—	273,829
Decrease due to purchase return	—	861	—	—

A contract asset represents the Group's right to consideration in exchange for products or services that the Group has transferred to a customer.

A contract liability represents the Group's obligation to transfer products or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

In respect of Pipe Business at the end of the reporting period, quality guarantee deposit expected to be recovered after more than twelve months included in trade receivables is approximately RMB91,492,000 (2017: approximately RMB95,327,000).

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

	2018 RMB'000	2017 RMB'000
Advances to entities (note a)	**21,533**	12,703
Advance to suppliers (note b)	**35,150**	73,372
Advances to shareholders of an entity (note c)	**24,400**	30,000
Loan to employees (note d)	**421**	690
Other tax receivables (note e)	**45,099**	62,326
Prepayment	**879**	3,436
Tender deposits to customers	**5,541**	8,315
Others	**30,894**	23,136
	163,917	213,978

Notes:

(a) As at 31 December 2018, included in the advances to entities is a loan of approximately RMB17,000,000 (2017: RMB Nil) which was unsecured, bears an interest rate of 10% and repayable within 2 years.

(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 1 year.

(c) The advances is a loan of RMB30,000,000 which is secured by 20% of the equity interest in an entity, bears an interest rate of 4.35% per annum and repayable on demand. An impairment loss recognised on advances to shareholders of an entity of RMB5,600,000 (2017: RMB Nil) has been recognised during the year.

(d) Loan to employees are unsecured, bear interest rate of 6% (2017: 6%) per annum and have no fixed repayment term.

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

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2018 RMB'000	2017 RMB'000
Cash and bank balances	**170,359**	56,161
Less: Pledged deposits	**(64,283)**	(20,096)
	106,076	36,065
Cash and cash equivalents and pledged deposits denominated in RMB	**162,661**	52,130

As at 31 December 2018, deposits of RMB50,000,000 are pledged because of a legal proceeding with an independence third party. The Directors are of the opinion that no provision for impairment is necessary in respect of this balance as the legal proceeding will not successful.

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

	2018 RMB'000	2017 RMB'000
Trade payables	**245,185**	132,104
Bills payables	**10,522**	20,000
	255,707	152,104

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:

	2018 RMB'000	2017 RMB'000
Within 3 months	**172,778**	73,836
3 to 6 months	**32,872**	33,759
6 months to 1 year	**28,046**	17,790
1 to 2 years	**10,219**	4,365
Over 2 years	**1,270**	2,354
	245,185	132,104

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

	2018 RMB'000	2017 RMB'000 (Restated)
Payable on acquisition of property, plant and equipment	**48,225**	52,322
Security deposits received from employees	**680**	690
Interest payable on other borrowings	**3,039**	3,478
Other tax payables	**4,714**	1,771
Others	**23,887**	60,955
	80,545	119,216

30. BORROWINGS

	Notes	2018 Effective interest rate (%)	2018 Maturity (year)	2018 RMB'000	2017 Effective interest rate (%)	2017 Maturity (year)	2017 RMB'000
Bank loans — Unsecured		4.78%	2019	49,000	4.57%–4.95%	2018	289,003
Bank loans — Secured	(a)	4.56%–5.49%	2019	365,000	4.60%–5.01%	2018	177,000
Bank loans — Secured and guaranteed	(b)	4.79%–5.22%	2019	300,000	4.79%–4.81%	2018	307,500
Bank loans — Guaranteed	(c)	5.65%	2019	46,000	4.52%	2018	49,000
Other loans — Unsecured	(d)	10.00%	2019	61,260	10.00%	2018	69,380
Other loans — Secured	(e)	5.70%	2019	27,500			—
				848,760			891,883

The borrowings are repayable as follows:

	2018 RMB'000	2017 RMB'000
On demand or within one year	848,760	891,883
In the second year	—	—
In the third to fifth years, inclusive	—	—
	848,760	891,883
Less: Amount due for settlement within 12 months (shown under current liabilities)	(848,760)	(891,883)
Amount due for settlement after 12 months	—	—

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 RMB196,723,000 (2017: approximately RMB243,274,000) and prepaid land lease amounting to approximately RMB124,816,000 (2017: approximately RMB170,687,000).

(b) The Group's bank loans were secured by pledge of certain of the Group's properties, plant and equipment amounting to approximately RMB302,442,000 (2017: approximately RMB342,077,000), prepaid land lease amounting to approximately RMB40,320,000 (2017: approximately RMB41,237,000) and an amount of approximately RMB129,300,000 (2017: approximately RMB72,800,000) out of bank loans of approximately RMB300,000,000 (2017: approximately RMB307,500,000) were guaranteed by a non-controlling shareholder of a subsidiary.

(c) The Group's bank loans of approximately RMB19,826,000 (2017: approximately RMB21,119,000) out of bank loans of approximately RMB46,000,000 (2017: approximately RMB49,000,000) were guaranteed by a non-controlling shareholder of a subsidiary.

(d) The loan refers to advance from Directors and employees of approximately RMB61,260,000 (2017: approximately RMB69,380,000) which is unsecured, bears an interest rate of 10% per annum and repayable within one year.

(e) The loan refers to advance from an entity of approximately RMB27,500,000 which is secured against trade receivables amounting to approximately RMB39,956,000, bears an interest rate of 5.7% and repayable within one year.

31. DEFERRED INCOME

	2018 RMB'000	2017 RMB'000
Government grants:		
As at 1 January	**6,463**	7,317
Recognised during the year	**4,673**	—
Recognised as other income during the year	**(2,012)**	(854)
As at 31 December	**9,124**	6,463
Less: Current portion	**(2,045)**	(854)
Non-current portion	**7,079**	5,609

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.

During the year ended 31 December 2018, Hunan Shengli Steel Pipe recognised a government grant of approximately RMB4,673,000 in relation to mechanical testing laboratory for steel pipes. Such government grant is recognised as income in equal amounts over the expected useful life of the plant and machineries.

32. SHARE CAPITAL

Ordinary shares of HK$0.1 each	Number of shares	HK$'000
Authorised:		
At 31 December 2018 and 2017	5,000,000,000	500,000

Issued and fully paid:	Number of shares	RMB'000
At 1 January 2017, 31 December 2017, 1 January 2018 and at 31 December 2018	3,274,365,600	283,911

	Number of shares in issue	Issued capital HK$'000	Issued capital RMB'000
At 31 December 2017 and 31 December 2018	3,274,365,600	327,437	283,911

33. RESERVES

(a) Statutory surplus reserve

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

(b) Share options reserve

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

33. RESERVES (Continued)

(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 2018 are as follows:

	Share premium RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 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 and 1 January 2018	1,230,445	70,728	(205,026)	1,096,147
Share-based payment	—	6,785	—	6,785
Total comprehensive loss for the year	—	—	(19,184)	(19,184)
At 31 December 2018	**1,230,445**	**77,513**	**(224,210)**	**1,083,748**

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	2018	2017
Granted on 10 February 2010	(a)	**22,200,000**	22,200,000
Granted on 3 January 2012	(b)	**21,120,000**	21,120,000
Granted on 23 September 2014	(c)	**69,840,000**	69,840,000
Granted on 28 January 2015	(d)	**57,300,000**	57,300,000
Granted on 26 April 2016	(e)	**57,600,000**	57,600,000
Granted on 11 October 2016	(f)	**118,200,000**	119,400,000
		346,260,000	347,460,000

	2018		2017	
	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	**347,460,000**	**0.47**	419,083,500	0.53
Granted during the year	**—**	**—**	—	—
Forfeited during the year	**(1,200,000)**	**0.41**	(71,623,500)	0.43
Outstanding at the end of the year	**346,260,000**	**0.47**	347,460,000	0.47

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 approximately HK$29,100,000.

34. SHARE-BASED PAYMENTS (Continued)

Notes: (Continued)

(a) (Continued)

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.

(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 approximately 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 approximately 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.

(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 approximately HK$11,265,000.

34. SHARE-BASED PAYMENTS (Continued)

Notes: (Continued)

(d) (Continued)

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.

(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 approximately 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 approximately 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 and 1,200,000 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 and 2018 respectively.

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 2018, the Group recognised share-based payments of approximately RMB6,785,000 (2017: approximately RMB12,535,000), 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 287,660,000 (2017: 210,360,000).

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Disposal of Shengli Steel Pipe (Dezhou) Co., Ltd.#

On 31 December 2018, the Group disposed 100% of the issued share capital of Shengli Steel Pipe (Dezhou) Co., Ltd.# (勝利鋼管(德州)有限公司) for a cash consideration of approximately RMB20,000,000 to an independent third party.

Net assets at the date of disposal were as follows:

	RMB'000
Property, plant and equipment	16,407
Prepaid land lease payments	9,440
Goodwill	2,525
Deferred tax assets	5,010
Net assets disposed of	33,382
Loss on disposal of a subsidiary	(13,382)
Total consideration — satisfied by cash	20,000
Net cash inflow arising on disposal:	
Cash consideration received	20,000
Cash and cash equivalents disposed of	—
	20,000

The English name is for identification only

(b) Pursuant to an agreement dated 30 April 2018 entered into between a subsidiary of the Company, Gold Apple Holdings Limited and an independent third party, the Group disposed of its 100% interest in a wholly-owned subsidiary, Macao Shengling Commerce & Trade Limited for a total cash consideration of MOP25,000 (approximately RMB20,000) resulting in a gain on disposal of a subsidiary of approximately RMB77,000.

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

(c) Changes in liabilities arising from financing activities

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

	Interest payable RMB'000	Borrowings RMB'000	Total RMB'000
At 1 January 2017	—	974,000	974,000
Changes in cash flows	(43,006)	(82,117)	(125,123)
Non-cash changes			
— interest charged	46,484	—	46,484
At 31 December 2017 and 1 January 2018	3,478	891,883	895,361
Changes in cash flows	(47,862)	(43,123)	(90,985)
Non-cash changes			
— interest charged	47,423	—	47,423
At 31 December 2018	**3,039**	**848,760**	**851,799**

36. COMMITMENTS

(a) Commitments under operating leases

As lessor

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

At 31 December 2018, 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:

	2018 RMB'000	2017 RMB'000
Within one year	202	922
In the second to fifth years, inclusive	1,618	2,038
After fifth years	5,460	5,865
	7,280	8,825

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:

	2018 RMB'000	2017 RMB'000
Within one year	1,673	4,320
In the second to fifth years, inclusive	206	2,114
After fifth years	—	—
	1,879	6,434

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:

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for	15,673	22,834

(c) Investment commitments

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

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for	87,610	117,278

37. RELATED PARTY TRANSACTIONS

(a) Significant related party transactions

During the years ended 31 December 2018 and 2017 the Group had the following material transactions with related parties:

	2018 RMB'000	2017 RMB'000
Advances from directors	2,450	2,450
Interest expenses to directors	245	126

(b) Key management compensation

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

	2018 RMB'000	2017 RMB'000
Fees	2,517	2,601
Salaries, allowances and other benefits in kind	10,542	11,137
Performance related bonus	—	—
Social security contributions	402	348
Equity-settled share option expense	3,410	6,505
	16,871	20,591

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

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	8	114
Investments in subsidiaries	1,364,029	1,380,232
	1,364,037	1,380,346
CURRENT ASSETS		
Prepayments, deposits and other receivables	734	693
Cash and cash equivalents	5,588	1,657
	6,322	2,350
CURRENT LIABILITIES		
Other payables and accruals	2,700	2,638
	2,700	2,638
NET CURRENT ASSETS/(LIABILITIES)	3,622	(288)
NET ASSETS	1,367,659	1,380,058
EQUITY		
Issued capital	283,911	283,911
Reserves	1,083,748	1,096,147
Total equity	1,367,659	1,380,058

39. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 23 March 2019.

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				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**913,392**	2,155,750	3,125,278	1,953,960	2,009,062
(Loss)/profit before tax	**(55,317)**	(293,620)	(264,732)	(345,402)	(232,197)
Income tax (expense)/credit	**(2,500)**	(1,694)	9,923	(8,528)	(7,548)
(Loss)/profit for the year	**(57,817)**	(295,314)	(254,809)	(353,930)	(239,745)
Attributable to:					
Owners of the Company	**(54,169)**	(250,831)	(210,493)	(302,130)	(219,176)
Non-controlling interests	**(3,648)**	(44,483)	(44,316)	(51,800)	(20,569)
	(57,817)	(295,314)	(254,809)	(353,930)	(239,745)

ASSETS AND LIABILITIES

	As at 31 December				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**2,650,691**	2,717,454	3,287,722	3,445,151	3,839,251
Total liabilities	**(1,229,720)**	(1,255,371)	(1,518,358)	(1,586,206)	(1,647,595)
Net assets	**1,420,971**	1,462,083	1,769,364	1,858,945	2,191,656
Attributable to:					
Owners of the Company	**1,324,519**	1,361,983	1,620,802	1,666,067	1,946,978
Non-controlling interests	**96,452**	100,100	148,562	192,878	244,678
	1,420,971	1,462,083	1,769,364	1,858,945	2,191,656