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






2019 ANNUAL REPORT

CORPORATE PROFILE

SHENGLI OIL & GAS PIPE HOLDINGS LIMITED

(the "Company") is one of the largest oil and gas pipe manufacturers in China. We focus on the design, manufacturing, value-added processing and servicing of submerged-arc helical welded pipes ("SAWH pipes") and submerged-arc longitudinal welded pipes ("SAWL pipes"), that are used to transport crude oil, refined petroleum products, natural gas and other related products.

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Bizhuang *(Chief Executive Officer)*
Mr. Wang Kunxian *(Vice President)*
Ms. Han Aizhi *(Vice President)*
Mr. Song Xichen *(Vice President)*

Non-executive Directors

Mr. Wei Jun *(Chairman)*
(appointed on 29 January 2019)
Mr. Jiang Yong
(resigned as the Vice President and re-designated from an executive Director to a non-executive Director on 1 January 2020)

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

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

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

HEADQUARTERS IN CHINA

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL BANKERS

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

LEGAL ADVISER AS TO HONG KONG LAW

Chungs Lawyers in association with DeHeng Law Offices

AUDITORS

ZHONGHUI ANDA CPA Limited
Unit 701, 7th Floor, 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 RMB862,966,000, representing a decrease of approximately RMB50,426,000 as compared to that in 2018.
- For the Year under Review, gross profit margin was 15.1%, representing a decrease of approximately 7.3 percentage points as compared to that in 2018.
- For the Year under Review, the loss for the year attributable to owners of the Company amounted to approximately RMB138,573,000, representing an increase of approximately RMB84,462,000 as compared to that in 2018.
- For the Year under Review, basic loss per share attributable to owners of the Company was approximately RMB4.23 cents, representing an increase of approximately RMB2.58 cents as compared to that in 2018.
- The Board did not recommend the declaration of any final dividend for the year ended 31 December 2019.

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 2019 (the "Year under Review").

In 2019, the global economy witnessed a significant downward trend and the growth rate slowed down. China's economy achieved progress while maintaining overall stability despite escalating downward pressure amid the increasingly complicated international trade environment, with gross domestic product throughout the year recording a year-on-year increase of 6.1%, remaining to be one of the strongest drivers to the global economic growth. Globally, a drop in the oil and natural gas prices led to the general decline in profitability secured by international oil and gas giants. Domestically, the three leading petroleum companies, i.e., China National Petroleum Corporation ("CNPC"), China Petroleum & Chemical Corporation ("SINOPEC") and China National Offshore Oil Corporation ("CNOOC") (collectively, the "Three Barrels"* (三桶油)) realised steady production and operation to cap the declining trend in production volume of crude oil for three consecutive years.

CHIEF EXECUTIVE OFFICER'S STATEMENT

In 2019, the first meeting of National Energy Commission* (國家能源委員會) stressed clean energy and accelerated the development of oil and gas to further diversify the support for oil and gas safety guarantee. The new policies enhance the reform of the oil and gas system, whereby the oil and gas industry shall be fully opened to private and foreign enterprises, and private enterprises shall be allowed access to the infrastructure construction fields, including crude oil, natural gas, refined petroleum storage and delivery and pipeline transportation. Moreover, China Oil & Gas Pipeline Network Corporation* (國家石油天然氣管網集團有限公司) ("China Pipeline Network Corporation"* (國家管網公司)) has been officially set up on 9 December 2019, which focuses on the reform on the operation mechanism of oil and gas pipeline networks through management over the pipeline network transportation at the middle reaches of the industrial chain while relaxing the upstream and downstream links, so as to enhance the capacity of intensive transportation and fair service and speed up the marketisation process of the oil and gas industry. From the perspective of the whole oil and gas market, the establishment of China Pipeline Network Corporation will help to increase the number of players in the oil and gas market, promote the fair competition between the oil and gas production and supply enterprises, facilitate the fair communication between both the supply and demand ends, improve the supervision over the monopoly links and optimise the structure of the oil and gas market.

CONSOLIDATING NATIONAL PIPELINE MARKET RIDING ON INITIAL LARGE ORDERS FROM CNOOC WITH PROGRESS ACHIEVED IN INTERNATIONAL MARKET EXPLORATION

As a result of the structural reforms of the national oil and gas pipeline industry in particular the fact that the China Pipeline Network Corporation was only officially set up in December 2019, during the Year under Review, important domestic pipeline projects were decelerated as compared to the previous year.

During the Year under Review, the Group continued to consolidate the SINOPEC market and secured the Qingdao – Nanjing Gas Pipeline Project of SINOPEC* (中石化青島－南京輸氣管道工程) ("Qingning Gas Pipeline Project of SINOPEC"* (中石化青寧輸氣管道工程)), Dongjiakou to Dongying Crude Oil Pipeline Project* (董家口至東營原油管道工程) ("Dongdong Pipeline Project"* (董東管道工程)), Guangxi LNG Guilin Branch Pipeline Project* (廣西LNG桂林支線管線工程) and other important pipeline projects from SINOPEC.

Meanwhile, the Group successfully secured about 100,000 tonnes orders from CNOOC for the first time. In particular, Shandong Shengli Steel Pipe Co., Ltd.* (山東勝利鋼管有限公司) ("Shandong Shengli Steel Pipe"* (山東勝利鋼管)) won the first phase project of West Inner Mongolia Coal-based Gas Transmission Pipeline Project of CNOOC* (中海油蒙西煤制氣天然氣外輸管道項目一期工程) ("West Inner Mongolia Pipeline Project of CNOOC"* (中海油蒙西管道工程)) and the Shenmu-Anping Pipeline Project* (神木－安平管道工程). Furthermore, Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) ("Hunan Shengli Steel Pipe"* (湖南勝利鋼管)) won the Shenmu-Anping Pipeline Project, Haixi Natural Gas Pipeline Network Dehua Line Project* (海西天然氣管網德化支線工程), Key Inter-connection Project Zhangzhou Liaison Line Project* (互聯互通重點工程漳州聯絡線項目) and other projects from CNOOC, marking the initial breakthrough for orders from CNOOC. Since then, the Group has established presence with the Three Barrels.

CHIEF EXECUTIVE OFFICER'S STATEMENT

In terms of international market exploration, Hunan Shengli Steel Pipe secured the order of SAWL pipes for Hong Kong water works from Will Pak Engineering Limited, which has been the first export order since its establishment. Shandong Shengli Steel Pipe was awarded the export pipeline project of Niger Crude Oil Export Pipeline Project* (尼日爾原油外輸管道項目工程) with a scale of 24,000 tonnes through China Petroleum Technology Development Corporation* (中國石油技術開發公司) ("CPTDC"* (中技開)), making it the largest overseas project order in recent years.

CONTINUOUSLY IMPROVING PRODUCT QUALITY LEVERAGING ON A CONSTANTLY EFFECTIVE QUALITY MANAGEMENT SYSTEM

The Group has long been committed to the belief that reliable product quality serves as the core competitive strength that consolidates our leading edge in the industry.

For constantly optimising process parameters to improve product quality, Hunan Shengli Steel Pipe conducted in-depth study into the welding technology of super-thick SAWL pipes. During the production of the φ914 × 40mm longitudinal steel pipes for Hong Kong water works from Will Pak Engineering Limited, it set the new record for completing the welding of internal and external seam of 40mm thick steel pipes at one time with sound quality in weld seam of steel pipes by formulating reasonable welding process parameters.

With continuously strengthening production and inspection to improve the qualification rate of products, the first-time qualification rate of production and anti-corrosion products of SAWH pipes of Shandong Shengli Steel Pipe and Hunan Shengli Steel Pipe improved as compared to last year. The small head for internal welding of longitudinal pipes designed independently by technicians from Hunan Shengli Steel Pipe greatly promoted the welding quality of φ711 and below pipeline models, raising the first-time qualification rate by 20%. The first-time qualification rate, the first-time re-welding qualification rate and the steel pipe qualification rate of SAWL pipes was boosted substantially, making the overall qualification rate to reach 99.49%.

To ensuring product quality with a perfect quality management system, Shandong Shengli Steel Pipe successfully passed the annual supervision and audit of API Q1 and the supervision and audit of quality, environment and occupational health and safety management system in June and August 2019, respectively. Hunan Shengli Steel Pipe also successfully completed the examination and verification of the quality, environment and occupational health and safety management system for certificate renewal in September 2019, ensuring the continued validity of the certificates.

OPTIMISING THE MANAGEMENT TEAM TO ENHANCE INTERNAL MANAGEMENT OF THE COMPANY

The Group upholds the concept of "streamlined talents" to simplify the organisational structure and improve management efficiency.

During the Year under Review, the Group consolidated or split and integrated the functions of the departments according to the changes in the production and operation conditions, aiming to realise a leaner organisational structure and smoother management. Meanwhile, the Group optimised its management team, with the management personnel tending to be younger and the management team getting more dynamic and comprehensively streamlined and revised all management systems, to further suit them for the existing management mode.

Shandong Shengli Steel Pipe continued to carry out cost reduction and efficiency enhancement measures by enhancing online purchasing and price comparison according to the actual situation and further broadening the purchasing channels to effectively reduce the purchasing cost. It bolstered up energy control and supervision through thorough analysis of the power consumption of equipments in each production branch and heightened daily management of equipments with higher power consumption to set the power consumption of equipments in an optimal state.

INCREASING INVESTMENT IN TECHNOLOGICAL RESEARCH AND DEVELOPMENT TO PROCURE AUTOMATION, INFORMATIONISATION AND INTELLIGENTISATION

The Group always sticks to the belief that technology is the driving force behind the continuous development of an enterprise and the core factor for an enterprise to maintain competitiveness. The Group has been focusing on the development of scientific technology and insisting on technology innovation.

In 2019, the Group scaled up research and development efforts as well as investment in science and technology projects. In August, the Group's science and technology project group approved the establishment of five science and technology projects, including the "Research and Development of Main Engine Centralised Control System of Pre-welding and Precision-welding Branch Factory* (《預精焊分廠主機集中控制系統研發》)". The investment for the five science and technology projects are expected to be more than RMB7.5 million, which are expected to be completed in the forthcoming year. Upon completion of the projects, the level of automation, informatisation and intelligentisation of steel pipe production will be further improved, so as to achieve the goal of production quality improvement, cost reduction and efficiency enhancement as well as market competitiveness reinforcement.

CHIEF EXECUTIVE OFFICER'S STATEMENT

In 2019, the Group obtained one national patent for invention, being the "Pre-welding and Precision-welding Process for High-grade Steel Oil and Gas Transmission Pipelines* (《高鋼級油氣輸送管線的預精焊焊接工藝》)" and one national patent for utility model, being "Combined Tool for Measuring the Radial Deviation of Pipe End Pouts or Pipe Outer Wall* (《測量鋼管管端噘嘴或管體外壁徑向偏差的組合工具》)". The technicians of the Group published 11 technical papers in domestic professional magazines and industry annual conferences.

INTEGRATING GROUP STRUCTURE TO OPTIMISE OUR BUSINESS

During the Year under Review, the Group made well-grounded judgments on the situation, adjusted the asset structure in a timely manner and optimised the Group's business to reduce administrative expenses. The Group disposed of the entire equity interests of Shengli Enterprise Holdings Limited* ("Shengli Enterprise"), which has no substantive business operations, and two of its domestic wholly-owned subsidiaries to an independent third party. According to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the above transaction did not constitute a disclosable transaction. In addition, the Group also deregistered two indirectly wholly-owned subsidiaries, being Zhonghai Shengguan Petrochemical (Dalian) Co., Ltd* (中海勝管石油化工(大連)有限公司) which ceased to have any substantive business operations and Shengli (Hong Kong) Enterprises Company Limited which had no substantive business operations.

In addition, the Group entered into the sale and purchase agreement to conditionally dispose of the 45% equity interests of Shanghai Guoxin Industrial Co., Ltd* (上海國心實業有限公司) ("Shanghai Guoxin") to an independent third party after our shareholder's approval. According to the Listing Rules, the transaction constituted a major transaction. The transaction was subsequently approved by ordinary resolution at the extraordinary general meeting of the Company held on 16 October 2019. For further details, please refer to the circular of the Company dated 25 September 2019 and the announcement on poll results of the Company dated 16 October 2019.

Meanwhile, the Group has been endeavouring to explore new business development and seeking to seize opportunities in aviation leasing industry. During the Year under Review, the Group jointly established Shengli Aviation Leasing Investment Holding Company Limited ("Shengli Aviation") with an independent third party on a non-controlling basis in Hong Kong in a bid to tap into the aviation leasing business. This investment broadened sources of revenue of the Group and avoided the risk of homogeneous principal activities, which was in conformity with the long-term development strategy of the Group. The establishment of Shengli Aviation and the joint venture arrangement relating thereto did not constitute disclosable transactions under Chapter 14 of the Listing Rules.

FUTURE PROSPECTS

Looking into 2020, despite downward economic development trends amid the global outbreak of COVID-19 pneumonia epidemic, we are confident that the national oil and gas pipeline industry will embrace better market opportunities. Putting an end to monopoly and ushering in the competition mechanism has been the mission behind the establishment of China Pipeline Network Corporation. On 9 December 2019, China Pipeline Network Corporation was officially set up, which will promote the formation of an "X+1+X" oil and gas market system where oil and gas resources may be supplied by several players through multi-channels in the upstream, and efficiently transported via a united pipeline network in the middle reaches coupled with enhanced competition in the downstream sales market.

According to "Medium and Long Term Oil and Gas Pipeline Network Planning"* (《中長期油氣管網規劃》), the national oil and gas pipeline network will reach 240,000 kilometres by 2025. However, the construction speed of the pipeline network has slowed down in recent years with mileage of the pipeline network far lower than that in European and American countries of the corresponding period and the pace of construction of the pipeline network facilities lagged behind the growth of the total market demand. China Pipeline Network Corporation will improve the current situation of pipeline network construction with a new management mode through preventing monopoly by the upstream and downstream oligarchs, introducing more market players and establishing a fair competition mechanism to promote the growth of various entities and instill more vitality into the market, thereby accelerating the pipeline network construction. In the future, "both market scope and development potential will hinge on pipeline network". China Pipeline Network Corporation will be responsible for the operation and dispatching of the national oil and gas major pipeline network, regularly disclose the remaining pipeline transportation and storage capacity to the public, and leave the infrastructure construction to open to all eligible players in a fair manner. Under such environment, the construction of large-scale pipeline projects is bound to boom in future, and the Group will also have the opportunity to secure more orders.

In the future, the Group will stick fast to opportunities to comprehensively strengthen sales and vigorously explore the market. It will be well positioned for overall cooperation with China Pipeline Network Corporation to guarantee its long-term dominance in the national large-scale pipeline market and remarkable results achieved. Meanwhile, the Group will intensify efforts in expanding into local and international market, actively develop the local market, guarantee the effective utilisation of production capacity, and ensure the good performance of the Group.

Year 2020 will draw an end to the 13th Five-year Plan of the PRC. The Group will take concerted efforts aggressively, grasp opportunities and address challenges to create a new blueprint for its production and operation, so as to achieve stable revenue of the Group in future and attain better returns for the shareholders.

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

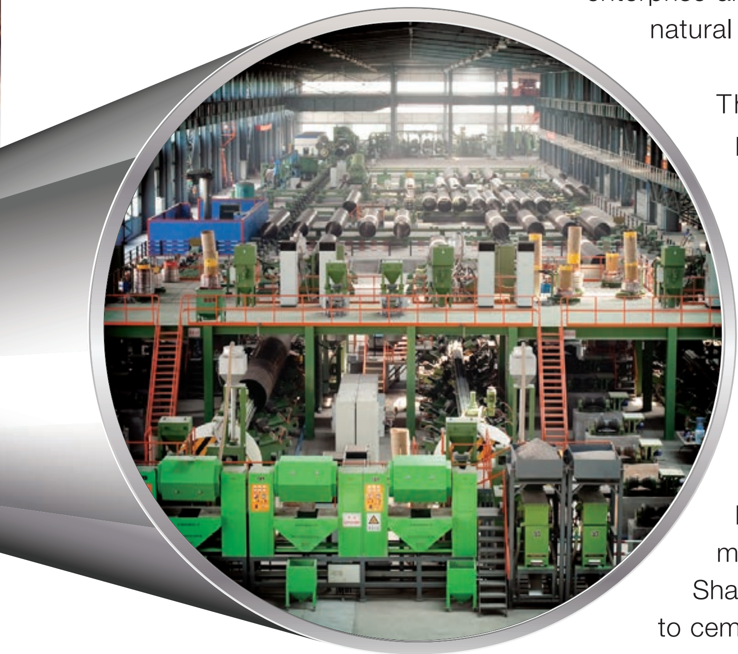
In 2019, global economy trended downwards to hit a record low in recent years amid high level of financialisation, high liquidity, low growth, low inflation and lots of bubbles. Regardless of external pressures, China's government upheld the new development concepts and the supply-side structural reform under the keynote of pursuing progress with stability to actively promote high-quality development. Under such backdrop, the national economy achieved overall steady growth with development quality constantly improved. In 2020, the outbreak of the COVID-19 pneumonia epidemic is believed to dent China's gross domestic product (GDP) in the first quarter and it is expected that the PRC government will introduce easy policies to mitigate the pressure on various industries.

With the establishment and improvement of China Pipeline Network Corporation, the oil and gas pipeline operating mechanism will be further optimised and the competition along the upstream and downstream of the industry chain will be more fair and orderly. In addition, the CPC Central Committee and the State Council issued the "Opinions on Creating a Better Development Environment to Support the Reform and Development of Private Enterprises"* (《關於營造更好發展環境支持民營企業改革發展的意見》), allowing private enterprises access to the oil and gas pipeline transportation and other infrastructure construction fields, which will facilitate private enterprises with rich experience, excellent technology and remarkable results like the Group to gain more opportunities to participate in the marketisation process of the oil and gas industry.

MANAGEMENT DISCUSSION AND ANALYSIS

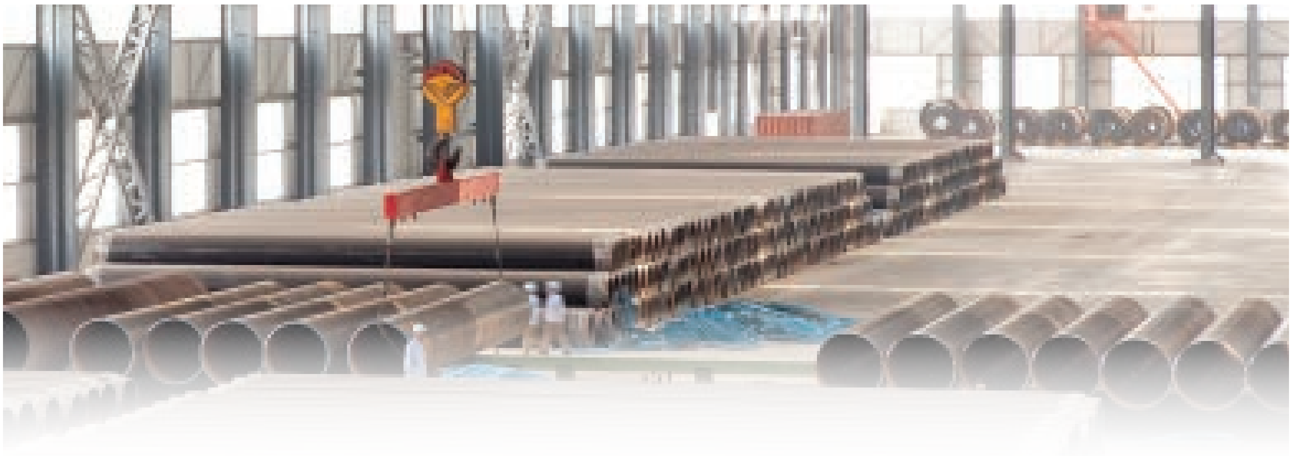
BUSINESS REVIEW

As one of China's largest oil and gas pipeline manufacturers offering superior quality products with top-rated facilities, cutting-edge technologies, advanced technique and a comprehensive quality inspection and assurance system, the Group is one of the few domestic suppliers of large-diameter pipes (including SAWH pipes and SAWL pipes) designed to sustain the high pressure in long distance transportation of crude oil, refined petroleum and natural gas. It is also the only privately-owned enterprise among a minority of qualified suppliers 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, SINOPEC and CNOOC and their subsidiaries. The Group focuses on the design, manufacturing, anticorrosion processing and servicing of pipes used for the transport of crude oil, refined petroleum products and natural gas.

During the Year under Review, the Group's production capacities for SAWH pipes and SAWL pipes were 1.33 million tonnes per annum and 400,000 tonnes per annum, respectively, while its ancillary anti-corrosion production line had an annual production volume of 10.80 million square metres, with two main production bases located at Zibo, Shandong and Xiangtan, Hunan. Such capabilities have continued to cement the Group's strengths in technology, production capacity and geographical location as compared to its peers.



MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2019, pipes manufactured by the Group were used in the world's oil and gas pipelines with a cumulative total length of approximately 31,180 kilometres, of which 94.9% were installed in China while the remaining 5.1% were installed overseas.

During the Year under Review, large-scale SAWH pipes projects manufactured by the Group include Qingning Gas Pipeline Project of SINOPEC, West Inner Mongolia Pipeline Project of CNOOC, Dongdong Pipeline Project, Rizhao – Puyang – Luoyang Crude Oil Pipeline Project* (日照－濮陽－洛陽原油管道工程), Laiwu High-tech Zone Yulong Road to Fenghuang Road Heat Pipeline Network Project* (萊蕪高新區玉龍路至鳳凰路熱力管網工程), Niger Crude Oil Export Pipeline Project, Shaoguan Station – CNPC West Second Line Shixing Station Liaison Line of Xinjiang Gas Pipeline Project* (新氣管道工程韶關站－中石油西二線始興站聯絡線) and Guangxi LNG Guilin Branch Pipeline Project.

Large-scale SAWL pipes projects manufactured by the Group include Qingning Gas Pipeline Project of SINOPEC, Yangjiang – Jiangmen Line of the West Guangdong Natural Gas Trunk Pipeline Network* (粵西天然氣環管網陽江－江門幹線項目), Xinjiang Gas Pipeline Project Phase I Qianjiang – Shaoguan Line* (新氣管道工程一期潛江－韶關), Zhejiang Lishui Longyou Natural Gas Transmission Pipeline Project* (浙江麗水龍游天然氣輸氣管道工程), the Shaoguan – Guangzhou Line of the North Guangdong Natural Gas Trunk Pipeline Network* (粵北天然氣主幹管網韶關－廣州幹線項目) and Guangzhou Natural Gas Utilisation Project Phase IV* (廣州市天然氣利用工程四期工程).

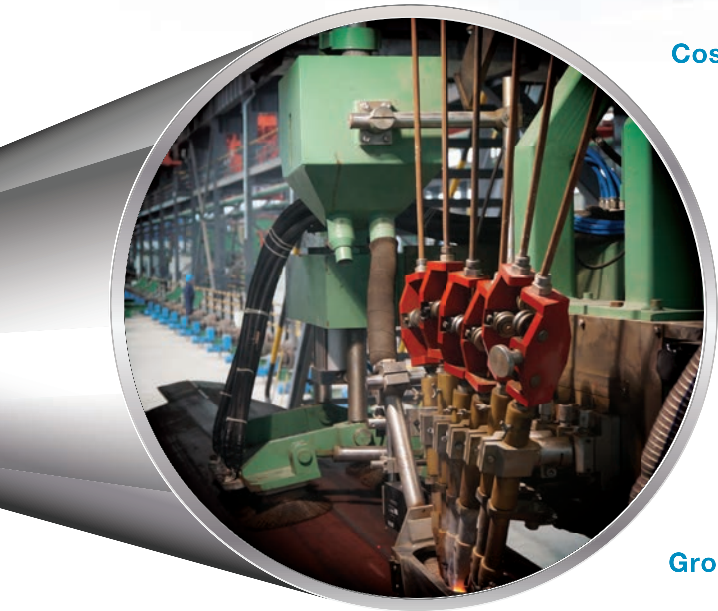
Large-scale anti-corrosion pipeline projects manufactured by the Group include Qingning Gas Pipeline Project of SINOPEC, Yangjiang – Jiangmen Line of the West Guangdong Natural Gas Trunk Pipeline Network, West Inner Mongolia Pipeline Project of CNOOC, Xinjiang Gas Pipeline Project Phase I Qianjiang – Shaoguan Line, Dongdong Pipeline Project, Rizhao – Puyang – Luoyang Crude Oil Pipeline Project, Zhejiang Lishui Longyou Natural Gas Transmission Pipeline Project, Niger Crude Oil Export Pipeline Project, the Shaoguan – Guangzhou Line of the North Guangdong Natural Gas Trunk Pipeline Network and Guangzhou Natural Gas Utilisation Project Phase IV.

As China Pipeline Network Corporation, being an integral part of the structural reforms of the national oil and gas pipeline industry, was only officially set up in December 2019, most large-scale national pipeline construction projects were therefore postponed and hence there was a significant decrease in large-scale national pipeline construction projects in 2019 as compared to 2018, which resulted in a substantial decrease in the sales volume of the pipes business and the anti-corrosion processing business of the Group. Moreover, the large-scale pipeline projects secured from SINOPEC, the pipes processing business, which had a higher gross profit, recorded a decrease of more than 30% as compared to last year, leading to a substantial decline in the gross profit of the pipes business of the Company. Loss for the year attributable to owners of the Company was approximately RMB138,573,000 (2018: approximately RMB54,111,000) and annual loss increased by approximately 156.1% from the corresponding period of last year.

FINANCIAL REVIEW

Revenue

The Group's sales revenue decreased from approximately RMB913,392,000 for the year ended 31 December 2018 to approximately RMB862,966,000 for the year ended 31 December 2019, in particular, (1) revenue from the sale of SAWH pipes of approximately RMB354,520,000 (2018: approximately RMB494,985,000), representing a year-on-year decrease of approximately 28.4%; (2) revenue from the sale of SAWL pipes of approximately RMB404,305,000 (2018: approximately RMB210,103,000), representing a year-on-year increase of approximately 92.4%; (3) revenue from the anti-corrosion processing business of approximately RMB104,141,000 (2018: approximately RMB205,744,000), representing a year-on-year decrease of approximately 49.4%; and (4) revenue from the trading business of nil (2018: approximately RMB2,560,000). The decrease in revenue was primarily due to the fact that sales volume of SAWH pipes of the Group's pipes business and the anti-corrosion processing business of the Group recorded a significant decline during the Year under Review as compared to the corresponding period of last year, but the substantial reduction in the proportion of the pipes processing business led to a slight decrease in revenue during the Year under Review as compared to the corresponding period of last year.



Cost of sales and services

The Group's cost of sales and services increased by approximately 3.3% from approximately RMB708,651,000 for the year ended 31 December 2018 to approximately RMB732,229,000 for the year ended 31 December 2019. The slight increase in cost of sales and services was primarily due to the fact that despite the significant decline in total volume of the pipes business and the anti-corrosion processing business during the Year under Review from last year, pipes sales business recorded a slight increase from last year.

Gross profit

The gross profit of the Group decreased from approximately RMB204,741,000 for the year ended 31 December 2018 to approximately RMB130,737,000 for the year ended 31 December 2019, mainly due to the significant decrease in orders of large-scale pipeline projects as compared to the corresponding period of last year, resulting in a significant decline in sales volume of SAWH pipes and the anti-corrosion processing business of the Group during the current year as compared with the corresponding period of last year. Meanwhile, the gross profit margin of the Group decreased to 15.1% for the year ended 31 December 2019 from 22.4% for the year ended 31 December 2018, mainly due to a decrease in sales volume of the pipes business of the Group and the substantial reduction of proportion of the pipes processing business with a higher gross profit margin as well as the dramatic decline in the anti-corrosion processing business with a higher gross profit margin during the Year under Review as compared with the corresponding period of last year.

Other income and gains

Other income and gains of the Group decreased from approximately RMB23,690,000 for the year ended 31 December 2018 to approximately RMB14,210,000 for the year ended 31 December 2019, which was mainly due to a decrease in government subsidies and tax refund obtained by the Group during the Year under Review as compared to the corresponding period of last year.

Selling and distribution costs

Selling and distribution costs of the Group increased from approximately RMB33,760,000 for the year ended 31 December 2018 to approximately RMB44,745,000 for the year ended 31 December 2019, principally due to a slight increase in delivery expenses born by the Group during the Year under Review as compared to the corresponding period of last year.

Administrative expenses

The Group's administrative expenses increased by 12.5% from approximately RMB170,430,000 for the year ended 31 December 2018 to approximately RMB191,813,000 for the year ended 31 December 2019, primarily due to an increase in suspension expenses as a result of the decline in the pipes business and provision of impairment allowance on trade receivables according to relevant accounting policies during the Year under Review.

Reversal of impairment loss recognised on other receivables

Reversal of impairment loss recognised on other receivables of the Group for the year ended 31 December 2019 was approximately RMB1,678,000 (2018: impairment loss recognised of approximately RMB15,782,000).

Gain on disposal of subsidiaries

Gain on disposal of subsidiaries of the Group for the year ended 31 December 2019 was approximately RMB10,333,000 (2018: loss of approximately RMB13,305,000), primarily due to gain on disposal of the entire equity interests in Shengli Enterprise and two of its domestic wholly-owned subsidiaries by the Group to independent third parties during the Year under Review.

As the functional currency of Shengli Enterprise was Hong Kong dollar, there was exchange difference arising from the translation of foreign currency denominated financial statements into Renminbi denominated financial statements. Since the Group disposed of the entire equity interest in Shengli Enterprise during the Year under Review, the related foreign currency translation reserve was required to be reclassified to profit or loss, resulting in foreign exchange loss from the reclassification to profit or loss on disposal of subsidiaries of approximately RMB10,582,000 (2018: approximately RMB1,000).

Impairment loss on non-current assets held for sale

As of 31 December 2019, the Group had investments in associates of approximately RMB187,153,000 (31 December 2018: approximately RMB416,136,000). Such change was mainly due to the Group's conditional disposal of 45% of equity interest in Shanghai Guoxin held by it for a total consideration of RMB200,000,000 pursuant to an agreement entered into between a wholly owned subsidiary of the Group and an independent third party on 15 August 2019. The investment in Shanghai Guoxin was reclassified as non-current assets held for sale, resulting in impairment loss of non-current assets held for sale of approximately RMB24,468,000.

Save as those disclosed above, the Group did not have any other material investments in other companies during the Year under Review.

Finance costs

The Group incurred finance costs of approximately RMB49,810,000 for the year ended 31 December 2019 (2018: approximately RMB47,544,000), which were primarily derived from interest on bank loans.

Income tax expenses

Hong Kong profits tax is calculated at the rate of 16.5% (2018: 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% (2018: 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% (2018: 25%). Income tax for the year ended 31 December 2019 was approximately RMB10,344,000 (2018: income tax of approximately RMB2,500,000), primarily due to recognition of relevant income tax expenses as a result of reversal of corresponding deferred tax assets upon maturity of previously recognised deferred tax losses as of 31 December 2019.

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 2019 was approximately RMB179,351,000, compared to the audited total comprehensive loss of the Group of approximately RMB47,839,000 for the year ended 31 December 2018.

Net current liabilities

As at 31 December 2019, the Group had net current liabilities of approximately RMB46,007,000 as compared to approximately RMB208,380,000 as at 31 December 2018. The main reason for the decrease in net current liabilities for the year was that the Group conditionally disposed of the 45% equity interests in Shanghai Guoxin at a total consideration of RMB200,000,000 and therefore, the investment in Shanghai Guoxin was reclassified from investment in an associate under non-current assets to non-current asset held for sale under current assets as well as the slight decrease in borrowings during the Year under Review.

Leveraging the establishment of China Pipeline Network Corporation in December 2019, the Group will grasp sound development opportunities in the pipes industry and proactively secure more pipes orders. Through reasonable allocation of funds and meticulous operation, the Group is confident to ensure on-going stability of its production and operations and to gradually minimise its net current liabilities.

Capital expenditure

The Group incurred capital expenditure for the acquisition of property, plant and equipment, expansion of production facilities and purchase of equipment for the manufacture of steel pipe products. Capital expenditure during each of the two years ended 31 December 2018 and 2019 were primarily related to the purchase of property, plant and equipment.

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

	2019 **RMB'000**	2018 RMB'000
Purchase of property, plant and equipment	**9,524**	4,903
	9,524	4,903

Indebtedness

Borrowings

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

	2019 RMB'000	2018 RMB'000
Borrowings:		
Bank loans – Unsecured	–	49,000
Bank loans – Secured	127,000	365,000
Bank loans – Secured and guaranteed	558,600	300,000
Bank loans – Guaranteed	30,000	46,000
Other loans – Unsecured	61,605	61,260
Other loans – Secured	–	27,500
Total	777,205	848,760

Included in the borrowings is approximately RMB777,205,000 repayable within one year. The following table sets forth the annual interest rates of the Group's bank loans:

	2019 %	2018 %
Effective interest rate per annum	4.57-10	4.56-10

As at 31 December 2019, the borrowings of the Group amounted to approximately RMB777,205,000 (2018: approximately RMB848,760,000).

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

Financial management and fiscal policy

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

Utilisation of the proceeds from initial public offering

The net proceeds obtained by the Group from the initial public offering were approximately RMB1,098,500,000. After the exercise of the over-allotment option on 13 January 2010, the net proceeds from the initial public offering increased to approximately RMB1,269,900,000. As at 31 December 2017, approximately RMB1,269,900,000 out of the total net proceeds from the initial public offering had been fully 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 had been suspended. As such, no unutilised proceeds from the initial public offering were brought forward to the year ended 31 December 2019.

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 2019.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zhang Bizhuang, aged 52, has been our executive Director and chief executive officer since July 2009, responsible for the overall management of our Group's business operations, and had been the chairman of the Board from August 2012 to April 2016. Mr. Zhang worked in 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) from July 1990 to December 2008, serving various positions including department head of technical supervision department and quality control inspection department, deputy general manager and general manager, with his last position as chairman. He also served various positions in Shangdong Shengi Steel Pipe including executive director and general manager between December 2007 and June 2013, and has been its chairman since December 2008. He has been the general manager of Shengguan Group* (勝管集團) since July 2013.

Mr. Zhang graduated from Chongqing University with a bachelor's degree in engineering in 1990, majoring in Metal Materials and Heat Treatment and obtained his master's degree in business administration from the Open University of Hong Kong in 2004. He is a certified senior engineer in the PRC, and holds the Chinese Career Manager qualification.

Mr. Wang Kunxian, aged 51, has been our vice president since October 2010, and has been our executive Director since August 2014, responsible for the technology development, quality control and production management of the Group. Mr. Wang served various positions in Shengli Steel Pipe from July 1990 to December 2008, including factory officer and deputy chief engineer, with his last position as deputy general manager. He was the deputy general manager of Shandong Shengli Steel Pipe between December 2007 and June 2013 and has been its director since December 2007. Since July 2013, Mr. Wang served various positions in Shengguan Group* (勝管集團) including deputy general manager and technical director of quality production, and currently holds the position of deputy general manager, responsible for technology development, quality control and production management.

Mr. Wang graduated from Chongqing University with a bachelor's degree in engineering in 1990, majoring in metal pressure processing and obtained his master's degree in business administration from the Open University of Hong Kong in 2004. He is a certified senior engineer in the PRC.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Han Aizhi, aged 52, has been our executive Director since July 2009, and has been serving as a 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 and finance management. Ms. Han served various positions in Shengli Steel Pipe from July 1988 to December 2008 including 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 served as the deputy general manager of Shandong Shengli Steel Pipe from December 2007 to June 2013, and has been its director since December 2008. Since July 2013, Ms. Han served various positions in Shengguan Group* (勝管集團), including deputy general manager and director of securities investment, and currently holds the position of deputy general manager, successively responsible for overseeing quality management, environment, occupational health and safety system management, investor relations, listing compliance, public relations, external investment business, operational supervision and finance management.

Ms. Han graduated from Chengde Petroleum College in 1988 with a major in welding technology and graduated from the Party School of the Shandong Province Committee of CPC in 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 2004. She is a certified engineer in the PRC, and holds the PRC Registered Quality Professional Technician Qualification (middle tier).

Mr. Song Xichen, aged 55, has been our executive Director since April 2012, and has been serving as our vice president since August 2012, responsible for legal affairs of domestic members of the Group. Mr. Song served various positions in Shengli Steel Pipe, including deputy head of quality inspection department, deputy supervisor and supervisor of corporate management department, deputy general manager and general manager from July 1988 to March 2012. He was the deputy general manager of Shandong Shengli Steel Pipe from March 2012 to June 2013, and was its director from July 2013 to April 2019. Since July 2013, Mr. Song served various positions in Shengguan Group* (勝管集團), including deputy general manager and asset management director, and is currently its management consultant, successively responsible for corporate management, finance management, infrastructure and management of the back office.

Mr. Song graduated from China University of Petroleum (East China) in 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 2004. He is a certified senior economist in the PRC.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Wei Jun, aged 52, has been our non-executive Director and the chairman of the Board since 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) (as defined below), 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 1990, majoring in iron and steel metallurgy, 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 is a certified senior engineer in the PRC.

Mr. Jiang Yong, aged 52, resigned as a vice president of the Company on 1 January 2020 and was re-designated from an executive Director to a non-executive Director on the same date. Mr. Jiang Yong served as the executive Director and vice president of the Company from August 2012 to December 2019, responsible for the Group's finance management and the mine project in Vietnam. 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. 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.

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

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Junzhu, aged 43, has been our independent non-executive Director since May 2013. He currently serves as a partner of the Guangdong Zheng Yuan Public Accountants* (廣東正源會計師事務所). 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* (廣東正源會計師事務所) since July 2007. He served as a director and the chief financial officer of Huakang Insurance Agency Co., Ltd.* (華康保險代理有限公司) from September 2011 to September 2014, an independent director and the chairman of the audit committee of Guangdong Tapai Group Co. Ltd.* (廣東塔牌集團股份有限公司), a company listed on the Shenzhen Stock Exchange, from May 2013 to June 2019 and an independent director of Shenzhen Genvict Technologies Co., Ltd.* (深圳市金溢科技股份有限公司), a company listed on the Shenzhen Stock Exchange, since 27 March 2020.

Mr. Chen graduated from China Foreign Affairs University with a bachelor's degree in arts in 1998, and graduated from Southwest University of Political Science & Law with a master's degree in law in 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 48, has been our independent non-executive Director since 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 the legal director of the PRC business at Hoh Law Corporation in Singapore.

In 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 1999, and graduated from University of Delaware with a master's degree in political science and international relations in 2002. Mr. Wu is a practicing advocate and solicitor in Singapore.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Qiao Jianmin, aged 59, has been our independent non-executive Director since April 2016. He is currently serving as the deputy chairman of Zhejiang Returned Overseas Entrepreneurs' Association* (浙江省海歸創業協會) and standing deputy president of Zhejiang University Returned Overseas Entrepreneurs' Club* (浙江大學海歸校友創業俱樂部). Mr. Qiao has profound experience in advanced technology and new energy. He acted as the technical director in China Seven Star New Energy Holdings Limited from 2014 to 2016. He served as the general manager and a legal representative in Hangzhou Hanyu Technology Company Limited* (杭州漢宇科技有限公司) from 2008 to 2014. He acted as the deputy president in Hanli International Microelectronics (Hangzhou) Company Limited* (漢力國際微電子(杭州)有限公司) from 2005 to 2008. From 2004 to 2005, he served as a senior technical officer in Piconetics, Inc. in the United States. He served as the general manager in HQ Technologies, Inc. in the United States from 2002 to 2003. From 1992 to 2002, Mr. Qiao served as the international affair director in the International Technological University in the United States. Meanwhile, he primarily worked on technological research and development, and production management in Advanced Optical Solutions, LLC in the United States from 2000 to 2001. He served as the research and development engineer in chief in Cypress Semiconductor Corp. in the United States from 1998 to 2000. From 1994 to 1997, he acted as a senior engineer and the engineering manager in Applied Materials, Inc. in the United States. He acted as a postdoctoral researcher and primarily worked on the research on hi-tech superconductive equipment in Santa Clara University in the United States from 1991 to 1994. He held tutorship in the materials faculty of the Zhejiang University from 1989 to 1991.

Mr. Qiao graduated from Zhejiang University, majoring in silicate engineering with a bachelor's degree of 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 40, has been the company secretary and authorized representative of the Company since December 2013. He is currently a partner in Chungs Lawyers in association with DeHeng Law Offices.

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 2019.

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 18 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 19 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. Fluctuations in the construction schedule of cross-border and domestic large-scale oil and gas pipeline projects had a significant impact on the performance of the Group's pipes business during the Year under Review. For further details on the discussion of business risks and our measures to manage such risks, please refer to the Chief Executive Officer's Statement.

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 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.

REPORT OF THE DIRECTORS

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 ISO14001 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 56 to 71 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 2019.

CLOSURE OF REGISTER OF MEMBERS

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

From Tuesday, 16 June 2020 to Friday, 19 June 2020, 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 Shops 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, 15 June 2020. 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 57.8% (2018: approximately 56.6%) of the total sales and the top five suppliers accounted for approximately 52.4% (2018: approximately 52.3%) of the total purchases for the year. In addition, the Group's largest customer accounted for approximately 30% (2018: approximately 18%) of the total sales and the Group's largest supplier accounted for approximately 17% (2018: approximately 26.2%) of the total purchases for the year.

To the best knowledge of the Directors, at no time during the Year under Review, 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 not be successfully guaranteed.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2019 and the financial positions of the Company and the Group as at 31 December 2019 are set out in the financial statements on pages 77 to 161.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the share premium, contributed surplus and profit which in aggregate amounted to approximately RMB838 million as at 31 December 2019 (2018: approximately RMB1,084 million). Details of the reserves of the Company as at 31 December 2019 are set out in note 35 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 34 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

Mr. Zhang Bizhuang *(Chief Executive Officer)*
Mr. Wang Kunxian *(Vice President)*
Ms. Han Aizhi *(Vice President)*
Mr. Song Xichen *(Vice President)*
Mr. Ji Rongdi (alias Jee Rongdee) (resigned as Chairman and executive Director on 29 January 2019)

Non-executive Directors

Mr. Wei Jun *(Chairman)* (appointed on 29 January 2019)
Mr. Jiang Yong (resigned as the Vice President of the Company and re-designated from an executive Director to a non-executive Director on 1 January 2020)

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 of the Company, Mr. Wang Kunxian, Mr. Jiang Yong and Mr. Wu Geng shall retire and Mr. Wang Kunxian, Mr. Jiang Yong and Mr. Wu Geng are eligible and will stand for re-election at the forthcoming annual general meeting of the Company.

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company 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 2019, 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 Scheme	Percentage of the issued share capital of the Company as at 31 December 2019
Wei Jun	Interest in controlled corporation[1]	620,000,000		18.935%
Zhang Bizhuang	Interest in controlled corporation[2]	153,130,224		4.677%
	Beneficial owner	79,800,000[3]	19,500,000[7]	3.033%
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%
Jiang Yong	Beneficial owner		2,400,000[7]	0.073%
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 28.04%, 28.03% and 9.9% of the issued share capital of MEFUN GROUP LIMITED from RXJ Holdings Limited, HZJ Holdings Limited and KYM Holdings Limited, respectively. Accordingly, Mr. Wei Jun holds 65.97% of the issued share capital of MEFUN GROUP LIMITED. Therefore, 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) Mr. Zhang Bizhuang holds 79,800,000 shares of the Company, representing 2.437% of the issued shares of the Company.

(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 Scheme (as defined below) some of which were lapsed on 9 February 2020 without being exercised.

Save as disclosed above, as at 31 December 2019, 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 under Review 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.

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 share option scheme (the "Old Scheme") (the Old Scheme and New Scheme are collectively referred to as the "Share Option Scheme"). The Old Scheme was adopted on 21 November 2009, which was valid for a period of 10 years from the date of adoption. The Company has granted all share options under the Old Scheme, and all outstanding share options granted prior to the termination of the Old Scheme will remain in force.

The purpose of the New Scheme is to give the Eligible Persons (as defined in the New Scheme) an opportunity to have a personal stake in the Company and help motivate them to optimize their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain ongoing 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 Directors, 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 Eligible Person would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such Eligible Person in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant shall be separately approved by the shareholders of the Company in general meeting with such Eligible Person and his/her/its associate(s) abstaining from voting. The Company shall send a circular to our shareholders disclosing the identity of the Eligible Person, the number and terms of the options to be granted (and options previously granted) to such Eligible Person, and containing the details and information required under the Listing Rules. The number and terms (including the subscription price) of the options to be granted to such Eligible Person must be fixed before the approval of the shareholders of the Company and the date of the Board meeting proposing such grant shall be taken as the offer date for the purpose of calculating the subscription price of those options.

On 10 February 2010, the Board granted 24,000,000 share options to 19 directors and senior management of the Company and its subsidiaries and other personnel approved by the Board, including three Directors of the Company, at an exercise price of HK$2.03 per share under the Old Scheme. 1,500,000 share options held by a member of the senior management were lapsed following his departure in 2011. 300,000 share options held by an employee were lapsed following his departure in 2017. 300,000 share options held by an employee were lapsed following his departure in 2019. The remaining 21,900,000 share options were lapsed on 9 February 2020 without being exercised.

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. 570,000 share options held by three employees were lapsed following their departure in 2019.

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. 1,620,000 share options held by three employees were lapsed following their departure in 2019.

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. 1,350,000 share options held by an employee were lapsed following his departure in 2019.

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. 6,600,000 share options held by three employees were lapsed following their departure in 2019.

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 his departure in 2018. 1,200,000 share options held by a senior management and 10,200,000 share options held by three employees were lapsed following their departure in 2019.

For the year ended 31 December 2019, movements of options granted under the Share Option Scheme are set out below:

Name	Capacity	Exercise price	Outstanding as at 1 January 2019	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2019	Approximate percentage of the issued share capital of the Company as at 31 December 2019	Notes
Directors									
Zhang Bizhuang	Beneficial owner	HK$2.03	7,200,000	0	0	0	7,200,000	0.220%	(1)&(8)
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)
Wang Kunxian	Beneficial owner	HK$2.03	1,500,000	0	0	0	1,500,000	0.046%	(1)&(8)
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)&(8)
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)&(8)
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)
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)
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)
Ji Rongdi (alias Jee Rongdee)	Beneficial owner	HK$0.415	1,200,000	0	0	1,200,000	0	0%	(6)&(7)
Employees									
Employees	Beneficial owner	HK$2.03	9,000,000	0	0	300,000	8,700,000	0.265%	(1)&(8)
Employees	Beneficial owner	HK$0.80	16,800,000	0	0	570,000	16,230,000	0.495%	(2)
Employees	Beneficial owner	HK$0.50	50,640,000	0	0	1,620,000	49,020,000	1.497%	(3)
Employees	Beneficial owner	HK$0.40	43,200,000	0	0	1,350,000	41,850,000	1.278%	(4)
Employees	Beneficial owner	HK$0.40	52,800,000	0	0	6,600,000	46,200,000	1.410%	(5)
Employees	Beneficial owner	HK$0.415	107,400,000	0	0	10,200,000	97,200,000	2.968%	(6)
Total			346,260,000	0	0	21,840,000	324,420,000	9.908%	

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) 1,200,000 share options held by Mr. Ji Rongdi (alias Jee Rongdee) were lapsed following his resignation as the executive Director in January 2019.

(8) The share options granted on 10 February 2010 were lapsed as at 9 February 2020 without being exercised.

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

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

As at 31 December 2019, the following persons 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%
Wei Jun	Interest in controlled corporation[(2)]	620,000,000	18.935%
Du Jichun	Interest of spouse[(3)]	99,300,000	3.033%
	Interest in controlled corporation[(4)]	153,130,224	4.677%

Notes:

(1) MEFUN GROUP LIMITED holds 620,000,000 shares of the Company (representing 18.935% of the issued shares of the Company).

(2) Mr. Wei Jun holds 65.97% of the issued share capital of MEFUN GROUP LIMITED. Therefore, Mr. Wei Jun is deemed to be interested in the shares of the Company held by MEFUN GROUP LIMITED by virtue of the SFO.

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

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

Save as disclosed above, as at 31 December 2019, 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, including contracts for the provision of services, had been entered into between the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December 2019.

COMPETING BUSINESS

During the Period 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 the business of the Group under the Listing Rules.

REPORT OF THE DIRECTORS

PUBLIC FLOAT

Based on the information that is available to the Company and within the knowledge of the Directors, as at 31 December 2019, 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 2019, cash and cash equivalents of the Group amounted to approximately RMB99,535,000 (2018: approximately RMB106,076,000). As at 31 December 2019, the Group had interest-bearing bank loans of approximately RMB777,205,000 (2018: approximately RMB848,760,000). Details of borrowings are set out in note 32 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 2019, the gearing ratio of the Group was 44.9% (2018: 41.9%).

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2019, the Group secured bank loans of RMB127,000,000 (31 December 2018: approximately RMB365,000,000) by pledge of certain of the property, plant and equipment amounting to approximately RMB88,512,000 (31 December 2018: approximately RMB196,723,000) and certain of the land use rights amounting to approximately RMB76,900,000 (31 December 2018: approximately RMB124,816,000).

As at 31 December 2019, an amount of approximately RMB155,160,000 (31 December 2018: approximately RMB129,300,000) out of bank loans of the Group of approximately RMB558,600,000 (31 December 2018: approximately RMB300,000,000) was guaranteed by a non-controlling shareholder of a subsidiary. At the same time, the bank loans were secured by pledge of certain of the property, plant and equipment amounting to approximately RMB374,343,000 (31 December 2018: approximately RMB302,442,000) and certain of the land use rights amounting to approximately RMB42,634,000 (31 December 2018: approximately RMB40,320,000).

As at 31 December 2019, the Group obtained advance from an entity of nil (31 December 2018: approximately RMB27,500,000) by pledge of trade receivables amounting to nil (31 December 2018: approximately RMB39,956,000).

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any material contingent liabilities (2018: Nil).

FOREIGN EXCHANGE RISK

In 2019, 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 2019, the Group employed a work force of 1,009 employees (including the Directors). The total salaries and related costs (including the Directors' fees) amounted to approximately RMB91,364,000 (2018: approximately RMB106,956,000).

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 163. 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

The related party transactions as disclosed in note 39 to the financial statements (except the remuneration of members of key management other than Directors and chief executives of the Company) 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"), Hunan Valin Resource Trading Co., Ltd.* (湖南華菱資源貿易有限公司) ("Valin Resource"), Shanghai Valin Xianggang International Trading Co., Ltd.* (上海華菱湘鋼國際貿易有限公司) ("Valin International") and Hunan Valin E-Commerce Co., Ltd.* (湖南華菱電子商務有限公司) ("Valin E-Commerce")

On 9 August 2019, Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) ("Hunan Shengli"), a non-wholly-owned subsidiary of the Company, entered into framework purchase agreements with Hunan Xiangtan, Valin Resource and Valin International, respectively, pursuant to which Hunan Xiangtan agreed to supply certain steel plates and Valin Resource and Valin International agreed to supply certain steel plates and steel coils to Hunan Shengli. The terms of such framework purchase agreements are from 9 August 2019 to 31 July 2020. The annual caps of the transactions under the framework purchase agreements for the years ending 31 December 2019 and 31 December 2020 are RMB313,392,000 and RMB404,250,000, respectively. For further details, please refer to the announcement of the Company dated 9 August 2019.

On 30 December 2019, Hunan Shengli entered into supplemental framework purchase agreements with Hunan Xiangtan, Valin Resource and Valin International, respectively to reduce the supply amount under the framework purchase agreements dated 9 August 2019, with all other terms and conditions remained unchanged. As a result, (i) the amount of steel plates Hunan Xiangtan agreed to supply to Hunan Shengli was reduced from approximately 30,000 tons to approximately 15,000 tons; (ii) the amount of steel plates and steel coils Valin Resource agreed to supply to Hunan Shengli was reduced from approximately 50,000 tons to approximately 30,000 tons; and (iii) the amount of steel plates and steel coils Valin International agreed to supply to Hunan Shengli was reduced from approximately 50,000 tons to approximately 35,000 tons. On the same date, Hunan Shengli entered into a new framework purchase agreement with Valin E-Commerce, pursuant to which Valin E-Commerce agreed to supply approximately 50,000 tons of steel plates and steel coils to Hunan Shengli. The term of such new framework purchase agreement is from 30 December 2019 to 31 July 2020. As such, the total amount of steel plates and steel coils the Valin Group agreed to supply to Hunan Shengli for the two years ending 31 December 2020 and hence the aggregate annual cap remain unchanged. For further details, please refer to the announcement of the Company dated 30 December 2019.

By entering into the aforesaid framework purchase agreements, it is expected that Hunan Shengli would be able to maintain a stable source of steel plate and steel coil such that it can supply SAWH pipes and SAWL pipes to its customers on time. Accordingly, the Directors consider that it is in the interest of the Group to enter into the framework purchase agreements with Hunan Xiangtan, Valin Resource, Valin International and Valin E-Commerce.

As Xiangtan Steel Group Co., Ltd.* (湘潭鋼鐵有限公司) ("Xiangtan Steel") is the substantial shareholder of Hunan Shengli, a non-wholly-owned subsidiary of the Company, Xiangtan Steel is therefore a connected person of the Company. Since 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") and Valin Steel is entitled to control and exercise over 30% of the voting rights at the general meetings of Hunan Valin Iron & Steel Co., Ltd.* (湖南華菱鋼鐵股份有限公司) ("Hunan Valin") while Hunan Valin holds 86.32% share capital of Hunan Xiangtan, according to the Listing Rules, Hunan Xiangtan is an associate of Xiangtan Steel and a connected person of the Company at the subsidiary level. Valin Steel also directly controls 4.82% equity interests in Hunan Xiangtan. In addition, as Valin Resource is wholly owned by Valin Steel, Valin International is wholly owned by Hunan Xiangtan and Valin E-Commerce is wholly owned by Hunan Valin, they are therefore connected persons of the Company at the subsidiary level under the Listing Rules. Accordingly, the transactions under the aforesaid framework purchase agreements constitute continuing connected transactions of the Company and are subject to the reporting and announcement requirements but are exempted from the circular, independent financial opinion 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 been approved by 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 2019.

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 who 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.

At the annual general meeting held on 21 June 2019, the Company re-appointed ZHONGHUI ANDA as auditors of the Company for the year ended 31 December 2019.

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

21 April 2020

* *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 strives to uphold good corporate governance and adopts sound corporate governance practices. Save as disclosed below, during the period from 1 January 2019 to 31 December 2019, 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 2019, 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 four executive Directors, two non-executive Directors and three independent non-executive Directors. The current Board members of the Company are:

Executive Directors

Mr. Zhang Bizhuang *(Chief Executive Officer)*
Mr. Wang Kunxian *(Vice President)*
Ms. Han Aizhi *(Vice President)*
Mr. Song Xichen *(Vice President)*
Mr. Ji Rongdi (alias Jee Rongdee) (resigned as Chairman and executive Director on 29 January 2019)

Non-executive Directors

Mr. Wei Jun *(Chairman)* (appointed on 29 January 2019)
Mr. Jiang Yong (resigned as the Vice President of the Company and re-designated from an executive Director to a non-executive Director on 1 January 2020)

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 20 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 2019, the Board held 10 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.

For the year ended 31 December 2019, 10 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)*	10/10
Mr. Wang Kunxian *(Vice President)*	10/10
Ms. Han Aizhi *(Vice President)*	10/10
Mr. Song Xichen *(Vice President)*	10/10
Mr. Ji Rongdi (alias Jee Rongdee) (resigned as Chairman and executive Director on 29 January 2019)	1/1*
Non-executive Directors	
Mr. Wei Jun *(Chairman)* (appointed on 29 January 2019)	9/9*
Mr. Jiang Yong (resigned as the Vice President of the Company and re-designated from an executive Director to a non-executive Director on 1 January 2020)	10/10
Independent non-executive Directors	
Mr. Chen Junzhu	10/10
Mr. Wu Geng	10/10
Mr. Qiao Jianmin	10/10

* The denominator denotes the number of Board meetings held during his tenure.

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 either 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 and independent non-executive Directors.

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

Independent non-executive Directors

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

Continuous Professional Development

The Company also provides regular updates on the business development of the Group. The Directors are regularly briefed on the latest development regarding the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practices. In addition, the Company has been encouraging the Directors to enroll in professional development courses and seminars relating to the Listing Rules, Companies Ordinance and corporate governance practices organized by professional bodies or chambers in Hong Kong. All Directors are requested to provide the Company with their respective training records pursuant to code provision A.6.5.

During the year, all Directors 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 2019, and (ii) remuneration committee on 10 March 2012, and (iii) nomination committee on 11 November 2013. The terms of reference of the Board committees which explain their respective functions and the authority delegated to them by the Board have been 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 2019.

During the year ended 31 December 2019, 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 2019, the Audit Committee had performed, among others, 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 2019, reviewing the internal audit report summary for 2018 and the internal audit report for the first half of 2019, 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) and Mr. Wu Geng 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 2019, the Remuneration Committee held two meetings. Details of the attendance of each member are as follows:

Name of Remuneration Committee Member	Attendance
Mr. Wu Geng *(Chairman)*	2/2
Mr. Chen Junzhu	2/2
Mr. Wei Jun (appointed as member of the Remuneration Committee on 29 January 2019)	2/2
Mr. Ji Rongdi (alias Jee Rongdee) (resigned as member of the Remuneration Committee on 29 January 2019)	0/0*

* The denominator denotes the number of board committee meetings held during his tenure.

During the year ended 31 December 2019, the Remuneration Committee had formulated the remuneration policy of Directors, approved the terms in service contracts and letters of appointment 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 on 20 May 2016. The purpose of the New Scheme is to give the Eligible Persons (as mentioned on page 31 of this annual report) an opportunity to have a personal stake in the Company and help motivate them to optimize their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going cooperation and relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and in the case of executives, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Pursuant to B.1.5 of the Code, the remuneration paid by the Group to members of senior management by bands for the year ended 31 December 2019 is set out below:

Remuneration band	Number of individuals
HK$0–1,000,000	7
HK$1,000,001–1,200,000	4
HK$1,200,001 or above	1

Nomination Committee

Composition

The nomination committee of the Company (the "Nomination Committee") was established on 21 November 2009. The principal duties of the Nomination Committee of the Company include: (a) reviewing the structure, size and diversity of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's strategy; (b) identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; (c) assessing the independence of independent non-executive Directors of the Company; (d) making recommendations to the Board on the appointment or reappointment 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, and Mr. Qiao Jianmin serves as the chairman.

During the year ended 31 December 2019, the Nomination Committee held three meetings. Details of the attendance of each member are as follows:

Name of the Nomination Committee Member	Attendance
Mr. Qiao Jianmin *(Chairman)*	3/3
Mr. Zhang Bizhuang	3/3
Mr. Wu Geng	3/3

During the year ended 31 December 2019, the Nomination Committee had reviewed the structure, size and composition of the Board, and gave full review and recommendations 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 non-executive Directors.

Board Diversity Policy

In addition, the Nomination Committee has adopted the board diversity policy in compliance with the Code in 2019. 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 2019, 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 of association and articles of association of the Company 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 2019, 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 2019, the remuneration paid or payable to ZHONGHUI ANDA CPA Limited, in respect of their audit and non-audit services was as follows:

Type of Services	Total HK$'000
Audit Services	2,200
Non-audit Services	
– Review on interim report	560
– Report on continuing connected transactions	16
– Review on preliminary results announcement	16
– Major transaction circular	300
Total	3,092

COMPANY SECRETARY

Mr. Hong Kam Le was appointed as the company secretary of the Company in December 2013. The biographical details of Mr. Hong are set out in the paragraph headed "Biographical Details of Directors and Senior Management" in this annual report.

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 such 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.

For the year ended 31 December 2019, two general 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)*	2/2
Mr. Wang Kunxian *(Vice President)*	2/2
Ms. Han Aizhi *(Vice President)*	2/2
Mr. Song Xichen *(Vice President)*	2/2
Mr. Ji Rongdi (alias Jee Rongdee) (resigned as Chairman and executive Director on 29 January 2019)	0/0*
Non-executive Directors	
Mr. Wei Jun *(Chairman)* (appointed on 29 January 2019)	2/2
Mr. Jiang Yong (resigned as the Vice President of the Company and re-designated from an executive Director to a non-executive Director on 1 January 2020)	2/2
Independent non-executive Directors	
Mr. Chen Junzhu, *ACCA, CICPA*	2/2
Mr. Wu Geng	2/2
Mr. Qiao Jianmin	2/2

* The denominator denotes the number of general meetings held during his tenure.

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 enquiries may be put to the Board

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

Significant Change in Constitutional Documents

During the year ended 31 December 2019, the articles of association of the Company were amended to enhance the corporate governance of the Company. For further details, please refer to the circular of the Company dated 21 May 2019. Save as disclosed above, there has been no significant change in the Company's constitutional documents during the year ended 31 December 2019.

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 2019, 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 and Rizhao in Shandong Province, Xiangtan in Hunan Province, Urumqi in Xinjiang Uygur Autonomous Region in China, and offices located at Shanghai, Hong Kong, etc.

ADOPTION OF STANDARDS

The Group has mainly adopted the People's Republic of China (the "PRC") National Standard for Environmental Management Systems – Requirements with Guidance for Use (《中華人民共和國國家標準環境管理體系要求及使用指南》) (GB/T24001/ISO14001), the PRC National Standard for Occupational Health and Safety Management Systems – Requirements (《中華人民共和國國家標準職業健康安全管理體系要求》) (GB/T28001) and the PRC National Standard for Quality Management Systems – Requirements (《中華人民共和國國家標準質量管制體系要求》) (GB/T19001 idt ISO9001), the Basic Requirements of Quality Assurance System for Manufacture, Installation, Alteration and Repair of Special Equipment (《特種設備製造、安裝、改造、維修質量保證體系基本要求》) (TSG Z0004) issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC and the Quality Management System Specification for Manufacturing Organizations to the Petroleum and Natural Gas Industry (《石油天然氣行業製造企業質量管理體系規範》) (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 supporting 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, both 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 legal and regulatory 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 Company attaches great importance to environmental management and endeavours to create a clean environment and protect natural resources by complying with the laws and regulations of the PRC and place of incorporation as well as industry practices.

Environmental management principle: To create a clean environment by preventing pollution

Environmental targets (key performance indicators):

1. The discharge of contaminated wastes entirely conforms with the 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; and

4. There are no material environmental accidents.

Each subsidiary earnestly implements the Company policies, complies with relevant laws and regulations and 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 Protection 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 applicable 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

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

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

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

Non-hazardous wastes: domestic wastes and green wastes.

Emissions from office work

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

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

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

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

Greenhouse gas emissions in total (A1.2)

The total greenhouse gas emissions of the Group in 2019 were approximately 19,460 tonnes (2018: approximately 26,256 tonnes) of carbon dioxide equivalent. Approximately 98 kilograms (2018: approximately 82.9 kilograms) of carbon dioxide equivalent were produced for each tonne of products.

Total hazardous waste produced (A1.3)

The total hazardous waste produced in 2019 was approximately 120.3 tonnes (2018: approximately 130 tonnes). Approximately 0.606 kilogram (2018: approximately 0.412 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 2019 was approximately 156.5 tonnes (2018: approximately 165 tonnes). Approximately 0.78 kilogram (2018: approximately 0.523 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 Company's consumption of electricity and water and discharge of domestic sewage was approximately 18,920 tonnes (2018: approximately 25,070 tonnes). The greenhouse gas generated indirectly by the Company accounted for approximately 97.23% (2018: approximately 95.48%) 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 various emissions decreased in 2019 as compared to 2018.

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 metal 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 to qualified disposal institutions for 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:

In 2019, the Group disposed of hazardous wastes of approximately 120.3 tonnes, which were handled according to the relevant requirements in relation to environmental protection without receiving any complaints.

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 targets 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 2019 was approximately 30,091,000 kilowatt hours (kWh) (2018: approximately 41,662,000 kWh) including electricity of approximately 27,942,000 kWh, gasoline of approximately 446,000 kWh, diesel of approximately 1,362,000 kWh and natural gas of approximately 341,000 kWh. The energy consumption per tonne of products was approximately 150 kWh (2018: approximately 132 kWh).

Water consumption in total and intensity (A2.2)

The water consumption in total in 2019 was approximately 224,240 cubic metres (2018: approximately 270,500 cubic metres) and the water consumption per tonne of products was approximately 1.13 cubic metres (2018: approximately 0.35 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, adopting new approaches and conducting staff trainings:

1. Further optimisation of the assessment mechanism for material consumption and enhancement of incentives on cost reduction and efficiency enhancement of production units to raise energy efficiency during production process;

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

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

4. Close cooperation with power companies in accordance with expected production situation and application to electrical companies for capacity reduction based on planned electricity consumption when necessary. Adjustment of the Company's basic electricity bill method as and when appropriate based on the Company's actual production condition and power consumption policy to ensure that its basic electricity bill method is at the optimal status;

5. Strengthening energy control and supervision by joining hands with the technology department to check equipment power consumption in each production factory, identifying the equipment with the most power consumption and giving instructions to each production factory from the source to inform the factories of the high power consumption equipment and enhance daily power management with a sharpened focus and better management results.

Results achieved:

Power efficiency was greatly improved as evidenced by the fact that the total energy consumption of the Group decreased by approximately 27.8% in 2019 as compared to 2018.

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.

Initiatives for 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. Reusing 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 decreased by approximately 17.1% in 2019 as compared to 2018.

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 2019, a total of approximately 130,217 (2018: approximately 223,500) pipe-end protectors, approximately 49,301 (2018: approximately 2,600) pipe-end seals and approximately 331,000 (2018: approximately 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 to control the relevant impacts:

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 applicable 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 fulfill the criteria of seniority and performance.

Working hours and rest periods

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

Equal opportunity, diversity and anti-discrimination

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

Other benefits and welfare

The Group operates canteens and bachelor's quarters in certain places of business, providing catering services and accommodation to employees with reasonable price, and also arranges commuting shuttle buses for employees for free. In summer, the Group distributes cooling products to employees, and conducts regular occupational health checks for staff 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 2019, the Group had a total of 1,009 (2018: 1,123) employees, with men-to-women ratio of approximately 2.7:1 (2018: approximately 2.6:1). The ratio of office management staff to production and operating staff was approximately 1:3.5 (2018: approximately 1:3.7). Approximately 99% of the employees were stationed at Shandong and Hunan production bases. Approximately 90.8% of the employees were aged 50 or below, while approximately 28.8% of employees were aged 30 or below.

In 2019, the turnover rate of the Group's employees was around 14.67% (2018: approximately 15.37%), mainly representing the loss of technical staff as well as production and operating staff in Shandong and Hunan production bases and mainly are male employees under 30.

Aspect B2: Health and Safety

The Group has formulated provisions on the administration of occupational health and safety including the Planning Procedures for Identification of Origin of Hazards and Evaluation and Control of Risks* (《危險源辨識與風險評價和控制策劃程序》), the Control on Production Process and Control 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 applicable 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 zero incident of general accidents, major accidents and serious accidents;

3. No material fires, major equipment accidents, explosions or poisoning accidents throughout the year;

4. 100% intact rate for safety facilities, occupational health facilities and fire-fighting facilities;

5. 100% rectification rate for potential dangers;

6. 100% completion rate for employee safety trainings and 100% training rate for principals and safety management personnel;

7. 100% qualification rate for occupational safety trainings and 100% certified rate for special operation personnel;

8. Passing rate of over 98% in inspections on occupational factors in worksites and workplaces.

Each subsidiary earnestly implements the Company policies, complies with relevant laws and regulations and 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 2019, the Group suffered one work-related death and two employees (2018: 4 employees) suffered from work-related injury, representing approximately 0.2% (2018: approximately 0.35%) of the total number of employees, which resulted in 60 work loss days (2018: 65 days). At present, detailed investigation reports have been issued for all of the above accidents in accordance with accident response requirements and the Company has completed relevant compensation as required under regulations.

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 2019 was 100% (2018: 100%). Internal trainings carried out in 2019 include safety education training (level 3), position skills training and rules on safe operation. External trainings carried out in 2019 include training for special equipment operating personnel, product standard training, physical and chemical employee training, safety management personnel 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 other applicable 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 child labour nor 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 2019, the Group had approximately 235 (2018: approximately 255) 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 and general suppliers and conducts evaluation, selection and control accordingly.

The Group selects suppliers which are able to provide premium products and services and observe the Group's ESG standards. With regard to suppliers in possession of administrative licences of regulations and safety 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 applicable 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 2019, 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 technological theses. In 2019, one invention patent and one utility model patent were obtained, while 11 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 2019, 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 2019, the Group received one complaint in respect of products and services, which received timely after-sales response to the satisfaction of customers.

Aspect B7: Anti-corruption

The Group has established the Administrative System for Staff Awards and Punishments* (《員工獎懲管理制度》), which 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 2019, 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 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

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 77 to 161, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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 financial statements which mentions that the Group incurred loss attributable to owners of the Company of approximately RMB138,573,000 for the year ended 31 December 2019 and as at 31 December 2019 the Group had net current liabilities of approximately RMB46,007,000. 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 RIGHT-OF-USE ASSETS

Refer to Notes 16 and 21 to the consolidated financial statements

The Group tested the amount of property, plant and equipment and right-of-use assets for impairment. This impairment test is significant to our audit because the balances of property, plant and equipment and right-of-use assets of approximately RMB648,820,000 and approximately RMB239,097,000 respectively as at 31 December 2019 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 right-of-use asset are supported by the available evidence.

INVESTMENT IN ASSOCIATES

Refer to Note 20 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 RMB187,153,000 as at 31 December 2019 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 RMB326,194,000 as at 31 December 2019 are material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on estimates.

Our audit procedures included, among others:

- Assessing the Group's procedures on granting credit limits and credit periods to customers;
- Assessing the Group's relationship and transaction history with the customers;
- Evaluating the Group's impairment assessment;
- Assessing ageing of the debts;
- Assessing creditworthiness of the customers;
- Checking subsequent settlements from the customers; and
- Assessing the disclosure of the Group's exposure to credit risk in the consolidated financial statements.

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

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:

http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/

This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited
Certified Public Accountants
Fong Tak Ching
Audit Engagement Director
Practising Certificate Number P06353
Hong Kong, 28 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
REVENUE	9	**862,966**	913,392
Cost of sales and services		**(732,229)**	(708,651)
Gross profit		**130,737**	204,741
Other income and gains	9	**14,210**	23,690
Selling and distribution costs		**(44,745)**	(33,760)
Administrative expenses		**(191,813)**	(170,430)
Other expenses		**(1,198)**	(2,141)
Share of losses of associates		**(4,516)**	(728)
Reversal of impairment loss/(Impairment loss recognised) on other receivables		**1,678**	(15,782)
Gain/(Loss) on disposal of subsidiaries		**10,333**	(13,305)
Loss on deregistration of subsidiaries		**(1,999)**	–
Impairment loss on non-current assets held for sale		**(24,468)**	–
Finance costs	10	**(49,810)**	(47,544)
LOSS BEFORE TAX	11	**(161,591)**	(55,259)
Income tax expense	13	**(10,344)**	(2,500)
LOSS FOR THE YEAR		**(171,935)**	(57,759)
Other comprehensive income/(loss) that may be subsequently reclassified to profit or loss:			
Exchange differences reclassified to profit or loss on disposal of subsidiaries		**(10,582)**	(1)
Exchange differences on translation of financial statements of foreign operations		**3,166**	9,921
		(7,416)	9,920
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(179,351)**	(47,839)
LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(138,573)**	(54,111)
Non-controlling interests		**(33,362)**	(3,648)
		(171,935)	(57,759)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(145,989)**	(44,191)
Non-controlling interests		**(33,362)**	(3,648)
		(179,351)	(47,839)
LOSS PER SHARE (RMB cents)	14		
– Basic		**(4.23)**	(1.65)
– Diluted		**(4.23)**	(1.65)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	AS AT 31 DECEMBER 2019 RMB'000	AS AT 31 DECEMBER 2018 RMB'000 (Restated)	AS AT 1 JANUARY 2018 RMB'000 (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment	16	648,820	748,805	882,774
Goodwill	17	–	–	2,525
Deposits paid for acquisition of investments	19	216,549	213,446	203,214
Investment in associates	20	187,153	416,136	386,865
Right-of-use assets	21	239,097	242,227	261,161
Deferred tax assets	22	6,192	16,196	22,927
		1,297,811	1,636,810	1,759,466
CURRENT ASSETS				
Inventories	23	182,931	208,436	169,906
Trade and bills receivables	24	326,194	381,199	428,285
Contract assets	25	48,426	91,492	95,327
Prepayments, deposits and other receivables	26	229,410	163,917	213,978
Pledged deposits	27	27,312	64,283	20,096
Cash and cash equivalents	27	99,535	106,076	36,065
		913,808	1,015,403	963,657
Non-current assets held for sale	28	200,000	–	–
		1,113,808	1,015,403	963,657
CURRENT LIABILITIES				
Trade and bills payables	29	246,768	255,707	152,104
Other payables and accruals	30	64,214	80,545	119,216
Contract liabilities	25	53,553	19,957	70,348
Lease liabilities	31	1,184	1,468	3,982
Borrowings	32	777,205	848,760	891,883
Tax payable		15,308	15,301	15,014
Deferred income	33	1,583	2,045	854
		1,159,815	1,223,783	1,253,401
NET CURRENT LIABILITIES		(46,007)	(208,380)	(289,744)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	AS AT 31 DECEMBER 2019 RMB'000	AS AT 31 DECEMBER 2018 RMB'000 (Restated)	AS AT 1 JANUARY 2018 RMB'000 (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,251,804**	1,428,430	1,469,722
NON-CURRENT LIABILITIES				
Deferred income	33	**5,958**	7,079	5,609
Lease liabilities	31	**2,287**	104	1,795
Deferred tax liabilities	22	**309**	326	343
		8,554	7,509	7,747
NET ASSETS		**1,243,250**	1,420,921	1,461,975
EQUITY				
Equity attributable to owners of the Company				
Issued capital	34	**283,911**	283,911	283,911
Reserves	35	**896,249**	1,040,558	1,077,964
		1,180,160	1,324,469	1,361,875
Non-controlling interests		**63,090**	96,452	100,100
Total equity		**1,243,250**	1,420,921	1,461,975

The consolidated financial statements on pages 77 to 161 were approved and authorised for issue by the Board of Directors on 28 March 2020 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 2019

	Attributable to owners of the Company									
	Issued capital	Share premium*	Statutory surplus reserve*	Share option reserve*	Other reserve*	Foreign currency translation reserve*	Retained profits*	Total	Non-controlling interests	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2018 as previously reported	283,911	1,230,106	62,484	70,728	(9)	16,539	(301,776)	1,361,983	100,100	1,462,083
Effect of changes in accounting policies (note 3)	–	–	–	–	–	–	(108)	(108)	–	(108)
At 1 January 2018 (Restated)	283,911	1,230,106	62,484	70,728	(9)	16,539	(301,884)	1,361,875	100,100	1,461,975
Share-based payment	–	–	–	6,785	–	–	–	6,785	–	6,785
Total comprehensive income/(loss) for the year (Restated)	–	–	–	–	–	9,920	(54,111)	(44,191)	(3,648)	(47,839)
At 31 December 2018 (Restated)	283,911	1,230,106	62,484	77,513	(9)	26,459	(355,995)	1,324,469	96,452	1,420,921
At 1 January 2019 as previously reported	**283,911**	**1,230,106**	**62,484**	**77,513**	**(9)**	**26,459**	**(355,945)**	**1,324,519**	**96,452**	**1,420,971**
Effect of changes in accounting policies (note 3)	**–**	**–**	**–**	**–**	**–**	**–**	**(50)**	**(50)**	**–**	**(50)**
At 1 January 2019 (Restated)	**283,911**	**1,230,106**	**62,484**	**77,513**	**(9)**	**26,459**	**(355,995)**	**1,324,469**	**96,452**	**1,420,921**
Share-based payment	**–**	**–**	**–**	**1,680**	**–**	**–**	**–**	**1,680**	**–**	**1,680**
Total comprehensive loss for the year	**–**	**–**	**–**	**–**	**–**	**(7,416)**	**(138,573)**	**(145,989)**	**(33,362)**	**(179,351)**
Lapsed share options	**–**	**–**	**–**	**(2,742)**	**–**	**–**	**2,742**	**–**	**–**	**–**
At 31 December 2019	**283,911**	**1,230,106**	**62,484**	**76,451**	**(9)**	**19,043**	**(491,826)**	**1,180,160**	**63,090**	**1,243,250**

* 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 2019

	2019 RMB'000	2018 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	(161,591)	(55,259)
Adjustments for:		
Finance costs	49,810	47,544
Interest income	(2,491)	(755)
Share of losses of associates	4,516	728
Depreciation	108,602	118,000
Amortisation of right-of-use assets	6,497	7,156
Gain on disposal of property, plant and equipment, net	(339)	(4,928)
(Gain)/Loss on disposal of subsidiaries	(10,333)	13,305
Loss on deregistration of subsidiaries	1,999	–
Allowance/(Reversal of allowance) for trade receivables	17,283	(10,505)
Impairment loss on non-current assets held for sale	24,468	–
(Reversal of impairment loss)/Impairment loss recognized on other receivables	(1,678)	15,782
Write down/(Reversal of write down) of inventories	1,395	(1,089)
Equity-settled share option expenses	1,680	6,785
Gain on termination of lease	–	(73)
Recognise of deferred income	(1,583)	(2,012)
Operating profit before working capital changes	38,235	134,679
Change in inventories	24,110	(37,441)
Change in trade and bills receivables	37,723	57,591
Change in contract assets	43,066	3,835
Change in prepayments, deposits and other receivables	(65,963)	34,279
Change in trade and bills payables	(8,939)	103,603
Change in other payables and accruals	(16,330)	(29,404)
Change in contract liabilities	33,596	(50,391)
Cash generated from operations	85,498	216,751
Income tax paid	(350)	(508)
Net cash generated from operating activities	85,148	216,243

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	2019 RMB'000	2018 RMB'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment in associates	–	(30,000)
Purchase of property, plant and equipment	(9,524)	(9,000)
Proceeds from disposal of items of property, plant and equipment	1,140	9,393
Net cash outflow arising from disposal of subsidiaries	(160)	20,020
Net cash outflow arising from deregistration of subsidiaries	(8)	–
Change in pledged deposits	36,971	(44,187)
Interest received	2,491	755
Net cash generated from/(used in) investing activities	30,910	(53,019)
CASH FLOWS FROM FINANCING ACTIVITIES		
New borrowings	798,725	809,500
Repayment of loans	(870,280)	(852,623)
Repayment of lease liabilities	(1,513)	(1,914)
Interest paid	(49,596)	(47,862)
Net cash used in financing activities	(122,664)	(92,899)
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(6,606)	70,325
Cash and cash equivalents at beginning of year	106,076	36,065
Effect of foreign exchange	65	(314)
Cash and cash equivalents at end of year	99,535	106,076

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 18 to the consolidated financial statements.

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

2. BASIS OF PREPARATION

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

The Group incurred loss attributable to owners of the Company of approximately RMB138,573,000 for the year ended 31 December 2019, the Group had net current liabilities of approximately RMB46,007,000 as at 31 December 2019. 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 2019. 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 16 "Leases"

On adoption of IFRS 16, the Group recognised right-of-use assets and lease liabilities in relation to leases which had previously been classified as 'operating leases' under IAS 17 "Leases".

IFRS 16 has been applied retrospectively and resulted in changes in the consolidated amounts reported in the financial statements as follows:

	As 31 December 2018: RMB'000	As 1 January 2018: RMB'000
Increase in right-of-use assets	242,227	261,161
Increase in lease liabilities	1,572	5,777
Decrease in prepaid land lease	(240,705)	(255,492)
Decrease in retained earnings	(50)	(108)

For the year ended 31 December 2018:	RMB'000
Decrease in administrative expenses	(179)
Increase in lease interest	121
Decrease in loss for the year	58

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

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention, as modified by non-current assets held for sale which are measured at the lower of assets' previous carrying amount and fair value less costs to sell. These consolidated financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

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

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

Consolidation

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

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

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Consolidation (Continued)

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

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Associates (Continued)

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

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

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

Business combination and goodwill

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combination and goodwill (Continued)

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, equity investments 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.

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)

(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

The Group as lessee

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal annual rates are as follows:

Land use rights	2%
Land and buildings	33%-50%

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Leases (Continued)

The Group as lessee (Continued)

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below US$5,000.

The Group as lessor

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

Inventories

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

Recognition and derecognition of financial instruments

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss allowances for expected credit losses (Continued)

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.

Borrowings

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

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

Trade and other payables

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

Equity instruments

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government grants

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

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

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

Revenue 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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

(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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

(c) Termination benefits

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

Share-based payments

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

Borrowing costs

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

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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

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

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

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.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Segment reporting

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

(b) (Continued)

(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.

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions and contingent liabilities

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

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

Dividends

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

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

Non-current assets held for sale

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 notes 21 to the consolidated financial statements, the legal titles of certain lands and buildings have not been transferred to the Group as at 31 December 2019. 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 right-of-use assets, on the grounds that they expect the transfer of legal titles in future should have no major difficulties and the Group is in substance controlling those lands and buildings.

Key sources of estimation uncertainty

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

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

Key sources of estimation uncertainty (Continued)

(a) Impairment loss on property, plant and equipment and right-of-use assets

The Group carried out review of the recoverable amount of certain property, plant and equipment and right-of-use assets 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 right-of-uses assets 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 right-of-use assets. 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 had been made in 2018 and 2019.

(b) Property, plant and equipment and depreciation

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

(c) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. The net carrying amounts of trade receivables, and prepayments, deposits and other receivables at 31 December 2019 were approximately RMB321,304,000 (2018: approximately RMB375,799,000) and approximately RMB229,410,000 (2018: approximately RMB163,917,000), respectively.

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

Key sources of estimation uncertainty (Continued)

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

Investment 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 interests in associates was approximately RMB187,153,000 (2018: approximately RMB416,136,000).

(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 2019 was approximately RMB6,192,000 (2018: approximately RMB16,196,000).

(f) Write-down of inventories

The Group determines the write-down for obsolescence of inventories with reference to aged inventory analyses and projections of expected future saleability of goods. Based on this review, write-down of inventories will be made when the carrying amounts of inventories are lower than their estimated net realisable values. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation. The net carrying amount of inventories at 31 December 2019 was approximately RMB182,931,000 (2018: approximately RMB208,436,000).

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.

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.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Interest rate risk

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

At 31 December 2019, if interest rates at that date had been 100 basis points lower with all other variables held constant, consolidated loss after tax for the year would have been RMB254,000 (2018: RMB412,000) lower, 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 loss after tax for the year would have been RMB254,000 (2018: RMB412,000) higher, arising mainly as a result of higher interest expense on bank loan and other borrowings.

(c) Credit risk

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

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

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

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

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

At the end of the reporting period, the Group had certain concentration of credit risk as approximately 24% (2018: approximately 27%) and approximately 61% (2018: approximately 62%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Credit risk (Continued)

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 2019				
Advances to	**12,000**	**18,700**	**231**	**30,931**
Provision for loss allowance	**(5,600)**	**–**	**–**	**(5,600)**
Carrying amounts	**6,400**	**18,700**	**231**	**25,331**
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

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Credit risk (Continued)

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.

Weighted average expected credit loss rate

	Shareholders of an entity RMB'000	Entities RMB'000	Employees RMB'000	Total RMB'000
2019	**47%**	**0%**	**0%**	
2018	19%	77%	0%	
Loss allowance at 1 Jan 2018	–	(62,742)	–	(62,742)
Increase in provision in 2018	(5,600)	(10,182)	–	(15,782)
Loss allowance at 31 December 2018	(5,600)	(72,924)	–	(78,524)
Decrease in provision in 2019 – Written off	**–**	**72,924**	**–**	**72,924**
Loss allowance at 31 December 2019	**(5,600)**	**–**	**–**	**(5,600)**

(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.

All the Group's financial liabilities as at the end of each reporting period is settled within one year or on demand.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Categories of financial instruments

	2019 RMB'000	2018 RMB'000
Financial assets:		
Financial assets at amortised cost		
Trade and bills receivables	**326,194**	381,199
Financial assets included in prepayments, deposits and other receivables	**187,012**	112,398
Pledged deposits	**27,312**	64,283
Cash and cash equivalents	**99,535**	106,076
	640,053	663,956
Financial liabilities:		
Financial liabilities at amortised cost		
Trade and bills payables	**246,768**	255,707
Financial liabilities included in other payables and accruals	**59,379**	75,831
Borrowings	**777,205**	848,760
	1,083,352	1,180,298

(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 2019, the Group has two (2018: two) reportable segments which comprise of pipes business and trading business. The pipes business segment mainly involves the production of submerged-arc helical welded pipes (the "SAWH pipes") and submerged-arc longitudinal welded pipe (the "SAWL pipes") which are mainly used for the oil and infrastructure industry (the "Pipes Business"). The trading business mainly involves trading of rolled coils (the "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, reversal of impairment loss on other receivables, impairment loss on non-current assets held for sale, loss/gain on disposal of subsidiaries, loss on deregistration of subsidiaries and central administration costs including directors' fees, share-based payments, foreign currency exchange gains/losses, share of results of 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 2019

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:				
Sales to external customers	862,966	–	–	862,966
Intersegment sales	–	43,073	(43,073)	–
Total revenue	862,966	43,073	(43,073)	862,966
Segment results	(25,698)	(35,371)		(61,069)
Interest income				2,491
Gain on disposal of subsidiaries				10,333
Loss on deregistration of subsidiaries				(1,999)
Impairment loss on non-current assets held for sale				(24,468)
Reversal of impairment loss on other receivables				1,678
Unallocated expenses				(38,747)
Finance costs				(49,810)
Loss before tax				(161,591)

8. OPERATING SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the year ended 31 December 2018 (Restated)

	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	(8,838)		61,727
Interest income				755
Impairment loss recognized on other receivables				(15,782)
Loss on disposal of subsidiaries				(13,305)
Unallocated expenses				(41,110)
Finance costs				(47,544)
Loss before tax				(55,259)

8. OPERATING SEGMENT INFORMATION (Continued)

Segment assets

As at 31 December 2019

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment assets	**1,660,057**	**10,802**	**–**	**1,670,859**
Unallocated assets				**740,760**
Total consolidated assets				**2,411,619**

As at 31 December 2018 (Restated)

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment assets	1,805,074	29,218	–	1,834,292
Unallocated assets				817,921
Total consolidated assets				2,652,213

8. OPERATING SEGMENT INFORMATION (Continued)

Segment liabilities

As at 31 December 2019

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment liabilities	**367,992**	**1,181**	**–**	**369,173**
Unallocated liabilities				**799,196**
Total consolidated liabilities				**1,168,369**

As at 31 December 2018 (Restated)

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment liabilities	361,511	1,219	–	362,730
Unallocated liabilities				868,562
Total consolidated liabilities				1,231,292

8. OPERATING SEGMENT INFORMATION (Continued)

Other segment information

2019

	Pipes Business RMB'000	Trading Business RMB'000	Unallocated RMB'000	Consolidated RMB'000
Share of loss of associates	–	–	4,516	4,516
Write down of inventories	1,395	–	–	1,395
Allowance for trade receivables	17,283	–	–	17,283
Impairment loss on non-current assets held for sale	–	–	24,468	24,468
Gain on disposal of property, plant and equipment, net	(339)	–	–	(339)
Gain on disposal of subsidiaries	–	–	(10,333)	(10,333)
Depreciation and amortisation	115,067	26	6	115,099
Investment in associates	–	–	187,153	187,153
Capital expenditure	9,524	–	–	9,524

2018 (Restated)

	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	13,383	–	(78)	13,305
Depreciation and amortisation	122,993	1,077	1,086	125,156
Investment in associates	–	–	416,136	416,136
Capital expenditure	4,900	3	–	4,903

8. OPERATING SEGMENT INFORMATION (Continued)

(a) Revenue from external customers

	For the year ended 31 December	
	2019	2018
	RMB'000	RMB'000
Mainland China	**853,420**	913,392
Hong Kong	**9,546**	–
	862,966	913,392

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

(b) Non-current assets

	As at 31 December	
	2019	2018
	RMB'000	RMB'000
		(Restated)
Mainland China	**1,035,421**	1,369,521
Hong Kong	**256,198**	251,093
	1,291,619	1,620,614

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	2019 RMB'000	2018 RMB'000
Customer A	Pipes business	262,403	–
Customer B	Pipes business	–	164,848
Customer C	Pipes business	–	119,710
Customer D	Pipes business	*6,526	98,304

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

9. REVENUE, OTHER INCOME AND GAINS

	2019 RMB'000	2018 RMB'000
Revenue		
Pipes business		
Sales of pipes	758,825	705,088
Rendering of services related to pipe business	104,141	205,744
Trading business	–	2,560
	862,966	913,392

9. REVENUE, OTHER INCOME AND GAINS (Continued)

Disaggregation of revenue from contracts with customers

2019

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Geographical markets				
Mainland China	853,420	43,073	(43,073)	853,420
Hong Kong	9,546	–	–	9,546
Total	862,966	43,073	(43,073)	862,966
Timing of revenue recognition				
At a point in time	862,966	43,073	(43,073)	862,966

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

9. REVENUE, OTHER INCOME AND GAINS (Continued)

Sales of 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.

The Group's obligation to provide a refund for faulty products under the standard warranty terms is recognised as a provision.

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.

9. REVENUE, OTHER INCOME AND GAINS (Continued)

Trading business (Continued)

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.

	2019 RMB'000	2018 RMB'000
Other income		
Interest income	2,491	755
Rental income	984	1,002
Others	3,418	5,523
	6,893	7,280
Other gains		
Gain on sales of materials	6,068	276
Gain on disposal of property, plant and equipment, net	339	4,928
Others	910	11,206
	7,317	16,410
	14,210	23,690

10. FINANCE COSTS

	2019 RMB'000	2018 RMB'000 (Restated)
Interest on borrowings	49,769	47,423
Interest on lease liabilities	41	121
	49,810	47,544

11. LOSS BEFORE TAX

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

	2019 RMB'000	2018 RMB'000 (Restated)
Cost of inventories sold*	**648,165**	563,033
Cost of services	**84,064**	145,618
Employees benefits expenses (including directors' remuneration (note 12)):		
Wages, salaries and bonus	**69,333**	80,936
Performance related bonus	**55**	99
Pension scheme contributions	**17,702**	17,530
Welfare and other expenses	**2,594**	1,606
Equity-settled share option expense	**1,680**	6,785
	91,364	106,956
Depreciation of property, plant and equipment	**108,602**	118,000
Amortization of right-of-use assets	**6,497**	7,156
Allowance/(Reversal of allowance) for trade receivables	**17,283**	(10,505)
(Reversal of impairment loss)/Impairment loss recognised on other receivables	**(1,678)**	15,782
Gain on disposal of property, plant and equipment, net	**(339)**	(4,928)
(Gain)/Loss on disposal of subsidiaries (Note 37(a))	**(10,333)**	13,305
Loss on deregistration of subsidiaries	**1,999**	–
Exchange (gain)/loss, net	**(711)**	113
Auditors' remuneration	**1,939**	1,862

* Included in the cost of inventories sold is an amount of approximately RMB1,395,000 (2018: reversal of write down of inventories of approximately RMB1,089,000) related to the write down of inventories for the year ended 31 December 2019.

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 2019					
		Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Performance related bonus RMB'000	Social security contribution RMB'000	Equity-settled share option expense RMB'000	Total remuneration RMB'000
Executive Directors:							
Zhang Bizhuang		197	1,073	–	64	82	1,416
Jiang Yong	(i)	197	923	–	–	18	1,138
Han Aizhi		197	871	–	49	18	1,135
Song Xichen		197	846	–	49	18	1,110
Wang Kunxian		197	885	–	58	18	1,158
Ji Rongdi, alias Jee Rongdee	(ii)	20	230	–	9	18	277
Independent non-executive Directors:							
Chen Junzhu		285	–	–	–	82	367
Wu Geng		285	–	–	–	82	367
Qiao Jianmin		285	–	–	–	82	367
Non-executive Directors:							
Wei Jun	(iii)	285	–	–	–	–	285
		2,145	4,828	–	229	418	7,620

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

(a) (Continued)

		For the year ended 31 December 2018					
		Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Performance related bonus RMB'000	Social security contribution RMB'000	Equity-settled share option expense RMB'000	Total remuneration RMB'000
Executive Directors:							
Zhang Bizhuang		254	1,299	–	64	56	1,673
Jiang Yong	(i)	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	(ii)	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

Notes:

(i) Mr. Jiang Yong will be transferred to non-executive director and will cease to be the vice president from 1 January 2020.

(ii) Mr. Ji Rongdi, alias Jee Rongdee resigned on 29 January 2019. His emoluments disclosed above included those for services rendered by him as the chairman and chief executive officer.

(iii) Mr. Wei Jun was appointed as the non-executive director and chairman for a three-year term beginning 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 2019 and 2018.

(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 2019 and 2018.

13. INCOME TAX EXPENSE

	2019 RMB'000	2018 RMB'000
Current – PRC Enterprise Income Tax ("EIT")		
– Charge for the year	357	796
Deferred tax (note 22)	9,987	1,704
Income tax expense	10,344	2,500

Hong Kong profits tax is calculated at 16.5% (2018: 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:

	2019 RMB'000	2018 RMB'000 (Restated)
Loss before tax	(161,591)	(55,259)
Tax at the applicable tax rate of companies within the Group of 25% (2018: 25%)	(40,398)	(13,815)
Expenses not deductible for tax	20,727	12,115
Income not taxable for tax	(3,727)	(2,942)
Tax loss not recognised	24,783	6,441
Effect of different tax rates of subsidiaries	188	519
Tax effect of losses attributable to associates	1,129	182
Tax losses previously recognised and reversed	7,642	–
Tax at the Group's effective rate	10,344	2,500

Notes:

At the end of the reporting period the Group has unused tax losses of approximately RMB723,649,000 (2018: approximately RMB685,431,000) available for offset against future profits. No deferred tax asset has been recognised of such losses (2018: tax loss of approximately RMB30,572,000 was recognised as deferred tax asset) due to the unpredictability of future profit streams. Remaining unused tax loss will be expired from 2020 to 2024.

Pursuant to the EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. 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 the PRC 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 PRC in respect of earnings generated from 1 January 2008 and afterwards.

As at 31 December 2019 and 2018, the aggregate amounts of temporary differences associated with undistributed earnings of the subsidiaries in the PRC for which deferred tax liabilities have not been recognised were approximately RMB77,117,000 and RMB110,660,000, 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 RMB138,573,000 (2018: approximately RMB54,111,000) and the weighted average number of 3,274,365,600 (2018: 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 2019 and 2018 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 2019 (2018: 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 2019						
COST:						
At 1 January 2019	467,446	990,939	14,337	14,974	12,219	1,499,915
Additions	278	1,549	288	54	7,355	9,524
Disposals	–	(2,172)	(2,274)	(179)	–	(4,625)
Disposals of subsidiaries	–	–	(1,398)	(137)	–	(1,535)
Deregistration of subsidiaries	–	–	–	(5)	–	(5)
At 31 December 2019	467,724	990,316	10,953	14,707	19,574	1,503,274
ACCUMULATED DEPRECIATION AND IMPAIRMENT:						
At 1 January 2019	109,828	616,406	13,077	11,799	–	751,110
Provided during the year	20,268	86,680	365	1,289	–	108,602
Disposals	–	(1,491)	(2,177)	(156)	–	(3,824)
Disposals of subsidiaries	–	–	(1,300)	(131)	–	(1,431)
Deregistration of subsidiaries	–	–	–	(3)	–	(3)
At 31 December 2019	130,096	701,595	9,965	12,798	–	854,454
CARRYING AMOUNTS:						
At 31 December 2019	337,628	288,721	988	1,909	19,574	648,820

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 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

As at 31 December 2019, the Group was in the process of applying for the title certificates of buildings with an aggregate net book value of approximately RMB7,592,000 (2018: approximately RMB7,705,000). 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 2019.

The Group carried out reviews of the recoverable amount of certain property, plant and equipment in 2019 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 right-of-use assets in 2019 and 2018, having regard to its ongoing growth and the market conditions of the Group's products. No impairment loss 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 RMB48,510,000 (2018: approximately RMB55,127,000). The recoverable amount of relevant assets 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 Zhuoyue Quancheng Land Property Evaluation Co., Ltd.# (山東卓越全程土地房地產評估有限公司) and Xinjiang Huaguang Wanxiang Assets Evaluation Co., Ltd.# (新疆華光萬象資產評估有限公司), an independent firm of professional valuers.

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17. GOODWILL

	2019 RMB'000	2018 RMB'000
Carrying amount at 1 January	–	2,525
Disposal of subsidiaries	–	(2,525)
Carrying amount at 31 December	–	–

18. SUBSIDIARIES

Particulars of the Company's major subsidiaries at 31 December 2019 are set out below:

Company name	Place of incorporation/ registration and operation	Nominal value of issued and paid-up share/ registered paid-up capital	Percentage of equity interests attributable to the Company	Principal activities
Directly held:				
Shengli (BVI) Ltd. ("Shengli BVI")	The British Virgin Islands (the "BVI")	USD1	100%	Investment holding
Siu Thai Holdings Limited ("Siu Thai")	The BVI	USD1	100%	Investment holding
Gold Apple Holdings Limited	The BVI	USD1	100%	Investment holding
Indirectly held:				
China Petro Equipment Holdings Pte. Ltd.	Republic of Singapore	SGD2	100%	Investment holding
Bayston Investments Limited	The BVI	RMB6,140	100%	Investment holding
Shandong Shengli Steel Pipe # (山東勝利鋼管有限公司) (Note i)	The PRC	RMB1,153,790,300	100%	Manufacturing, processing and sale of submerged-arc helical welded pipes (the "SAWH") pipelines and provision of anti-corrosion service for oil and gas pipelines and other construction and manufacturing applications and trading of commodity
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 submerged-arc longitudinal welded pipes (the "SAWL") and SAWH pipelines and provision of anti-corrosion service for oil and gas pipelines and other construction and manufacturing applications and trading of commodity

18. 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)				
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
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

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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

18. 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	
	2019	2018	**2019**	2018
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
As at 31 December:				
Non-current assets	**52,794**	60,598	**373,863**	418,669
Current assets	**11,484**	11,288	**374,838**	381,467
Non-current liabilities	**(3,900)**	(4,754)	**(2,057)**	(2,325)
Current liabilities	**(23,675)**	(21,439)	**(637,368)**	(620,217)
Net assets	**36,703**	45,693	**109,276**	177,594
Accumulated NCI	**15,992**	19,909	**47,098**	76,543
For the year ended 31 December:				
Revenue	**–**	451	**536,796**	359,650
Loss for the year	**(8,990)**	(9,968)	**(68,317)**	1,613
Total comprehensive loss	**(8,990)**	(9,968)	**(68,317)**	1,613
Loss allocated to NCI	**(3,917)**	(4,343)	**(29,445)**	695
Dividends paid to NCI	**–**	–	**–**	–
Net cash (used in)/generated from operating activities	**(1,495)**	(143)	**10,717**	46,701
Net cash generated from/(used in) investing activities	**212**	–	**(18,917)**	(1,546)
Net cash generated from/(used in) financing activities	**1,278**	149	**11,891**	(37,317)
Net (decrease)/increase in cash and cash equivalents	**(5)**	6	**3,691**	7,838

As at 31 December 2019, the bank and cash balances of these subsidiaries in the PRC denominated in RMB amounted to approximately RMB18,390,000 (2018: approximately RMB11,072,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

19. DEPOSITS PAID FOR ACQUISITION OF INVESTMENTS

	2019 RMB'000	2018 RMB'000
Deposit paid for proposed acquisition of the allotted and issued share capital of:		
– Blossom Time Group Limited (note)	**216,549**	213,446

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.

20. INVESTMENT IN ASSOCIATES

	2019 RMB'000	2018 RMB'000
Unlisted investments in the PRC:		
Share of net assets	**187,153**	416,136

20. 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
			As at 31 December 2019	As at 31 December 2018	
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%	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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20. 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* 2019	Shanghai Guoxin* 2018	**Xinfeng Energy 2019**	Xinfeng Energy 2018
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 as at 31 December	**–/–**	45%/45%	**31.88%/ 31.88%**	31.88%/ 31.88%
	RMB'000	RMB'000	**RMB'000**	RMB'000
As at 31 December:				
Non-current assets	**–**	27,573	**341,028**	234,508
Current assets	**–**	1,627,623	**1,172,174**	1,159,091
Current liabilities	**–**	(1,298,325)	**(622,695)**	(420,988)
Non-current liabilities	**–**	–	**(303,451)**	(171,031)
Net assets	**–**	356,871	**587,056**	801,580
Group's share of net assets	**–**	160,592	**187,153**	255,544
For the year ended 31 December:				
Revenue	**279**	1,152,888	**248,097**	49,044
Loss for the year	**(3,454)**	(1,699)	**(9,289)**	(2,323)
Other comprehensive income	**–**	–	**–**	2,436
Total comprehensive (loss)/income for the year	**(3,454)**	(1,699)	**(9,289)**	113
Dividends received from the associate	**–**	–	**–**	–

20. INVESTMENT IN ASSOCIATES (Continued)

As at 31 December 2019, the bank and cash balances of the Group's associates in the PRC denominated in RMB amounted to approximately RMB3,233,000 (2018: amounted to approximately RMB14,206,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

* The associate has been reclassified as a non-current assets held for sale (note 28).

21. LEASES AND RIGHT-OF-USE ASSETS

Disclosures of lease-related items:

	2019 RMB'000	2018 RMB'000
At 31 December:		
Right-of-use assets		
Land use rights	**235,630**	240,705
Land and buildings	**3,467**	1,522
	239,097	242,227
The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows:		
Less than 1 year	**1,303**	1,508
Between 1 and 2 years	**2,397**	105
	3,700	1,613

21. LEASES AND RIGHT-OF-USE ASSETS (Continued)

	2019 RMB'000	2018 RMB'000
At 31 December:		
Depreciation charge of right-of-use assets		
Land use rights	**5,072**	5,347
Land and buildings	**1,425**	1,809
	6,497	7,156
Lease interests	**41**	121
Total cash outflow for leases	**1,513**	1,914
Addition to the right-of-use assets	**3,367**	836

The Group leases various land use rights and land and buildings. Lease agreements for land use rights and land and buildings are typically made for fixed periods of 50 years and 2 to 3 years respectively. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants and the leased assets may not be used as security for borrowing purposes.

As at 31 December 2019, 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 RMB9,650,000 (2018: approximately RMB9,887,000). 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 2019.

22. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

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

	2019 RMB'000	2018 RMB'000
Deferred tax assets		
As at 1 January	16,196	22,927
Deferred tax charged to the consolidated profit or loss during the year (note 13)	(10,004)	(1,721)
Disposal of subsidiaries	–	(5,010)
Gross deferred tax assets as at 31 December	6,192	16,196
Deferred tax liabilities		
As at 1 January	326	343
Deferred tax credited to the consolidated profit or loss during the year (note 13)	(17)	(17)
Gross deferred tax liabilities as at 31 December	309	326
Net deferred tax assets as at 31 December	5,883	15,870

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

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

	2019 RMB'000	2018 RMB'000
Deferred tax assets		
Accrued interest on borrowings	–	660
Government grants received but not yet recognised as income	1,189	1,402
Excess of carrying value over fair value of identifiable assets and liabilities in acquisition of subsidiaries	560	747
Impairment loss recognised on property, plant and equipment	4,443	5,745
Tax losses	–	7,642
Gross deferred tax assets	6,192	16,196
Deferred tax liabilities		
Excess of fair value of identifiable assets and liabilities over carrying value in acquisition of subsidiaries	309	326
Gross deferred tax liabilities	309	326
Net deferred tax asset	5,883	15,870

23. INVENTORIES

	2019 RMB'000	2018 RMB'000
Raw materials	96,130	66,261
Work in progress	7,275	5,836
Finished and semi-finished goods	79,526	136,339
	182,931	208,436

24. TRADE AND BILLS RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**341,365**	498,778
Less: allowance for impairment of trade receivables	**(20,061)**	(122,979)
	321,304	375,799
Bills receivables	**4,890**	5,400
	326,194	381,199

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:

	2019 RMB'000	2018 RMB'000
Within 3 months	**148,569**	192,512
3 to 6 months	**28,706**	45,244
6 months to 1 year	**48,045**	90,892
1 to 2 years	**72,700**	43,588
Over 2 years	**23,284**	3,563
	321,304	375,799

Reconciliation of allowance for trade receivables:

	2019 RMB'000	2018 RMB'000
Balance at beginning of the year	**122,979**	132,069
Allowance for the year	**19,101**	–
Reversal of allowance for the year	**(1,818)**	(10,505)
Disposal of subsidiaries	**(120,216)**	–
Exchange differences	**15**	1,415
Balance at end of year	**20,061**	122,979

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 RMB'000	Within 1 year past due RMB'000	1 to 2 years past due RMB'000	Over 2 years past due RMB'000	Total RMB'000
At 31 December 2019					
Weighted average expected loss rate	**0%**	**0%**	**18%**	**27%**	**6%**
Receivable amount (RMB'000)	**178,429**	**51,593**	**107,623**	**3,720**	**341,365**
Loss allowance (RMB'000)	**–**	**(183)**	**(18,879)**	**(999)**	**(20,061)**
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)

25. CONTRACT ASSETS AND LIABILITIES

Disclosures of revenue-related items:

	As at 31 December 2019 RMB'000	As at 31 December 2018 RMB'000	As at 1 January 2018 RMB'000
Total contract assets – Pipe business	**48,426**	91,492	95,327
Total contract liabilities – Pipe business	**(53,553)**	(19,957)	(70,348)
Total contract receivables (included in trade receivables)	**321,304**	375,263	401,610
Transaction prices allocated to performance obligations unsatisfied at end of year and expected to be recognised as revenue in:			
– 2019	**177,778**	448,827	
– 2020	**434,512**	–	
	612,290	448,827	

Year ended 31 December	**2019 RMB'000**	2018 RMB'000
Revenue recognised in the year that was included in contract liabilities at beginning of year	**2,520**	70,348

25. CONTRACT ASSETS AND LIABILITIES (Continued)

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

	2019 Contract assets RMB'000	2019 Contract liabilities RMB'000	2018 Contract assets RMB'000	2018 Contract liabilities RMB'000
Increase due to operations in the year	25,773	(48,194)	38,468	(254,101)
Transfer of contract assets to receivables	(68,839)	–	(42,303)	–
Transfer of contract liabilities to revenue	–	14,598	–	303,903
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 contract assets is approximately RMB48,426,000 (2018: approximately RMB91,492,000).

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

	2019 RMB'000	2018 RMB'000
Advances to entities (note a)	18,700	21,533
Advance to suppliers (note b)	83,828	35,150
Advances to shareholders of an entity (note c)	6,400	24,400
Loan to employees (note d)	231	421
Other tax receivables (note e)	29,527	45,099
Prepayment	1,094	879
Tender deposits to customers	11,777	5,541
Others (note f)	77,853	30,894
	229,410	163,917

Notes:

(a) As at 31 December 2019, included in the advances to entities is a loan of approximately RMB18,700,000 (2018: approximately RMB17,000,000) 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 approximately RMB5,600,000 has been recognised during the year ended 31 December 2018. The entity settled RMB18,000,000 during the year ended 31 December 2019.

(d) Loan to employees are unsecured, bear interest rate of 6% (2018: 6%) per annum and have no fixed repayment term.

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

(f) As at 31 December 2019, included in others is a deposit of approximately RMB51,700,000 for the legal proceeding with an independent third party. As advised by the PRC legal advisers to the Company, the likelihood of the court ruling against the Group is remote and therefore the directors are of the view that no provision for impairment is necessary in respect of this balance at this stage.

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2019 RMB'000	2018 RMB'000
Cash and bank balances	126,847	170,359
Less: Pledged deposits	(27,312)	(64,283)
	99,535	106,076
Cash and cash equivalents and pledged deposits denominated in RMB	119,149	162,661

As at 31 December 2018, deposits of RMB50,000,000 are pledged because of a legal proceeding with an independence third party.

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. NON-CURRENT ASSETS HELD FOR SALE

The major classes of assets classified as held for sale at 31 December 2019 are as follows:

	2019 RMB'000	2018 RMB'000
Investment in an associate – Shanghai Guoxin Industrial Co., Ltd.	200,000	–

Pursuant to an agreement dated 15 August 2019 entered into between a subsidiary of the Company and an independent third party, the Group will dispose of 45% equity interests in an associate, Shanghai Guoxin Industrial Co., Ltd.* (上海國心實業有限公司) for a total consideration of RMB200,000,000. The associate has been reclassified as a non-current assets held for sale, resulting in an impairment loss on non-current assets held for sale of approximately RMB24,468,000.

* The English name is for identification only

29. TRADE AND BILLS PAYABLES

	2019 RMB'000	2018 RMB'000
Trade payables	**246,568**	245,185
Bills payables	**200**	10,522
	246,768	255,707

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

	2019 RMB'000	2018 RMB'000
Within 3 months	**206,763**	172,778
3 to 6 months	**12,896**	32,872
6 months to 1 year	**17,993**	28,046
1 to 2 years	**7,192**	10,219
Over 2 years	**1,724**	1,270
	246,568	245,185

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.

30. OTHER PAYABLES AND ACCRUALS

	2019 RMB'000	2018 RMB'000
Payable on acquisition of property, plant and equipment	**34,125**	48,225
Security deposits received from employees	**670**	680
Interest payable on other borrowings	**3,212**	3,039
Other tax payables	**4,835**	4,714
Others	**21,372**	23,887
	64,214	80,545

31. LEASE LIABILITIES

	Lease payments		Present value of lease payments	
	2019 RMB'000	2018 RMB'000	**2019 RMB'000**	2018 RMB'000
Within one year	**1,303**	1,508	**1,184**	1,468
In the second to fifth years, inclusive	**2,397**	105	**2,287**	104
	3,700	1,613	**3,471**	1,572
Less: Future finance charges	**(229)**	(41)		
Present value of lease liabilities	**3,471**	1,572		
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(1,184)**	(1,468)
Amount due for settlement after 12 months			**2,287**	104

At 31 December 2019, the average effective borrowing rate was 4.5675% (2018: 4.5675%). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

32. BORROWINGS

		2019			2018		
	Notes	Effective interest rate (%)	Maturity (year)	RMB'000	Effective interest rate (%)	Maturity (year)	RMB'000
Bank loans – Unsecured				–	4.78%	2019	49,000
Bank loans – Secured	(a)	4.79% –5.50%	2020	127,000	4.56% –5.49%	2019	365,000
Bank loans – Secured and guaranteed	(b)	4.57% –5.22%	2020	558,600	4.79% –5.22%	2019	300,000
Bank loans – Guaranteed	(c)	5.65%	2020	30,000	5.65%	2019	46,000
Other loans – Unsecured	(d)	10.00%	2020	61,605	10.00%	2019	61,260
Other loans – Secured	(e)			–	5.70%	2019	27,500
				777,205			848,760

	2019	2018
The borrowings are repayable as follows:	RMB'000	RMB'000
On demand or within one year	777,205	848,760
In the second year	–	–
In the third to fifth years, inclusive	–	–
Less: Amount due for settlement within 12 months (shown under current liabilities)	777,205	848,760
Amount due for settlement after 12 months	(777,205)	(848,760)
	–	–

Notes:

(a) The Group's bank loans were secured by pledge of certain of the Group's properties, plant and equipment amounting to approximately RMB88,512,000 (2018: approximately RMB196,723,000) and right-of-use assets amounting to approximately RMB76,900,000(2018: approximately RMB124,816,000).

(b) The Group's bank loans were secured by pledge of certain of the Group's properties, plant and equipment amounting to approximately RMB374,343,000(2018: approximately RMB302,442,000), right-of-use assets amounting to approximately RMB42,634,000 (2018: approximately RMB40,320,000) and an amount of approximately RMB155,160,000 (2018: approximately RMB129,300,000) out of bank loans of approximately RMB558,600,000 (2018: approximately RMB300,000,000) were guaranteed by a non-controlling shareholder of a subsidiary.

32. BORROWINGS (Continued)

Notes: (Continued)

(c) The Group's bank loans of approximately RMB12,930,000 (2018: approximately RMB19,826,000) out of bank loans of approximately RMB30,000,000 (2018: approximately RMB46,000,000) were guaranteed by a non-controlling shareholder of a subsidiary.

(d) The loan refers to advance from Directors and employees of approximately RMB61,605,000(2018: approximately RMB61,260,000) 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.

33. DEFERRED INCOME

	2019 RMB'000	2018 RMB'000
Government grants:		
As at 1 January	**9,124**	6,463
Recognised during the year	**–**	4,673
Recognised as other income during the year	**(1,583)**	(2,012)
As at 31 December	**7,541**	9,124
Less: Current portion	**(1,583)**	(2,045)
Non-current portion	**5,958**	7,079

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

During the year ended 31 December 2018, Hunan Shengli Steel Pipe recognised a government grant of 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.

34. SHARE CAPITAL

Ordinary shares of HK$0.1 each	Number of shares	HK$'000
Authorised:		
At 31 December 2019 and 2018	5,000,000,000	500,000

	Number of shares in issue	Issued capital HK$'000	Issued capital RMB'000
At 1 January 2018, 31 December 2018, 1 January 2019 and at 31 December 2019	3,274,365,600	327,437	283,911

35. RESERVES

(a) Statutory surplus reserve

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

(b) Share options reserve

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

(c) Other reserve

Other reserve represents the reserve arising from Group reorganisation.

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.

35. RESERVES (Continued)

Company

The amounts of the Company's reserves and the movements therein for the year ended 31 December 2019 are as follows:

	Share premium RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000 (Restated)	Total RMB'000
At 1 January 2018 (Restated)	1,230,445	70,728	(205,064)	1,096,109
Share-based payment	–	6,785	–	6,785
Total comprehensive loss for the year (Restated)	–	–	(19,189)	(19,189)
At 31 December 2018 and 1 January 2019 (Restated)	1,230,445	77,513	(224,253)	1,083,705
Share-based payment	–	1,680	–	1,680
Total comprehensive loss for the year	–	–	(247,780)	(247,780)
Lapsed share options		(2,742)	2,742	–
At 31 December 2019	1,230,445	76,451	(469,291)	837,605

36. SHARE-BASED PAYMENTS

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

	Notes	2019	2018
Granted on 10 February 2010	(a)	**21,900,000**	22,200,000
Granted on 3 January 2012	(b)	**20,550,000**	21,120,000
Granted on 23 September 2014	(c)	**68,220,000**	69,840,000
Granted on 28 January 2015	(d)	**55,950,000**	57,300,000
Granted on 26 April 2016	(e)	**51,000,000**	57,600,000
Granted on 11 October 2016	(f)	**106,800,000**	118,200,000
		324,420,000	346,260,000

	2019		2018	
	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	**346,260,000**	**0.55**	347,460,000	0.55
Granted during the year	**–**	**–**	–	–
Forfeited during the year	**(21,840,000)**	**0.45**	(1,200,000)	0.41
Outstanding at the end of the year	**324,420,000**	**0.56**	346,260,000	0.55

36. SHARE-BASED PAYMENTS (Continued)

Notes:

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

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

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

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

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

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

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

1,500,000, 300,000 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, 2017 and 2019 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 HK$8,208,000.

36. SHARE-BASED PAYMENTS (Continued)

Notes: (Continued)

(b) (Continued)

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, 420,000 and 570,000 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, 2017 and 2019 respectively.

(c) Pursuant to the Company's announcement on 23 September 2014, the Company granted to eligible participants a total of 74,400,000 share options to subscribe for ordinary shares of HK$0.10 each in the share capital of the Company at an exercise price of HK$0.50 per share.

The share options granted has a 6-year exercisable period and are vesting as follows:

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

The closing price of the Company's shares immediately before 23 September 2014, being the date of grant, was HK$0.50 per share.

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

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

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

840,000, 960,000, 2,760,000 and 1,620,000 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, 2017 and 2019 respectively.

36. SHARE-BASED PAYMENTS (Continued)

Notes: (Continued)

(d) Pursuant to the Company's announcement on 28 January 2015, the Company granted to eligible participants a total of 60,000,000 share options to subscribe for ordinary shares of HK$0.10 each in the share capital of the Company at an exercise price of HK$0.40 per share.

The share options granted has a 6-year exercisable period and are vesting as follows:

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

The closing price of the Company's shares immediately before 28 January 2015, being the date of grant, was HK$$0.395 per share.

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

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

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

2,700,000 and 1,350,000 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 and 2019 respectively.

(e) Pursuant to the Company's announcement on 26 April 2016, the Company granted to eligible participants a total of 57,600,000 share options to subscribe for ordinary shares of HK$0.10 each in the share capital of the Company at an exercise price of HK$0.40 per share.

The share options granted has a 5-year exercisable period and are vesting as follows:

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

The closing price of the Company's shares immediately before 26 April 2016, being the date of grant, was HK$0.39 per share.

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

36. SHARE-BASED PAYMENTS (Continued)

Notes: (Continued)

(e) (Continued)

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%

6,600,000 share options out of the total 57,600,000 share options granted on 26 April 2016 was forfeited during the year ended 31 December 2019.

(f) Pursuant to the Company's announcement on 11 October 2016, the Company granted to eligible participants a total of 184,843,500 share options to subscribe for ordinary shares of HK$0.10 each in the share capital of the Company at an exercise price of HK$0.415 per share.

The share options granted has a 5-year exercisable period and are vesting as follows:

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

The closing price of the Company's shares immediately before 11 October 2016, being the date of grant, was HK$0.405 per share.

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

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

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

65,443,500, 1,200,000 and 11,400,000 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, 2018 and 2019 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 2019, the Group recognised share-based payments of RMB1,680,000 (2018: RMB6,785,000), 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 324,420,000 (2018: 287,660,000).

37. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Disposal of Shengli Enterprise Holdings Limited and its subsidiaries

On 18 June 2019, the Group disposed 100% of the issued share capital of Shengli Enterprise Holdings Limited for a cash consideration of approximately HKD10,000 to an independent third party.

Net assets at the date of disposal were as follows:

	RMB'000
Property, plant and equipment	104
Cash and cash equivalents	169
Prepayments, deposits and other receivables	133
Other payables and accruals	(150)
Net assets disposed of	256
Release of foreign currency translation reserve	(10,580)
Gain on disposal of a subsidiary	10,333
Total consideration – satisfied by cash	9
Net cash inflow/(outflow) arising on disposal:	
Cash consideration received	9
Cash and cash equivalents disposed of	(169)
	(160)

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

(b) Changes in liabilities arising from financing activities

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

	Lease liabilities RMB'000	Interest payable RMB'000	Borrowings RMB'000	Total RMB'000
At 1 January 2018	5,776	3,478	891,883	901,137
Changes in cash flows	(1,914)	(47,862)	(43,123)	(92,899)
Non-cash changes				
– additions	836	–	–	836
– termination	(3,287)	–	–	(3,287)
– interest charged	121	47,423	–	47,544
– exchange difference	40	–	–	40
At 31 December 2018 and 1 January 2019	**1,572**	**3,039**	**848,760**	**853,371**
Changes in cash flows	**(1,513)**	**(49,596)**	**(71,555)**	**(122,664)**
Non-cash changes				
– additions	**3,367**	**–**	**–**	**3,367**
– interest charged	**41**	**49,769**	**–**	**49,810**
– exchange difference	**4**	**–**	**–**	**4**
At 31 December 2019	**3,471**	**3,212**	**777,205**	**783,888**

38. COMMITMENTS

(a) Capital commitments

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

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for	8,667	15,673

(b) Investment commitments

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

	2019 RMB'000	2018 RMB'000
Contracted, but not provided for	89,286	87,610

39. RELATED PARTY TRANSACTIONS

(a) Significant related party transactions

During the years ended 31 December 2019 and 2018 the Group had the following material transactions with related parties:

	2019 RMB'000	2018 RMB'000
Advances from directors	4,050	2,450
Interest expenses to directors	373	245

39. RELATED PARTY TRANSACTIONS (Continued)

(b) Key management compensation

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

	2019 RMB'000	2018 RMB'000
Fees	**2,123**	2,517
Salaries, allowances and other benefits in kind	**8,002**	10,542
Social security contributions	**353**	402
Equity-settled share option expense	**222**	3,410
	10,700	16,871

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

40. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 RMB'000	2018 RMB'000 (Restated)
NON-CURRENT ASSETS		
Property, plant and equipment	2	8
Right-of-use assets	3,367	1,020
Investments in subsidiaries	1,115,451	1,364,029
	1,118,820	1,365,057
CURRENT ASSETS		
Prepayments, deposits and other receivables	726	734
Cash and cash equivalents	8,061	5,588
	8,787	6,322
CURRENT LIABILITIES		
Other payables and accruals	2,724	2,700
Lease liabilities	1,080	1,063
	3,804	3,763
NET CURRENT ASSETS	4,983	2,559
TOTAL ASSETS LESS CURRENT LIABILITIES	1,123,803	1,367,616
NON-CURRENT LIABILITIES		
Lease liabilities	2,287	–
NET ASSETS	1,121,516	1,367,616
EQUITY		
Issued capital	283,911	283,911
Reserves	837,605	1,083,705
Total equity	1,121,516	1,367,616

41. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 28 March 2020.

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				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	HK$'000	HK$'000
		(Restated)	(Restated)		
Turnover	**862,966**	913,392	2,155,750	3,125,278	1,953,960
(Loss)/profit before tax	**(161,591)**	(55,259)	(293,512)	(264,732)	(345,402)
Income tax credit/(expense)	**(10,344)**	(2,500)	(1,694)	9,923	(8,528)
(Loss)/profit for the year	**(171,935)**	(57,759)	(295,206)	(254,809)	(353,930)
Attributable to:					
Owners of the Company	**(138,573)**	(54,111)	(250,723)	(210,493)	(302,130)
Non-controlling interests	**(33,362)**	(3,648)	(44,483)	(44,316)	(51,800)
	(171,935)	(57,759)	(295,206)	(254,809)	(353,930)

ASSETS AND LIABILITIES

	As at 31 December				
	2019	2018	2017	2016	2015
	RMB'000	RMB'000	RMB'000	HK$'000	HK$'000
		(Restated)	(Restated)		
Total assets	**2,411,619**	2,652,213	2,723,123	3,287,722	3,445,151
Total liabilities	**(1,168,369)**	(1,231,292)	(1,261,148)	(1,518,358)	(1,586,206)
Net assets	**1,243,250**	1,420,921	1,461,975	1,769,364	1,858,945
Attributable to:					
Owners of the Company	**1,180,160**	1,324,469	1,361,875	1,620,802	1,666,067
Non-controlling interests	**63,090**	96,452	100,100	148,562	192,878
	1,243,250	1,420,921	1,461,975	1,769,364	1,858,945