勝利管道
SHENGLI PIPE

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

2021 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, anti-corrosion processing, insulation processing and servicing of submerged-arc helical welded pipes ("SAWH pipes") and submerged-arc longitudinal welded pipes ("SAWL pipes"), that are used to transport crude oil, refined petroleum, natural gas and other related products.

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Bizhuang *(Co-Chief Executive Officer)*
(re-designated on 30 June 2021)
Mr. Wang Kunxian *(Vice President)*
Ms. Han Aizhi *(Vice President)*
Mr. Zhang Bangcheng
(appointed on 10 March 2021)
Mr. Song Xichen *(Vice President)*
(resigned on 10 March 2021)

Non-executive Directors

Mr. Wei Jun *(Chairman)*
Mr. Huang Guang (appointed on 10 March 2021)
Mr. Jiang Yong (resigned on 10 March 2021)

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

CO-CHIEF EXECUTIVE OFFICER

Mr. Zhang Liucheng (appointed on 30 June 2021)

COMPANY SECRETARY

Mr. Zhang Feng (appointed on 30 June 2021)
Mr. Hong Kam Le (resigned on 30 June 2021)

AUTHORISED REPRESENTATIVES

Ms. Han Aizhi
Mr. Zhang Feng (appointed on 30 June 2021)
Mr. Hong Kam Le (resigned on 30 June 2021)

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
23/F, Tower 2, Enterprise Square Five
38 Wang Chiu Road
Kowloon Bay, Hong Kong

SHARE REGISTRARS

Principal Share Registrar and Transfer Office

Suntera (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 RMB1,526,684,000, representing an increase of approximately RMB670,257,000 as compared to that in 2020.

- For the Year under Review, gross profit margin was approximately 8.9%, representing an increase of approximately 3.7 percentage points as compared to that in 2020.

- For the Year under Review, the loss for the year attributable to owners of the Company amounted to approximately RMB260,719,000, representing a decrease of approximately RMB64,673,000 as compared to that in 2020.

- For the Year under Review, basic loss per share attributable to owners of the Company was approximately RMB6.75 cents, representing a decrease of approximately RMB3.19 cents as compared to that in 2020.

- The Board did not recommend the declaration of any final dividend for the year ended 31 December 2021.

CO-CHIEF EXECUTIVE OFFICER'S STATEMENT

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 2021 (the "Year under Review").

In 2021, the complicated and grim international situation and mounting inflation pressure due to the persistent rage of the COVID-19 pandemic exposed global economic recovery to tremendous challenges. In contrast, China has made remarkable progress in aligning pandemic containment with economic and social development. Overall stable operating and living environment contributed to the on-going economic growth and social stability, as evidenced by a year-on-year increase of approximately 8.1% in gross domestic product in China. From the perspective of industry, in 2021, being the opening year of the 14th Five-year Plan for National Economic and Social Development of the People's Republic of China* (中華人民共和國國民經濟和社會發展第十四個五年規劃) (the "14th Five-year Plan"), China secured noticeable achievements in guaranteeing energy supply and witnessed a steady increase in production driven by the "Carbon Dioxide Peaking and Carbon Neutrality" goals and measures to control energy consumption and intensity. Oil and gas enterprises actively promoted exploration and development leveraging strengthened efforts, with oil and gas production constantly on the rise. Further improvement of energy output in the upper reaches will boost demand for the pipeline business at the down reaches, which promises more potential pipeline projects.

During the Year under Review, pipeline assets at the provincial level were successively vested in China Oil & Gas Pipeline Network Corporation* (國家石油天然氣管網集團有限公司) ("PipeChina"), a state-owned company, expediting China to establish an efficient and concentrated pipeline network at the middle reaches, accelerating pipeline construction progress and enhancing the interconnection among oil and gas pipelines. In addition, PipeChina has comprehensively completed integration of major oil and gas pipeline assets. On 31 March 2021, PipeChina officially acquired the equity interests of Beijing Natural Gas Pipeline Co., Ltd.* (北京天然氣管道有限公司) and Dalian Liquefied Natural Gas Co., Ltd.* (大連液化天然氣有限公司), former members of KunLun Energy Company Limited* (崑崙能源有限公司), thus realizing integration of entire oil and gas trunk pipelines nationwide. In this regard, the oil and gas industry will press forward with the market-oriented reform, which signals further standardized operation and a broader array of opportunities available to private enterprises. The Group will also capitalize on its encouraging business performance, advantages in terms of extensive experience and cutting-edge equipment and technologies to obtain more pipes orders and deliver desirable results.

WINNING BIDS FROM PIPECHINA WITH TIGHTENED GRIPS ON NEW INDUSTRY OPPORTUNITIES

In 2021, COVID-19 rebounded worldwide, leading to a surge in the price of raw materials and fluctuation of the global oil and gas market. Domestically, business operations basically reopened and large-scale pipeline projects resumed construction. Leveraging its encouraging business performance, profound experience and advanced equipment and technologies, the Group successfully overcame headwinds such as dramatic price increase of steel plates to guarantee the steady operation of production and business activities, proactively ventured into new business fields and constantly upgraded technologies to improve efficiency.

During the Year under Review, Shandong Shengli Steel Pipe Co., Ltd.* (山東勝利鋼管有限公司) ("Shandong Shengli Steel Pipe"), a subsidiary of the Group, was shortlisted as a qualified supplier of PipeChina for the first time for SAWH pipes, and Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) ("Hunan Shengli Steel Pipe"), another subsidiary, also won two bid sections of SAWL pipes of PipeChina's framework bid for SAWL pipes and its anti-corrosion business.

VENTURING INTO THE INSULATION PIPELINE MARKET TO NURTURE NEW GROWTH DRIVERS

During the Year under Review, the insulation pipes production line of Shandong Shengli Steel Pipe officially commenced commercial operation. It established a designated sales team for the newly-introduced insulation spraying and winding production line, which, after gaining pertinent insight and research into the standards and market environment of insulation pipes, developed the price calculation model to pave the way for price calculation and biding preparation. During the Year under Review, the Group delivered insulation pipes for the Dongying Dongcheng District Heating Supply Guarantee Upgrading Project* (東營市東城區域供熱保障提升工程) without compromising quality or quantity, which not only tested the capacity of the production line, but also laid a solid foundation for future mass production.

CO-CHIEF EXECUTIVE OFFICER'S STATEMENT

ENHANCING PRODUCTION EFFICIENCY WITH RECORD HIGHS ACHIEVED IN STEEL PIPES AND ANTI-CORROSION BUSINESS

During the Year under Review, Shandong Shengli Steel Pipe organized the production of Φ1620×20mm steel pipes for the Anyang Long-distance Heating Pipeline Network Project* (引熱入安長輸供熱管網工程) , which set the record for pipelines with the largest diameter manufactured by it. Besides, after further optimization of the welding process and improvement of production efficiency, Shandong Shengli Steel Pipe managed to deliver pipes for the China Petroleum & Chemical Corporation ("SINOPEC") Shandong Pipeline Network South Trunk Line Natural Gas Pipeline Project* (山東管網南幹線天然氣管道工程) (the "SINOPEC Shandong South Trunk Line Project"), Phase I Project of SINOPEC Northeast Anhui Natural Gas Pipeline Project* (中石化皖東北天然氣管道工程一期項目) (the "SINOPEC Northeast Anhui Project") and Phase I Project of PipeChina West Inner Mongolia Coal-based Gas Transmission Pipeline Project* (國家管網集團蒙西煤制氣天然氣外輸管道項目一期工程) (the "PipeChina West Inner Mongolia Pipeline Project") and other major projects without compromising quality or quantity, wining wide accolades from customers.

On the other hand, Hunan Shengli Steel Pipe renovated the moulding machine, expanding machine and edge milling machine of the longitudinal welded pipes branch, thereby lifting the overall production efficiency by over 30%. It improved the anti-corrosion inner powder spraying equipment, gained insight into the inner powder spraying technology, acquired the water pipeline anti-corrosion production capability, and commanded the oil and gas pipeline internal drag reduction technology. Its quality and process department initiated campaigns to raise the welding qualification rate of the longitudinal welded pipes branch, and the first pass yield of Φ813mm pipes reached 99.48%.

MATERIALIZING COST REDUCTION AND EFFICIENCY ENHANCEMENT TARGET TO IMPROVE CORPORATE GOVERNANCE WITH MULTIPLE MEASURES

Shandong Shengli Steel Pipe made timely adjustments to indicators of consumables and maintained stringent control over materials input to comply with the indicators of consumables in line with the plans formulated by the cost control panel and based on actual condition. Furthermore, it encouraged employees to gain versatile expertise and better match skills with posts, and front-line operators were motivated to serve at least one more concurrent role with competence. Besides, Hunan Shengli Steel Pipe provided technical trainings for production employees tailored to their post requirements to materialize the cost reduction and efficiency enhancement target.

In addition, in view of implementation of urban planning in Rizhao City, the PRC, and as the plot of land and constructions thereon located in Rizhao City, the PRC held by Shandong Shengli Steel Pipe have been under long term idle condition, Shandong Shengli Steel Pipe and local governments entered into the Land Resumption Agreement in April 2021 following several rounds of consultations to weigh comprehensive income, and the Group deregistered Rizhao Shun Yu Industrial Co., Ltd.* (日照順裕工貿有限公司), an indirect wholly-owned subsidiary which no longer had substantive business operations, thereby effectively enhancing the working capital of the Group.

STEPPING UP EFFORTS IN SCIENTIFIC RESEARCH TO EXPEDITE THE PACE OF MODERNISATION

The Group has upheld the belief that technology plays a vital role in sustaining corporate competitiveness. To further improve the automatic, information-based and digital production process of welded pipes, during the Year under Review, the Group invested capital and technological manpower to carry out technological upgrading and transformation for machinery and equipment at production bases. Shandong Shengli Steel Pipe pooled efforts to tackle thorny technological hardships of renovation projects. Specifically, upgrading and renovation have been completed for the "Research and Development of Main Machine Centralized Control System for Pre-welding Plants* (預精焊分廠主機集中控制系統研發)", "Research and Development of Information Management System of 2nd, 3rd, Pre-welding Plants and the Steel Pipes of Anti-corrosion 1# Line* (二、三、預精焊分廠、防腐1#線鋼管信息管理系統研發), "Research on Removing Arc-extinguishing Plate of Pre-welded Steel Pipes* (預精焊鋼管引熄弧板去除工藝研究)" and "Automatic Welding Seam Tracking System* (焊縫自動跟蹤系統)"; "Research and Development of Information Management System of No.1 Factory and the Steel Pipes of Anti-corrosion 2# Line* (一分廠、防腐2#線鋼管信息管理系統研發)", "Automatic Pipe-end Measuring System for Finished Pre-welding Pipes* (預精焊成品管端自動測量系統)", "Semi-automatic External Repair Welding Project of No.3 Factory* (三分廠半自動外補焊項目)", "Automatic Pipe Conveying System of Pre-welding and Fine welding Front Frame* (預精焊精焊前台架自動運管系統)" and "Remote Control Operation Transformation of Crown Blocks of No.3 Factory* (三分廠天車改遙控操作)" are under upgrading and renovation; and plans concerning projects such as diameter expansion automation and console automation are under improvement and finalization. On the other hand, Hunan Shengli Steel Pipe completed the transformation and upgrading of unit B at the helical welded pipes plant, and made restorative modification to the moulding machine, expanding machine and edge milling machine at the longitudinal welded pipes plant. Completion of the transformation and upgrading of machinery and equipment not only further boosted the automatic, information-based and intelligent level of production process, but also will significantly enhance the Group's image and market competitiveness.

In addition, the Group obtained six utility model patents, including Mechanical Device for Auxiliary Placement of Radiographic Inspection Marking Bag* (《輔助放置射線探傷標記袋的機械裝置》), Rectangular Ruler for Tensile Test* (《拉伸試驗板狀試樣標矩尺》), Pipe Truck with Positioning Function* (《具有定位功能的運管車》), Sealing Test Head of Small-diameter Steel Pipe Hydraulic Tester* (《一種小管徑鋼管水壓試驗機密封試驗頭》), Quality Inspection Workbench of Helical Steel Pipes* (《一種螺旋鋼管質檢工作台》) and Equipment for Polishing 3PE-3PP External Anti-corrosive Coating of Steel Pipe Ends* (一種鋼管管端3PE-3PP外防腐層打磨的設備), and published 17 scientific papers in domestic professional magazines and industry annual conferences by its technicians.

CO-CHIEF EXECUTIVE OFFICER'S STATEMENT

FUTURE PROSPECTS

In October 2021, the Rizhao-Puyang-Luoyang Crude Oil Pipeline ("Ripuluo Crude Oil Pipeline"), one of the major projects of China's Medium and Long-term Oil and Gas Pipeline Network Planning* (中長期油氣管網規劃), officially commenced commercial operation, which heralded another important initiative undertaken by PipeChina in safeguarding national energy security and remaining committed to its principal activity of energy, and also marked as the first 10-million-ton oil transmission pipeline put into operation during the 14th Five-year Plan period. Shandong Shengli Steel Pipe, as one of the major pipeline suppliers of the project, tapped into its advantages in production capacity and spared no effort to guarantee supply, and was the first to complete production and delivery among the six pipeline suppliers, therefore providing strong material support for the scheduled commercial operation of the project and contributing to the national energy construction and livelihood safeguard project, which also earned numerous praises from the project owners and the project department. Meanwhile, Hunan Shengli Steel Pipe won the bid from PipeChina and was admitted to SINOPEC's bid invitation during the Year under Review. The Group believes that it is well positioned to secure more construction projects in the future, and it will keep close track of the oil and gas network construction progress, and strive to engage in large-scale pipeline projects, in a bid to create value to society and broaden revenue streams of the Group.

The year of 2021 drew open the 14th Five-year Plan of the State, when China's oil and gas industry embraced a period of accelerated transformation, with the foundation of safe oil and gas supply further consolidated and the role of natural gas in the clean and low carbon energy system further strengthened. According to the 14th Five-Year Plan and the Outline of Long-term Goals for 2035* (《第十四個五年規劃和2035年遠景目標綱要》), during the 14th Five-year Plan period, China will gradually loosen regulation over the oil and gas exploration and development market, increase oil and gas reserve and output, expedite the construction of gas trunk line network, and implement the Oil and Gas Exploration and Development Support Project. In particular, according to the goal put forward in the Medium and Long-term Oil and Gas Pipeline Network Planning issued by the National Development and Reform Commission, the mileage of oil and gas pipeline network is set to reach 240,000 kilometres in 2025 and PipeChina initially proposed to build more than 25,000 kilometres of oil and gas pipelines in the upcoming five years. Meanwhile, the State policy of Carbon Dioxide Peaking and Carbon Neutrality proposed by the Chinese government is expected to accelerate the construction of major and quality oil and gas pipeline network in China, which suggests that demand for oil and gas pipeline network construction will also be boosted in the upcoming years.

Looking into 2022, the Group will also continue to venture into the insulation pipeline business. At present, the insulation pipeline industry features a diverse landscape where private enterprises play a dominant role and compete with state-owned enterprises and joint ventures. Based on thorough researches into the insulation pipeline industry, the Company believes that there exists significant development potential. The Group has satisfied the requirements for manufacturing insulation pipelines during the Year under Review and is capable of undertaking business orders. It is therefore confident to secure footing in the market competition.

Moreover, the Company will proactively assess the performance of each business segment, assets and investment to refine operations, remain focused on its principal business of pipes, and actively venture into new business fields along the oil and gas energy and pipeline industry chain, in an endeavour to enhance our core profitability and sustainability in the long term.

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, while maintaining stable growth for the existing pipes principal business and strengthening and optimising oil and gas transportation products, will continue to exploit new business opportunities along energy and pipeline industry chain and deliver long-term value to our shareholders.

Zhang Bizhuang
Executive Director & Co-Chief Executive Officer

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

In 2021, global economy gradually picked up amidst the COVID-19 pandemic. China's economic development also staged steady recovery throughout the year, paving the way for the 14th Five-year Plan. Its gross domestic product achieved a year-on-year increase of approximately 8.1%, suggesting sustainable economic upturn as facilitated by the key policies such as "six stabilizes" and "six safeguards".

With respect to the oil and gas industry, the global crude oil market recovered amid stability during the year, and despite a temporary price decline, its pace was not crippled by the outbreak of Omicron, a variant of COVID-19, in November 2021. China secured noticeable achievements in guaranteeing energy supply and witnessed a steady increase in production driven by the Carbon Dioxide Peaking and Carbon Neutrality goals and measures to control energy consumption and intensity. Oil and gas exploration and development efforts were intensified, with the crude oil output reaching 199 million tons, an increase of 2.4% from the previous year; and natural gas output amounting to 205.3 billion cubic meters, a year-on-year increase of 8.2%. Meanwhile, China strengthened construction efforts for major oil and gas projects and constructed 25 projects during the year, adding crude oil transportation capacity by 10 million tons/year and natural gas transportation capacity by 40 million cubic meters/day. With respect to national policies, according to the 14th Five-year Plan, the state proposes to promote the green and low carbon development, construct a green and low carbon transformation mechanism underpinned by control over energy consumption and intensity, as well as non-fossil fuel, and endeavour to establish a complete green and low carbon basic development system as of 2030, in a move to create broad development potential for the oil and gas industry.

Looking into 2022, following global economic recovery and implementation of key measures introduced by the PRC government, China's economic condition will gradually rebound. The Group will make on-going efforts to increase input in research and development as well as production, and proactively expand to new business fields, so as to enhance its competitiveness.

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 qualified suppliers capable of providing, among other things, large-diameter pipes designed to sustain the high pressure in long distance transportation of crude oil, refined petroleum and natural gas for major oil and gas pipeline projects in China.

Major customers of the Group comprise PipeChina and large-scale state-owned oil and gas enterprises and their subsidiaries such as the Three Barrels* (三桶油) (including SINOPEC, China National Petroleum Corporation ("CNPC") and China National Offshore Oil Corporation ("CNOOC")). The Group focuses on the design, manufacturing, anti-corrosion processing, insulation processing and servicing of pipes (including SAWH pipes and SAWL pipes) used for the transport of crude oil, refined petroleum, natural gas and other related products.

During the Year under Review, the Group was shortlisted as a qualified supplier of PipeChina to earnestly explore major pipeline projects in the social market and press ahead with heat distribution pipeline and water pipeline business. Shandong Shengli Steel Pipe was successfully enrolled as a qualified supplier of PipeChina for the first time for SAWH pipes, and Hunan Shengli Steel Pipe won PipeChina's framework bid for SAWL pipes. Meanwhile, the Group proactively embarked on the insulation pipeline business to grasp industry development opportunities. Its insulation pipeline business has been officially put into operation and is capable of undertaking orders.

Besides, Shandong Shengli Steel Pipe achieved another breakthrough in the thermal industry following the execution of the contract for Anyang Long-distance Heating Pipeline Network Project in May 2021. The Φ1,620*20㎜ steel pipes with steel grade of L360M used in the project represented steel pipes with the largest diameter and thickness manufactured by Shangdong Shengli Steel Pipe so far, and also marked a breakthrough for the thermal industry. Shandong Shengli Steel Pipe meticulously conducted moulding adjustment and production and successfully completed the business order, which not only tested the competence of its employees, but also further validated the capacity of its equipment.

For the year ended 31 December 2021, the annual production capacity of the Group's SAWH pipes, SAWL pipes, ancillary anti-corrosion production line and insulation pipe production line reached 1.00 million tonnes, 300,000 tonnes, 9.60 million square metres and 110 kilometres, respectively.

For the year ended 31 December 2021, pipes manufactured by the Group were used in the world's major oil and gas pipelines with a cumulative total length of approximately 33,414 kilometres, of which approximately 94.5% were installed in China while the remaining approximately 5.5% were installed outside China.

During the Year under Review, large-scale pipe projects using SAWH pipes manufactured by the Group included: PipeChina West Inner Mongolia Pipeline Project, PipeChina Xinjiang Coal-based Gas Transmission Pipeline Guangxi Branch Line Project* (國家管網集團新疆煤制氣外輸管道廣西支幹線工程), SINOPEC Shandong South Trunk Line Project, SINOPEC Northeast Anhui Project, CNPC Niger Crude Oil Export Pipeline Project* (中石油尼日爾原油外輸管道項目), CNPC Pakistan Pipeline* (中石油巴基斯坦管線), Yantai Port Crude Oil Pipeline Multiple Tracks Project* (煙台港原油管道復線工程), Suiyang-Zheng'an Natural Gas Branch Pipeline Project* (綏陽至正安天然氣支線管道項目), Anyang Long-distance Heating Pipeline Network Project, Yongzhou-Shaoyang Gas Transmission Pipeline Project* (永州市一邵陽縣輸氣管道工程), Boshan District High Temperature Water Expansion Project* (博山區高溫水擴容工程), Dongying Dongcheng District Heating Supply Guarantee Upgrading Project and Wenshui-Xishui Natural Gas Pipeline Project* (溫水至習水天然氣管道工程).

Large-scale pipe projects using SAWL pipes manufactured by the Group included: PipeChina Xinjiang Coal-based Gas Transmission Pipeline Guangxi Branch Line Project, PipeChina Guilin Branch Line Project of Guangxi Natural Gas Pipeline Co., Ltd.* (國家管網集團廣西天然氣管道有限公司桂林支線項目), CNOOC Shenmu-Anping Coal-bed Methane Pipeline Project* (中海油神木一安平煤層氣管道工程), CNPC Guangdong Petrochemical Jieyang Project* (中石油廣東石化揭陽項目), CNPC Shimenshan-Banqiao Natural Gas Pipeline Project* (中石油石門山至板橋天然氣管道項目), Phase IV Project of Guangzhou Natural Gas Utilization Project* (廣州市天然氣利用工程四期工程) and Ningzhou Gas and Electricity Project Natural Gas Supply Pipeline Project* (寧洲氣電項目天然氣供應管道工程).

Large-scale pipeline projects using anti-corrosion pipes manufactured by the Group included: PipeChina West Inner Mongolia Pipeline Project, PipeChina Xinjiang Coal-based Gas Transmission Pipeline Guangxi Branch Line Project, SINOPEC Shandong South Trunk Line Project, SINOPEC Northeast Anhui Project, CNPC Niger Crude Oil Export Pipeline Project, CNOOC Shenmu-Anping Coal-bed Methane Pipeline Project, Yantai Port Crude Oil Pipeline Multiple Tracks Project, Yongzhou-Shaoyang Gas Transmission Pipeline Project, Suiyang-Zheng'an Natural Gas Branch Pipeline Project and Phase IV Project of Guangzhou Natural Gas Utilization Project.

FINANCIAL REVIEW

Revenue

The Group's sales revenue increased by approximately 78.3% from approximately RMB856,427,000 for the year ended 31 December 2020 to approximately RMB1,526,684,000 for the year ended 31 December 2021, primarily representing revenue from the pipes business, which is the principal business of the Group. In particular, (1) revenue from the sale of SAWH pipes reached approximately RMB784,635,000 (2020: approximately RMB474,336,000), representing a year-on-year increase of approximately 65.4%; (2) revenue from the sale of SAWL pipes reached approximately RMB577,820,000 (2020: approximately RMB302,709,000), representing a year-on-year increase of approximately 90.9%; (3) revenue from the anti-corrosion processing business reached approximately RMB160,794,000 (2020: approximately RMB78,174,000), representing a year-on-year increase of approximately 105.7%; and (4) revenue from the trading business reached approximately RMB3,435,000 (2020: approximately RMB1,208,000). The significant increase in revenue was primarily due to gradual business reopening in China with the mitigation of the adverse impact from COVID-19 pandemic during the Year under Review, and a significant increase in the Group's sales volume of the pipes business and anti-corrosion processing business as compared with 2020 following the Group's admission as one of the qualified suppliers of PipeChina and winning certain SAWL pipes and anti-corrosion production orders from PipeChina.

Cost of sales and services

The Group's cost of sales and services increased by approximately 71.2% from approximately RMB812,192,000 for the year ended 31 December 2020 to approximately RMB1,390,864,000 for the year ended 31 December 2021, primarily attributable to a surge in sales volume of the Group's pipes business and anti-corrosion processing business during the Year under Review as compared with 2020, leading to a corresponding increase in cost of sales and services.

Gross profit

The gross profit of the Group increased from approximately RMB44,235,000 for the year ended 31 December 2020 to approximately RMB135,820,000 for the year ended 31 December 2021, mainly due to a surge in sales volume of the Group's pipes business and anti-corrosion processing business during the Year under Review as compared with 2020. The gross profit margin of the Group increased to approximately 8.9% for the year ended 31 December 2021 from approximately 5.2% for the year ended 31 December 2020, mainly due to a significant increase in the sales volume of the Group's pipes processing business and anti-corrosion processing business with a higher profit contribution during the Year under Review as compared with 2020.

Other income and gains

Other income and gains of the Group increased from approximately RMB24,094,000 for the year ended 31 December 2020 to approximately RMB67,424,000 for the year ended 31 December 2021, which was mainly due to compensation received from local government authorities for resumption of land use right of a plot of land of the Group located in Rizhao City, Shandong, the PRC and the construction and fixtures thereon during the Year under Review, resulting in a substantial increase in other income and gains from 2020.

Selling and distribution costs

Selling and distribution costs of the Group decreased from approximately RMB63,804,000 for the year ended 31 December 2020 to approximately RMB52,183,000 for the year ended 31 December 2021, principally due to a decrease in transportation expense recognised by the Group during the Year under Review as a result of change of transportation conditions as compared with 2020.

Administrative expenses

The Group's administrative expenses increased from approximately RMB152,343,000 for the year ended 31 December 2020 to approximately RMB173,407,000 for the year ended 31 December 2021, primarily because the State no longer granted the waiver of social insurance contributions for micro, small and medium-sized enterprises during the Year under Review, and the professional fees of the Group recorded an increase during the Year under Review as compared with 2020.

Share of profit of an associate

For the year ended 31 December 2021, the Group's share of profit of an associate was approximately RMB1,821,000, as compared to share of profit of an associate of approximately RMB4,936,000 for the year ended 31 December 2020.

Impairment losses

For the year ended 31 December 2021, the Group recognised impairment losses on various items with a total amount of approximately RMB213,425,000, principally attributable to the fact that the Group has recognised an impairment loss in respect of the deposit paid for the proposed acquisition of 56% of the issued share capital of Blossom Time Group Limited ("Blossom Time"), a company established in the British Virgin Islands and its subsidiaries are mainly engaged in investments and minerals business.

In light of the arrest of the shareholder of Blossom Time by the police on 29 August 2021 and having considered the legal advice of the Vietnam legal advisor, the Group considered that the possibility of meeting the closing conditions of the acquisition was very remote. Accordingly, on 3 March 2022, Gold Apple Holdings Limited ("Gold Apple"), a direct wholly-owned subsidiary of the Company, entered into a deed of assignment and novation with KBS Capital Partner(s) Pte. Ltd. ("KBS"), pursuant to which KBS agreed to assume all the obligations and liabilities of Gold Apple under the contracts relating to the proposed acquisition of Blossom Time and Gold Apple agreed to assign all its right, benefits and interests in the contracts to KBS. For further details, please refer to the Company's announcements dated 30 September 2021, 22 November 2021 and 3 March 2022.

For the year ended 31 December 2020, the Company conducted a review on the net carrying amount of the net assets of Shanghai Guoxin Industrial Co., Ltd.* (上海國心實業有限公司) ("Shanghai Guoxin"), and recognized impairment loss based on the results of the assessment. During the Year under Review, Zhejiang Shengguan Industrial Co., Ltd.* (浙江勝管實業有限公司) ("Zhejiang Shengguan Industrial"), an indirect wholly-owned subsidiary of the Company, entered into the sale and purchase agreement with an independent third party regarding disposal of 45% equity interests in Shanghai Guoxin, at a total cash consideration of RMB4,500,000, which has been completed on 12 August 2021. The transaction did not have a material impact on the financial condition of the Group during the Year under Review. For further details, please refer to the 2020 annual report and 2021 interim report of the Company.

Finance costs

The Group incurred finance costs of approximately RMB34,669,000 for the year ended 31 December 2021 (2020: approximately RMB39,192,000), which were primarily derived from interest on bank loans.

Income tax expenses

Hong Kong profits tax is calculated at the rate of 16.5% (2020: 16.5%) on the estimated assessable profit for the Year under Review. The profits tax rate of China Petro Equipment Holdings Pte. Ltd., a subsidiary of the Company incorporated in the Republic of Singapore, is 17% (2020: 17%) for the Year under Review. 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 under Review is 25% (2020: 25%). Income tax for the year ended 31 December 2021 was approximately RMB3,583,000 (2020: income tax of approximately RMB1,956,000), the fluctuations of which were primarily due to the impact of deferred tax.

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 2021 was approximately RMB281,246,000, compared to the audited total comprehensive loss of the Group of approximately RMB385,829,000 for the year ended 31 December 2020.

Net current liabilities

As at 31 December 2021, the Group had net current liabilities of approximately RMB279,039,000 as compared to approximately RMB339,055,000 as at 31 December 2020. The main reason for the decrease in net current liabilities was due to a decrease in borrowings as of 31 December 2021 as compared with 31 December 2020.

PipeChina has completely taken over the relevant oil and gas pipeline assets of the Three Barrels and commenced integration and commercial operation. It is expected that national oil and gas trunk line network will be gradually improved with construction progress significantly accelerated. In the next five years, PipeChina initially proposes to construct over 25,000 kilometres of oil and gas pipelines, offering more pipeline construction opportunities in future. In addition, the PRC government's policy on achieving Carbon Dioxide Peaking and Carbon Neutrality is expected to expedite the construction of national major and superior oil and gas pipeline network, which in turn is well-positioned to further boost the sales volume of pipes, the principal business of the Group. As such, the Group will keep close track of the progress in pipeline construction, so as to grasp sound development opportunities in the pipes industry and proactively strive for 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 machinery for the manufacture of steel pipe products. Capital expenditure during each of the two years ended 31 December 2020 and 2021 were primarily related to the purchase of property, plant and equipment.

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

	2021 **RMB'000**	2020 RMB'000
Additions of property, plant and equipment	**15,747**	14,733
	15,747	14,733

Indebtedness

Borrowings

As at 31 December 2021, the borrowings of the Group amounted to approximately RMB691,000,000 (2020: approximately RMB780,600,000).

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

	2021 RMB'000	2020 RMB'000
Borrowings:		
Bank loans – Secured	283,000	124,000
Bank loans – Secured and guaranteed	340,000	558,600
Bank loans – Guaranteed	68,000	98,000
	691,000	780,600

The amount of borrowings of approximately RMB691,000,000 shall be repayable within one year. The following table sets forth the annual interest rates of the Group's bank loans:

	2021 %	2020 %
Effective interest rate per annum	4.35 to 4.785	4.35 to 5.22

The following discussion 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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

On 24 December 2020, the Company entered into the subscription agreement with LM Global Asset LP, as subscriber in relation to issue of 600,000,000 new shares under its general mandate at a subscription price of HK$0.1 per subscription share. LM Global Asset LP is a limited partnership registered under the laws of the British Virgin Islands and is managed by its general partner, namely LM Asset Management Corp, a company incorporated under the laws of the British Virgin Islands with a principal business of equity and debt investments, which in turn is owned as to 70% by Mr. Huang Guang (黃廣) (one of our non-executive Directors) and 30% by Magic Group (HK) International Holdings Co., Limited ("Magic Group"). Magic Group is a company incorporated under the laws of Hong Kong and is primarily engaged in investments in the fields of new technology, new energy and new raw materials. Magic Group is wholly owned by Mr. Zhang Bangcheng (張榜成) (one of our executive Directors). Upon completion of the subscription, the subscriber became a substantial shareholder (as defined under the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")) and held approximately 15.486% of shareholding in Company immediately after completion. As at the date on which the Subscription Agreement was entered into, the closing price of the shares of the Company as quoted on the Stock Exchange was HK$0.097 per share. The Directors considered that the subscription not only broadened the shareholders' base of the Company but it also represented a good opportunity to raise additional funds for the Group at a reasonable cost so as to strengthen the financial position and liquidity of the Group. The conditions precedent of the subscription had been satisfied on 7 January 2021 and the subscription was completed on the same day. Net proceeds in the sum of approximately HK$59,500,000 raised from the subscription had been fully used as general working capital of the Group by the end of 2021 for purchase of raw materials, administrative expenses and other purposes.

* *For identification purpose only*

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zhang Bizhuang, aged 54, has been our executive Director since July 2009, the chief executive officer from July 2009 to June 2021 and the co-chief executive officer since June 2021, 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 Shengli 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 Bachelor of Engineering in 1990, majoring in Metal Materials and Heat Treatment and obtained his master's degree in business administration from the Hong Kong Metropolitan University (formerly known as 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 53, 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 2008. 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 degree in Bachelor of Engineering in 1990, majoring in metal pressure processing and obtained his master's degree in business administration from the Hong Kong Metropolitan University (formerly known as 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 54, 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 Hong Kong Metropolitan University (formerly known as 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. Zhang Bangcheng, aged 50, has been our executive Director since 10 March 2021, responsible for the overall sales of steel pipes of the Group. Mr. Zhang served as the risk control manager of Beijing X&H Investment Management Co., Ltd.* (北京蕭何投資管理有限公司) from July 2019 to January 2021, where he was mainly responsible for monitoring and controlling the risks of the investment projects of the company. He was the chairman of the board of directors of Hami Tianzhi New Energy Technology Co., Ltd.* (哈密天智新能源科技有限公司), where he was mainly responsible for the overall management and operation of the company, from April 2017 to December 2018. From June 2013 to March 2017, he served as the managing director of Magic Group (HK) International Holdings Co., Limited (神奇集團(香港)國際控股有限公司) and was mainly responsible for managing the investment and overseeing the operation of the company in the PRC. He was the vice president of Sino-Singapore Lion Investment Pte Ltd.* (新加坡中獅投資私人有限公司), where he was mainly engaged in the listing of PRC corporations on the Stock Exchange and the Singapore Stock Exchange, as well as private equity financing of pre-IPO investment of PRC corporations, cross-border restructuring and asset and equity acquisition, from May 2008 to September 2010. From July 2005 to December 2007, Mr. Zhang served as the investment director of Beijing Beirong International Investment Co., Ltd.* (北京北融國際投資有限公司) and was responsible for, among others, conducting industry research and due diligence for the target corporations and raising funds.

Mr. Zhang graduated from China Agricultural University (中國農業大學) in 2006 and obtained a master's degree in agricultural economics management; and obtained the fund practicing qualification from the Securities Association of China in 2019.

NON-EXECUTIVE DIRECTORS

Mr. Wei Jun, aged 53, 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 its overall management and international trading. 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 its overall management and international trading business from 1999 to 2003. He was also the assistant to the director of operating department and the head of external economics department in Central Iron & Steel Research (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 from 1995 to 1999.

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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Huang Guang, aged 46, has been our non-executive Director since 10 March 2021. Mr. Huang currently is the vice president of Shandong Private Joint Investment Holding Co., Ltd.* (山東民營聯合投資控股股份有限公司) ("Shandong Joint Investment") and is mainly responsible for, among others, investment management and international business. Mr. Huang was responsible officer for type 9 (asset management) regulated activities in Hong Kong Broad Capital Limited from June 2018 to October 2020. From April 2016 to April 2018 and from August 2016 to April 2018, he was responsible officer for type 9 (asset management) regulated activities and type 4 (advising on securities) regulated activities, respectively, in P.B. Global Asset Management Limited. He was a member of the investment committee and the general manager of the quantitative investment department of Pacific Assets Management Co., Ltd.* (太平洋資產管理有限責任公司), where he was mainly responsible for investment management from August 2013 to May 2017. During the period from August 2010 to April 2013, Mr. Huang served as the head of investment research of JT Capital Management Limited, where he was mainly responsible for investment management and investment strategy research, and was responsible officer for type 9 (asset management) regulated activities in the same company from October 2010 to April 2013. He was an investment manager in proprietary trading division and vice president in global wealth management division of the headquarters of JP Morgan Chase Co., a company whose shares are listed on the New York Stock Exchange (stock code: JPM), where he was mainly responsible for global allocation strategy and investment portfolio construction, from April 2007 to August 2010. From April 2006 to April 2007, Mr. Huang served as an investment analyst at GIC Private Limited (formerly known as Government of Singapore Investment Corporation) New York Office, where he was mainly responsible for investment analysis and investment strategy research.

Mr. Huang graduated from Concordia University in Canada with a bachelor's degree in computer science in 2002, from Dalhousie University in Canada with a master's degree in computer science in 2004 and from Carnegie Mellon University in the United States with a master's degree in science in computational finance in December 2004.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Junzhu, aged 46, has been our independent non-executive Director since May 2013. He currently serves as the general manager of Shenzhen Junyuan Capital Management Co., Ltd* (深圳市浚源資本管理有限公司). 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 M&A transaction department in Ernst & Young Certified Public Accountants. He was a partner of Guangdong Zheng Yuan Public Accountants * (廣東正源會計師事務所) from July 2007 to January 2022. 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, 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 March 2020, an independent director of Guangdong PAK Corporation Co., Ltd.* (廣東三雄極光照明股份有限公司) since May 2021, and an independent director of Telepower Communication Co., Ltd.* (廣東天波信息技術股份有限公司), a company listed on the National Equities Exchange and Quotations since September 2021.

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 50, 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 Law Corporation 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 61, 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 authorized as a senior engineer at professor level and expert consultant 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 a preeminent scientist by the government of the United States and 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. Zhang Liucheng, aged 49, was appointed as the co-chief executive officer of the Company with effect from June 2021 to be primarily responsible for sales of welded pipes for national pipeline projects; and business expansion alongside the upper and down-stream industrial chains of the Company's principal business of welded pipes. Mr. Zhang served as the general manager of Shandong Refining Energy Group Co., Ltd.* (山東煉化能源集團有限公司) from May 2018 to May 2021, where he was primarily responsible for its overall operation and management. Mr. Zhang served as the vice president of Shandong Dongming Petrochemical Group Co., Ltd.* (山東東明石化集團有限公司) ("Dongming Petrochemical") from July 2014 to May 2018, where he was primarily responsible for procurement of raw materials and sales of finished products. From September 2008 to March 2015, he served as a director and deputy general manager of Sinostar PEC Holdings Limited ("Sinostar PEC"), a company listed on the Singapore Exchange (stock code: C9Q.SGX), where he was primarily responsible for administration and finance management, and was re-designated to act as a director and chief executive officer of Sinostar PEC from March 2015 to May 2021, primarily responsible for its overall operation and management. From June 2004 to July 2014, Mr. Zhang served as the deputy general manager of Shandong Dongming Petrochemical Group Hengchang Chemical Co., Ltd.* (山東東明石化集團恆昌化工有限公司), where he was primarily responsible for overall finance management and capital operation. Mr. Zhang worked in Shandong Dongming County Finance Bureau* (山東省東明縣財政局) from July 1996 to July 2001.

Mr. Zhang has served as a director of Shandong Joint Investment since December 2017. He also served as a director of Dongming Petrochemical from July 2014 to July 2021, and concurrently served as a supervisor of PetroChina Shandong Oil Transportation Co., Ltd.* (中石油山東輸油有限公司) from March 2010 to May 2014. As at the date of this report, Shandong Joint Investment wholly owns LMT International Corporation Limited (魯民投國際有限公司) ("LMT International"), and LMT International is one of the limited partners holding approximately 49.18% of the partnership interest in LM Global Asset LP, being a substantial shareholder of the Company.

Mr. Zhang currently serves as a member of the Economic Committee of Beijing Committee and Shandong province of the Revolutionary Committee of the Chinese Kuomingtang* (中國國民黨革命委員會北京市委員會和山東省委員會經濟委員會委員). He also once served as the deputy chairman of the Dongming County Association of Industry and Commerce* (東明縣工商業聯合會) and a member of the standing committee of the Chinese People's Political Consultative Conference* (政協常委) in Dongming county, Shandong Province. He has been the Secretary General of Shandong High Quality Chemical Industry Alliance* (山東省高端化工產業發展促進會) since January 2019. He was admitted as a member of the Petroleum and Natural Gas Expert Committee of China Petroleum and Chemical Industry Federation* (中國石油和化學工業聯合會石油天然氣專業委會專家委員) in May 2014. Mr. Zhang won the honors of "Elite in Shandong Chemical Industry* (山東化工行業精英人物)" and "Youth Entrepreneurship Tutor in Shandong Province* (山東省青年創業導師)", respectively.

Mr. Zhang obtained a bachelor's degree of accounting from the Shandong University in 1996, a master's degree in agricultural economic management from the China Agricultural University in 2004, and an executive master's degree of business administration from the Tsinghua University in 2020. Mr. Zhang also obtained the qualification of certified public valuer issued by the China Appraisal Society in 2003 and the senior accountant qualification issued by the Shandong Provincial Accounting Professional Qualification Senior Review Committee* (山東省會計專業資格高級評審委員會) in 2014. Mr. Zhang is the brother of Mr. Zhang Bangcheng, an executive Director.

Mr. Zhang Feng, aged 32, has served as the company secretary and authorised representative of the Company with effect from June 2021 and concurrently serves as the head of Hong Kong office of the Company and a director of a wholly-owned subsidiary of the Company to be primarily responsible for the listing compliance and corporate governance of the Company as well as routine work at the Company's Hong Kong office. He has extensive accounting experience and company secretarial practices in respect of listing companies in Hong Kong.

Mr. Zhang Feng obtained the bachelor's degree of business from the James Cook University in 2012 and a master's degree of science in marketing and international business from the Lingnan University in 2016. Mr. Zhang Feng is a Chartered Secretary, a Chartered Governance Professional and an associate of both The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators). Mr. Zhang Feng is the nephew of Mr. Zhang Bizhuang, an executive Director.

* *For identification purpose only*

REPORT OF THE DIRECTORS

The Directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2021.

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 during the year ended 31 December 2021. The principal activities and other particulars of the subsidiaries of the Company are set out in note 17 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 pages 10 to 18 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 Co-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 consolidated financial statements.

TAX RELIEF AND EXEMPTION

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

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 ISO 14001 environmental management system, which indicates the Group's remarkable environmental management performance. The Group will keep reviewing and improving the internal environmental protection system from time to time.

Details of the Group's development, performance and operation in the environmental aspect are set out in the Environmental, Social and Governance Report on pages 67 to 106 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 2021.

CLOSURE OF REGISTER OF MEMBERS

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

The register of members of the Company will be closed from Tuesday, 14 June 2022 to Friday, 17 June 2022, 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, 13 June 2022. 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 42.3% (2020: 53.5%) of the total sales and the top five suppliers accounted for approximately 54.7% (2020: 53.0%) of the total purchases for the year. In addition, the Group's largest customer accounted for approximately 11.6% (2020: 33.7%) of the total sales and the Group's largest supplier accounted for approximately 20.4% (2020: 13.4%) 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 2021 and the financial positions of the Company and the Group for the year ended 31 December 2021 are set out in the financial statements on pages 112 to 197.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the share premium, contributed surplus and profit which in aggregate amounted to RMB253 million for the year ended 31 December 2021 (2020: RMB460 million). Details of the reserves of the Company for the year ended 31 December 2021 are set out in note 34 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 33 to the financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors in financial year 2021 and up to the date of this report were:

Executive Directors

Mr. Zhang Bizhuang *(Co-Chief Executive Officer)* (re-designated on 30 June 2021)
Mr. Wang Kunxian (*Vice President)*
Ms. Han Aizhi *(Vice President)*
Mr. Zhang Bangcheng (appointed on 10 March 2021)
Mr. Song Xichen *(Vice President)* (resigned on 10 March 2021)

Non-executive Directors

Mr. Wei Jun *(Chairman)*
Mr. Huang Guang (appointed on 10 March 2021)
Mr. Jiang Yong (resigned on 10 March 2021)

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. Wei Jun, Ms. Han Aizhi, Mr. Huang Guang and Mr. Wu Geng shall retire and Mr. Wei Jun, Ms. Han Aizhi, Mr. Huang Guang 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 2021, 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 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 2021
Wei Jun	Interest in controlled corporation[(1)]	620,000,000		16.003%
Zhang Bizhuang	Interest in controlled corporation[(2)]	153,130,224		3.952%
	Beneficial owner	79,800,000[(3)]	1,200,000[(7)]	2.091%
Wang Kunxian	Interest in controlled corporation[(4)]	26,708,760		0.689%
	Beneficial owner		960,000[(7)]	0.025%
Han Aizhi	Interest in controlled corporation[(5)]	26,708,760		0.689%
	Beneficial owner		1,200,000[(7)]	0.031%
Huang Guang	Interest in controlled corporation[(6)]	600,000,000		15.486%

Notes:

(1) Mefun Group Limited holds 620,000,000 shares of the Company (representing 16.003% of the issued shares of the Company) and is the single largest shareholder of the Company. Mefun Group Limited is held as to 65.97% and 34.03% by Mr. Wei Jun and HZJ Holding Limited, respectively. Mr. Wei Jun is the chairman and a non-executive Director of the Company. 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 3.952% 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 2.06% of the issued shares of the Company.

(4) Glad Sharp Limited ("Glad Sharp") holds 26,708,760 shares of the Company, representing 0.689% 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 0.689% 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) LM Global Asset LP holds 600,000,000 shares of the Company, representing approximately 15.486% of the issued shares of the Company. LM Global Asset LP is managed by its general partner, namely LM Asset Management Corp, which in turn is owned as to 70% by Mr. Huang Guang (one of our non-executive Directors) and 30% by Magic Group (HK) International Holdings Co., Limited. Magic Group (HK) International Holdings Co., Limited is wholly owned by Mr. Zhang Bangcheng (one of our executive Directors). Mr. Huang Guang is therefore deemed to be interested in the shares of the Company held by LM Global Asset LP by virtue of the SFO.

(7) Underlying shares subject to the share options issued pursuant to the Share Option Scheme (as defined below).

Save as disclosed above, as at 31 December 2021, none of the Directors, and chief executive of the Company or the chairman or their respective associates of the Company had registered an interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be 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 are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which will be required, pursuant to Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

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 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. 1,200,000 share options held by a senior management member and 810,000 share options held by five employees were lapsed following their departure in 2020. 1,770,000 share options held by eight employees were lapsed following their departure in 2021. The remaining 16,770,000 share options were lapsed on 2 January 2022 without being exercised.

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. 3,300,000 share options held by a senior management member were lapsed following his departure in 2020. 1,350,000 share options held by one employee were lapsed following his departure in 2021. The remaining 51,300,000 share options were lapsed on 27 January 2021 without being exercised.

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. 6,600,000 share options held by four employees were lapsed following their departure in 2020. 1,200,000 share options held by one senior management member and 1,200,000 share options held by two employees were lapsed following their departure in 2021. The remaining 42,000,000 share options were lapsed on 25 April 2021 without being exercised.

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 were lapsed following his departure in 2019. 10,200,000 share options held by three employees were lapsed following their departure in 2019. 1,200,000 share options held by a senior management member and 3,600,000 share options held by five employees were lapsed following their departure in 2020. 1,200,000 share options held by a senior management member and 2,400,000 share options held by three employees were lapsed following their departure in 2021. The remaining 98,420,000 share options were lapsed on 10 October 2021 without being exercised.

On 22 June 2020, the Board granted 77,100,000 share options to 40 management members and key staff of the Company and its subsidiaries at an exercise price of HK$0.10 per share under the New Scheme. 1,800,000 share options held by four employees were lapsed following their departure in 2020. 900,000 share options held by two employees were lapsed following their departure in 2021.

After taking into account of the shares available for issue after deducting those which have been exercised or lapsed under the Share Option Scheme, as at 31 December 2021, the total number of shares available for issue under the Share Option Scheme was 156,663,060, representing approximately 4.0436% of the issued shares of the Company of 3,874,365,600 shares as at the date of this report.

As at 31 December 2021, movements of options granted under the Share Option Scheme are set out below:

Name	Capacity	Exercise price	Outstanding as at 1 January 2021	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2021	Approximate percentage of the issued share capital of the Company as at 31 December 2021	Notes
Directors									
Zhang Bizhuang	Beneficial owner	HK$0.80	1,200,000	0	0	0	1,200,000	0.031%	(1) (6)
Zhang Bizhuang	Beneficial owner	HK$0.40	4,200,000	0	0	4,200,000	0	0%	(2)
Zhang Bizhuang	Beneficial owner	HK$0.415	1,200,000	0	0	1,200,000	0	0%	(4)
Wang Kunxian	Beneficial owner	HK$0.80	960,000	0	0	0	960,000	0.025%	(1) (6)
Wang Kunxian	Beneficial owner	HK$0.40	3,300,000	0	0	3,300,000	0	0%	(2)
Wang Kunxian	Beneficial owner	HK$0.415	1,200,000	0	0	1,200,000	0	0%	(4)
Han Aizhi	Beneficial owner	HK$0.80	1,200,000	0	0	0	1,200,000	0.031%	(1) (6)
Han Aizhi	Beneficial owner	HK$0.40	3,300,000	0	0	3,300,000	0	0%	(2)
Han Aizhi	Beneficial owner	HK$0.415	1,200,000	0	0	1,200,000	0	0%	(4)
Chen Junzhu	Beneficial owner	HK$0.40	1,200,000	0	0	1,200,000	0	0%	(3)
Chen Junzhu	Beneficial owner	HK$0.415	1,200,000	0	0	1,200,000	0	0%	(4)
Wu Geng	Beneficial owner	HK$0.40	1,200,000	0	0	1,200,000	0	0%	(3)
Wu Geng	Beneficial owner	HK$0.415	1,200,000	0	0	1,200,000	0	0%	(4)
Qiao Jianmin	Beneficial owner	HK$0.40	1,200,000	0	0	1,200,000	0	0%	(3)
Qiao Jianmin	Beneficial owner	HK$0.415	1,200,000	0	0	1,200,000	0	0%	(4)
Song Xichen	Beneficial owner	HK$0.80	960,000	0	0	0	960,000	0.025%	(1) (6)
Song Xichen	Beneficial owner	HK$0.40	3,300,000	0	0	3,300,000	0	0%	(2)
Song Xichen	Beneficial owner	HK$0.415	1,200,000	0	0	1,200,000	0	0%	(4)
Employees									
Employees	Beneficial owner	HK$0.80	14,220,000	0	0	1,770,000	12,450,000	0.321%	(1) (6)
Employees	Beneficial owner	HK$0.40	38,550,000	0	0	38,550,000	0	0%	(2)
Employees	Beneficial owner	HK$0.40	40,800,000	0	0	40,800,000	0	0%	(3)
Employees	Beneficial owner	HK$0.415	93,600,000	0	0	93,600,000	0	0%	(4)
Employees	Beneficial owner	HK$0.10	75,300,000	0	0	900,000	74,400,000	1.909%	(5)
Total			292,890,000	0	0	201,720,000	91,170,000	2.342%	

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. 3 January 2012), respectively. These share options are exercisable at HK$0.80 each according to the rules of the Old Scheme during the period from 3 January 2012 to 2 January 2022.

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

(3) 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.

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

(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. 22 June 2020), respectively. These share options are exercisable at HK$0.10 each according to the rules of the New Scheme during the period from 22 June 2020 to 21 June 2025.

(6) The share options granted on 3 January 2012 were lapsed as at 2 January 2022 without being exercised.

Further details in respect of the Share Option Scheme are disclosed in note 35 to the financial statements.

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

As far as the Company is aware, as at 31 December 2021, 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 (other than Directors or chief executives of the Company):

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	16.003%
HZJ Holding Limited	Interest in controlled corporation[2]	620,000,000	16.003%
Chen Haili	Interest in controlled corporation[2]	620,000,000	16.003%
Yang Zhihui	Interest of spouse[2]	620,000,000	16.003%
LM Global Asset LP	Beneficial owner[3]	600,000,000	15.486%
LMT International Corporation Limited (魯民投國際有限公司)	Interest in controlled corporation[3]	600,000,000	15.486%
Shandong Private Joint Investment Holding Co., Ltd.* (山東民營聯合投資控股股份有限公司)	Interest in controlled corporation[3]	600,000,000	15.486%
LM Asset Management Corp	Interest in controlled corporation[3]	600,000,000	15.486%
Du Jichun	Interest of spouse[4]	81,000,000	2.091%
	Interest in controlled corporation[5]	153,130,224	3.952%

Notes:

(1) Mefun Group Limited holds 620,000,000 shares of the Company (representing 16.003% of the issued shares of the Company), which is in turn owned as to 65.97% by Mr. Wei Jun. Mr. Wei Jun also acts as the director of Mefun Group Limited. Please refer to the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" for details.

(2) HZJ Holding Limited holds 34.03% of the issued share capital of Mefun Group Limited and HZJ Holding Limited is held as to 59% and 12% by Ms. Chen Haili and Mr. Yang Zhihui, respectively. Mr. Yang Zhihui is the spouse of Ms. Chen Haili. Therefore, HZJ Holding Limited, Ms. Chen Haili and Mr. Yang Zhihui are deemed to be interested in the shares of the Company held by Mefun Group Limited by virtue of the SFO.

(3) LM Global Asset LP is a limited partnership registered under the laws of the British Virgin Islands and holds 600,000,000 shares of the Company, representing 15.486% of the issued shares of the Company. LMT International Corporation Limited is a limited partner of LM Global Asset LP and holds approximately 49.18% of the partnership interest in LM Global Asset LP. LMT International Corporation Limited is wholly owned by Shandong Private Joint Investment Holding Co., Ltd. The general partner of LM Global Asset LP is LM Asset Management Corp, which is in turn owned as to approximately 70% by Mr. Huang Guang. Therefore, each of Mr. Huang Guang, LM Asset Management Corp, LMT International Corporation Limited and Shandong Private Joint Investment Holding Co., Ltd. is deemed to be interested in the shares of the Company held by LM Global Asset LP by virtue of the SFO. Mr. Huang Guang acts as the director of LMT International Corporation Limited and the vice president of Shandong Private Joint Investment Holding Co., Ltd. Please refer to the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" for details.

(4) Ms. Du Jichun is the spouse of Mr. Zhang Bizhuang. Therefore, 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.

(5) Goldmics Investments holds 153,130,224 shares of the Company, representing 3.952% 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. Mr. Zhang Bizhuang is the director of Goldmics Investments.

Save as disclosed above, as at 31 December 2021, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance had been entered into between the Company or any of its subsidiaries and the controlling shareholders for the year ended 31 December 2021.

COMPETING BUSINESS

During the Year under Review and up to the date of this 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.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, for the year ended 31 December 2021, the Company has maintained a public float of not less than 25% as required under the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

Save as the service contracts of the Directors as disclosed above, 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 ended 31 December 2021.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2021, cash and cash equivalents of the Group amounted to approximately RMB134,311,000 (2020: approximately RMB113,159,000). As at 31 December 2021, the Group had borrowings of approximately RMB691,000,000 (2020: approximately RMB780,600,000).

The gearing ratio is defined as net debt (represented by borrowings, trade payables, contract liabilities 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 2021, the gearing ratio of the Group was 56.0% (2020: 55.2%).

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2021, the Group secured bank loans of RMB283,000,000 (31 December 2020: approximately RMB124,000,000) by pledge of certain of the property and plant amounting to approximately RMB140,750,000 (31 December 2020: approximately RMB84,023,000) and certain of the land use rights amounting to approximately RMB73,912,000 (31 December 2020: approximately RMB72,518,000).

As at 31 December 2021, an amount of approximately RMB146,540,000 (31 December 2020: approximately RMB155,160,000) out of bank loans of the Group of approximately RMB340,000,000 (31 December 2020: approximately RMB558,600,000) 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 RMB173,387,000 (31 December 2020: approximately RMB322,935,000) and certain of the land use rights amounting to approximately RMB36,740,000 (31 December 2020: approximately RMB41,789,000).

CONTINGENT LIABILITIES

For the year ended 31 December 2021, the Group did not have any material contingent liabilities (2020: Nil).

FOREIGN EXCHANGE RISK

During the Year under Review, 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.

REPORT OF THE DIRECTORS

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 2021, the Group's workforce comprised of 915 employees (including the Directors) (928 employees as at 31 December 2020). The total salaries and related costs (including the Directors' fees) amounted to approximately RMB103,819,000 (2020: approximately RMB77,371,000). Such increase in the total salaries and related costs was primarily because (1) micro, small and medium-sized enterprises were no longer entitled to the waiver from social insurance contributions for employees granted by the State; and (2) the increase in production volume of pipes business and anti-corrosion processing business led to an increase in overtime pay and floating wages payable by the Group to its employees during the Year under Review.

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

RETIREMENT SCHEMES

During the Year under Review, the Group did not have any payments or benefits in relation to termination of service of Directors. Particulars of employee retirement schemes of the Group are set out in note 4 to the financial statements.

CONNECTED TRANSACTIONS

Further to certain related party transactions as disclosed in note 38 to the financial statements, certain transactions as disclosed below also 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.

Entering into the Framework Sales Agreement Between Hunan Shengli Steel Pipe and Hunan Valin Xiangtan Iron & Steel Co., Ltd.* (湖南華菱湘潭鋼鐵有限公司) ("Hunan Xiangtan")

On 30 June 2021, Hunan Shengli Steel Pipe, a non-wholly-owned subsidiary of the Company, entered into the framework sales agreement ("Framework Sales Agreement") with Hunan Xiangtan, pursuant to which, Hunan Shengli Steel Pipe agreed to sell to Hunan Xiangtan certain types of welded pipes, including SAWH pipes, SAWL pipes and seamless welded pipes, of up to 1,000 tons. The Framework Sales Agreement took effect from 1 July 2021 and expired on 31 December 2021. The annual cap of the transactions contemplated thereunder during the period from 1 July 2021 to 31 December 2021 was RMB8,000,000. Hunan Xiangtan is in the process of reconstructing the pipelines of its production factories and is in need of welded pipes. Hunan Shengli Steel Pipe was awarded the supply of welded pipes contract by Hunan Xiangtan through open tender. Please refer to the announcement of the Company dated 30 June 2021 for further details.

Hunan Xiangtan is a wholly-owned subsidiary of Hunan Valin Steel Co., Ltd.* (湖南華菱鋼鐵股份有限公司) ("Hunan Valin"), which is owned as to 48.64%, 12.06% and 0.73% by Hunan Valin Iron & Steel Group Co., Ltd.* (湖南華菱鋼鐵集團有限責任公司) ("Valin Steel"), Lianyuan Iron & Steel Group Co., Ltd.* (漣源鋼鐵集團有限公司) ("Lianyuan Steel") and Hunan Hengyang Steel Pipe (Group) Co., Ltd.* (湖南衡陽鋼管(集團)有限公司) ("Hunan Hengyang"), respectively, and Lianyuan Steel and Hunan Hengyang are both wholly owned by Valin Steel. Hunan Valin is therefore a subsidiary of Valin Steel, which in turn is the holder of the entire equity in Xiangtan Iron & Steel Group Co., Ltd.* (湘潭鋼鐵集團有限公司) ("Xiangtan Steel"), a substantial shareholder of Hunan Shengli Steel Pipe. Hunan Shengli Steel Pipe is an indirectly non-wholly-owned subsidiary of the Company. Therefore, Hunan Xiangtan is an associate of Xiangtan Steel pursuant to the Listing Rules, and is a connected person of the Company at the subsidiary level. Accordingly, the transaction under the Framework Sales Agreement constitutes continuing connected transaction of the Company under Chapter 14A of the Listing Rules. Given that (i) one or more of the applicable percentage ratio(s) (as defined under the Listing Rules) in respect of the annual cap under the Framework Sales Agreement is more than 1% but less than 5%; and (ii) the transaction contemplated under the Framework Sales Agreement is a continuing connected transaction of the Company at the subsidiary level and such transaction is on normal commercial terms and conducted in the usual course of business of the Group, fair and reasonable and in the interests of the Company and the shareholders as a whole, the Framework Sales Agreement and the transaction contemplated thereunder are subject to the reporting and announcement requirements, but are exempted from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Purchase of steel plates and steel coils by Hunan Shengli Steel Pipe from 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"), Hunan Valin E-Commerce Co., Ltd.* (湖南華菱電子商務有限公司) ("Valin E-Commerce") and Hunan Valin Lianyuan Iron and Steel Co., Ltd.* (湖南華菱漣源鋼鐵有限公司) ("Hunan Lianyuan")

Reference is made to the announcement of the Company dated 25 November 2020 relating to the framework purchase agreements entered into between Hunan Shengli Steel Pipe and certain members of the Valin Group (the "Framework Purchase Agreements"), pursuant to which (i) Hunan Xiangtan agreed to supply certain steel plates to Hunan Shengli Steel Pipe; (ii) Valin Resource, Valin International and Valin E-commerce agreed to supply certain steel plates and steel coils to Hunan Shengli Steel Pipe; and (iii) Hunan Lianyuan agreed to supply certain steel coils to Hunan Shengli Steel Pipe. The terms of the Framework Purchase Agreements are from 25 November 2020 to 24 November 2021. The annual caps of the transactions contemplated thereunder was RMB50,000,000 and RMB450,000,000 for the year ended 31 December 2020 and 31 December 2021, respectively.

As with reference to the online steel trading platform established by Shanghai Ganglian E-commerce Holdings Co., Ltd* (上海鋼聯電子商務股份有限公司), namely Mysteel* (我的鋼鐵), the market price of steel has increased by approximately 13%, as compared to the market price of which at the time the Framework Purchase Agreements were entered into, with the market price increased rapidly from March to May 2021. The market price of steel peaked in May 2021, representing an increase of market price for more than 40% by comparing the market price of which at the time the Framework Purchase Agreements were entered into with the highest market price of steel in the first half of 2021. Accordingly, on 28 July 2021, Hunan Shengli Steel Pipe entered into the Supplemental Agreements with certain members of the Valin Group to amend the Framework Purchase Agreements by revising (i) the existing price range to the revised price range; and (ii) the existing supply quantity to the revised supply quantity. Upon revision to the revised price range and the revised supply quantity, it was expected that the existing annual cap for the current period under the Framework Purchase Agreements may not be sufficient to meet the expected transaction amount for the year ended 31 December 2021. The annual cap of the transactions contemplated thereunder for the year ended 31 December 2021 was revised to the revised annual cap from RMB450,000,000 to RMB621,150,000. Save as aforementioned, all other terms and conditions under the Framework Purchase Agreements remain the same. Please refer to the announcement of the Company dated 28 July 2021 for further details.

In view of the increasing number of sales orders for pipes required to be manufactured and delivered by Hunan Shengli Steel Pipe for the period from September 2021 to November 2021, it is expected that Hunan Shengli Steel Pipe will have to source more steel plates and steel coils in contemplation of the delivery arrangements under the aforementioned sales orders for pipes. On 29 September 2021, Hunan Shengli Steel Pipe entered into the Second Supplemental Agreements with Valin International and Valin E-Commerce respectively by revising the supply quantity to the further revised supply quantity. In particular, the quantity of steel plates and steel coils supplied by Valin International to Hunan Shengli Steel Pipe was revised from approximately 54,500 tons to approximately 70,800 tons, and the quantity of steel plates and steel coils supplied by Valin E-commerce to Hunan Shengli Steel Pipe was revised from approximately 22,000 tons to approximately 39,000 tons. Upon further revision to the revised supply quantity, it was expected that the revised annual cap for the current period under the Framework Purchase Agreements (as supplemented by the First Supplemental Agreements dated 28 July 2021) may not be sufficient to meet the expected transaction amount for the year ended 31 December 2021. The revised annual cap of the transactions contemplated under the Framework Purchase Agreements (as supplemented by the First Supplemental Agreements dated 28 July 2021) for the year ended 31 December 2021 was revised to further revised annual cap from RMB621,150,000 to RMB887,550,000. Save as aforementioned, all other terms and conditions under the Framework Purchase Agreements (as supplemented by the First Supplemental Agreements dated 28 July 2021) remain the same. Please refer to the announcement of the Company dated 29 September 2021 for further details.

Hunan Xiangtan, Hunan Lianyuan and Valin E-Commerce are wholly-owned subsidiaries of Hunan Valin, which is owned as to approximately 48.64%, 12.06% and 0.73% by Valin Steel, Lianyuan Steel and Hunan Hengyang, respectively, and Lianyuan Steel and Hunan Hengyang are both wholly-owned by Valin Steel. Hunan Valin is therefore a subsidiary of Valin Steel, which in turn is the holder of the entire equity in Xiangtan Steel, a substantial shareholder of Hunan Shengli Steel Pipe. Hunan Shengli Steel Pipe is a non-wholly-owned subsidiary of the Company. Therefore, Hunan Xiangtan, Hunan Lianyuan and Valin E-Commerce are all associates of Xiangtan Steel pursuant to the Listing Rules, and are connected persons of the Company at the subsidiary level. Further, Hunan Valin is therefore a subsidiary of Valin Steel. Valin Resource is wholly owned by Valin Steel, and is therefore a connected person of the Company at the subsidiary level. As regards Valin International, it is wholly-owned by Hunan Xiangtan and is therefore a connected person of the Company at the subsidiary level pursuant to the Listing Rules. Accordingly, the transactions contemplated thereunder constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Although one or more of the applicable percentage ratio(s) in respect of the transactions under the Framework Purchase Agreements, the Supplemental Agreements and the Second Supplemental Agreements exceed(s) 5% calculated on an annual basis, the transactions are continuing connected transactions of the Company at the subsidiary level and such transactions are conducted in the usual course of business of the Group, fair and reasonable and in the interests of the Company and the Shareholders as a whole. The transactions contemplated under the Framework Purchase Agreements are subject to the reporting and announcement requirements under Rule 14A.101 of the Listing Rules, but are exempted from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Renewing the Logistic Services Framework Agreement Between Hunan Shengli Steel Pipe and Hunan Xianggang Hongsheng Logistics Co., Ltd.* (湖南湘鋼洪盛物流有限公司) ("Hunan Xianggang")

Reference is made to the announcement published by the Company on 3 September 2020 in relation to the 2020 Logistic Services Framework Agreement dated 3 September 2020 entered into between Hunan Shengli Steel Pipe and Hunan Xianggang. The 2020 Logistic Services Framework Agreement has expired on 31 August 2021. On 31 August 2021, Hunan Shengli Steel Pipe entered into the 2021 Logistic Services Framework Agreement with Hunan Xianggang, pursuant to which the parties agreed to renew the 2020 Logistic Services Framework Agreement. Hunan Xianggang agreed to provide in-plant goods transport and external goods transport services for steel pipes to Hunan Shengli Steel Pipe for the period from 31 August 2021 to 31 August 2022 with a term from 31 August 2021 to 31 August 2022. The annual cap of the transactions contemplated under the 2021 Logistic Services Framework Agreement was RMB2,550,000 from 31 August 2021 to 31 December 2021 and RMB2,750,000 for the year ending 31 December 2022. Please refer to the announcement of the Company dated 31 August 2021 for further details.

By entering into the 2021 Logistic Services Framework Agreement, it is expected that Hunan Shengli Steel Pipe will be able to maintain stable and effective delivery channel for its products so as to better control its transportation costs. Further, Hunan Xianggang has a proven track record as demonstrated from its previous transactions with Hunan Shengli Steel Pipe. It has been able to provide its services in a timely and satisfactory manner. In particular, the Group has not failed to meet the relevant customers' requirements on products delivery with the goods transport services provided by Hunan Xianggang.

Hunan Xianggang is owned as to 45% by Xiangtan Steel and 55% by an independent third party, which is the Hunan Xianggang Trade Union. As Xiangtan Steel is the substantial shareholder of Hunan Shengli Steel Pipe, Hunan Xianggang, being an associate of Xiangtan Steel pursuant to the Listing Rules, is a connected person of the Company at the subsidiary level. Accordingly, the transactions under the 2021 Logistic Services Framework Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Since each of the applicable percentage ratios in respect of the proposed annual caps of the transactions under the 2021 Logistic Services Framework Agreement is more than 0.1% but less than 5%, the transactions contemplated under the 2021 Logistic Services Framework Agreement are subject to the reporting, announcement and annual review requirements, but are exempted from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

Renewing the Framework Purchase Agreements in Relation to Purchase of Steel Plates and Steel Coils by Hunan Shengli Steel Pipe from Hunan Xiangtan, Valin International, Valin E-commerce and Hunan Lianyuan

References are made to the announcements of the Company dated 25 November 2020, 28 July 2021 and 29 September 2021 relating to the Previous Framework Purchase Agreements entered into between Hunan Shengli Steel Pipe and certain members of the Valin Group, for the purchases of steel plates and steel coils, which have all expired on 24 November 2021. On 25 November 2021, Hunan Shengli Steel Pipe entered into the Framework Purchase Agreements with certain members of the Valin Group, pursuant to which (i) Hunan Xiangtan agreed to supply certain steel plates to Hunan Shengli Steel Pipe; (ii) Valin International and Valin E-commerce agreed to supply certain steel plates and steel coils to Hunan Shengli Steel Pipe; and (iii) Hunan Lianyuan agreed to supply certain steel coils to Hunan Shengli Steel Pipe. The terms of the Framework Purchase Agreements are from 25 November 2021 to 30 June 2022. The annual caps of the Framework Purchase Agreements was RMB66,300,000 for the year ended 31 December 2021 and RMB613,700,000 for the year ending 31 December 2022. Please refer to the announcement of the Company dated 25 November 2021 for further details.

By entering into the Framework Purchase Agreements, it is expected that Hunan Shengli Steel Pipe will be able to secure a stable source of steel plates and steel coils of satisfactory quality, such that it can supply SAWH pipes and SAWL pipes to its customers on time. Further, the Valin Group has a proven track record as demonstrated from its previous transactions with the Group, as it has been able to supply high quality steel plates and/or steel coils in a timely manner at more favorable terms.

Hunan Xiangtan, Hunan Lianyuan and Valin E-Commerce are wholly-owned subsidiaries of Hunan Valin, which is owned as to approximately 39.1%, 10.7% and 0.7% by Valin Steel, Lianyuan Steel and Hunan Hengyang, respectively, and Lianyuan Steel and Hunan Hengyang are both wholly-owned by Valin Steel. Hunan Valin is therefore a subsidiary of Valin Steel, which in turn is the holder of the entire equity in Xiangtan Steel, the substantial shareholder of Hunan Shengli Steel Pipe. Hunan Shengli Steel Pipe is a non-wholly-owned subsidiary of the Company. Therefore, Hunan Xiangtan, Hunan Lianyuan and Valin E-Commerce are all associates of Xiangtan Steel pursuant to the Listing Rules, and are connected persons of the Company at the subsidiary level. As regards Valin International, it is wholly-owned by Hunan Xiangtan and is therefore a connected person of the Company at the subsidiary level pursuant to the Listing Rules. Accordingly, the transactions under the Framework Purchase Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. Although one or more of the applicable percentage ratios for the transactions under the Framework Purchase Agreements exceeds 5%, on an annual basis, as such transactions are continuing connected transactions at the subsidiary level and such transactions are on normal commercial terms and conducted in the usual course of business of the Group, fair and reasonable and in the interests of the Company and the shareholders as a whole, pursuant to Rule 14A.101 of the Listing Rules, the transactions under the Framework Purchase Agreements are subject to the reporting and announcement requirements, but are exempted from the circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

REPORT OF THE DIRECTORS

Major and Connected Transaction – Entering into an Equity Transfer and Capital Increase Agreement in Connection with the Disposal of 8.9% Equity Interest in Hunan Shengli Steel Pipe

On 21 December 2021, Shandong Shengli Steel Pipe, Xiangtan Steel and Hunan Shengli Steel Pipe entered into the Equity Transfer and Capital Increase Agreement, pursuant to which Shandong Shengli Steel Pipe agreed to transfer and Xiangtan Steel agreed to acquire 8.9% equity interest of Hunan Shengli Steel Pipe for a consideration of RMB17,296,233. Further, subject to the completion of the Equity Transfer, Shandong Shengli Steel Pipe and Xiangtan Steel agreed to make capital contributions of RMB17,280,000 and RMB18,720,000 to Hunan Shengli Steel Pipe, respectively, in proportion to their respective shareholding percentage in Hunan Shengli Steel Pipe immediately upon the completion of the Equity Transfer. Upon completion, Hunan Shengli Steel Pipe will be owned as to 48.0% and 52.0% by Shandong Shengli Steel Pipe and Xiangtan Steel, respectively and the total registered capital of Hunan Shengli Steel Pipe will be increased from RMB464,000,000 to RMB500,000,000. Hunan Shengli Steel Pipe will cease to be a subsidiary of the Company and the financial results of Hunan Shengli Steel Pipe will no longer be consolidated into the financial statements of the Group.

In view of the national policies of achieving Carbon Dioxide Peaking and Carbon Neutrality, the latest reform of oil and gas pipeline operation mechanism and the state planning regarding oil and gas network during the 14th Five-year Plan period, it is anticipated that the PRC government will accelerate the domestic construction of a large-scale and sophisticated oil and gas pipeline network, which will likely to boost up the demand for the oil and gas pipes manufactured by Hunan Shengli Steel Pipe (in particular, the SAWL pipes which have been widely used in many major national pipeline projects).

Xiangtan Steel operates in the same region with Hunan Shengli Steel Pipe and enjoys advantages such as reputable market credentials, strong financing capability and low financing cost. After Xiangtan Steel becomes the controlling shareholder of Hunan Shengli Steel Pipe, Hunan Shengli Steel Pipe will have easier access to the long-term support from Xiangtan Steel in various respects, particularly in terms of capital, financing and stable supply of raw materials. The Board is of the view that, leveraging the distinctive advantage of each of the Group and Xiangtan Steel, the Equity Transfer and the Capital Contribution will facilitate Hunan Shengli Steel Pipe in meeting its future funding needs for its development and business operation as well as professional technological requirements in order to cope with the expected increasing market demand for its products. It will also further maximise the synergy values between the Group and Xiangtan Steel in terms of operations management, financing, resources allocation, technological sharing, sales & marketing and raw materials procurement, which will be conducive to strengthening the comprehensive competitiveness of Hunan Shengli Steel Pipe and enhancing its sustainable development. Accordingly, it will be beneficial to the Group in the long run as the Group will continue to retain a substantial interest in Hunan Shengli Steel Pipe.

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the transactions contemplated under the Equity Transfer and Capital Increase Agreement exceeds 25% but all of the percentage ratios are less than 75%, the transaction constitutes a major transaction of the Company under Chapter 14 of the Listing Rules and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules. Further, Xiangtan Steel is a substantial shareholder of Hunan Shengli Steel Pipe, being an indirectly non-wholly owned subsidiary of the Company, and hence a connected person of the Company at the subsidiary level under Chapter 14A of the Listing Rules. Accordingly, the Transaction also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules. As (i) Xiangtan Steel is a connected person of the Company at the subsidiary level; (ii) the Board has approved the Equity Transfer and Capital Increase Agreement and the transactions contemplated thereunder; and (iii) the independent non-executive Directors have confirmed that the Equity Transfer and Capital Increase Agreement and the transactions contemplated thereunder are on normal commercial terms and their terms are fair and reasonable and in the interests of the Company and the Shareholders as a whole, the Transaction is subject to the reporting and announcement requirements, and are exempt from the circular, independent financial advice and independent Shareholders' approval requirements under Rule 14A.101 of the Listing Rules.

Please refer to the announcements of the Company dated 21 December 2021 and 1 March 2022, and the circular dated 6 January 2022.

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 period from 1 January 2021 to 31 December 2021 (the "Reporting Period"), the above continuing connected transactions were conducted in accordance with Rule 14A.56 of the Main Board Listing Rules and:

(1) have been approved by the Board;

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

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

(4) have been, in all material aspects, in accordance with the pricing policies of the Group.

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 2021.

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 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.

SIGNIFICANT INVESTMENTS HELD

The Group did not hold any significant investments during the Year under Review.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES, AND PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

(1) Disposal of 8.9% equity interest of Hunan Shengli Steel Pipe

On 21 December 2021, Shandong Shengli Steel Pipe (an indirect wholly-owned subsidiary of the Company), Xiangtan Steel and Hunan Shengli Steel Pipe entered into the equity transfer and capital increase agreement, pursuant to which Shandong Shengli Steel Pipe agreed to transfer and Xiangtan Steel agreed to acquire 8.9% equity interest of Hunan Shengli Steel Pipe for a consideration of RMB17,296,233. Further, subject to the completion of the equity transfer, Shandong Shengli Steel Pipe and Xiangtan Steel agreed to make capital contributions of RMB17,280,000 and RMB18,720,000 to Hunan Shengli Steel Pipe, respectively, in proportion to their respective shareholding percentage in Hunan Shengli Steel Pipe. Upon the completion, Hunan Shengli Steel Pipe will be owned as to 48.0% and 52.0% by Shandong Shengli Steel Pipe and Xiangtan Steel, respectively and the total registered capital of Hunan Shengli Steel Pipe will be increased from RMB464,000,000 to RMB500,000,000.

On 21 February 2022, Shandong Shengli Steel Pipe completed the equity transfer and capital contribution, and accordingly Hunan Shengli Steel Pipe ceased to be a subsidiary of the Company, and instead is accounted for as an associate of the Company using the equity method, and its financial results will no longer be consolidated into the financial statements of the Group.

(2) Disposal of 9.9% of the equity interest in Xinfeng Energy Group

On 22 December 2021, Zhejiang Shengguan Industrial (an indirect wholly-owned subsidiary of the Company) and Hangzhou Hanyue New Energy Co., Ltd* (杭州晗月新能源有限公司) ("Hangzhou Hanyue") entered into the equity transfer agreement, pursuant to which Zhejiang Shengguan Industrial has conditionally agreed to transfer and Hangzhou Hanyue has conditionally agreed to acquire the transferred shares, representing approximately 9.9% of the equity interest in Xinfeng Energy Enterprise Group Co., Ltd* (新鋒能源集團有限公司) ("Xinfeng Energy Group") in consideration of (i) Hangzhou Hanyue agreeing to pay up the unpaid registered capital of RMB81,420,000 with regard to the transferred shares and (ii) RMB1.00 in cash payable by Hangzhou Hanyue to Zhejiang Shengguan Industrial. Upon completion, the Company will hold approximately 22.0% equity interest in Xinfeng Energy Group and Xinfeng Energy Group will continue to be accounted for as an associate of the Company using the equity method. As a result of stringent anti-COVID-19 measures taken by local governments in certain regions hit harder by the pandemic in China, Xinfeng Energy Group experienced a delay in updating commerce and industrial registration to effect the equity transfer. Therefore, as at the date of this report, Zhejiang Shengguan Industrial has not completed the equity transfer yet.

For further details of the above two transactions, please refer to the announcements of the Company dated 21 December 2021, 22 December 2021 and 1 March 2022, as well as the circular dated 6 January 2022; and subsequent events after the Reporting Period as set out in the section headed "Report of the Directors" in this report.

Save as disclosed above, there was no significant investments held, or material acquisition or disposal of subsidiaries, associates or joint ventures by the Group during the Year under Review, and the Company does not have any future plan for material investments or capital assets as at the date of this report.

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.

At the annual general meeting held on 19 June 2020, the Company re-appointed ZHONGHUI ANDA as auditors of the Company for the year ended 31 December 2020.

At the annual general meeting held on 18 June 2021, the Company re-appointed ZHONGHUI ANDA as auditors of the Company for the year ended 31 December 2021.

EVENTS AFTER THE REPORTING PERIOD

(1) On 21 February 2022, Shandong Shengli Steel Pipe completed the equity transfer and capital contribution, and accordingly Hunan Shengli Steel Pipe ceased to be a subsidiary of the Company, and instead is accounted for as an associate of the Company using the equity method, and its financial results will no longer be consolidated into the financial statements of the Group.

(2) For the disposal of 9.9% of the equity interest in Xinfeng Energy Group, as a result of stringent anti-COVID-19 measures taken by local governments in certain regions hit harder by the pandemic in China, Xinfeng Energy Group experienced a delay in updating commerce and industrial registration to effect the equity transfer. Therefore, as at the date of this report, Zhejiang Shengguan Industrial has not completed the equity transfer yet.

For further details of the above two transactions, please refer to the announcements of the Company dated 21 December 2021, 22 December 2021 and 1 March 2022, as well as the circular dated 6 January 2022.

(3) On 3 March 2022, Gold Apple, a direct wholly-owned subsidiary of the Company, entered into a deed of assignment and novation with KBS, pursuant to which KBS agreed to assume all the obligations and liabilities of Gold Apple under the contracts relating to the proposed acquisition of Blossom Time and Gold Apple agreed to assign all its right, benefits and interests in the contracts to KBS. As at the date of this report, the transaction under the deed of assignment and novation has been completed. For further details, please refer to the Company's announcements dated 30 September 2021, 22 November 2021 and 3 March 2022.

Save as those disclosed above, no other significant events that had an impact on the Group occurred subsequent to the Reporting Period.

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

26 March 2022

* *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 continues to strive to uphold good corporate governance and adopts sound corporate governance practices. During the period from 1 January 2021 to 31 December 2021, the Company has applied the principles and code provisions of the Corporate Governance Code (version up to 31 December 2021) (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.

Furthermore, the Board will adopt the new CG Code (version with effect from 1 January 2022), the requirements under which shall apply to the Company’s corporate governance report in the forthcoming financial year ending 31 December 2022.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as the required standard for securities transactions by the Directors. The Company has made specific enquiries with all Directors and all Directors confirmed that during the year ended 31 December 2021, 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 *(Co-Chief Executive Officer)* (re-designated on 30 June 2021)
Mr. Wang Kunxian *(Vice President)*
Ms. Han Aizhi *(Vice President)*
Mr. Zhang Bangcheng (appointed on 10 March 2021)
Mr. Song Xichen *(Vice President)* (resigned on 10 March 2021)

Non-executive Directors

Mr. Wei Jun *(Chairman)*
Mr. Huang Guang (appointed on 10 March 2021)
Mr. Jiang Yong (resigned on 10 March 2021)

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 19 to 24 of this 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 overall 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

Except for the Board meetings held in March and August 2021, respectively for the purpose of considering the Company's financial results, the Board held a total of 16 meetings in 2021.

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.

CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2021, 18 Board meetings were held by the Company. Details of the attendance of each Director are as follows:

Name of Director	Attendance
Executive Directors	
Mr. Zhang Bizhuang *(Co-Chief Executive Officer)*	18/18
Mr. Wang Kunxian *(Vice President)*	18/18
Ms. Han Aizhi *(Vice President)*	18/18
Mr. Zhang Bangcheng (appointed on 10 March 2021)	18/16
Mr. Song Xichen *(Vice President)* (resigned on 10 March 2021)	18/2
Non-executive Directors	
Mr. Wei Jun *(Chairman)*	18/18
Mr. Huang Guang (appointed on 10 March 2021)	18/16
Mr. Jiang Yong (resigned on 10 March 2021)	18/2
Independent non-executive Directors	
Mr. Chen Junzhu	18/18
Mr. Wu Geng	18/18
Mr. Qiao Jianmin	18/18

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.

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

Company Secretary

With approval from the Board, Mr. Zhang Feng has been appointed as the company secretary of the Company following resignation of Mr. Hong Kam Le with effect from 30 June 2021. Mr. Zhang Feng is a full-time employee of the Company and is familiar with the day-to-day affairs of the Company. Mr. Hong Kam Le is a partner of Chungs Lawyers in association with DeHeng Law Offices. For the year ended 31 December 2021, Mr. Zhang Feng and Mr. Hong Kam Le have received professional trainings as required under Rule 3.29 of the Listing Rules. Biographical details of Mr. Zhang Feng are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 19 to 26 of this report.

Continuous Professional Development

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

During the year ended 31 December 2021, all Directors (being Mr. Weijun, Mr. Zhang Bizhuang, Mr. Wang Kunxian, Ms. Han Aizhi, Mr. Zhang Bangcheng, Mr. Huang Guang, Mr. Chen Junzhu, Mr. Wu Geng and Mr. Qiao Jianmin) have participated in appropriate continuous professional development and refreshed their knowledge and skills so as to ensure that their contribution to the Board remains informed and relevant. Such professional development was completed by way of attending briefings, conferences, courses, forums, seminars and lectures which are relevant to the business or Directors' duties, as well as reading relevant information and participating in business-related research.

Delegation of Powers

The Board delegates day-to-day operations of the Group to executive Directors and management of the Company with department heads responsible for different aspects of the business/duties, while reserving strategic decisions on certain key matters for its approval. When the Board delegates aspects of its management and administration functions to the management, it gives clear directions as to the powers of the management, in particular, with respect to the circumstances where the management needs to report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

BOARD COMMITTEES

The Board has established (i) an audit committee, (ii) a remuneration committee, and (iii) a nomination committee, with defined terms of reference which are in line with the code provisions of the Code. For the purpose of complying with the principles and code provisions as set out in the Code, the Board has adopted (i) revised terms of reference for the audit committee on 1 January 2019, (ii) revised terms of reference for the remuneration committee on 10 March 2012; and (iii) revised terms of reference for the 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 2021.

During the year ended 31 December 2021, 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 2021, 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 2021, reviewing the internal audit report summary for 2020 and the internal audit report for the first half of 2021, as well as reviewing the risk management and internal control system.

The Audit Committee did not have any disagreement with the Board regarding the selection, appointment, resignation or removal of the external auditors.

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 and Mr. Wu Geng serves as the chairman.

During the year ended 31 December 2021, 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	2/2

During the year ended 31 December 2021, the Remuneration Committee had formulated the remuneration policy of Directors, approved the terms in service contracts of Directors and reviewed the distribution of bonus for the year based on assessment on performances of the executive Directors and senior management. The term of non-executive Directors is generally three years from the date of appointment.

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. As at 31 December 2021, no Directors has waived or agreed to waive any emoluments.

The Company has adopted the new share option scheme on 20 May 2016. The purpose of the New Scheme is to give the Eligible Persons (as mentioned on page 33 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 2021 is set out below:

Remuneration band	**Number of individuals**
HK$0-HK$700,000	5
HK$700,001-HK$900,000	2
HK$900,001 or above	3

Nomination Committee

Composition

The nomination committee of the Company (the "Nomination Committee") was established on 21 November 2009 in compliance with the requirements of the Listing Rules, to ensure continuous satisfaction of the needs of the Company and compliance with the Code. The principal duties of the Nomination Committee of the Company include: (a) reviewing the structure, size and diversity of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's strategy; (b) identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; (c) assessing the independence of independent non-executive Directors of the Company; (d) making recommendations to the Board on the appointment or 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 2021, the Nomination Committee held two meetings. Details of the attendance of each member are as follows:

Name of the Nomination Committee Member	Attendance
Mr. Qiao Jianmin *(Chairman)*	2/2
Mr. Zhang Bizhuang	2/2
Mr. Wu Geng	2/2

During the year ended 31 December 2021, the Nomination Committee had reviewed the structure, size and composition of the Board, and conducted full review on the professional qualifications and career background of all candidates to directorships and members of each Board committee as well as the independence of the independent Directors.

Board Diversity Policy

The Nomination Committee has adopted the board diversity policy in compliance with the Code during the Year under Review. 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 one-third (or above) 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. For the year ended 31 December 2021, 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 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 2021, 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

For the year ended 31 December 2021, 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	310
Total	3,102

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 Planning Procedure for Identification, Evaluation and Control of Environmental Factors* (《環境因素識別、評價與控制策劃程序》), the Energy and Resource Control Procedure* (《能源、資源控制程序》), the Production Process Control and Environmental and Occupational Health and Safety Operation Control Procedure* (《生產過程控制及環境職業健康安全運行控制程序》), 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, environmental, social and governance issues 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 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.

During the year ended 31 December 2021, one general meeting was held by the Company. Details of the attendance of each Director are as follows:

Name of Director	**Attendance**
Executive Directors	
Mr. Zhang Bizhuang *(Co-Chief Executive Officer)*	1/1
Mr. Wang Kunxian *(Vice President)*	1/1
Ms. Han Aizhi *(Vice President)*	1/1
Mr. Zhang Bangcheng (appointed on 10 March 2021)	1/1
Mr. Song Xichen *(Vice President)* (resigned on 10 March 2021)	0/0
Non-executive Directors	
Mr. Wei Jun *(Chairman)*	1/1
Mr. Huang Guang (appointed on 10 March 2021)	1/1
Mr. Jiang Yong (resigned on 10 March 2021)	0/0
Independent non-executive Directors	
Mr. Chen Junzhu, *ACCA, CICPA*	1/1
Mr. Wu Geng	1/1
Mr. Qiao Jianmin	1/1

Shareholders' Rights

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

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

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

Procedures by which 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 Co-Chief Executive Officer of the Company.

Significant Change in Constitutional Documents

For the year ended 31 December 2021, there was no significant change in the constitutional documents of the Company.

* *For identification purpose only*

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE REPORT

The Environmental, Social and Governance ("ESG") Report of the Group (the "Report") mainly illustrates how the Group had complied with all the mandatory disclosure requirements and the "comply or explain" provisions as set out in the Environmental, Social and Governance Reporting Guide (the "Appendix 27 Guide") as set out in Appendix 27 to the Listing Rules in aspects of environmental, social and governance for the year ended 31 December 2021, and discloses to such stakeholders as shareholders, employees, the government, customers, suppliers and the community the Group's ESG performances.

Reporting Scope

The Report covers the information and data of the principal businesses of the Group during the Reporting Period, including the information regarding manufacturing, sales and supporting anti-corrosion processing of SAWH pipes and SAWL pipes, as well as the manufacturing and ancillary office premises. The Report primarily covers manufacturing bases in Zibo of Shandong Province, Xiangtan of Hunan Province, Rizhao and Urumqi of Xinjiang Uygur Autonomous Region in China, and offices located in Shanghai and Hong Kong S.A.R, but excludes data of associates of the Group. The reporting scope of the Report remains basically the same as that published in 2020.

Reporting Principles

The Report has been prepared based on the following principles:

- Materiality: to determine the materiality of each issue with reference to the materiality assessment involving internal and external stakeholders

- Quantitative: to update key performance indicators to furnish explanations for the quantitative information, and provide comparisons where applicable

- Balance: to give a fair and impartial view of the performance of an enterprise, and avoid affecting decision or judgement by readers by means of improper reporting

- Consistency: to use consistent statistical approach for meaningful trend comparison

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Adoption of Standards

The Report was prepared pursuant to the requirements of the Appendix 27 Guide to the Listing Rules. In preparing the Report, the Group also adopted and made reference to the following standards or requirements, including 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 idt ISO14001), the PRC National Standard for Occupational Health and Safety Management Systems – Requirements with Guidance for Use* (《中華人民共和國國家標準職業健康安全管理體系要求及使用指南》) (GB/T45001 idt ISO45001) and the PRC National Standard for Quality Management Systems – Requirements* (《中華人民共和國國家標準質量管理體系要求》) (GB/T19001 idt ISO9001), the License Rules for Special Equipment Production and Filling Units* (《特種設備生產和充裝單位許可規則》) (TSG 07) issued by the State Administration of Market Supervision of the PRC and the Quality Management System Specification for Manufacturing Organizations to the Petroleum and Natural Gas Industry* (《石油天然氣行業製造企業質量管制體系規範》) (API Spec Q1) issued by the American Petroleum Institute, and has established related manuals, procedures, management systems and operating guidelines.

Currently, both of the Group's two manufacturing bases in Zibo of Shandong and Xiangtan of Hunan have established management systems for quality, environment and occupational health and safety. Continuous improvements are made to these systems to maintain their 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, social management as well as governance standards.

Forward-looking Statements

Forward-looking statements contained herein are based on the estimates, forecasts and assumptions of the current and future business development of the Group and market environment where the Group operates, and are no guarantee of the future performance of the Group. The performance of the Group as set out herein may be subject to market environment, uncertainties and factors beyond control of the Group. As a result, actual results and operating performance may be different from the assumptions and statements made in this report.

Review and Approval

The Report was reviewed and approved by the Board in March 2022.

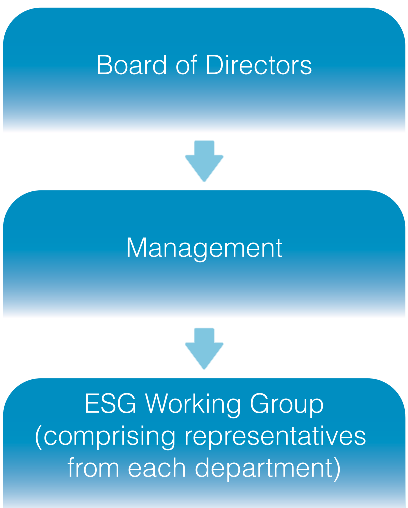
Contact and Respond

We believe that maintaining extensive communication with stakeholders will facilitate the Group to make continuous progress in environmental, social and governance aspects. The Group welcomes valuable advice from stakeholders on the Report. If you have any advice or feedback, please contact us (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).

SUSTAINABLE DEVELOPMENT GOVERNANCE

In recent years, issues concerning sustainable development have aroused rising concerns among the public, whose expectations towards the ESG performance of enterprises were also increasingly augmented. The Group attaches great importance to sustainability, and the Board reviews relevant issues from the perspective of Group-level strategies. To effectively expedite the sustainable development of the Group, it has established a sustainable development governance structure, with details as follows:

Sustainable Development Governance Structure



The Board oversees the Group's environmental, social and governance risks and opportunities to develop sustainable development strategies and targets for the Group. Meanwhile, it supervises the Group's sustainability performance and progress. The management formulates corresponding policies and measures based on the strategies made by the Board and facilitate and monitor the progress of implementation.

The ESG Working Group comprises representatives from relevant business departments, including, among others, the Human Resources Department, Finance Department and Production Department, and is responsible for materializing policies in day-to-day operation, and collecting data to oversee operating performances and provide assistance in the preparation of ESG reports.

The Board is held solely accountable to the ESG strategies and reporting of the Group. For relevant information regarding the Board structure of the Group, please refer to the section headed "Corporate Governance Function" in the Corporate Governance Report.

Directors' Trainings and Development

To achieve sustainable and balanced development, the Group regards Board composition diversity as the key for the Group to secure strategic goals and maintain sustainable development. The Directors are also furnished with briefs on the latest updates of the Listing Rules and other applicable laws and regulations on a regular basis, so as to ensure that they comply with and maintain sound corporate governance practices.

All of the Directors participated in appropriate continuous professional development during the Reporting Period to keep their knowledge and skills up to date and ensure that their contribution to the Board remains comprehensively informed and relevant. The Directors may complete professional development through multiple channels, including attending briefings, meetings, courses, forums, seminars and lectures on business development or directorships, reading relevant materials and joining business-related research.

ESG Risk Management

The Group has maintained in place a well-established risk management and internal control structure to address potential risks arising from business operations, and the internal audit department will conduct an internal audit twice a year concerning ESG-related risks. In addition, the ESG Working Group also keeps a close eye on the ESG-related risks in operating activities, formulate countermeasures and report major risks to the management or the Board as and when appropriate.

For information regarding the Group's risk management and internal control, please refer to the section headed "Risk Management and Internal Control" in the Corporate Governance Report.

STAKEHOLDER ENGAGEMENT

The Group values the opinions of our stakeholders while formulating sustainable development strategies. Stakeholders of the Group fall into seven categories, who either affect or are affected by the business operations of the Group. The Group maintains communication with our stakeholders through multiple channels:

Categories of stakeholders	Channels for engagement
Employees	Internal e-mails and publications Meetings and briefings Trainings Employee activities Performance appraisal
Customers	Corporate website Customer conference
Investors and shareholders	Annual general meetings Annual and interim reports Newsletters and announcements
Suppliers and business partners	Business conference Performance appraisal
Government and regulators	E-mails and telephone calls and conferences
Social organizations and the public	E-mails and telephone calls
Media	Press releases

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MATERIALITY ASSESSMENT

As the issues of stakeholders' concern may change over time, the Group meticulously conducts materiality assessment to determine the priority of the ESG issues and make timely adjustments to the sustainable development policies and resource allocation. The materiality assessment involves four steps:

Identifying issues
A total of 26 ESG issues were identified with reference to international standards and disclosures made by peers

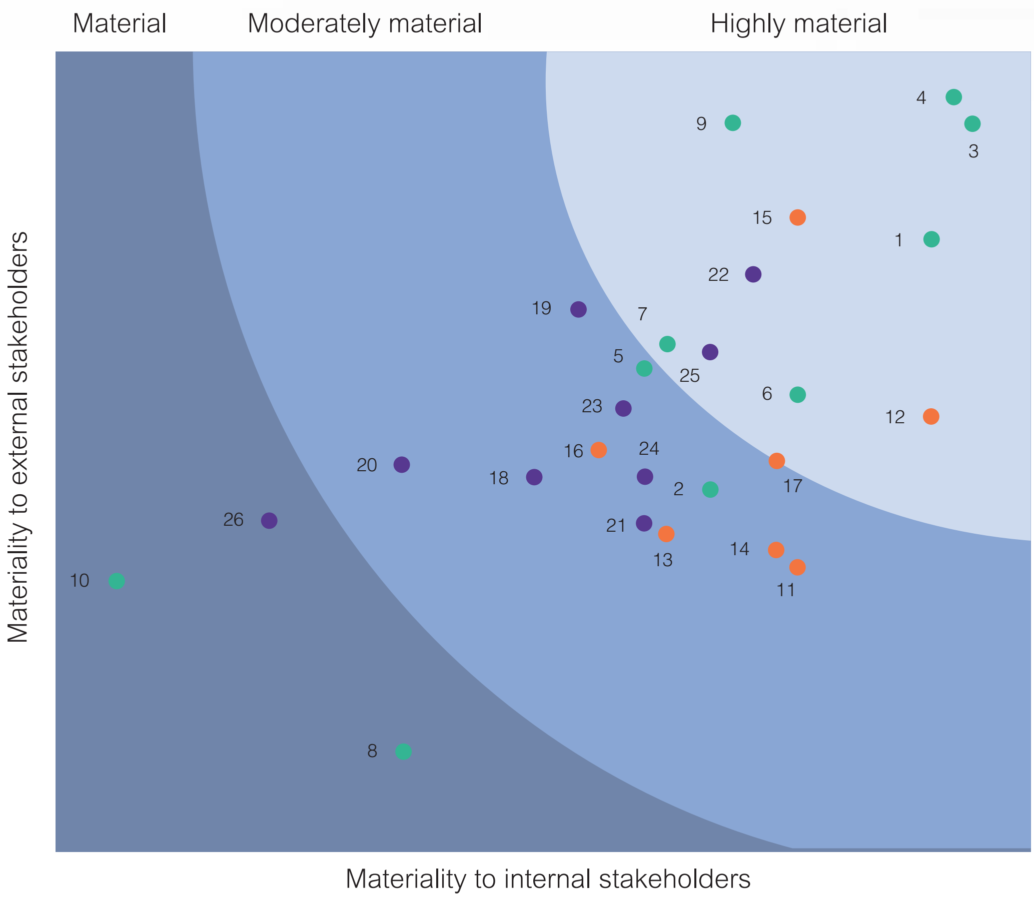
Collecting opinions
Collecting opinions from internal and external stakeholders on the issues identified via questionnaire survey

Assessing priority
Determining the priority of issues based on results of the questionnaire survey and drawing the materiality matrix

Confirming results
Submitting the results of the materiality assessment to the Board for review and confirmation

Of the 26 issues identified, 10 were assessed to be highly material, 13 were assessed to be moderately material and 3 were assessed to be material. The results are demonstrated in the materiality matrix below:

Materiality Matrix



Environmental protection	Care for employees	Social welfare
1. Exhaust emissions	11. Recruitment, promotion and dismissal	18. Environmental and social risks of supply chain
2. Greenhouse gas emissions	12. Salary and benefits	19. Health and safety of products and services
3. Sewage discharge	13. Working hours and holidays	20. Responsible advertising and labelling
4. Hazardous waste management	14. Equal opportunity, diversity and anti-discrimination	21. Private data protection
5. Non-hazardous waste management	15. Occupational health and safety	22. Customer service and complaint handling
6. Energy consumption and efficiency	16. Development and training	23. Intellectual property rights protection
7. Water consumption and efficiency	17. Prevention of child or forced labour	24. Product quality verification and re-call procedures
8. Use of packaging materials		25. Prevention of bribery, corruption and money laundering
9. Other impact on the environment and natural resources		26. Community involvement and public welfare
10. Climate change		

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL PROTECTION

The Group recognizes the importance of environmental protection to local development. It follows laws and regulations as well as industry practices in China and the place where it operates, and formulated the "Preventing Pollution and Creating a Clean Environment" policy, striving to foster a clean environment and protect natural resources. The Group strictly supervises and urges members to earnestly implement such policy, and identify and control environmental factors in production and office processes, in a bid to constantly mitigate environmental impact and improve environmental performance.

As a responsible enterprise, the Group has developed compliance targets and performance targets in the environmental aspect.

Compliance targets

- The discharge of contaminated wastes entirely conforms with the required standards;
- The consumption of raw materials is controlled within the contracting criteria;
- No complaints are lodged by related parties in respect of environmental control; and
- There are no material environmental accidents.

Performance targets

Category	Target	Expected achievement time
Greenhouse gases	Reducing emissions by 10% as compared with those of finished products per unit in 2021	2030
Waste	Reducing waste by 5% as compared with that of finished products per unit in 2021	2030
Use of resources	Reducing consumption by 5% as compared with that of finished products per unit in 2021	2030
Water consumption	Reducing consumption by 5% as compared with that of finished products per unit in 2021	2030

The Group and its members delegate 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. Identification and assessment, routine inspection, joint patrol, compliance assessment, internal audit, external audit and management evaluation regarding the environmental factors are carried out to identify, rectify and preclude matters of concern, and make on-going improvements, so as to strengthen environmental management with incessant efforts and mitigate the impact on environment and natural resources.

Waste Management

The Group acts 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 laws and regulations. The Group did not identify any case of noncompliance during the Reporting Period.

The Group has introduced 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 at the office premises and production plants.

Hazardous waste management

The Group generates waste primarily from production and office processes. Hazardous waste is mainly generated from production, including waste mineral oil, 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.

Hazardous waste is also generated from office work, but to a lesser extent, including waste ink cartridges, waste toner cartridges, waste rechargeable/disposable batteries and waste mercury lamps. Total hazardous waste generated during the Reporting Period is set out below:

Hazardous waste	**2021**	**2020**
Total (ton)	156	113
Intensity (kg/per ton of products)	0.59	0.547

The increase in total hazardous waste during the Reporting Period was primarily due to the increase in production volume of pipes in 2021 as compared with 2020, leading to an increase in waste mineral oil, waste oil drums and industrial waste generated from production, while the intensity basically remained flat as compared with 2020.

The Group maintains a grave attitude towards management and disposal of hazardous waste, so as to prevent environment pollution and minimize generation of hazardous waste. Set out below are the approaches adopted by the Group in disposal of hazardous waste:

- In the collection, storage, transportation and disposal of polluting wastes, measures must be taken to prevent scattering, draining, leakage or other environmental pollution; and dumping, stacking, discarding or scattering without authorization is prohibited;

- 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;

- The polluting wastes generated should be stored by classification; and waste mineral oil and oil-bearing waste must be sealed and stored in a special container which is far away from the fire source and furnished with fire prohibition sign and fire-fighting equipment to prevent from fire disaster. Machine oil leaking from the equipment should be cleaned in time, and measures such as oil drip pan should be taken to prevent land pollution;

- 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; and

- Reinforcing management over particular polluting waste through “returning used materials to get new ones” or delivering to qualified unit for disposal, so as to reduce waste generation.

The Group disposed of hazardous waste according to regulations during the Reporting Period, and did not cause environment pollution or receive relevant complaints.

Non-hazardous waste management

Non-hazardous waste is primarily generated from office process, including domestic waste, canteen waste and green garbage. Total non-hazardous waste generated during the Reporting Period is set out below:

Non-hazardous waste	2021	2020
Total (ton)	319.9	259.9
Intensity (kg/per ton of products)	1.22	1.33

The increase in total non-hazardous waste during the Reporting Period was primarily attributable to re-greening measures taken by the Group in certain production plants, and an increase in pipes production volume in 2021 over 2020, leading to an increase in domestic garbage, while the intensity of non-hazardous waste declined to some extent.

Although such category of waste does not result in material environment pollution, the Group is still committed to proper treatment and disposal of non-hazardous waste, and adopts measures to reduce its generation. For instance, the Group set up several trash bins targeting different kinds of waste in production plants for classified storage, and handed over to qualified unit for disposal or recycling. Besides, it strengthened skills trainings for employees to enhance their expertise and competence. The Group also stepped up assessment on consumables and energy consumption indicators without prejudicing product quality to reduce waste generation.

Greenhouse gas emissions and exhaust gas emissions

During production, carbon dioxide, methane, nitrous oxide and other greenhouse gases will be directly emitted during travel and operation of production vehicles such as forklifts, cranes and pipe grabbers, as well as from plasma and oxyacetylene cutting process. Moreover, greenhouse gases will also be generated from water and electricity consumption.

During office work, carbon dioxide, methane, nitrous oxide and other greenhouse gases will be directly generated from running vehicles and natural gas used in the canteen, and indirectly from water and electricity consumption.

Total greenhouse gas emissions of the Group during the Reporting Period are set out below:

Greenhouse gas emissions	2021	2020
Scope 1 (tons of carbon dioxide equivalent)	723	360
Intensity (kg of carbon dioxide equivalent/ per ton of products)	2.76	1.84
Scope 2 (tons of carbon dioxide equivalent)	20,420	18,669
Intensity (kg of carbon dioxide equivalent/ per ton of products)	78	95

The greenhouse gases emissions in the Report are calculated with reference to the "Reporting Guidance on Environmental KPIs" issued by the Hong Kong Stock Exchange, the "2019 China Regional Power Grid Baseline Emission Factors For Emission Reduction Project" issued by the Ministry of Ecology and Environment of the PRC, the "Greenhouse gas reporting: conversion factors 2021" issued by the Department for Business, Energy & Industrial Strategy of the UK Government and research reports issued by other institutions .

Scope 1 greenhouse gas emissions during the Reporting Period were primarily generated from natural gas, acetylene, diesel oil and gasoline; and scope 2 greenhouse gas emissions were primarily generated from power consumption. Overall, greenhouse gas emission intensity dropped by approximately 16%, which was mainly due to reduced power consumption during the production and office process.

The major measures taken to mitigate emissions were reducing energy consumption, the details of which are set out in the section headed "Energy Consumption and Efficiency" in this report.

Sewage discharge

The Group discharges sewage into water and land during production and office processes, including industrial wastewater, domestic sewage and canteen sewage. Water consumed in production process will generally be recycled, and sewage will be treated in the sedimentation tank before being discharged, so as to comply with local regulations on sewage discharge, and avoid polluting local drinking water. In addition, the Group also entrusts qualified third party testing institutions to conduct test for sewage generated by the Group on an annual basis, in order to ensure qualified water quality.

EFFICIENT USE OF RESOURCES

The Group 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.

Energy consumption and efficiency

The Group primarily consumes electricity, gasoline, diesel oil and natural gas in production and office work. Total energy consumption of the Group during the Reporting Period is set out below:

Energy consumption	**2021**	**2020**
Electricity (kWh)	35,236,000	27,740,000
Diesel oil (kWh)	2,189,000	1,030,000
Gasoline (kWh)	354,000	158,000
Natural gas (kWh)	175,000	127,000
Total energy consumption (kWh)	37,954,000	29,055,000
Intensity (kWh/per ton of products)	0.144	0.149

Increase in energy consumption during the Reporting Period was mainly due to improvement of production capacity of pipes, while the energy consumption intensity declined slightly as compared with 2020.

The Group boosted energy use efficiency by way of promoting the upgraded assessment mechanism, adopting new approaches and conducting staff trainings:

- 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;

- Reasonable layout for lighting system for production, use of energy efficient lighting products; and raising employees' awareness on energy saving through trainings, putting up slogans, etc.;

- 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 Group's basic electricity bill method at the production bases as and when appropriate based on the Group's actual production condition and power consumption policy to ensure that its basic electricity bill method at the production bases is at the optimal status;

- 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.

Water consumption and efficiency

The Group primarily consumes water in office and canteen, as well as production such as hydrotest and ultrasonic test. Total water consumption of the Group during the Reporting Period is set out below:

Water consumption	2021	2020
Water (cubic meter)	234,217	195,207.5
Intensity (cubic meter/per ton of products)	0.9	1.0

The slight increase in total water consumption during the Reporting Period was mainly due to improvement of production capacity of pipes in 2021 while the water consumption intensity declined slightly as compared with 2020.

The Group adopted multiple measures to enhance water efficiency, including reusing water for production use; promoting the use of water-saving taps and sanitary wares with sensor; raising employees' awareness on water saving through trainings, putting up slogans, etc.; and implementation of various measures such as organizing water-saving corporate activities. 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.

Use of packaging materials

Pipe-end protectors, pipe-end seals and nylon separation ropes are used in simple packaging of our pipes according to clients' needs. Relevant consumption data during the Reporting Period is set out below:

Use of packaging materials	2021	2020
Pipe-end protectors (article)	192,452	141,782
Pipe-end seals (piece)	74,159	81,847
Nylon separation rope (strip)	317,633	333,520

Use of packing materials is determined by sales volume of pipes and customer requirements. The Group vigorously controls consumption indicators to minimize waste of packaging materials.

Climate Change

Climate change may intensify in the coming decades, so the Group has been committed to mitigating the risk of climate change. The Group strives to reduce greenhouse gas emissions, various wastes and consumption of energy resources, so as to reduce the financial risks caused by climate change.

To enhance control over risks arising from climate change, the Group identified physical risks relevant to the business operations of the Group (being risks relating to the physical impact of climate change) and transitional risks (being risks relating to transition to the low carbon economy) with reference to suggestions from the Task Force on Climate-Related Financial Disclosures. Details of such risks, their potential impact and countermeasures of the Group are set out below:

No.	Risk identification		Potential impact	Countermeasures
1	Physical risks	Acute risk-extreme weather such as typhoon, sandstorm, flood, extreme temperature difference, heavy air pollution, etc.	Causing damage to plants, products and other physical assets, interrupting supply chain and threatening lives.	Due to the geographical conditions of the places where members of the Group are domiciled, extreme weather such as typhoon, sandstorm, flood and extreme temperature difference rarely occur. Establish emergency response mechanism for heavy air pollution, improve employees' capability to prevent, alert against and respond to heavy air pollution, timely and effectively implement emergency response to heavy air pollution, minimize air pollution and create a good environment.
2		Chronic risk-prolonged high temperature	Causing damage to production facilities and employees' health, and increasing work-related accidents.	The office is equipped with air conditioning, and the production site is equipped with fans to reduce temperature. Employees will be granted cooling supplies and bonuses from June to September each year, and outdoor work during high temperature period will be reduced or shifted to night work. Emergency plans for heatstroke are formulated and exercised on a regular basis.

No.	Risk identification		Potential impact	Countermeasures
3	Transitional risks	Policy and legal risks-changes in climate-related policies and laws (such as implementation of the carbon-pricing regime)	Restricting operating activities and escalating operating and compliance cost.	The Group keeps a close eye on changes in laws and regulations and actively responds to local government actions. There were no changes in climate-related laws and policies during the Reporting Period.
4		Technology risk-development of new low carbon technologies (such as renewable energy and energy efficiency)	Lagging behind in application and development of new technologies may cripple competitiveness, while applying and developing new technologies may incur higher investment and equipment replacement rate.	The Group will make various evaluations on new technologies and new products to ensure that the principal business of the Group will not be affected and the competitiveness of the Group will not be weakened.
5		Market risk-the market increasingly heightens awareness on issues concerning climate change and any change in market preference may impact the supply and demand of products	Increase in price of environmental-friendly materials driven by higher demand will boost cost.	The Group will keep close track of market trends and make timely adjustments to production and sales strategies.
6		Reputation risk – opinions of customers or society on contributions made to transit to the low-carbon economy	Falling-short-of-expectation achievements in transition to the low-carbon economy may affect the Company's reputation.	The Group will maintain communication with stakeholders from all circles of society to understand their view and suggestions to the Group and respond to them whenever appropriate.

Management over 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.

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:

- 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;

- Handing hazardous waste over to qualified institutions for disposal or recycling;

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

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

- Planting grass lawn and trees in the surroundings of production bases 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; and

- Formulating corresponding contingency plans for environmental accidents and conducting regular drills.

CARE FOR EMPLOYEES

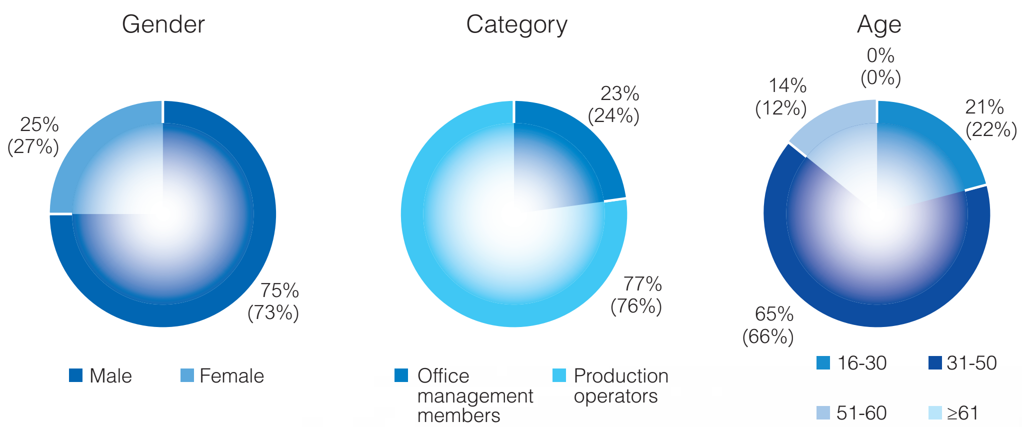
The Group regards employees as its valuable resources, and affirms their contributions to the business development of the Group. Accordingly, the Group dedicates itself to providing a desirable working environment for the employees, allowing them to tap into their expertise and gain sense of achievement from work. Meanwhile, the Group attaches significant importance to employees' health and safety, and has established the following targets:

- Zero incident of general accidents, major accidents and serious accidents throughout the year;
- Zero incident of occupational diseases throughout the year;
- Minor accident rate of less than 5‰ throughout the year;
- No material fires, major equipment accidents, explosions or poisoning accidents throughout the year;
- 100% intact rate for safety facilities, occupational health facilities and fire-fighting facilities;
- 100% rectification rate for potential dangers;
- 100% coverage rate for employee safety trainings and 100% training coverage for principals and safety management personnel;
- 100% registration rate for special equipment, 100% inspection rate for special equipment and 100% inspection rate for accessories;
- 100% qualification rate for occupational safety trainings and 100% certified rate for special operation personnel; and
- Over 98% inspection acceptance rate for occupational factors in worksites and workplaces.

Employment

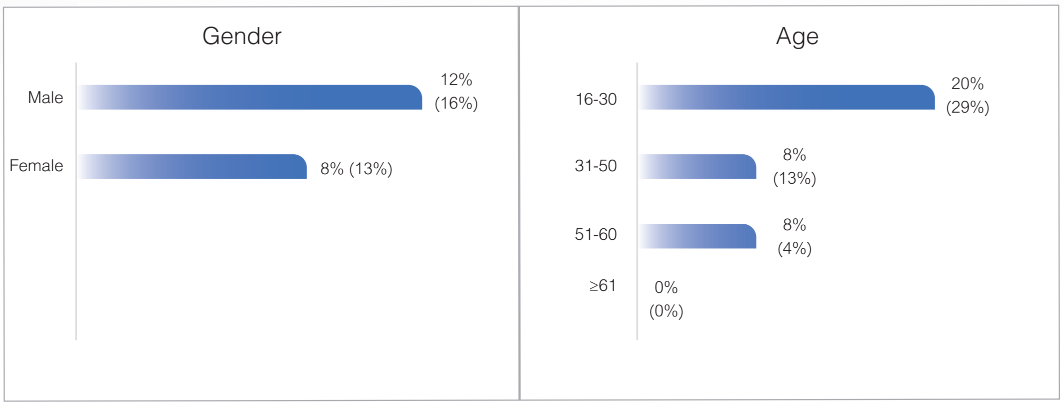
The Group has set up the Provisions on Administration of Staff Recruitment* (《員工招聘管理規定》), the Provisions on Administration of Labour Contracts* (《勞動合同管理規定》), the Provisions on Administration of Staff Leave* (《員工請假管理規定》), the Provisions on Administration of Labour Discipline* (《勞動紀律管理規定》), the Administrative System for Staff Rewards and Punishments* (《員工獎懲管理制度》), the Ranking Measure for Operating Positions* (《操作崗位分級辦法》), the Ranking Measure for Professional Technical Positions* (《專業技術崗位分級辦法》), the Ranking Measure for General Management Positions* (《一般管理崗位分級辦法》), the Administrative and Assessment Measures for Intermediate and Senior Management* (《中高層管理人員管理考核辦法》) and other systems in accordance with the Constitution of the PRC* (《中華人民共和國憲法》), the Labour Contract Law of the PRC* (《中華人民共和國勞動合同法》), the Law of the PRC on the Protection of Rights and Interests of Women* (《中華人民共和國婦女權益保障法》), the Administrative Rules for Training and Assessment of Special Equipment Operators* (《特種設備作業人員培訓考核管理規則》) and other laws and regulations. These systems set out express requirements in respect of compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare of employees. Comprehensive promotion mechanism, reasonable remuneration structure and good benefits and welfare are also offered to attract, motivate and retain talents. No case of noncompliance was identified by the Group during the Reporting Period.

For the year ended 31 December 2021, the Group had a total of 915 employees (2020: 928 employees), the majority of whom were in mainland China. Set out below is a breakdown:



Percentages in the brackets represent employee information in 2020

A total of 98 employees left the Group during the Reporting Period (2020: 141 employees), all of whom were in mainland China. The turnover rate fell in the normal range. Set out below is a breakdown of employee turnover rate by gender and age:



Percentages in the brackets represent employee information in 2020

Equal opportunity, diversity and anti-discrimination

The Group pays respect to the individual and cultural backgrounds of each employee and believes that discrepancies in background may offer an opportunity for them to learn from each other, and help to improve creativity. Therefore, 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 to foster a harmonious working environment.

Recruitment, promotion and dismissal

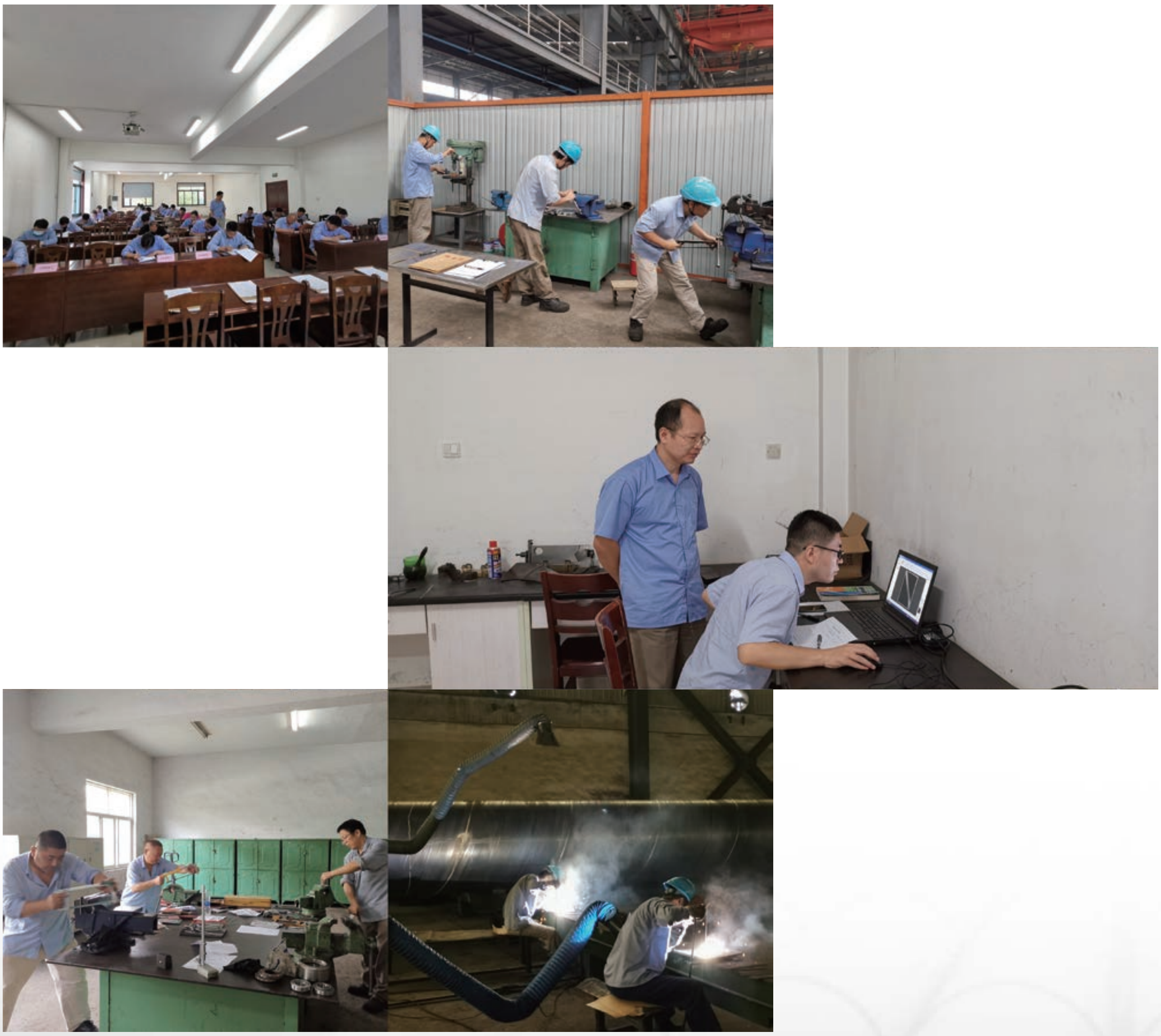
The Group has established administrative systems such as the Procedures for Administration of Human Resources* (《人力資源管理程序》) and the Provisions on Administration of Labour Contracts* (《勞動合同管理規定》), which provide express requirements for recruitment. Such systems are amended and finalized by human resources department to ensure compliance with applicable laws and regulations. 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 categorized 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 are capable to compete for senior positions when they fulfil the criteria of seniority and performance.

The Group cherishes talents and is concerned about fresh graduates who just commence their careers. On 15 July 2021, Shengguan Group* (勝管集團) held the exchange meeting for newly joined college graduates. General manager and deputy general manager from Shengguan Group, general manager from Shandong Shengli Steel Pipe, heads of relevant departments and fresh graduates newly joined the Group attended the meeting. At the meeting, the Group learnt about the learning and living conditions of college graduates from their self-introduction. Management of the Group shared their work insights accumulated over the years with the graduates through amicable chats based on personal experience, and introduced to the graduates the profile of the industry in which the Group operates and its development history, which facilitated the newly joined graduates to rapidly integrate into the Group.

Exchange meeting for newly joined college graduates

The Group also encouraged employees to strive for promotion opportunities. Pursuant to the Measures for Selection of Senior Technicians in Operating Posts* (《操作崗位高級技術工選拔辦法》), on 6 August 2021, Shandong Shengli Steel Pipe launched registration by employees from different posts, and after one-month deliberate arrangement, a total of 93 employees registered for selection. After theoretical/practical examination, unit evaluation and final approval by the leading group of Shandong Shengli Steel Pipe, 61 employees were selected as senior technicians, who come from 10 different technical posts. Employees qualified as senior technicians were entitled to senior technician allowance from 1 September 2021. Selection of senior technicians will lay the foundation for the selection of internal technicians of the Group, who will capitalize on their skill advantages, discharge their responsibilities with diligence, drive other employees to effectively perform duties and spare no effort to improve post skills, thereby contributing to the development of the Group.



2021 senior technicians selection

Salary and benefits, working hours and holidays

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, post requirements and rewards and punishments. In addition, the Group offers sales commission, options and other incentives.

The Group has complied with the laws and regulations and industry practices with regard to working hours and rest periods. Some employees are required 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.

The Group operates canteens and bachelor's quarters in certain production bases, providing catering services and accommodation to employees with reasonable price, and also arranges commuting shuttle buses for employees for free. In summer, the Company distributes cooling products to employees and grants cooling bonuses, 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".

On 8 March 2021, Shengguan Group and Shandong Shengli Steel Pipe held the Women's Day activities on the playground, and more than 80 female employees participated.

On 1 July 2021, Hunan Shengli Steel Pipe held a tug-of-war game with over 100 participants.

Occupational Health and Safety

The Group considers safety as the bottom line that cannot be treaded upon. Upholding the people first and life foremost principle, it gives top priority to protecting people's life safety, persists in the safe development concept and remains committed to the safety policies, so as to preclude and mitigate material safety issues at the source. Major health and safety measures include:

- Setting up a safety production committee to ensure the Company's safety production, occupational health, double prevention system, fire safety, radiation safety, emergency rescue, environmental protection and hazardous waste disposal.

- Each subsidiary conscientiously implements the safety management principle of "Complying with Laws and Regulations to Ensure Health and Safety" of the Group, identifies and controls the sources of dangers in production and office activities, and determines responsible units to reduce the safety impact and improve the safety performance.

- Each subsidiary observes relevant laws and regulations, delegates the environmental and safety objectives to the production frontline and relevant management departments, establishes departmental environmental and safety objectives and maintains supervision on a monthly basis, and incorporates environmental and safety management into the performance appraisal of each department, which is monitored and overseen by particular department on a regular and ad hoc basis.

- The environmental and safety aspect is emphasised in the supervision and management measures carried out by the Group, including daily check, joint inspection, identification and assessment of hazardous environmental factors, compliance assessment, 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.

- Strengthening the management over on-site violations, implementing the safety production responsibility system for all employees, and strictly cracking down on on-site violations. Management at all levels are required to perform their job responsibilities, enhance management and service awareness, and effectively discharge supervision responsibilities while completing their post tasks. Control measures must be formulated for material risks with executives of the Company taking the lead and frontline employees to implement, so as to develop the control model of "executives of branch factories taking the lead + instructions by the functional departments + implementation by frontline employees" to ensure effective risk control.

- Carrying out special production safety rectification activities, conducting targeted special inspections based on the actual situation of the subsidiaries of the Company, and initiating regular or irregular safety inspections by way of random inspection, special inspection, self-inspection and mutual inspection. Proactively conducting regular inspection over the special equipment, fire control facilities, etc. of the subsidiaries, and preventing operations with illness. Effectively managing the safety operation of hand-held electric tools and slings of each subsidiary, so as to avoid potential safety hazards and accidents.

Set out below is the information regarding the work-related injuries and casualties of the Group for the last three years:

Year	**Work-related injuries** (individual)	**Work-related casualties** (individual)	**Proportion** (%)	**Working days lost** (day)
2019	2	1	0.2	60
2020	0	0	0	0
2021	3	0	0	118

The Group has conducted research into the three work-related injuries during the Reporting Period and launched safety education for the responsible personnel. Employees who suffered from work-related injuries are required to receive the safety awareness assessment before getting back to work after recovery, and only those passing the assessment are permitted to return to their posts. All such three accidents were reported and treated as work-related injuries.

Save as measures disclosed above, Shandong Shengli Steel Pipe also purchased the "Inclusive and Preferential Insurance* (齊惠保)" issued in Zibo City for its employees, which extended the medical coverage provided to employees beyond the basic medical insurance, and it purchased the updated version for employees in need based on extensive opinion solicitation.

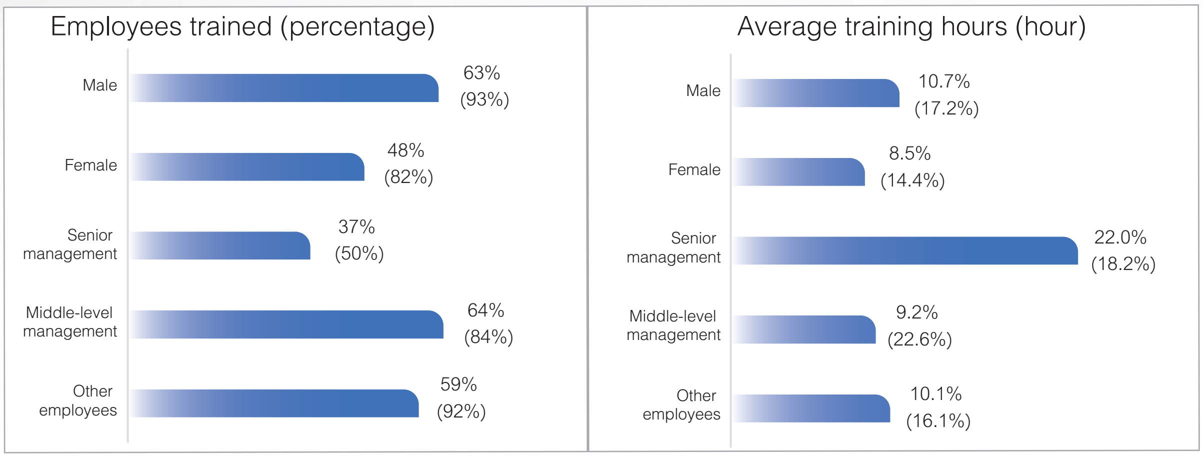
The Group has formulated provisions on the administration of occupational health and safety including the Planning Procedures for Identification of Origin of Hazards and Evaluation and Control of Risks* (《危險源辨識與風險評價和控制策劃程序》), the Control on Production Process and Control Procedures for Environmental, Occupational Health and Safety Operation* (《生產過程控制及環境職業健康安全運行控制程序》), the Procedures for Administration of On-site Safety Protection* (《現場安全防護管理程序》), the Procedures for Administration of Labour Protection* (《員工勞動保護管理程序》), and the Provisions on Administration of Fire Protection* (《消防安全管理規定》) in compliance with the Law of the PRC on Safe Production* (《中華人民共和國安全生產法》), the Fire Protection Law of the PRC* (《中華人民共和國消防法》), the Law of the PRC on Prevention and Control of Radioactive Pollution* (《中華人民共和國放射性污染防治法》), the Measures for Regular Supervision and Administration of Hazardous Factors of Occupational Diseases of Employers* (《用人單位職業病危害因素定期監測管理規範》), the Provisions on Administration of Labour Protection Articles* (《勞動防護用品管理規定》), the Administrative Measures for Occupational Health of Radiological Personnel* (《放射工作人員職業健康管理辦法》), the Administrative Measures for Occupational Health Surveillance* (《職業健康監護管理辦法》), the Regulation on Work-Related Injury Insurances* (《工傷保險條例》) and other laws and regulations. The purpose of these provisions is to prevent the occurrence of safety issues/accidents by strengthening the control over origin of hazards, fostering the enhancement of occupational health and safety conditions and raising the occupational health and safety awareness of employees. No case of violation was identified during the Reporting Period.

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 during the Reporting Period was 100% (2020: 100%). Internal trainings carried out during the Reporting Period include safety education training (level 3), position skills training and trainings regarding rules on safe operation; and external trainings carried out during the Reporting Period 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.

A total of 540 employees received trainings provided by the Group during the Reporting Period. Set out below is a breakdown of percentage of employees trained and average trainings hours:



Percentages in the brackets represent employee information in 2020

Prevention of Child or Forced Labour

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》), which specify staff recruitment procedures to avoid the recruitment of child labour and ensure the fulfilment of entry requirements by recruited staff through examining their identification cards 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 subsidiaries of the Company and the employees in accordance with the provisions on termination of contracts. There is no forced labour within the Group.

The Group acts in strict compliance with the Labour Contract Law of the PRC* (《中華人民共和國勞動合同法》), the Law of the PRC on the Protection of Minors* (《中華人民共和國未成年人保護法》), the Provisions on the Prohibition of Using Child Labour* (《禁止使用童工規定》) and other laws and regulations. No case of violation was identified during the Reporting Period.

SOCIAL WELFARE

The Group is committed to satisfying the needs of customers with quality products and services. As in the production process, the Group uses products and services from different suppliers, supply chain management is therefore a crucial component of the Group's operation. The Group expects to exert a positive influence on the customers and suppliers through business operations and promote local harmony, so as to ultimately share the economic benefits with them.

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. The suppliers of the Group provide raw materials, equipment, accessories, labour protection articles and transportation services. During the Reporting Period, a total of 278 (2020: 333) suppliers conducted transactions with the Group, the majority of which are located in the PRC. The decline in the number of suppliers was mainly attributable to the cost control and comprehensive procurement measures taken by the Group. Based on the degree of impact of products or services rendered by suppliers in terms of product quality, environment and health and safety, the Group distinguishes between essential suppliers and general suppliers and conducts evaluation, selection and control accordingly.

The Group primarily selects and evaluates suppliers from the following aspects:

- Evaluating their technology and management foundation;
- Comparing the historical level and test results of similar products and the experience of other users;
- Evaluating the standards of the their products;
- Evaluating their production capacity, delivery quality, reputation, product price and services;
- Implementing First Article Inspection to ensure that the purchased products meet the specified requirements;
- Whether the products supplied by them meet the specific requirements under the restrictions of patents, laws and regulations and/or contract terms;
- Evaluating their product samples, which may be conducted through experimental activities; and
- Adopting on-site review where necessary.

Managing environmental and social risks of supply chain

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, health and safety certification and its validity of the suppliers, but also confirms the qualification of them.

In addition to the above-mentioned considerations concerning qualifications, quality and economy, the Group also pays attention to the environmental and social performance of suppliers, which is one of the criteria of the Group in selecting suppliers. The Group rejects suppliers who use child or forced labour, and gives priority to more environmental-friendly products provided that they have reasonable technology and cost. The Group has established a win-win cooperation relationship with suppliers, and expects to exert positive influence on their environment, health and safety performance, and urge them to make improvements, so as to facilitate the Group to manage potential environmental and social risks.

Product Responsibility

The Group strictly abides by the Law of the PRC on Product Quality* (《中華人民共和國產品質量法》), the Law of the PRC on the Safety of Special Equipment* (《中華人民共和國特種設備安全法》), the Trademark Law of the PRC* (《中華人民共和國商標法》), the Patent Law of the PRC* (《中華人民共和國專利法》), the Basic Requirements of Quality Assurance System for Manufacture, Installation, Alteration and Repair of Special Equipment* (《特種設備製造、安裝、改造、維修質量保證體系基本要求》), the Provisions on the Supervision and Inspection on Pressure Pipe Units* (《壓力管道元件製造監督檢驗規則》) and other laws and regulations to strengthen the control over production process and the control over environmental, health and safety operation. No case of violation was identified during the Reporting Period.

Oil Pipeline International Standards Expert Exchange

In the morning of 27 May 2021, CNPC Tubular Goods Research Institute* (「中國石油集團石油管工程技術研究院」) convened the oil pipeline international standards expert exchange in Xi'an, Shaanxi. At the meeting, Li Yanfeng, a distinguished expert of the Group, was named as an "Expert Responsible for Oil Pipeline International Standards* (「石油管材國際標準責任專家」)", which effectively enhanced the Group's influence while engaging in the establishment and modification of international standards, and also increased the likelihood of engaging in developing or revising international standards.

Health and safety of products and services, product quality verification and re-call procedures

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.

Specifically, the Group has formulated the non-destructive testing review and re-examination system to avoid the testing omission of non-destructive defects through the implementation of review of radiographic testing drawing by non-destructive testing technicians, re-examination of qualified steel pipes via ultrasonic testing by designated personnel with metal detectors, and review of radiographic testing drawing by a third party. In case any suspected defects are identified during the review and re-examination process, the defective steel pipes are required to be returned to the branch factories for inspection and treatment. Any steel pipes that miss testing will be withheld in strict accordance with the steel pipe withholding process to prevent the defective pipes from being delivered the construction sites of customers. Meanwhile, the relevant responsible personnel shall be assessed and notified to avoid quality accidents during pipeline operation.

In the production process, the Group gradually increased the proportion of radiographic testing shooting to improve the sensitivity of radiographic inspection and reduce misjudgement: the longitudinal welded pipe branches were required to strive to shoot at the pipe ends for all pipes; and the submerged-arc helical welded pipe branches were required to at least achieve shooting at the pipe joints and ends of the preceding and succeeding pipes. Meanwhile, the Group optimized and upgraded radiographic testing equipment to improve detection sensitivity.

During the Reporting Period, the Group did not experience any return of products sold or delivered out of safety and health reasons.

During the Reporting Period, the Group completed production and delivery of pipes for the Ripuluo Crude Oil Pipeline, one of the major projects of China’s Medium and Long-term Oil and Gas Pipeline Network Planning. Its official commencement of operation heralded another important initiative undertaken by PipeChina in safeguarding national energy security and remaining committed to its principal activity of energy, and also marked as the first 10-million-ton oil transmission pipeline put into operation during the 14th Five-year Plan period. Commercial operation of the pipeline project plays a vital role in optimizing the energy supply structure in middle and eastern China, especially in Henan Province, and will further drive the intensive, refined and high-end development of local industry.

Customer service and complaint handling

The Group attaches great importance to product quality and customer opinions. To handle customer complaints with effectiveness and standardization, 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 construction 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.

The Group did not receive any product or service complaints during the Reporting Period.

Responsible advertising and labeling

During the Reporting Period, the Group acts in good faith and is dedicated to establishing long-term and mutually beneficial relations with customers. Therefore, the Group resolutely safeguards the interests of customers, and requires accurate, true and objective information release and product labeling. To this end, the Group has formulated the Measures for the Administration of Information Disclosure* (《信息披露管理辦法》), the Regulations for the Administration of Publicity and Reporting* (《宣傳報道管理規定》), the Regulations for the Administration of Publicity of Enterprise Information* (《企業信息公示管理規定》) and the Regulations for the Administration of Product Labels* (《產品標識管理規定》) to regulate the process of releasing advertisements and labeling.

The Group observed Measures for the Administration of Commercial Franchise Information Disclosure*(《商業特許經營信息披露管理辦法》), Interim Regulations on Enterprise Information Publicity* (《企業信息公示暫行條例》), Interim Measures for Spot Check of Enterprise Publicity*(《企業公示抽查暫行辦法》) of the PRC, Advertising Law of the People's Republic of China* (《中華人民共和國廣告法》) and other regulations. No case of violation was identified during the Reporting Period.

Protection of private data and intellectual property rights

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* (《計算機系統管理規定》), 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 consumer data, intellectual property rights and information security.

The Group values intellectual property rights, and strictly prohibits employees from using images, designs and other forms of intellectual property rights that do not belong to the Group or themselves without authorization. Meanwhile, the Group encourages employees to apply for patents and publish papers, and resolutely protects the intellectual property rights in the Group's possession. During the Reporting Period, six utility model patents were obtained (including Mechanical Device for Auxiliary Placement of Radiographic Inspection Marking Bag* (《輔助放置射線探傷標記袋的機械裝置》), Rectangular Ruler for Tensile Test* (《拉伸試驗板狀試樣標矩尺》), Pipe Truck with Positioning Function* (《具有定位功能的運管車》), Sealing Test Head of Small-diameter Steel Pipe Hydraulic Tester* (《一種小管徑鋼管水壓試驗機密封試驗頭》), Quality Inspection Workbench of Helical Steel Pipes* (《一種螺旋鋼管質檢工作台》) and Equipment for Polishing 3PE-3PP External Anti-corrosive Coating of Steel Pipe Ends* (一種鋼管管端3PE-3PP外防腐層打磨的設備)), and 17 technical papers were published in domestic professional magazines and industry annual conferences. No complaints or proceedings regarding the infringement of intellectual property rights were received or brought against the Group.

To guarantee information security, the Group has standardized the processes of collecting, storing and using information. For example, the Group only collects information for legal and commercial operation purposes, and only grants relevant employees access to such information. In addition, full-time or part-time staff are deployed to perform centralized management of computer systems and networks, and through enhancing the management of labor discipline and streamlining work procedures, the risk of leakage of corporate information is kept to minimal.

The Group observed Patent Law of the People's Republic of China (revised in 2020)* (《中華人民共和國專利法(2020修正)》), Detailed Rules for the Implementation of the Patent Law of the People's Republic of China (revised in 2010)* (《中華人民共和國專利法實施細則(2010修訂)》), Regulations of Shandong Province on Science and Technology Progress* (《山東省科學技術進步條例》), Regulations on the Promotion of Intellectual Property Rights of Shandong Province* (《山東省知識產權促進條例》), Patent Labelling and Marking Method* (《專利標識標注辦法》), Patent Compulsory Licensing Method* (《專利實施強制許可辦法》) and other regulations. No case of violation was identified during the Reporting Period.

Prevention of Bribery, Extortion, Fraud and Money Laundering

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 by the employees and other relevant parties have been established, including via phone call, mail, letter and the "General Manager's Mailbox". The Group is concerned about each case of corruption and noncompliance, so as to conduct fair and rigorous investigation, and keeps the identity of whistle-blowers confidential to protect their interests.

The Group attaches importance to strengthening the anti-corruption awareness and capability of our employees and external parties engaging in business transactions with the Group, carries out regular inspection over acts in violation of laws and regulations among Group members, and updates and timely popularizes the knowledge system concerning anti-corruption, aiming to enhance the awareness of all employees and parties against corruption.

During the Reporting Period, the Group did not encounter any corruption proceedings or cases.

Community Involvement and Public Welfare

Igniting the Dreams of Kids and Conveying Love and Kindness to the Next Generation

In November 2021, the Youth League Committee of Xiangtan High-tech Zone and businesses operating in the high-tech Zone jointly launched the public welfare activity of "Igniting the Dreams of Kids and Conveying Love and Kindness to the Next Generation* (點亮微心願，以善育新人)" in Xitang Village, Bantang Street, High-tech Zone. In the activity, Hunan Shengli Steel Pipe donated schoolbags, stationery and scooters to children in Xitang village and also meticulously asked the kids about their learning and living conditions, and encouraged them to study hard, grow into talents, and deliver positive social energy.

Paying Condolences to the Elderly at the Double Ninth Festival

In October 2021, businesses operating in the High-tech Zone launched the "Paying Condolences to the Elderly at the Double Ninth Festival* (「情暖重陽」) " volunteer activity in Nonglian Village. Hunan Shengli Steel Pipe participated in the activity, donated life necessities to the elderly, and asked them about their living and health conditions through interactions including "Conveying Love with Donations and Spreading Care with Heartfelt Condolences* (「捐贈物資傳遞愛，深情慰問暖人心」)" and "Respecting the Elderly with Voluntary Acts* (「志願暖人心，敬老在行動」)". Meanwhile, it dispatched volunteer representatives to visit the elderly at their homes, and presented them with consolations, thereby carrying forward the traditional virtue of filial piety.

The Group not only provided mental support for employees to take part in social and welfare activities, but also rewarded them with physical assistance and incentives, so as to pass the spirit of devotion of remaining true to original aspiration and pressing ahead to each employee and let them feel the love and care around.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE

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* *For identification purpose only*

INDEPENDENT AUDITOR'S REPORT

中汇
ZHONGHUI

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

OPINION

We have audited the consolidated financial statements of Shengli Oil & Gas Pipe Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 112 to 197, which comprise the consolidated statement of financial position as at 31 December 2021, 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 2021, 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 Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 2 to the consolidated financial statements which mentions that the Group incurred loss attributable to owners of the Company of approximately RMB260,719,000 for the year ended 31 December 2021 and as at 31 December 2021 the Group had net current liabilities of approximately RMB279,039,000. 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 20 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 RMB471,330,000 and approximately RMB225,498,000 respectively as at 31 December 2021 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 assets are supported by the available evidence.

INVESTMENT IN AN ASSOCIATE

Refer to Note 19 to the consolidated financial statements

The Group tested the amount of investment in an associate for impairment. This impairment test is significant to our audit because the balance of investment in an associate of approximately RMB193,910,000 as at 31 December 2021 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 associate; and

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

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

TRADE AND BILLS RECEIVABLES

Refer to Note 23 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 RMB287,183,000 as at 31 December 2021 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, 26 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 RMB'000	2020 RMB'000
REVENUE	9	**1,526,684**	856,427
Cost of sales and services		**(1,390,864)**	(812,192)
Gross profit		**135,820**	44,235
Other income and gains	9	**67,424**	24,094
Selling and distribution costs		**(52,183)**	(63,804)
Administrative expenses		**(173,407)**	(152,343)
Other expenses		**(8,723)**	(2,612)
Share of profit of an associate		**1,821**	4,936
(Impairment)/reversal of impairment loss on other receivables		**(14,773)**	9,994
Impairment loss on non-current assets held for sale		**–**	(195,672)
Impairment loss on deposits paid for acquisition of investments		**(193,576)**	–
Finance costs	10	**(34,669)**	(39,192)
LOSS BEFORE TAX	11	**(272,266)**	(370,364)
Income tax expense	13	**(3,583)**	(1,956)
LOSS FOR THE YEAR		**(275,849)**	(372,320)
Other comprehensive loss that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(5,397)**	(13,509)
		(5,397)	(13,509)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(281,246)**	(385,829)
LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(260,719)**	(325,392)
Non-controlling interests		**(15,130)**	(46,928)
		(275,849)	(372,320)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	Notes	2021 RMB'000	2020 RMB'000
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(266,116)**	(338,901)
Non-controlling interests		**(15,130)**	(46,928)
		(281,246)	(385,829)
LOSS PER SHARE (RMB cents)	14		
– Basic		**(6.75)**	(9.94)
– Diluted		**(6.75)**	(9.94)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**471,330**	568,876
Deposits paid for acquisition of investments	18	**4,067**	203,040
Deposits paid for acquisition of property, plant and equipment		**14,029**	–
Investment in an associate	19	**193,910**	192,089
Right-of-use assets	20	**225,498**	234,221
Deferred tax assets	21	**762**	4,361
		909,596	1,202,587
CURRENT ASSETS			
Inventories	22	**318,503**	290,778
Trade and bills receivables	23	**287,183**	283,596
Contract assets	24	**92,960**	27,499
Prepayments, deposits and other receivables	25	**145,854**	251,267
Pledged deposits	26	**31,280**	66,953
Cash and cash equivalents	26	**134,311**	113,159
		1,010,091	1,033,252
Non-current assets held for sale	27	**–**	4,328
		1,010,091	1,037,580
CURRENT LIABILITIES			
Trade and bills payables	28	**519,765**	360,366
Other payables and accruals	29	**27,465**	67,575
Contract liabilities	24	**32,847**	150,151
Lease liabilities	30	**1,162**	1,052
Borrowings	31	**691,000**	780,600
Tax payable		**15,308**	15,308
Deferred income	32	**1,583**	1,583
		1,289,130	1,376,635
NET CURRENT LIABILITIES		**(279,039)**	(339,055)
TOTAL ASSETS LESS CURRENT LIABILITIES		**630,557**	863,532

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT LIABILITIES			
Deferred income	32	**2,791**	4,375
Lease liabilities	30	**25**	1,101
Deferred tax liabilities	21	**276**	292
		3,092	5,768
NET ASSETS		**627,465**	857,764
EQUITY			
Equity attributable to owners of the Company			
Issued capital	33	**334,409**	283,911
Reserves	34	**292,024**	557,691
		626,433	841,602
Non-controlling interests		**1,032**	16,162
Total equity		**627,465**	857,764

The consolidated financial statements on pages 112 to 197 were approved and authorised for issue by the Board of Directors on 26 March 2022 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 2021

	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 2020	283,911	1,230,106	62,484	76,451	(9)	19,043	(491,826)	1,180,160	63,090	1,243,250
Share-based payment	-	-	-	343	-	-	-	343	-	343
Total comprehensive loss for the year	-	-	-	-	-	(13,509)	(325,392)	(338,901)	(46,928)	(385,829)
Lapsed share options	-	-	-	(38,221)	-	-	38,221	-	-	-
At 31 December 2020	283,911	1,230,106	62,484	38,573	(9)	5,534	(778,997)	841,602	16,162	857,764
At 1 January 2021	283,911	1,230,106	62,484	38,573	(9)	5,534	(778,997)	841,602	16,162	857,764
Issue of shares under general mandate	50,498	-	-	-	-	-	-	50,498	-	50,498
Share-based payment	-	-	-	449	-	-	-	449	-	449
Total comprehensive loss for the year	-	-	-	-	-	(5,397)	(260,719)	(266,116)	(15,130)	(281,246)
Lapsed share options	-	-	-	(33,749)	-	-	33,749	-	-	-
At 31 December 2021	334,409	1,230,106	62,484	5,273	(9)	137	(1,005,967)	626,433	1,032	627,465

* These reserve accounts comprise the consolidated reserves in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before tax	**(272,266)**	(370,364)
Adjustments for:		
Finance costs	**34,669**	39,192
Interest income	**(1,553)**	(1,261)
Share of profit of an associate	**(1,821)**	(4,936)
Depreciation charge of property, plant and equipment	**99,593**	93,893
Depreciation charge of right-of-use assets	**6,585**	4,876
(Gain)/Loss on disposal of land use right and property, plant and equipment, net	**(46,830)**	508
Gain on disposal of non-current assets held for sale	**(172)**	–
(Reversal of allowance)/Allowance for trade receivables	**778**	(1,620)
Impairment losses of property, plant and equipment	**5,076**	–
Impairment loss on non-current assets held for sale	**–**	195,672
Impairment loss on deposits paid for acquisition of investments	**193,576**	–
Impairment/(Reversal of impairment) loss on other receivables	**14,773**	(9,994)
Write down of inventories	**1,418**	3,053
Equity-settled share option expenses	**449**	343
Recognition of deferred income	**(1,584)**	(1,583)
Operating profit/(loss) before working capital changes	**32,691**	(52,221)
Change in inventories	**(29,143)**	(110,900)
Change in trade and bills receivables	**(4,365)**	44,218
Change in contract assets	**(65,461)**	20,927
Change in prepayments, deposits and other receivables	**88,302**	(11,863)
Change in trade and bills payables	**159,399**	113,598
Change in other payables and accruals	**(25,675)**	19,794
Change in contract liabilities	**(117,304)**	96,598
Cash generated from operations	**38,444**	120,151
Income tax paid	**–**	(142)
Net cash generated from operating activities	**38,444**	120,009

CONSOLIDATED STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER 2021

	2021 RMB'000	2020 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	**(30,182)**	(27,955)
Deposits paid for acquisition of property, plant and equipment	**(14,029)**	–
Proceeds from disposal of land use right and items of property, plant and equipment	**59,876**	276
Proceeds from disposal of non-current assets held for sale	**4,500**	–
Change in pledged deposits	**35,673**	(39,641)
Interest received	**1,553**	1,261
Net cash generated from/(used in) investing activities	**57,391**	(66,059)
CASH FLOWS FROM FINANCING ACTIVITIES		
New borrowings	**722,000**	780,600
Repayment of borrowings	**(811,600)**	(777,205)
New borrowings from an non-controlling shareholder of a subsidiary	**60,000**	60,000
Repayment to an non-controlling shareholder of a subsidiary	**(60,000)**	(60,000)
Repayment of lease liabilities	**(1,292)**	(1,440)
Proceeds from issue of shares under general mandate	**50,498**	–
Interest paid	**(34,589)**	(42,285)
Net cash used in financing activities	**(74,983)**	(40,330)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**20,852**	13,620
Cash and cash equivalents at beginning of year	**113,159**	99,535
Effect of foreign exchange	**300**	4
Cash and cash equivalents at end of year	**134,311**	113,159

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 and 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 17 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 RMB260,719,000 for the year ended 31 December 2021, the Group had net current liabilities of approximately RMB279,039,000 as at 31 December 2021. 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 consolidated 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 is therefore of the opinion that it is appropriate to prepare the consolidated 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 2021. IFRSs comprise International Financial Reporting Standards; International Accounting Standards and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years.

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

4. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared under the historical cost convention, 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Consolidation (Continued)

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

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

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

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

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

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Associates

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combination and goodwill

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation

(a) Functional and presentation currency

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation (Continued)

(c) Translation on consolidation

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

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

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

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

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

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

Property, plant and equipment

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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

Buildings	20-30 years or over the term of the leases
Plant and machinery	10 years
Motor vehicles	6 years
Electronic equipment and others	4-5 years

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recognition and derecognition of financial instruments

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

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

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

Financial assets

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

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

Financial assets at amortised cost

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss allowances for expected credit losses

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

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

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

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

Cash and cash equivalents

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

Financial liabilities and equity instruments

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Borrowings

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

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

Trade and other payables

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

Equity instruments

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

Government grants

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

(a) *Employee leave entitlements*

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

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

(b) *Pension obligations*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme ("MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme in Hong Kong. Contributions are made based on 5% of the employees' relevant income, subject to a ceiling of monthly relevant income of HK$30,000 and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group also participates in a defined contribution retirement scheme organised by the government in the PRC. The Group is required to contribute a specific percentage of the payroll of its employees to the retirement scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the retirement scheme.

No forfeited contributions of the Group may be used by the employers to reduce the existing level of contributions.

(c) *Termination benefits*

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

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

Borrowing costs

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

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

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

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.

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 consolidated 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 the consolidated financial statements.

(b) Legal titles of certain lands and buildings

As stated in note 16 and note 20 to the consolidated financial statements, the legal titles of certain lands and buildings have not been transferred to the Group as at 31 December 2021. 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.

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

Key sources of estimation uncertainty

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

(a) Impairment loss on property, plant and equipment and 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. 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.

The carrying amount of property, plant and equipment and right-of-use assets as at 31 December 2021 were approximately RMB471,330,000 (2020: RMB568,876,000) and RMB225,498,000 (2020: RMB234,221,000) respectively.

(b) Property, plant and equipment and depreciation

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

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

Key sources of estimation uncertainty (Continued)

(c) Impairment loss for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. The net carrying amounts of trade receivables, and prepayments, deposits and other receivables at 31 December 2021 were approximately RMB283,117,000 (2020: approximately RMB262,697,000) and approximately RMB145,854,000 (2020: approximately RMB251,267,000), respectively.

(d) Impairment loss recognised in respect of investment in an associate

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 investment in an associate was approximately RMB193,910,000 (2020: approximately RMB192,089,000).

(e) 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 2021 was approximately RMB318,503,000 (2020: approximately RMB290,778,000).

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 31 to the consolidated financial statements.

At 31 December 2021, 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 approximately RMB69,000 (2020: RMB89,000) lower, arising mainly as a result of lower interest expense on bank loans. 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 approximately RMB69,000 (2020: RMB89,000) higher, arising mainly as a result of higher interest expense on bank loans.

(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.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Credit risk (Continued)

At the end of the reporting period, the Group had certain concentration of credit risk as approximately 19% (2020: approximately 30%) and approximately 63% (2020: approximately 58%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

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

– internal credit rating;

– external credit rating (if available);

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

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

– significant changes in the expected performance and behaviour of the debtors, including changes in the payment status of debtors.

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 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

(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

	2021 RMB'000	2020 RMB'000
Financial assets:		
Financial assets at amortised cost		
Trade and bills receivables	**287,183**	283,596
Financial assets included in prepayments, deposits and other receivables	**81,112**	202,407
Pledged deposits	**31,280**	66,953
Cash and cash equivalents	**134,311**	113,159
	533,886	666,115
Financial liabilities:		
Financial liabilities at amortised cost		
Trade and bills payables	**519,765**	360,366
Financial liabilities included in other payables and accruals	**20,050**	66,806
Borrowings	**691,000**	780,600
	1,230,815	1,207,772

(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 2021, the Group has two (2020: 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, impairment/reversal of impairment loss on other receivables, impairment loss on non-current assets held for sale, impairment loss on deposits paid for acquisition of investments 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 2021

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:				
Sales to external customers	1,523,249	3,435	–	1,526,684
Intersegment sales	–	–	–	–
Total revenue	1,523,249	3,435	–	1,526,684
Segment results	(14,069)	(2,609)		(16,678)
Interest income				1,553
Share of profit of an associate				1,821
Impairment loss on other receivables				(14,773)
Impairment loss on deposits paid for acquisition of investments				(193,576)
Unallocated expenses				(15,944)
Finance costs				(34,669)
Loss before tax				(272,266)

8. OPERATING SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the year ended 31 December 2020

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:				
Sales to external customers	855,219	1,208	–	856,427
Intersegment sales	–	20,844	(20,844)	–
Total revenue	855,219	22,052	(20,844)	856,427
Segment results	(125,939)	(12,908)		(138,847)
Interest income				1,261
Share of profit of an associate				4,936
Impairment loss on non-current assets held for sale				(195,672)
Reversal of impairment loss on other receivables				9,994
Unallocated expenses				(12,844)
Finance costs				(39,192)
Loss before tax				(370,364)

8. OPERATING SEGMENT INFORMATION (Continued)

Segment assets

As at 31 December 2021

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment assets	**1,676,813**	**11,687**	**–**	**1,688,500**
Unallocated assets				**231,187**
Total consolidated assets				**1,919,687**

As at 31 December 2020

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment assets	1,650,069	3,069	–	1,653,138
Unallocated assets				587,029
Total consolidated assets				2,240,167

8. OPERATING SEGMENT INFORMATION (Continued)

Segment liabilities

As at 31 December 2021

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment liabilities	**581,788**	**199**	**–**	**581,987**
Unallocated liabilities				**710,235**
Total consolidated liabilities				**1,292,222**

As at 31 December 2020

	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment liabilities	557,194	24,367	–	581,561
Unallocated liabilities				800,842
Total consolidated liabilities				1,382,403

8. OPERATING SEGMENT INFORMATION (Continued)

Other segment information

2021

	Pipes Business RMB'000	Trading Business RMB'000	Unallocated RMB'000	Consolidated RMB'000
Write down of inventories	1,418	–	–	1,418
Allowance for trade receivables	778	–	–	778
Gain on disposal of land use right and property, plant and equipment, net	(46,830)	–	–	(46,830)
Impairment losses of property, plant and equipment	5,076	–	–	5,076
Depreciation and amortisation	105,136	–	1,042	106,178
Investment in an associate	–	–	193,910	193,910
Capital expenditure	15,747	–	–	15,747

2020

	Pipes Business RMB'000	Trading Business RMB'000	Unallocated RMB'000	Consolidated RMB'000
Write down of inventories	3,053	–	–	3,053
Reversal of allowance for trade receivables	(1,620)	–	–	(1,620)
Impairment loss on non-current assets held for sale	–	–	195,672	195,672
Loss on disposal of property, plant and equipment, net	508	–	–	508
Depreciation and amortisation	98,767	–	2	98,769
Investment in an associate	–	–	192,089	192,089
Capital expenditure	14,733	–	–	14,733

8. OPERATING SEGMENT INFORMATION (Continued)

(a) Revenue from external customers

	For the year ended 31 December	
	2021	2020
	RMB'000	RMB'000
Mainland China	**1,526,684**	856,427
Hong Kong	**-**	–
	1,526,684	856,427

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

(b) Non-current assets

	As at 31 December	
	2021	2020
	RMB'000	RMB'000
Mainland China	**903,743**	956,596
Hong Kong	**5,091**	241,630
	908,834	1,198,226

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

Information about major customers

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

		2021	2020
	Segment	**RMB'000**	RMB'000
Customer A	Pipes business	***99,206**	288,535
Customer B	Pipes business	**176,827**	*21,062
Customer C	Pipes business	**176,298**	–

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

9. REVENUE, OTHER INCOME AND GAINS

(i) Disaggregation of revenue from contracts with customers

	2021 RMB'000	2020 RMB'000
Types of goods or service		
Pipes business		
Sales of pipes	1,362,455	777,045
Rendering of services related to pipe business	160,794	78,174
Trading business		
Trading of commodities	3,435	1,208
	1,526,684	856,427

	For the year ended 31 December 2021			
	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Geographical markets				
Mainland China	1,523,249	3,435	–	1,526,684
Hong Kong	–	–	–	–
Total	1,523,249	3,435	–	1,526,684
Timing of revenue recognition				
At a point in time	1,523,249	3,435	–	1,526,684

	For the year ended 31 December 2020			
	Pipes Business RMB'000	Trading Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Geographical markets				
Mainland China	855,219	22,052	(20,844)	856,427
Hong Kong	–	–	–	–
Total	855,219	22,052	(20,844)	856,427
Timing of revenue recognition				
At a point in time	855,219	22,052	(20,844)	856,427

9. REVENUE, OTHER INCOME AND GAINS (Continued)

(ii) Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations as at 31 December 2021 and 2020 and the expected timing of recognising revenue are as follows:

	2021 RMB'000	2020 RMB'000
Pipes Business		
Within one year	**508,567**	706,241

(iii) Performance obligations for contracts with customers

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 the date of 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.

9. REVENUE, OTHER INCOME AND GAINS (Continued)

(iii) Performance obligations for contracts with customers (Continued)

Trading business

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

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

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

	2021 **RMB'000**	2020 RMB'000
Other income		
Interest income	**1,553**	1,261
Rental income	**1,263**	1,245
Others	**5,887**	5,507
	8,703	8,013
Other gains		
Gain on sales of materials	**11,719**	4,150
Gain/(loss) on disposal of land use right and property, plant and equipment, net	**46,830**	(508)
Gain on disposal of non-current assets held for sale	**172**	–
Default income for breach of contract	**–**	10,100
Others	**–**	2,339
	58,721	16,081
	67,424	24,094

10. FINANCE COSTS

	2021 RMB'000	2020 RMB'000
Interest on borrowings	34,589	39,073
Interest on lease liabilities	80	119
	34,669	39,192

11. LOSS BEFORE TAX

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

	2021 RMB'000	2020 RMB'000
Cost of inventories sold*	1,303,596	753,291
Cost of services	87,268	58,901
Employees benefits expenses (including directors' remuneration (note 12)):		
Wages, salaries and bonus	85,609	68,001
Performance related bonus	504	60
Pension scheme contributions	14,123	6,271
Welfare and other expenses	3,134	2,696
Equity-settled share option expense	449	343
	103,819	77,371
Depreciation of property, plant and equipment	99,593	93,893
Depreciation of right-of-use assets	6,585	4,876
Allowance/(Reversal of allowance) for trade receivables	778	(1,620)
Impairment/(reversal) of impairment loss on other receivables	14,773	(9,994)
(Gain)/loss on disposal of land use right and property, plant and equipment, net	(46,830)	508
Impairment losses of property, plant and equipment	5,076	–
Exchange loss/(gain), net	945	(121)
Auditors' remuneration	1,826	1,852

* Included in the cost of inventories sold is an amount of approximately RMB1,418,000 (2020: Write down of inventories of approximately RMB3,053,000) related to the write down of inventories for the year ended 31 December 2021.

12. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST PAID INDIVIDUAL REMUNERATION

(a) Directors' and chief executive's 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 2021					
		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		166	680	72	35	-	953
Han Aizhi		166	476	60	14	-	716
Song Xichen	(i)	32	568	-	17	-	617
Wang Kunxian		166	572	60	31	-	829
Zhang Bangcheng	(ii)	133	512	-	6	-	651
Co-Chief executive officer:							
Zhang Liucheng	(iii)	-	677	144	13	-	834
Independent non-executive Directors:							
Chen Junzhu		249	-	-	-	-	249
Wu Geng		249	-	-	-	-	249
Qiao Jianmin		249	-	-	-	-	249
Non-executive Directors:							
Jiang Yong	(iv)	156	-	-	-	-	156
Wei Jun		249	-	-	-	-	249
Huang Guang	(v)	200	-	-	-	-	200
		2,015	3,485	336	116	-	5,952

12. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST PAID INDIVIDUAL REMUNERATION (Continued)

		For the year ended 31 December 2020					
		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		178	711	-	20	–	909
Han Aizhi		178	560	-	18	–	756
Song Xichen	(i)	178	561	–	18	–	757
Wang Kunxian		178	580	–	18	–	776
Independent non-executive Directors:							
Chen Junzhu		267	–	–	–	–	267
Wu Geng		267	–	–	–	–	267
Qiao Jianmin		267	–	–	–	–	267
Non-executive Directors:							
Jiang Yong	(iv)	267	–	–	–	–	267
Wei Jun		267	–	–	–	–	267
		2,047	2,412	–	74	–	4,533

Notes:

(i) Mr. Song Xichen resigned on 10 March 2021.

(ii) Mr. Zhang Bangcheng has been appointed as the executive director for a term of three years commencing from 10 March 2021.

(iii) Mr. Zhang Liucheng has been appointed as the co-chief executive officer of the Company for a term of three years commencing from 30 June 2021.

(iv) Mr. Jiang Yong resigned on 10 March 2021.

(v) Mr. Huang Guang has been appointed as the non-executive director for a term of three years commencing from 10 March 2021.

12. DIRECTORS', CHIEF EXECUTIVE'S AND FIVE HIGHEST PAID INDIVIDUAL REMUNERATION (Continued)

(b) Five Highest Paid Individuals' emoluments

The five highest paid individuals of the Group during the year were the four (2020: four) directors and one (2020: nil) co-chief executive officer whose emoluments are reflected in the analysis presented above. The emoluments of the remaining one non-director individual during the year ended 31 December 2020 are set out below:

	2020 RMB'000
Basic salaries and allowances	584
Performance related bonus	–
Retirement benefit scheme contributions	3
	587

The emoluments fell within the following band:

	Number of individuals 2020
Nil to HK$1,000,000	1

No emoluments have been paid by the Group to the Directors or the chief executive 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 2021 and 2020.

13. INCOME TAX EXPENSE

	2021 RMB'000	2020 RMB'000
Current – PRC Enterprise Income Tax ("EIT")		
– Charge for the year	**–**	142
Deferred tax (note 21)	**3,583**	1,814
Income tax expense	**3,583**	1,956

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for both years.

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.

13. INCOME TAX EXPENSE (Continued)

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 was 25% for both years.

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:

	2021 **RMB'000**	2020 RMB'000
Loss before tax	**(272,266)**	(370,364)
Tax at the applicable tax rate of companies within the Group of 25% (2020: 25%)	**(68,067)**	(92,591)
Expenses not deductible for tax	**53,907**	51,134
Income not taxable for tax	**(3,290)**	(3,261)
Tax loss not recognised	**20,986**	47,853
Effect of different tax rates of subsidiaries	**902**	55
Tax effect of profit attributable to associates	**(455)**	(1,234)
Tax losses utilised from previous periods	**(400)**	–
Tax at the Group's effective rate	**3,583**	1,956

Notes:

At the end of the reporting period, the Group has unused tax losses of approximately RMB732,320,000 (2020: approximately RMB869,941,000) available for offset against future profits. No deferred tax asset has been recognised of such losses (2020: no tax loss was recognised as deferred tax asset) due to the unpredictability of future profit streams. The remaining unused tax loss will be expired from 2022 to 2026.

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.

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 RMB260,719,000 (2020: approximately RMB325,392,000) and the weighted average number of 3,864,502,586 (2020: 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 2021 and 2020 in respect of a dilution as there were 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 2021 (2020: Nil).

16. PROPERTY, PLANT AND EQUIPMENT

31 December 2021

	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
COST:						
At 1 January 2021	469,138	988,927	10,940	15,156	26,004	1,510,165
Additions	893	3,362	1,259	829	9,404	15,747
Transfers	9,680	7,523	–	250	(17,453)	–
Disposals	(29,306)	(6,103)	(2,207)	(457)	–	(38,073)
At 31 December 2021	450,405	993,709	9,992	15,778	17,955	1,487,839
ACCUMULATED DEPRECIATION AND IMPAIRMENT:						
At 1 January 2021	147,816	770,425	9,623	13,425	–	941,289
Provided during the year	20,131	78,740	376	346	–	99,593
Disposals	(21,227)	(5,680)	(2,137)	(405)	–	(29,449)
Impairment loss	–	–	–	–	5,076	5,076
At 31 December 2021	146,720	843,485	7,862	13,366	5,076	1,016,509
CARRYING AMOUNTS:						
At 31 December 2021	303,685	150,224	2,130	2,412	12,879	471,330

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

31 December 2020

	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
COST:						
At 1 January 2020	467,724	990,316	10,953	14,707	19,574	1,503,274
Additions	752	2,745	668	391	10,177	14,733
Transfers	662	2,907	–	178	(3,747)	–
Disposals	–	(7,041)	(681)	(120)	–	(7,842)
At 31 December 2020	469,138	988,927	10,940	15,156	26,004	1,510,165
ACCUMULATED DEPRECIATION AND IMPAIRMENT:						
At 1 January 2020	130,096	701,595	9,965	12,798	–	854,454
Provided during the year	17,720	75,112	319	742	–	93,893
Disposals	–	(6,282)	(661)	(115)	–	(7,058)
At 31 December 2020	147,816	770,425	9,623	13,425	–	941,289
CARRYING AMOUNTS:						
At 31 December 2020	321,322	218,502	1,317	1,731	26,004	568,876

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

As at 31 December 2021, the Group was in the process of applying for the title certificates of buildings with an aggregate net book value of approximately RMB6,324,000 (2020: approximately RMB6,975,000). 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 2021.

As the Group continues to record net losses during the recent years for its Pipe Business, it has carried out reviews of the recoverable amount of certain property, plant and equipment in 2021 based on value-in-use calculations. The carrying amount of the relevant property, plant and equipment does not exceed the recoverable amount, and no impairment loss is recognised during the year.

The Group carried out reviews of the recoverable amount of certain construction in progress during the year on an individual basis. An impairment loss of approximately RMB5,076,000 was recognised in profit or loss for the year ended 31 December 2021.

The Group also carried out reviews of the recoverable amount of certain property, plant and equipment and right-of-use assets in 2021 and 2020 on an individual basis. No impairment loss was recognised in profit or loss for the property, plant and equipment and right-of-use assets which has an aggregate carrying amount at the end of the reporting period of approximately RMB41,209,000 (2020: approximately RMB43,724,000). 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 land and buildings (level 3 fair value measurements) by Xinjiang Huaguang Wanxiang Assets Evaluation Co., Ltd.# (新疆華光萬象資產評估有限公司), an independent professional valuer.

The English names are for identification only

17. SUBSIDIARIES

Particulars of the Company's major subsidiaries at 31 December 2021 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 Co., Ltd.# ("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
Shanghai Shengguan New Energy Technology Co., Ltd.# (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.# ("Zhejiang Shengguan") (浙江勝管實業有限公司) (Note ii)	The PRC	RMB406,000,000	100%	Trading of commodity

\# The English names are for identification only

Notes:

(i) The subsidiary is a wholly foreign-owned enterprise incorporated in the PRC

(ii) The subsidiary is a wholly owned domestic limited company incorporated in the PRC

(iii) The subsidiary is a non-wholly owned domestic limited company incorporated in the PRC

(iv) The subsidiary is a non-wholly foreign-owned enterprise incorporated in the PRC

17. 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	
	2021	2020	**2021**	2020
Principal place of business/country of incorporation	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	**41,971**	46,354	**291,796**	332,042
Current assets	**11,190**	11,479	**601,401**	473,318
Non-current liabilities	**(2,192)**	(3,046)	**(599)**	(1,328)
Current liabilities	**(27,587)**	(25,621)	**(913,840)**	(796,020)
Net assets/(liabilities)	**23,382**	29,166	**(21,242)**	8,012
Accumulated NCI	**10,188**	12,709	**(9,156)**	3,453
For the year ended 31 December:				
Revenue	**–**	–	**899,803**	414,540
Loss for the year	**(5,785)**	(7,537)	**(29,255)**	(101,264)
Total comprehensive loss	**(5,785)**	(7,537)	**(29,255)**	(101,264)
Loss allocated to NCI	**(2,521)**	(3,283)	**(12,609)**	(43,645)
Dividends paid to NCI	**–**	–	**–**	–
Net cash (used in)/generated from operating activities	**(3)**	(1,076)	**54,450**	(29,255)
Net cash generated from/ (used in) investing activities	**–**	–	**7,233**	(5,423)
Net cash generated from/ (used in) financing activities	**–**	1,068	**(70,285)**	46,965
Net (decrease)/increase in cash and cash equivalents	**(3)**	(8)	**(8,602)**	12,287

17. SUBSIDIARIES (Continued)

As at 31 December 2021, the bank and cash balances of these subsidiaries in the PRC denominated in RMB amounted to approximately RMB22,065,000 (2020: approximately RMB30,669,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

18. DEPOSITS PAID FOR ACQUISITION OF INVESTMENTS

	2021	2020
	RMB'000	RMB'000
Deposits paid for proposed acquisition of the allotted and issued share capital of:		
– Blossom Time Group Limited (note)	**4,067**	203,040

Note:

The amount represented deposits paid for proposed acquisition of 56% of the allotted and issued share capital of Blossom Time Group Limited ("Blossom Time"), 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, the share transfer is still subject to the fulfilment or waiver of certain conditions.

Reference is made to the Company's announcements dated 30 September 2021 and 22 November 2021, the Company discovered that the shareholder of Blossom Time was arrested by the police on 29 August 2021 and has instructed its legal advisor to carry out certain investigations on the impact of the incident to the share transfer. Having considered the legal advice from the legal advisor, the directors of the Company considered that the possibility of meeting the closing conditions of the share transfer was very remote.

In this regard, the Group and KBS Capital Partner(s) Pte. Ltd. ("KBS"), an independent third party which is a private partnership company incorporated in Singapore with limited liability and principally engaged in the investment and management of alternative investment assets and related funds, entered into a deed of assignment and novation on 3 March 2022 (the "Deed of Assignment and Novation"), pursuant to which KBS agreed to assume all the obligations and liabilities of the Company's subsidiary under the share transfer agreement in respect of the acquisition of Blossom Time and to assign all the right, benefits and interests of the Company's subsidiary in the share transfer agreement to KBS at a consideration of US$640,000 (equivalent to approximately RMB4,067,000). As a result of the foregoing, an impairment loss of approximately RMB193,576,000 was recognised in profit or loss for the year ended 31 December 2021.

As of the date of this report, the transaction under the Deed of Assignment and Novation has been completed, and the details are set out in the Company's announcement dated 3 March 2022.

19. INVESTMENT IN AN ASSOCIATE

	2021 RMB'000	2020 RMB'000
Unlisted investments in the PRC:		
Share of net assets	**193,910**	192,089

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 as at 31 December		Principal activities
			2021	2020	
Xinfeng Energy Enterprise Group Co., Ltd.# ("Xinfeng Energy") (新鋒能源集團有限公司)	The PRC	RMB820,000,000	**31.88%**	31.88%	Designing and construction of wind farms, sale of the whole machine and components of wind turbine sets and mechanical equipment and software development of digital wind farm system

\# *The English name is for identification only*

19. INVESTMENT IN AN ASSOCIATE (Continued)

The Group accounted for its associate in the consolidated financial statements using the equity method. The following table summarises the financial information of Xinfeng Energy, which is presented based on its IFRS financial statements, that is material to the Group.

	2021 RMB'000	2020 RMB'000
As at 31 December:		
Non-current assets	313,131	268,909
Current assets	1,047,895	997,497
Current liabilities	(591,163)	(491,744)
Non-current liabilities	(161,613)	(172,124)
Net assets	608,250	602,538
Group's share of net assets	193,910	192,089
For the year ended 31 December:		
Revenue	163,918	61,790
Profit for the year	5,712	15,482
Other comprehensive income	–	–
Total comprehensive income for the year	5,712	15,482
Dividends received from the associate	–	–

As at 31 December 2021, the bank and cash balances of Xinfeng Energy that denominated in RMB amounted to approximately RMB4,625,000 (2020: approximately RMB14,224,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

20. LEASES AND RIGHT-OF-USE ASSETS

Disclosures of lease-related items:

At 31 December:	2021 RMB'000	2020 RMB'000
Right-of-use assets		
Land use rights	224,359	231,911
Land and buildings	1,139	2,310
	225,498	234,221
Lease commitments of short-term leases	–	36
The maturity analysis, based on undiscounted cash flows, of the Group's lease liabilities is as follows:		
Less than 1 year	1,192	1,129
Between 1 and 2 years	25	1,129
	1,217	2,258

For the year ended 31 December:	2021 RMB'000	2020 RMB'000
Depreciation charge of right-of-use assets		
Land use rights	5,468	3,659
Land and buildings	1,117	1,217
	6,585	4,876
Lease interests	80	119
Total cash outflow for leases	1,292	1,440
Addition to the right-of-use assets	2,529	–
Disposal of the land use right	4,422	–

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

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 2021, 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 RMB2,338,000 (2020: approximately RMB9,415,000). 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 2021.

21. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

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

	2021 **RMB'000**	2020 RMB'000
Deferred tax assets		
As at 1 January	**4,361**	6,192
Deferred tax charged to the consolidated profit or loss during the year (note 13)	**(3,599)**	(1,831)
Gross deferred tax assets as at 31 December	**762**	4,361
Deferred tax liabilities		
As at 1 January	**292**	309
Deferred tax credited to the consolidated profit or loss during the year (note 13)	**(16)**	(17)
Gross deferred tax liabilities as at 31 December	**276**	292
Net deferred tax assets as at 31 December	**486**	4,069

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

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

	2021 RMB'000	2020 RMB'000
Deferred tax assets		
Government grants received but not yet recognised as income	**762**	976
Excess of carrying value over fair value of identifiable assets and liabilities in acquisition of subsidiaries	**–**	373
Impairment loss recognised on property, plant and equipment	**–**	3,012
Gross deferred tax assets	**762**	4,361
Deferred tax liabilities		
Excess of fair value of identifiable assets and liabilities over carrying value in acquisition of subsidiaries	**276**	292
Gross deferred tax liabilities	**276**	292
Net deferred tax asset	**486**	4,069

22. INVENTORIES

	2021 RMB'000	2020 RMB'000
Raw materials	**152,404**	122,421
Work in progress	**29,032**	18,581
Finished and semi-finished goods	**137,067**	149,776
	318,503	290,778

23. TRADE AND BILLS RECEIVABLES

	2021 RMB'000	2020 RMB'000
Trade receivables	**286,542**	265,344
Less: allowance for impairment of trade receivables	**(3,425)**	(2,647)
	283,117	262,697
Bills receivables	**4,066**	20,899
	287,183	283,596

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

	2021 RMB'000	2020 RMB'000
Within 3 months	**254,373**	170,274
3 to 6 months	**5,249**	43,657
6 months to 1 year	**11,608**	14,303
1 to 2 years	**9,099**	28,445
Over 2 years	**2,788**	6,018
	283,117	262,697

23. TRADE AND BILLS RECEIVABLES (Continued)

Reconciliation of allowance for trade receivables:

	2021 RMB'000	2020 RMB'000
Balance at beginning of the year	2,647	20,061
Allowance/ (Reversal of allowance) for trade receivables	778	(1,620)
Written off	–	(15,794)
Balance at end of year	3,425	2,647

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 2021					
Weighted average expected loss rate	0%	2%	14%	60%	1%
Receivable amount (RMB'000)	263,574	10,226	9,480	3,262	286,542
Loss allowance (RMB'000)	–	(183)	(1,288)	(1,954)	(3,425)
At 31 December 2020					
Weighted average expected loss rate	0%	1%	4%	32%	1%
Receivable amount (RMB'000)	205,457	47,309	10,122	2,456	265,344
Loss allowance (RMB'000)	(802)	(674)	(388)	(783)	(2,647)

24. CONTRACT ASSETS AND LIABILITIES

Disclosures of revenue-related items:

	As at 31 December 2021 RMB'000	As at 31 December 2020 RMB'000	As at 1 January 2020 RMB'000
Total contract assets – Pipe business	92,960	27,499	48,426
Total contract liabilities – Pipe business	(32,847)	(150,151)	(53,553)

The contract assets are primarily related to the Group's rights to consideration for sales of goods or services completed and not billed because the rights to bill are conditional until the end of the quality guarantee periods, which is typically ranging from one to three years upon the delivery of goods or services. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically reclassifies contract assets to trade receivables on the date of acceptance certificates issued by the customers when such right of collections becomes unconditional other than the passage of time.

At 31 December 2021, the Group's contracts assets amounted to approximately RMB78,761,000 (2020: approximately RMB27,499,000) were expected to be recovered more than twelve months after the end of the reporting period. The Group classifies these contract assets as current because it expects to realise them in its normal operating cycle.

The contract liabilities represent the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customers.

Year ended 31 December	2021 RMB'000	2020 RMB'000
Revenue recognised in the year that was included in contract liabilities at beginning of year	144,126	25,738

24. CONTRACT ASSETS AND LIABILITIES (Continued)

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

	2021 Contract assets RMB'000	2021 Contract liabilities RMB'000	2020 Contract assets RMB'000	2020 Contract liabilities RMB'000
Increase due to operations in the year	81,444	(198,758)	28,657	(209,699)
Transfer of contract assets to receivables	(15,983)	–	(49,584)	–
Transfer of contract liabilities to revenue	–	316,062	–	113,101

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

	2021 RMB'000	2020 RMB'000
Advance to an entity (note a)	–	18,700
Advances to suppliers (note b)	70,278	82,410
Other tax recoverables (note c)	35,070	40,233
Prepayments	2,535	1,872
Deposits	17,459	16,809
Tender deposits to customers	9,678	6,755
Deposit for legal proceeding (note d)	–	51,700
Others	10,834	32,788
	145,854	251,267

Notes:

(a) The advance to an entity is a loan of approximately RMB18,700,000 which was unsecured. An impairment loss on the entire amount of the advance to an entity has been recognised during the year.

(b) The advances are paid to suppliers to secure the supply of raw materials and sub-contracting services as at the end of the reporting period. The advances are interest-free and refundable within 1 year.

(c) The Group's other tax recoverables mainly represent value-added tax recoverable.

(d) As at 31 December 2020, a deposit of approximately RMB51,700,000 was paid by the Group to a PRC's court in connection with a legal proceeding with an independent third party. Under the court result, the deposit has been repaid during the year ended 31 December 2021.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2021 RMB'000	2020 RMB'000
Cash and bank balances	165,591	180,112
Less: Pledged deposits	(31,280)	(66,953)
	134,311	113,159
Cash and cash equivalents and pledged deposits denominated in RMB	163,746	177,791

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.

27. NON-CURRENT ASSETS HELD FOR SALE

	2021 RMB'000	2020 RMB'000
The major classes of assets classified as held for sale at the end of reporting period are as follows:		
Investment in an associate		
– Shanghai Guoxin Industrial Co., Ltd.	–	4,328

On 15 August 2019, a subsidiary of the Company entered into a sales and purchase agreement (the "SPA") for disposal of its 45% equity interests in an associate, Shanghai Guoxin Industrial Co., Ltd.* (上海國心實業有限公司) (the "Equity Interest") to an independent third party (the "Purchaser") for a consideration of RMB200,000,000. Accordingly, the associate has been reclassified as a non-current assets held for sale during the year ended 31 December 2019.

During the year ended 31 December 2020, the aforesaid transaction did not proceed as planned and the SPA was terminated with the deposit of RMB10,100,000 was forfeited and recognised as other income. Subsequent to the termination of the SPA, the Group conducted a public tender process for the disposal of the Equity Interest via Southern United Assets and Equity Exchange* (南方聯合產權交易中心). The Company also carried out a review on the net carrying amount of the net assets of the associate and an impairment loss of approximately RMB195,672,000 was recognised for the year ended 31 December 2020 based on the result of such review.

On 10 August 2021, the subsidiary of the Company has entered into a sales and purchase agreement with an independent third party in respect of 45% equity interest in Shanghai Guoxin for a total cash consideration of RMB4,500,000. The transaction was completed on 12 August 2021.

* The English name is for identification ionly

28. TRADE AND BILLS PAYABLES

	2021 RMB'000	2020 RMB'000
Trade payables	214,096	237,153
Bills payables	305,669	123,213
	519,765	360,366

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

	2021 RMB'000	2020 RMB'000
Within 3 months	182,535	228,296
3 to 6 months	13,892	1,711
6 months to 1 year	10,401	2,572
1 to 2 years	3,402	3,110
Over 2 years	3,866	1,464
	214,096	237,153

The trade payables are non-interest bearing. The payment terms with suppliers are normally on credit ranging from 90 to 180 days from the time when goods are received from suppliers.

29. OTHER PAYABLES AND ACCRUALS

	2021 RMB'000	2020 RMB'000
Payable on acquisition of property, plant and equipment	6,469	20,904
Security deposits received from employees	–	670
Other tax payables	637	769
Others	20,359	45,232
	27,465	67,575

30. LEASE LIABILITIES

	Lease payments		Present value of lease payments	
	2021	2020	**2021**	2020
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**1,192**	1,129	**1,162**	1,052
In the second to fifth years, inclusive	**25**	1,129	**25**	1,101
	1,217	2,258	**1,187**	2,153
Less: Future finance charges	**(30)**	(105)		
	1,187	2,153		
Less: Amount due for settlement within 12 months (shown under current liabilities)			**(1,162)**	(1,052)
Amount due for settlement after 12 months			**25**	1,101

At 31 December 2021, the average effective borrowing rate was 4.5675% (2020: 4.5675%). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk.

31. BORROWINGS

	Notes	2021 Effective interest rate (%)	2021 Maturity (year)	2021 RMB'000	2020 Effective interest rate (%)	2020 Maturity (year)	2020 RMB'000
Bank loans – Secured	(a)	4.35%-4.57%	2022	283,000	4.57%-4.79%	2021	124,000
Bank loans – Secured and guaranteed	(b)	4.35%	2022	340,000	4.35%-5.22%	2021	558,600
Bank loans – Guaranteed	(c)	4.785%	2022	68,000	4.35%-5.22%	2021	98,000
				691,000			780,600

The borrowings are repayable as follows:	2021 RMB'000	2020 RMB'000
On demand or within one year	691,000	780,600

Notes:

(a) The bank loans were secured by pledge of certain of the Group's properties, plant and equipment amounting to approximately RMB140,750,000 (2020: approximately RMB84,023,000) and right-of-use assets amounting to approximately RMB73,912,000 (2020: approximately RMB72,518,000).

(b) The bank loans were secured by the pledge of certain of the Group's properties, plant and equipment amounting to approximately RMB173,387,000 (2020: approximately RMB322,935,000), right-of-use assets amounting to approximately RMB36,740,000 (2020: approximately RMB41,789,000). An amount of approximately RMB146,540,000 (2020: approximately RMB155,160,000) out of bank loans of approximately RMB340,000,000 (2020: approximately RMB558,600,000) were guaranteed by a non-controlling shareholder of a subsidiary.

(c) The bank loans of approximately RMB29,308,000 (2020: approximately RMB42,238,000) out of bank loans of approximately RMB68,000,000 (2020: approximately RMB98,000,000) were guaranteed by a non-controlling shareholder of a subsidiary.

32. DEFERRED INCOME

	2021 RMB'000	2020 RMB'000
Government grants:		
As at 1 January	5,958	7,541
Recognised as other income during the year	(1,584)	(1,583)
As at 31 December	4,374	5,958
Less: Current portion	(1,583)	(1,583)
Non-current portion	2,791	4,375

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.

33. SHARE CAPITAL

Ordinary shares of HK$0.1 each	Number of shares	HK$'000
Authorised:		
At 31 December 2021 and 2020	5,000,000,000	500,000

	Number of shares in issue	Issued capital HK$'000	Issued capital RMB'000
At 1 January 2020, 31 December 2020 and 1 January 2021	3,274,365,600	327,437	283,911
Shares issued (Note)	600,000,000	60,000	50,498
At 31 December 2021	3,874,365,600	387,437	334,409

Note:

On 7 January 2021, the Company issued 600,000,000 ordinary new shares at a subscription price of HK$0.1 per share for a total cash consideration of approximately HK$60 million.

34. 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.

34. RESERVES (Continued)

Company

The amounts of the Company's reserves and the movements therein for the year ended 31 December 2021 are as follows:

	Share premium RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2020	1,230,445	76,451	(469,291)	837,605
Share-based payment	–	343	–	343
Total comprehensive loss for the year	–	–	(378,224)	(378,224)
Lapsed share options	–	(38,221)	38,221	–
At 31 December 2020 and 1 January 2021	**1,230,445**	**38,573**	**(809,294)**	**459,724**
Share-based payment	**–**	**449**	**–**	**449**
Total comprehensive loss for the year	**–**	**–**	**(206,831)**	**(206,831)**
Lapsed share options	**–**	**(33,749)**	**33,749**	**–**
At 31 December 2021	**1,230,445**	**5,273**	**(982,376)**	**253,342**

35. 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	**2021**	2020
Granted on 10 February 2010	(a)	**–**	–
Granted on 3 January 2012	(b)	**16,770,000**	18,540,000
Granted on 23 September 2014	(c)	**–**	–
Granted on 28 January 2015	(d)	**–**	52,650,000
Granted on 26 April 2016	(e)	**–**	44,400,000
Granted on 11 October 2016	(f)	**–**	102,000,000
Granted on 22 June 2020	(g)	**74,400,000**	75,300,000
		91,170,000	292,890,000

	2021		2020	
	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	**292,890,000**	**0.35**	324,420,000	0.56
Granted during the year	**–**	**–**	77,100,000	0.10
Lapsed during the year	**(201,720,000)**	**0.41**	(108,630,000)	0.79
Outstanding at the end of the year	**91,170,000**	**0.23**	292,890,000	0.35

35. 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, 300,000 and remaining 21,900,000 share options out of the total 24,000,000 share options granted on 10 February 2010 were lapsed separately during the year ended 31 December 2011, 2017, 2019 and 2020 respectively.

35. SHARE-BASED PAYMENTS (Continued)

Notes: (Continued)

(b) Pursuant to the Company's announcement on 3 January 2012, the Company granted to eligible participants a total of 24,000,000 share options to subscribe for ordinary shares of HK$0.10 each in the share capital of the Company at an exercise price of HK$0.80 per share.

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

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

The closing price of the Company's shares immediately before 3 January 2012, being the date of grant, was HK$0.80 per share.

The aggregate fair values of the options determined at the date of grant based on the Binomial model, was HK$8,208,000.

The following assumptions were used to calculate the fair values of share options granted on 3 January 2012:

Grant date share price (per share)	HK$0.80
Exercise price (per share)	HK$0.80
Contractual life	10 years
Expected volatility (%)	57.5%
Dividend yield (%)	1.33%
Risk-free interest rate (%)	1.45%

1,260,000, 300,000, 300,000, 600,000, 420,000, 570,000, 2,010,000 and 1,770,000 share options out of the total 24,000,000 share options granted on 3 January 2012 were lapsed during the year ended 31 December 2013, 2014, 2015, 2016, 2017, 2019, 2020 and 2021, respectively.

35. SHARE-BASED PAYMENTS (Continued)

Notes: (Continued)

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

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

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

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

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

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

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

840,000, 960,000, 2,760,000, 1,620,000, 420,000 and remaining 67,800,000 share options out of the total 74,400,000 share options granted on 23 September 2014 were lapsed separately during the year ended 31 December 2015, 2016, 2017, 2019 and 2020 respectively.

35. 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, 1,350,000, 3,300,000 and the remaining 52,650,000 share options out of the total 60,000,000 share options granted on 28 January 2015 were lapsed during the year ended 31 December 2017, 2019, 2020 and 2021, respectively.

35. SHARE-BASED PAYMENTS (Continued)

Notes: (Continued)

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

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

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

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

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

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

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

6,600,000, 6,600,000 and the remaining 44,400,000 share options out of the total 57,600,000 share options granted on 26 April 2016 were lapsed during the year ended 31 December 2019, 2020 and 2021, respectively.

35. SHARE-BASED PAYMENTS (Continued)

Notes: (Continued)

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

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

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

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

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

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

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

65,443,500, 1,200,000, 11,400,000, 4,800,000 and the remaining 102,000,000 share options out of the total 184,843,500 share options granted on 11 October 2016 were lapsed during the year ended 31 December 2017, 2018, 2019, 2020 and 2021, respectively.

35. SHARE-BASED PAYMENTS (Continued)

Notes: (Continued)

(g) Pursuant to the Company's announcement on 22 June 2020, the Company granted to eligible participants a total of 77,100,000 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$0.10 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 22 June 2020, being the date of grant, was HK$0.059 per share.

The aggregate fair values of the options determined at the date of grant based on the Binomial model, was HK$1,309,000.

The following assumptions were used to calculate the fair values of share options granted on 22 June 2020:

Grant date share price (per share)	HK$0.059
Exercise price (per share)	HK$0.100
Contractual life	5 years
Expected volatility (%)	53.8%
Dividend yield (%)	0.00%
Risk-free interest rate (%)	0.36%

1,800,000 and 900,000 share options out of the total 77,100,000 share options granted on 22 June 2020 were lapsed during the year ended 31 December 2020 and 2021, 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 2021, the Group recognised share-based payments of RMB449,000 (2020: RMB343,000), 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 41,570,000 (2020: 217,590,000).

36. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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 2020	3,471	3,212	777,205	783,888
Changes in cash flows	(1,440)	(42,285)	3,395	(40,330)
Non-cash changes				
– interest charged	119	39,073	–	39,192
– exchange difference	3	–	–	3
At 31 December 2020 and 1 January 2021	**2,153**	**–**	**780,600**	**782,753**
Changes in cash flows	**(1,292)**	**(34,589)**	**(89,600)**	**(125,481)**
Non-cash changes				
– additions	**182**	**–**	**–**	**182**
– interest charged	**80**	**34,589**	**–**	**34,669**
– exchange difference	**57**	**–**	**–**	**57**
At 31 December 2021	**1,180**	**–**	**691,000**	**692,180**

37. COMMITMENTS

(a) Capital commitments

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

	2021 RMB'000	2020 RMB'000
Contracted, but not provided for	9,503	24,674

(b) Investment commitments

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

	2021 RMB'000	2020 RMB'000
Contracted, but not provided for	–	87,295

38. RELATED PARTY TRANSACTIONS

(a) Significant related party transactions

During the years ended 31 December 2021 and 2020 the Group had the following material transactions with related parties:

	2021 RMB'000	2020 RMB'000
Repayment to directors	–	4,050
Interest expenses to an non-controlling shareholder of a subsidiary	110	176
Interest expenses to directors	–	91

(b) Key management compensation

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

	2021 RMB'000	2020 RMB'000
Fees	2,015	2,047
Salaries, allowances and other benefits in kind	5,131	4,067
Performance related bonus	504	–
Social security contributions	140	84
	7,790	6,198

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

39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS		
Right-of-use assets	1,023	2,310
Investments in subsidiaries	580,177	742,518
	581,200	744,828
CURRENT ASSETS		
Prepayments, deposits and other receivables	745	746
Cash and cash equivalents	9,698	2,476
	10,443	3,222
CURRENT LIABILITIES		
Other payables and accruals	2,826	2,262
Lease liabilities	1,066	1,052
	3,892	3,314
NET CURRENT ASSETS/(LIABILITIES)	6,551	(92)
TOTAL ASSETS LESS CURRENT LIABILITIES	587,751	744,736
NON-CURRENT LIABILITIES		
Lease liabilities	–	1,101
NET ASSETS	587,751	743,635
EQUITY		
Issued capital	334,409	283,911
Reserves	253,342	459,724
Total equity	587,751	743,635

40. EVENT AFTER REPORTING PERIOD

(a) On 21 December 2021, Shandong Shengli Steel Pipe, Xiangtan Iron & Steel Group Co., Ltd. ("Xiangtan Steel"), the non-controlling shareholder of Hunan Shengli Steel Pipe, and Hunan Shengli Steel Pipe entered into an equity transfer and capital increase agreement, pursuant to which Shandong Shengli Steel Pipe agreed to transfer and Xiangtan Steel agreed to acquire 8.9% equity interest of the Hunan Shengli Steel Pipe (the "Equity Transfer and Capital Increase") for a consideration of RMB17,296,233. Further, subject to the completion of the Equity Transfer and Capital Increase, Shandong Shengli Steel Pipe and Xiangtan Steel agreed to make capital contributions of RMB17,280,000 and RMB18,720,000 to Hunan Shengli Steel Pipe, respectively, in proportion to their respective shareholding percentage in the Hunan Shengli Steel Pipe upon the completion.

The completion of the Equity Transfer and Capital Increase is conditional upon the satisfaction of certain conditions precedent, including the approvals from the shareholders of the Company in an extraordinary general meeting ("EGM") to be convened by the Company. Upon the completion of the Equity Transfer and Capital Increase, Hunan Shengli Steel Pipe will cease to be a subsidiary of the Company and the remaining equity interest of which to be held by the Group will be accounted for as an associate company using the equity method. The transaction was passed by the Company's shareholders by way of a poll in the Company's EGM on 11 February 2022 and was completed on 21 February 2022.

Further details of the Equity Transfer and Capital Increase are set out in the Company's announcement dated 21 December 2021.

(b) On 22 December 2021, Zhejiang Shengguan and an independent third-party entered into an equity transfer agreement, pursuant to which the Zhejiang Shengguan has conditionally agreed to transfer and the independent third-party has conditionally agreed to acquire approximately 9.9% of the equity interest in Xinfeng Energy (the "Transferred Equity") in consideration of (i) the independent third-party agreeing to pay up the unpaid registered capital of RMB81,420,000 with regard to the Transferred Equity and (ii) RMB1 in cash payable by the independent third-party. The completion of the aforesaid transaction is conditional upon the satisfaction of certain conditions precedent, including the approvals from the shareholders of the Company in an EGM to be convened by the Company.

Upon the completion of the aforesaid transaction, the Group will continue to account for the remaining equity interest in Xinfeng Energy as an associate company using the equity method. The transaction was passed by the Company's shareholders by way of a poll in the Company's EGM on 11 February 2022. Further details of the transaction are set out in the Company's announcement dated 22 December 2021.

(c) On 3 March 2022, the Group and KBS entered into the Deed of Assignment and Novation to assign and novate the rights and obligations under the share transfer agreement in respect of the acquisition of Blossom Time. Details of the transaction are set out in note 18 to the consolidated financial statements. As of the date of this report, the transaction under the Deed of Assignment and Novation has been completed.

41. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 26 March 2022.

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				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**1,526,684**	856,427	862,966	913,392	2,155,750
Loss before tax	**(272,266)**	(370,364)	(161,591)	(55,259)	(293,512)
Income tax expense	**(3,583)**	(1,956)	(10,344)	(2,500)	(1,694)
Loss for the year	**(275,849)**	(372,320)	(171,935)	(57,759)	(295,206)
Attributable to:					
Owners of the Company	**(260,719)**	(325,392)	(138,573)	(54,111)	(250,723)
Non-controlling interests	**(15,130)**	(46,928)	(33,362)	(3,648)	(44,483)
	(275,849)	(372,320)	(171,935)	(57,759)	(295,206)

ASSETS AND LIABILITIES

	As at 31 December				
	2021	2020	2019	2018	2017
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,919,687**	2,240,167	2,411,619	2,652,213	2,723,123
Total liabilities	**(1,292,222)**	(1,382,403)	(1,168,369)	(1,231,292)	(1,261,148)
Net assets	**627,465**	857,764	1,243,250	1,420,921	1,461,975
Attributable to:					
Owners of the Company	**626,433**	841,602	1,180,160	1,324,469	1,361,875
Non-controlling interests	**1,032**	16,162	63,090	96,452	100,100
	627,465	857,764	1,243,250	1,420,921	1,461,975