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

2022
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)*
Mr. Zhang Danyu (appointed on 13 January 2023)
Mr. Wang Kunxian *(Vice President)*
Ms. Han Aizhi *(Vice President)*
Mr. Zhang Bangcheng

Non-executive Director

Mr. Wei Jun *(Chairman)*
Mr. Huang Guang (retired on 17 June 2022)

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

COMPANY SECRETARY

Mr. Zhang Feng

AUTHORISED REPRESENTATIVES

Ms. Han Aizhi
Mr. Zhang Feng

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 BANKS

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

DeHeng Law Offices (Hong Kong) LLP

AUDITORS

Mazars CPA Limited
42nd Floor, Central Plaza
18 Harbour Road
Wanchai, 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 ended 31 December 2022 (the “Year under Review”), revenue was approximately RMB1,046,891,000, representing a decrease of approximately RMB479,793,000 as compared to that in 2021.

- For the Year under Review, gross profit margin was approximately 9.7%, representing an increase of approximately 0.8 percentage points as compared to that in 2021.

- For the Year under Review, the loss for the year attributable to owners of the Company amounted to approximately RMB33,004,000, representing a decrease of approximately RMB227,715,000 as compared to that in 2021.

- For the Year under Review, basic and diluted loss per share attributable to owners of the Company was approximately RMB0.85 cents, representing a decrease of approximately RMB5.90 cents as compared to that in 2021.

- The Board did not recommend the declaration of any final dividend and interim dividend for the year ended 31 December 2022.

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 2022 (the "Year under Review").

In 2022, with the effective control of COVID-19 pandemic and businesses reopening across different countries, economic recovery increasingly became the new international concern. At the same time, the global landscape was nevertheless exposed to multiple challenges, as evidenced by the prolonged Russo-Ukrainian tension, several rounds of sanctions imposed on Russia by the United States and major European nations, the global energy crisis of an unprecedented scale and economic turmoil resulting from the frequent and aggressive interest hikes by the Federal Reserve. Throughout the year, fossil fuel prices, such as oil, natural gas and coal hit historical new highs, and the surge in prices of energy and other commodities raised inflation expectations. At the 20th National Congress of the Communist Party of China (the "20th CPC National Congress"), the central government made it clear to "earnestly boost market confidence", and put emphasis on "tapping potential in the domestic market to enhance the driving force of domestic demand for economic growth". In December, following the lifting of anti-COVID-19 pandemic measures in China, production and day-to-day activities gradually returned to normal, and customs clearance between Hong Kong, Macao and Mainland China was resumed, which reinvigorated business transactions and operations. Over the year, national gross domestic product exceeded RMB120 trillion, representing a year-on-year increase of 3.0%.

During the Year under Review, China Oil & Gas Pipeline Network Corporation* (國家石油天然氣管網集團有限公司) ("PipeChina") made constant efforts to expedite construction of the energy production, supply, storage and sales system, and endeavored to refine and accomplish its goal of "one pipeline network nationwide* (全國一張網)". Over the year, pipes welded by PipeChina covered a total length of over 3,000 kilometres. It accelerated the pace of forging the "X+1+X" oil and gas market system, and materializing reforms in the oil and gas system and the pipeline operation mechanism. Central government controlled enterprises capitalised on their "resources pool" advantages to increase the share of domestic gas, imported pipe gas and imported long-term contract LNG gas in energy structure as price stabilizers. On the other hand, in light of successive breakthroughs in domestic oil and gas exploration and development activities, PipeChina facilitated existing gas storage facilities to maximize capacity, and spared no effort in guaranteeing gas supply and stabilising prices, contributing to a stable industrial development in the domestic market. The Group will continue to leverage on its advantages in terms of sound performance, profound experience and advanced equipment and technology to strive for more pipes and related business orders, and deliver desirable results.

CO-CHIEF EXECUTIVE OFFICER'S STATEMENT

SECURING IMPRESSIVE RESULTS IN PIPECHINA'S ANNUAL FRAMEWORK BIDDING LEVERAGING STRONG COMPREHENSIVE STRENGTH

In 2022, despite numerous headwinds in the international market, as well as a city-wide quarantine and a business suspension amid the COVID-19 pandemic, the Group proactively pooled concerted efforts to prevent and control the pandemic, surmount difficulties, launch technical innovation and expand market share, thereby maintaining steady business growth.

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, following being admitted as one of PipeChina's qualified suppliers of submerged-arc helical welded pipes (the "SAWH pipes") for the first time in 2021, won another bid of SAWH pipes from PipeChina in its 2022 annual pipeline framework agreement procurement bidding in June 2022, and was selected as a major SAWH pipes supplier of PipeChina, leveraging on its third place ranking among competitors to obtain over 15% orders of SAWH pipes in PipeChina's annual bidding in 2022. During the Year under Review, orders from PipeChina accounted for 47.7% of the total orders secured by Shandong Shengli Steel Pipe, which set the foundation for the growth of the Group's pipes business.

Meanwhile, Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) ("Hunan Shengli Steel Pipe"), an associate of the Group, also won the bid of submerged-arc longitudinal welded pipes (the "SAWL pipes") from PipeChina in the aforesaid bidding activity, and was selected as one of PipeChina's auxiliary suppliers of SAWL pipes. During the Year under Review, Hunan Shengli Steel Pipe witnessed a significant improvement in revenue from SAWL pipes, contributing to a substantial increase in the investment income recognized by the Group in such an associate.

The Year under Review marked the first time for the Group to obtain such satisfactory results in PipeChina's bidding projects since the latter's establishment on 9 December 2019, which fully demonstrated the Group's comprehensive strength, further consolidated the Group's leading position in the national major oil and gas pipeline industry, and laid a solid market foundation for its sustainable development.

During the Year under Review, the Group launched proactive preparation and planning to guarantee product supply for PipeChina's major projects. It enhanced management over various procedures including manufacturing, technology, process and after-sales services to guarantee the delivery of premium products. In terms of production, Shandong Shengli Steel Pipe upgraded and renovated the continuous detection technology in Factory No. 1, 2 & 3, introduced the advanced robot pipe end automatic measuring system in the pre-welding factory, and completed relocation and installation of the expanding machines in Factory No. 2 & 3, thereby satisfying PipeChina's requirements on X-ray inspection and radiography or capture following expansion of pipes with different diameters. In terms of after-sales services, prior to product delivery, the Group assigned experienced front-line staff to get deeply involved in the construction sites in Xinjiang and Gansu along the West-East Gas Pipeline No. 4 Project (the "Western Fourth Line Project") , and established exchanges with representatives of project owners, onsite supervisors and construction units. In addition, the Group also strengthened efforts to select the best fit auxiliary materials and conduct welding experiment. It formulated rigorous production schemes, and engaged quality, technique and testing professionals to conduct spot check and recheck, in a bid to guarantee the premium pipe quality and the product supply. The Group thus outperformed PipeChina's other pipeline suppliers in terms of onsite acceptance speed and receivables collection amount, and received a written commendation from the Ganning Project Department in the Western Fourth Line Project.

CO-CHIEF EXECUTIVE OFFICER'S STATEMENT

KEEPING ABREAST OF BID INVITATIONS FROM SINOPEC, CNPC AND CPTDC AND CONTINUING TO OPEN UP THE GENERAL MARKET

During the Year under Review, the Group continued to focus on maintaining relationships with major customers such as China Petroleum & Chemical Corporation ("SINOPEC"), China National Petroleum Corporation ("CNPC") and China Petroleum Technology and Development Corporation ("CPTDC"). It ranked second in terms of comprehensive strength in SINOPEC's annual direct procurement bidding, and won the first place in CNPC's annual framework bidding. In addition, the Group proactively pursued new cooperation opportunities during the year, and forged ties with 18 new customers. Besides, the Group secured the pipe sales contract from CPTDC for its Pakistan project, and successfully completed the finalisation of CPTDC's Niger project.

While establishing business presence in China's higher-end oil and gas pipeline market, the Group also proactively extended footprints to the general market. In 2022, the Group was officially admitted as one of the pipeline suppliers of China Resources Gas Group Limited ("CR Gas") with top ranking. Besides, the Group achieved a new breakthrough in sales to the general market, and developed customer-supplied materials processing orders to optimise the overall order structure. In terms of insulation pipeline market, in April 2022, Shandong Shengli Steel Pipe secured Φ1220 pipe spraying and winding insulation sales orders, and received wide recognition from project owners and construction supervisors for its quality products.

PROACTIVELY EXPEDITING AUTOMATION TRANSFORMATION AND ENHANCING TECHNOLOGICAL STRENGTH

During the Year under Review, the Group completed 5 technological transformation projects, including 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), the 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), the Steel Production Management Information System of No.1 Factory and Anti-corrosion 2# Line* (一分廠、防腐2#線鋼管生產管理信息系統), the Fine Welding Front Frame Automatic Pipe Conveying System of Pre-welding Plants* (預精焊分廠精焊前台架自動運管系統), and the Butt Seam Automatic External Repair Welding System of No. 3 Factory* (三分廠對頭縫自動外補焊系統). Besides, another 5 technological transformation projects of the Group were in progress, including the Ultrasonic Phased Array Detection of Pre-welding Plants* (預精焊超聲波相控陣檢測), the Automatic Pipe-end Measuring System* (管端自動測量系統), the Transformation of Continuous Detection into Truss-type Whole-pipe Ultrasonic Phased Array Detection in No.3 Factory* (三分廠連探改造為桁架式全管體超聲波相控陣檢測), the Continuous Detection Equipment Upgrade in No. 1 & 2 Factory* (一二分廠連探設備升級) and the Automatic Welding Seam Tracking System for 3# Unit* (3#機組內焊縫自動跟蹤系統). In addition, the Group completed 14 equipment and technology upgrade and renovation projects in 2022.

The Group also secured constant breakthroughs in technological research, and witnessed a further improvement in its technological strength. In 2022, the Group participated in the draft of two national standards, including Non-destructive Testing of Steel Pipes – Magnetic Particle Testing Method for Surface Flaw of Ferromagnetic Seamless and Welded Steel Pipes* (《鋼管無損檢測鐵磁性無縫和焊接鋼管表面缺欠的磁粉檢測方法》), and Non-destructive Testing of Steel Pipes – Automatic Detection Method for Seamless and Welded Steel Pipe Layered Defects* (《鋼管無損檢測無縫和焊接鋼管分層缺欠的自動檢測方法》). Technical staffs of the Group published 3 scientific papers on periodicals, annual meeting and conference, among which 2 published articles were included in the 2022 pipe low-carbon and energy conservation quality enhancement seminar.

IMPROVING MANAGEMENT SYSTEM CONSTRUCTION AND ACCOMPLISHING ENVIRONMENTAL PROTECTION OBJECTIVES LEVERAGING ENERGY CONSERVATION AND CONSUMPTION REDUCTION MEASURES

During the Year under Review, the Group continued to improve its management system construction, and earned recognition from industry peers and the market with a more efficient and professional operating mechanism. In 2022, Shandong Shengli Steel Pipe renewed the permit to manufacture components used in the pressure pipelines, completed API 5L and API Spec Q1 supervision and audit, as well as annual supervision and audit on quality, environment and occupational health and safety management system. Besides, it obtained TR-CU certification from the Eurasian Economic Union to satisfy market requirements with complete qualifications and sharpen competitiveness.

In 2022, the Group made constant investments in safety and environmental protection, and renovated and upgraded environment treatment equipment, including the installation of facilities such as power consumption monitoring system, the particulate matter online monitoring system, and the vocs unorganized online monitoring system. It received level C in annual environmental protection performance, successfully achieving the established goal. In 2022, the Company searched for high power consumption sources and enhanced management, contributing to a decrease in power consumption of 12 kWh/tonne of products, and a year-on-year reduction in power consumption of 1.6 million kWh.

STREAMLINING BUSINESS LAYOUT WITH A VISION TOWARDS SUSTAINABLE DEVELOPMENT

Leveraging on the attractive business opportunities brought by China's initiative to expedite major domestic pipeline network projects, the Group streamlined and conducted comprehensive analysis on the performance of its investment portfolio, and pooled resources and advantages to support the development of the pipes business with a vision to achieving sustainable growth. In February 2022, Shandong Shengli Steel Pipe, a subsidiary of the Group, completed the disposal of 8.9% equity interests in Hunan Shengli Steel Pipe to Xiangtan Iron & Steel Group Co., Ltd.* (湘潭鋼鐵集團有限公司) ("Xiangtan Steel"). Since then, Hunan Shengli Steel Pipe is owned as to 48% and 52% by Shandong Shengli Steel Pipe and Xiangtan Steel, respectively. The transaction facilitated Hunan Shengli Steel Pipe to enjoy a strong support from Xiangtan Steel in terms of, among other things, capital, financing and stable supply of raw materials to cope with the significant increase in business orders from PipeChina amid market improvement, which contributed to a surge in the profitability of Hunan Shengli Steel Pipe during the Year under Review. Meanwhile, although Hunan Shengli Steel Pipe ceased to be a subsidiary of the Group, the Group is still able to exercise significant influence over Hunan Shengli Steel Pipe, and record attractive investment income along with the improvement in Hunan Shengli Steel Pipe's business performance.

CO-CHIEF EXECUTIVE OFFICER'S STATEMENT

Besides, in March 2022, Gold Apple Holdings Limited, a subsidiary of the Group, completed all the procedures to transfer its obligations, responsibilities, rights, interests and benefits in the contracts in relation to acquisition of Blossom Time Group Limited to an independent third party. In June 2022, Zhejiang Shengguan Industrial Co., Ltd* (浙江勝管實業有限公司) ("Zhejiang Shengguan Industrial"), a subsidiary of the Group, completed the transfer of approximately 9.9% equity interests held by it in Xinfeng Energy Enterprise Group Co., Ltd* (新鋒能源集團有限公司) ("Xinfeng Energy") to an independent third party. The transaction enabled the Group to retain funds for its principal business development and facilitate its sustainable growth.

FUTURE PROSPECTS

The year of 2023 marks the beginning to fully implement the principles defined by the 20th CPC National Congress, as well as an opening to the post-pandemic era. According to the guidance of the 2022 Central Economic Work Conference, national basic energy operators led by PipeChina will focus more on "effective domestic demand expansion" to expedite key projects in the 14th Five-Year Plan, further integrate provincial pipelines, and accelerate construction of "One Pipeline Network Nationwide". Emphasis will also be placed on "faster construction of a modern industrial system" to expedite natural gas pipelines, steadily operate crude oil pipelines, improve operational efficiency of refined oil pipelines, and accelerate construction of energy production, supply, storage and sale systems. The Group believes that macro market demand for pipeline construction will witness a rally ahead.

Since its establishment, PipeChina has been committed to expediting the construction of oil and gas pipeline infrastructure. At present, the Western Fourth Line Project, Sichuan-to-East Gas Pipeline No. 2 Project and Tianjin LNG Transmission Pipeline Project* (天津LNG外輸管道工程) have successively commenced construction. Shandong Shengli Steel Pipe, a subsidiary of the Group, and Hunan Shengli Steel Pipe, an associate of the Group, as a major and auxiliary supplier of PipeChina in 2022, undertook production for a considerable number of national major oil and gas pipeline projects during the Year under Review. At present, the Group has completed production and delivery for the Western Fourth Line Project, has commenced manufacturing pipes for the Sichuan-to-East Gas Pipeline No. 2 project, and finished preparation of materials for the Tianjin LNG Transmission Pipeline Project. The Group will maintain a constant focus on the progress of pipeline construction projects, proactively participate in PipeChina's annual framework agreement bidding, and earnestly establish presence in other market segments. The Group believes that by leveraging its desirable performance and quality products, it is well-positioned to embrace more construction opportunities in the future, in a drive to broaden its revenue stream while creating value to the society.

Looking into 2023, the Group will also step up technical upgrades primarily targeting staff downsizing and efficiency boosting, higher quality, lower equipment failure rate and lower labour intensity. In view of the significant potential of the insulation pipeline industry, the Group is confident in drawing upon its sustainable order fulfilment capacity to secure its footing in market competition, making insulation pipe sales into another profit growth driver.

CO-CHIEF EXECUTIVE OFFICER'S STATEMENT

In light of the continually evolving socioeconomic landscape and to adhere to the guiding principles established by the 20th CPC National Congress, the Group is resolute in its commitment to remain focused on its core pipes business. The Group will critically assess the performance and strategic fit of each of its business units, subsidiaries and associates, assets and investments to ensure alignment with the Group's strategy and sufficient resource allocation to its principal business operations.

Last but not least, I would like to take this opportunity to express gratitude to our shareholders, customers and stakeholders, and our management and staff for their dedication. With timely moves to seize business opportunities and proactive planning, the Group, while strengthening and optimising oil and gas transportation products, will continue to venture into new business fields with a vision towards sustainable growth, thereby delivering long-term value to our shareholders.

Zhang Bizhuang
Executive Director & Co-Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

In 2022, the global economic stagnation triggered broad concerns about recession, amid the complicated and grim international environment overlapped with soaring inflation worldwide and dampened market demand due to aggressive interest rate hikes by central banks in Europe and the United States. Responding to the COVID-19 pandemic outbreaks across China, local government authorities took initiatives to efficiently coordinate pandemic control and economic development and effectively cope with internal and external challenges. Against the headwinds, China made further progress in national economy, recording a new high in economic output as witnessed by a year-on-year GDP growth of 3.0% in 2022. In general, the economy picked up a resilient recovery pace in a harmonious and stable society.

Despite volatile international crude oil prices amid the European energy crisis in 2022, the domestic oil and gas industry was less impacted by external disturbances. Oil and gas output maintained a stable growth, thanks to China's efforts to ensure energy production and security by committing more resources in oil and gas exploration and development. Domestic oil and gas producers continued to enhance exploration and development and ramp up reserves and output, in a bid to improve oil and gas self-sufficiency. According to the National Bureau of Statistics, in 2022, crude oil produced by major industry players increased by 2.9% year-on-year to 204.67 million tonnes, exceeding 200 million tonnes again for the first time since 2016; and natural gas output increased by 6.4% year-on-year to 217.8 billion cubic meters, representing a growth of more than 10 billion cubic meters for the sixth consecutive year. In addition, to expand transportation capacity of China's natural gas pipeline system and accelerate construction of "One Pipeline Network Nationwide", PipeChina started a string of national strategic projects, including the Western Fourth Line Project which officially commenced construction in the second half of 2022. Shandong Shengli Steel Pipe, a subsidiary of the Group, is recognised as a major supplier of PipeChina to manufacture steel pipes for the Western Fourth Line Project. Compared to 2021, the Group saw a significant breakthrough in its steel pipe sales orders obtained in 2022.

Looking ahead to 2023, despite the international uncertainties, domestic oil and gas market is expected to grow steadily, benefiting from an overall economic recovery driven by loosened pandemic control policies and the central government's unchanged focus on maintaining stability with steady progress. In addition, PipeChina will move faster towards a new oil and gas market pattern of "X+1+X", characterised by multiple sources and supply channels for upstream resources, a common efficient transmission pipeline network at the midstream, and a diversity of downstream distributors in an adequately competitive market. This move will further vitalise China's oil and gas industry and present more opportunities for the Group to participate in project construction. The Group will press ahead with its research and development and production to sharpen its competitiveness, and capture market opportunities to create greater value to the society.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

As one of China's largest oil and gas pipeline manufacturers offering superior quality products with top-rated facilities, cutting-edge technologies, advanced technique and a comprehensive quality inspection and assurance system, the Group is one of the few domestic qualified suppliers capable of providing, among other things, large-diametre 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, CNPC and China National Offshore Oil Corporation ("CNOOC")). The Group focuses on the design, manufacturing, anti-corrosion processing, insulation processing and servicing of 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, Shandong Shengli Steel Pipe, a subsidiary of the Group, won the bid of SAWH pipes from PipeChina in its 2022 annual pipeline framework agreement procurement bidding, and was selected as one of PipeChina's major suppliers of SAWH pipes. In 2022, orders secured from PipeChina accounted for approximately 47.7% of the total orders of Shandong Shengli Steel Pipe. Besides, the Group also proactively extended its footprints to the general market, and secured fresh breakthroughs. It was officially admitted as one of the pipeline suppliers of CR Gas with a top ranking, and developed customer-supplied materials processing orders to optimize the overall order structure. Furthermore, the Group also made progresses in the insulation pipeline business, achieved independent production and gained recognition from customers for product quality.

For the year ended 31 December 2022, the annual production capacity of the SAWH pipes, the ancillary anti-corrosion production line and the insulation pipe production line of the Group's subsidiaries reached approximately 800,000 tonnes, 7.20 million square metres and 110 kilometres, respectively.

For the year ended 31 December 2022, the annual production capacity of the SAWH pipes, the SAWL pipes and the ancillary anti-corrosion production line of Hunan Shengli Steel Pipe, an associate of the Group, reached approximately 200,000 tonnes, 300,000 tonnes and 4.80 million square metres, respectively.

For the year ended 31 December 2022, pipes manufactured by the Group's subsidiaries and associates were used in the world's major oil and gas pipelines with a cumulative total length of approximately 34,421 kilometres, of which approximately 94.7% were installed in China while the remaining 5.3% were installed outside China.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Year under Review, large-scale pipe projects using SAWH pipes manufactured by the Group's subsidiaries and associates included: PipeChina West-East Gas Pipeline No. 4 (Turpan-Zhongwei) Project Xinjiang Section* (國家管網集團西氣東輸四線(吐魯番－中衛)項目新疆段工程), Zhucheng Urban Area Heat Supply "Steam to Water" Reconstruction Project* (諸城市城區供熱"汽改水"改造工程), Qingdao Huaneng Long-distance Heat Supply Pipeline Project* (青島華能長輸熱力管線項目), Shenxian County Intelligent Heating Infrastructure Construction Project* (莘縣智能供熱基礎設施建設項目), Shengli Oilfield Dongying Crude Oil Depot Relocation Project* (勝利油田東營原油庫遷建工程), Hunan Zhongnan Water Affairs Leifeng Waterworks Raw Water Pipeline Project* (湖南中南水務雷鋒水廠原水管線項目), Qingdao Dongjiakou Port Crude Oil Commercial Reserve Project* (青島董家口港區原油商業儲備庫工程), PowerChina & China Energy Hunan Yueyang Project* (中國電建集團國能湖南岳陽項目), Taiyuan Central Heating Project* (太原市集中供熱工程), China Energy Feixian Long-distance Heat Pipe Network Project* (國能費縣熱源長輸熱力管網工程), Xuyu Heating Long-distance Pipeline Project* (許禹供熱長輸管線工程), SINOPEC Northeast Anhui Natural Gas Pipeline Project* (中石化皖東北天然氣管道工程), SINOPEC Southwest Region Underground Integrated Pipeline Network Project* (中石化西南片區地下綜合管網項目) and PipeChina Southeast Guangxi Network (Wuzhou-Cenxi) Natural Gas Pipeline Project* (國家管網集團桂東南環網梧州－岑溪段天然氣管道工程).

Large-scale pipe projects using SAWL pipes manufactured by the Group's associates included: PipeChina West-East Gas Pipeline No. 4 (Turpan-Zhongwei) Project Xinjiang Section and Ganning Section* (國家管網集團西氣東輸四線(吐魯番－中衛)項目新疆段和甘寧段工程), Zhongwei-Zaoyang (Shaanxi Section) Project of PipeChina West-East Gas Pipeline No. 3 Mid-section Project (Zhongwei-Ji'an)* (國家管網集團西氣東輸三線中段(中衛－吉安)項目中衛－棗陽(陝西段)工程), CNOOC Shenmu-Anping Coal-bed Methane Pipeline Project* (中海油神木－安平煤層氣管道工程), Guangdong Energy Group Huizhou LNG Station Export Pipeline Project* (廣東能源集團惠州LNG接收站外輸管道項目), 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), PipeChina Shaanxi-Beijing No. 2 & 3 Pipeline Xiongshang High-speed Railway Renqiu Station Section Pipeline Relocation and Reconstruction Project* (國家管網集團陝京二、三線雄商高鐵任丘站段管道遷改工程), PipeChina Luning Line Traversing Xiacaowan River Pipeline Project* (國家管網集團魯寧線穿越下草灣河管道工程), Guangzhou Natural Gas Utilization Project Phase IV Shanhumen Station-Tian Xin Pressure Regulator Station Pipeline Project* (廣州市天然氣利用工程四期工程珊瑚門站－田心調壓站管線工程) and PipeChina Guangdong Pipeline Network Shante Gas Turbine Power Plant Gas Supply Branch Line Project and Qinghe Special Line Project* (國家管網集團廣東管網汕特燃機電廠供氣支線項目和清禾專線項目).

Large-scale pipe projects using anti-corrosion pipes manufactured by the Group's subsidiaries and associates included: PipeChina West-East Gas Pipeline No. 4 (Turpan-Zhongwei) Project Xinjiang Section and Ganning Section, Zhongwei-Zaoyang (Shaanxi Section) Project of PipeChina West-East Gas Pipeline No. 3 Mid-section Project (Zhongwei-Ji'an), CNOOC Shenmu-Anping Coal-bed Methane Pipeline Project, Guangdong Energy Group Huizhou LNG Station Export Pipeline Project, PipeChina Xinjiang Coal-based Gas Transmission Pipeline Guangxi Branch Line Project, PipeChina Guangdong Pipeline Network Shante Gas Turbine Power Plant Gas Supply Branch Line Project and Qinghe Special Line Project, PipeChina Southeast Guangxi Network (Wuzhou-Cenxi) Natural Gas Pipeline Project, CNPC Niger Crude Oil Export Pipeline Project* (中石油尼日爾原油外輸管道項目), PipeChina Shaanxi-Beijing No. 2 & 3 Pipeline Xiongshang High-speed Railway Renqiu Station Section Pipeline Relocation and Reconstruction Project, PipeChina Luning Line Traversing Xiacaowan River Pipeline Project, Guangzhou Natural Gas Utilization Project Phase IV Shanhumen Station-Tian Xin Pressure Regulator Station Pipeline Project, SINOPEC Northeast Anhui Natural Gas Pipeline Project, SINOPEC Southwest Region Underground Integrated Pipeline Network Project and Yinan County Qingtuo Town – Shuanghou Town Gas Pipeline Project* (沂南縣青駝鎮—雙堠鎮燃氣管道工程).

FINANCIAL REVIEW

Revenue

The Group's revenue decreased by approximately 31.4% from approximately RMB1,526,684,000 for the year ended 31 December 2021 to approximately RMB1,046,891,000 for the year ended 31 December 2022. The Group's revenue was mainly derived from the pipes business, which represents its principal business. In particular, (1) revenue from the sale of SAWH pipes reached approximately RMB793,316,000 (2021: approximately RMB784,635,000), representing a year-on-year increase of approximately 1.1%; (2) revenue from the sale of SAWL pipes reached approximately RMB159,386,000 (2021: approximately RMB577,820,000), representing a year-on-year decrease of approximately 72.4%; (3) revenue from the anti-corrosion processing business reached approximately RMB70,474,000 (2021: approximately RMB160,794,000), representing a year-on-year decrease of approximately 56.2%; (4) revenue from the insulation processing business reached approximately RMB14,780,000 (2021: nil); and (5) revenue from the trading business reached approximately RMB8,935,000 (2021: approximately RMB3,435,000), representing a year-on-year increase of approximately 160.1%. Despite a significant increase in revenue recorded by Shandong Shengli Steel Pipe, a subsidiary of the Group as compared with 2021 following being selected as a major SAWH pipes supplier of PipeChina during the Year under Review, the decrease in revenue was primarily because Hunan Shengli Steel Pipe ceased to be a subsidiary of the Group following the completion of the change of shareholding in Hunan Shengli Steel Pipe on 21 February 2022 (the "Shareholding Change Completion Date") by the Group with its shareholding reduced from 56.9% to 48%, and the financial results of Hunan Shengli Steel Pipe were no longer consolidated into the Group commencing from the Shareholding Change Completion Date, leading to a decrease in revenue of the Group during the year ended 31 December 2022 as compared with that in 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of sales and services

The Group's cost of sales and services decreased by approximately 32.1% from approximately RMB1,390,864,000 for the year ended 31 December 2021 to approximately RMB944,910,000 for the year ended 31 December 2022. The decrease in cost of sales and services was primarily attributable to the fact that during the year ended 31 December 2022, financial results of Hunan Shengli Steel Pipe were no longer consolidated into the Group commencing from the Shareholding Change Completion Date.

Gross profit

The gross profit of the Group decreased by approximately 24.9% from approximately RMB135,820,000 for the year ended 31 December 2021 to approximately RMB101,981,000 for the year ended 31 December 2022. Despite a significant increase in gross profit recorded by Shandong Shengli Steel Pipe during the year ended 31 December 2022 as compared with that in 2021, the gross profit of the Group decreased mainly due to the fact that financial results of Hunan Shengli Steel Pipe were no longer consolidated into the Group commencing from the Shareholding Change Completion Date following change of shareholding in Hunan Shengli Steel Pipe, leading to a year-on-year decrease in gross profit. Gross profit margin of the Group increased from approximately 8.9% for the year ended 31 December 2021 to approximately 9.7% for the year ended 31 December 2022, primarily attributable to the fact that the Group undertook several major projects of PipeChina with a relatively higher gross profit, and the Group adopted better cost control measures to reduce costs, contributing to an increase in gross profit margin as compared with that in 2021.

Other income and gains

Other income and gains of the Group decreased by approximately 78.7% from approximately RMB67,424,000 for the year ended 31 December 2021 to approximately RMB14,384,000 for the year ended 31 December 2022, which was mainly due to compensations received from local government authorities of approximately RMB46,830,000 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 in 2021, while there was no such compensation in 2022.

Selling and distribution costs

Selling and distribution costs of the Group increased by approximately 2.8% from approximately RMB52,183,000 for the year ended 31 December 2021 to approximately RMB53,651,000 for the year ended 31 December 2022. The slight increase in selling and distribution costs was mainly attributable to a significant increase in transportation costs incurred by Shandong Shengli Steel Pipe, although the financial results of Hunan Shengli Steel Pipe were no longer consolidated into the Group commencing from the Shareholding Change Completion Date.

Administrative expenses

The Group's administrative expenses decreased by approximately 35.1% from approximately RMB172,629,000 for the year ended 31 December 2021 to approximately RMB111,973,000 for the year ended 31 December 2022, primarily because the financial results of Hunan Shengli Steel Pipe were no longer consolidated into the Group commencing from the Shareholding Change Completion Date, leading to a significant decrease in administrative expenses during the year ended 31 December 2022.

Share of results of associates

For the year ended 31 December 2022, the Group's share of results of associates was approximately RMB26,738,000, as compared to share of results of an associate of approximately RMB1,821,000 for the year ended 31 December 2021. The significant increase in share of results of associates was primarily because Hunan Shengli Steel Pipe has been accounted for as an associate of the Group under the equity method commencing from the Shareholding Change Completion Date, while the Group only had one associate in 2021, i.e. Xinfeng Energy.

Gain/losses on disposal of equity interests

For the year ended 31 December 2022, the Group recorded gain of approximately RMB64,939,000 on partial disposal of equity interests in a subsidiary, representing gain on disposal of the 8.9% equity interests in Hunan Shengli Steel Pipe and recorded losses of approximately RMB44,294,000 on partial disposal of equity interests in an associate, representing losses on disposal of approximately 9.9% equity interests in Xinfeng Energy.

Impairment losses

For the year ended 31 December 2022, the Group recognised an impairment loss of approximately RMB8,570,000, primarily representing impairment loss on investment in an associate, i.e. Xinfeng Energy.

In light of continuous loss of certain investments of Xinfeng Energy caused by COVID-19 pandemic, the management of the Company considered that the investment in Xinfeng Energy as at 31 December 2022 may be impaired. In view of aforesaid, the Group estimated its recoverable amount as at 31 December 2022 with reference to the fair value less cost of disposal calculation using assets approach based on the valuation report prepared by Roma Appraisal Limited, an independent professional valuer.

The significant inputs into this valuation approach are (i) the relevant price indices and (ii) expected useful life of the relevant assets. Based on the assessment, the recoverable amount of investment in Xinfeng Energy based on the fair value less cost of disposal is lower than its net carrying amount and therefore an impairment loss of approximately RMB8,570,000 was recognised in respect of investment in Xinfeng Energy for the year ended 31 December 2022.

For the year ended 31 December 2021, the Group recognised impairment losses of (i) approximately RMB193,576,000 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 mineral business; (ii) approximately RMB5,076,000 in respect of property, plant and equipment as the recoverable amount of certain property, plant and equipment is lower than its carrying amount; and (iii) approximately RMB14,773,000 in respect of other receivables for which the debtor was known to have financial difficulties. For further details of impairment loss in respect of the deposit paid, please refer to the announcement dated 3 March 2022 and the 2021 annual report of the Company.

Finance costs

The Group incurred finance costs of approximately RMB17,579,000 for the year ended 31 December 2022 (2021: approximately RMB34,669,000), which were primarily derived from interest on bank loans, and the significant decrease was due to the fact that the financial results of Hunan Shengli Steel Pipe were no longer consolidated into the Group commencing from the Shareholding Change Completion Date, leading to a substantial decrease in finance costs during the year ended 31 December 2022 as compared with that in 2021.

Income tax expenses

Hong Kong profits tax is calculated at the rate of 16.5% (2021: 16.5%) on the estimated assessable profit for the year ended 31 December 2022. The profits tax rate of China Petro Equipment Holdings Pte. Ltd., a subsidiary of the Company incorporated in the Republic of Singapore, is 17% (2021: 17%) for the year ended 31 December 2022. Under the EIT Law and Implementation Regulation of the EIT Law, the income tax rate of the Company's subsidiaries in the PRC for the Year under Review is 25% (2021: 25%). Income tax for the year ended 31 December 2022 was approximately RMB186,000 (2021: income tax of approximately RMB3,583,000), the fluctuations of which were primarily due to 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 2022 was approximately RMB29,395,000, as compared to the audited total comprehensive loss of the Group of approximately RMB281,246,000 for the year ended 31 December 2021.

Net current liabilities

For the year ended 31 December 2022, the Group had net current liabilities of approximately RMB22,920,000, as compared to net current liabilities of approximately RMB279,039,000 as at 31 December 2021. The main reason for the significant decrease in net current liabilities was due to the fact that the financial results of Hunan Shengli Steel Pipe were no longer consolidated into the Group commencing from the Shareholding Change Completion Date, leading to a significant decrease in the current liabilities of the Group, and Shandong Shengli Steel Pipe, a subsidiary of the Group, was selected as a major SWAH pipes supplier of PipeChina leveraging its third place ranking in terms of comprehensive strength in PipeChina's 2022 pipeline framework agreement procurement bidding during the Year under Review, contributing to an improvement in the performance of pipes business of Shandong Shengli Steel Pipe. Accordingly, the Group will capitalize on the sound opportunities in pipeline industry, and is confident to maintain steady production and operation through reasonable allocation of funds and meticulous organization.

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 the years ended 31 December 2022 and 2021 were primarily related to the purchase of property, plant and equipment.

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

	2022 RMB'000	2021 RMB'000
Purchase of property, plant and equipment	**25,411**	15,747

MANAGEMENT DISCUSSION AND ANALYSIS

Indebtedness

Borrowings

As at 31 December 2022, the borrowings of the Group amounted to approximately RMB321,310,000 (2021: approximately RMB691,000,000).

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

	2022 RMB'000	2021 RMB'000
Loans:		
Bank loans – Secured	281,500	283,000
Bank loans – Secured and guaranteed	–	340,000
Bank loans – Guaranteed	–	68,000
Other loans – Unsecured	39,810	–
	321,310	691,000

The amount of loans of approximately RMB321,310,000 shall be repayable within one year. The following table sets forth the annual interest rates of the Group's bank loans:

	2022 %	2021 %
Effective interest rate per annum	4.00 to 4.44	4.35 to 4.785

The other loans carried a fixed annual interest rate of 5% during the year ended 31 December 2022.

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 exchange fluctuations and will assess the need to adopt any measures in relation to foreign exchange risk from time to time.

* *For identification purpose only*

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zhang Bizhuang, aged 55, 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 currently serves as a director of 12 subsidiaries of the Group. Mr. Zhang worked in Shengli Steel Pipe Co., Ltd.* (勝利鋼管有限公司) ("Shengli Steel Pipe", known as 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 as the department head of technical supervision department and quality control inspection department, the deputy general manager and the general manager, with his last position as the chairman. He also served in various positions in Shandong Shengli Steel Pipe including as the executive director and the 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. Zhang Danyu, aged 55, has been our executive Director since January 2023, responsible for the formulation and execution of strategies for corporate development and financing schemes of the Group. Mr. Zhang was a cadre of Nam Kwong (Group) Company Limited (南光(集團)有限公司) in Macau from May 1989 to December 1995, the general manager of Shanghai Danli International Trade Co., Ltd.* (上海丹力國際貿易有限公司) from May 1996 to May 1998, general manager of Shanghai Sanle Industrial Development Co., Ltd.* (上海三樂實業發展有限公司) from May 1998 to May 2001, an assistant to the general manager and the deputy general manager of Hangzhou TianMuShan Pharmaceutical Enterprise Co., Ltd.* (杭州天目山藥業股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code: 600671) from May 2001 to July 2006, a legal representative and the general manager of Shanghai Tianmu Import and Export Co., Ltd.* (上海天目進出口公司) from February 2007 to April 2021 and the vice president of Crown International Corporation Limited (皇冠環球集團有限公司) (a company listed on the Main Board of the Stock Exchange with stock code: 727) from May 2015 to May 2016.

Mr. Zhang graduated from the Guangdong University of Foreign Studies* (廣東外語外貿大學) (previously known as Guangzhou Institute of Foreign Trade* (廣州對外貿易學院)) in the People's Republic of China with a bachelor's degree in economics in 1989. He served as a member of the Economic Research Institute of Maritime Silk Road (Shenzhen)* (海上絲路經濟研究院(深圳)) from June 2016 to October 2022.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Wang Kunxian, aged 54, has been our vice president since October 2010, and our executive Director since August 2014, responsible for the technology development, quality control and production management of the Group. Mr. Wang currently serves as a director of six subsidiaries of the Group. Mr. Wang served various positions in Shengli Steel Pipe from July 1990 to December 2008, including as a factory officer and the deputy chief engineer, with his last position as the 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 in various positions in Shengguan Group* (勝管集團), including as the deputy general manager and the technical director of quality production, and currently holds the position of deputy general manager, responsible for technology development, quality control and production management.

Mr. Wang graduated from Chongqing University with a bachelor's degree in 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.

Ms. Han Aizhi, aged 55, has been our executive Director since July 2009, and has been serving as a vice president of the Company since 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 currently serves as a director of nine subsidiaries and a supervisor of an associate of the Group. Ms. Han served various positions in Shengli Steel Pipe from July 1988 to December 2008, including as the head of the technology supervision division, an officer of corporate management department, an officer of the general manager's office, an assistant to the general manager, the deputy general manager and a 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 as the deputy general manager and a director of securities investment, and currently holds the position of deputy general manager, 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 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).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhang Bangcheng, aged 51, has been our executive Director since March 2021, responsible for the overall sales of steel pipes of the Group. 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) from July 2005 to December 2007, the vice president of Sino-Singapore Lion Investment Pte Ltd.* (新加坡中獅投資私人有限公司) from May 2008 to September 2010, 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) from June 2013 to March 2017, 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) from April 2017 to December 2018 and 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.

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 DIRECTOR

Mr. Wei Jun, aged 54, 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 assistant to the director of operating department and the head of external economics department in Central Iron & Steel Research Institute (as defined below) from 1995 to 1999, and 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, from 1999 to 2003.

Mr. Wei graduated from Chongqing University with a bachelors' 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 Institute* (鋼鐵研究總院)") in 1993. He is a certified senior engineer in the PRC.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Junzhu, aged 47, 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 the 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Wu Geng, aged 51, 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. From January 2000 to January 2002, Mr. Wu had been a graduate assistant at the department of political science and international relations of University of Delaware, and studied for a master's degree at the same time. Mr. Wu successively served as a Chinese law adviser and foreign consultant both at Hoh Law Corporation and Colin Ng & Partners in Singapore, from January 2002 to October 2003. From October 2003 to April 2008, Mr. Wu served as the legal director of the PRC business at Hoh Law Corporation in Singapore.

Mr. Wu graduated from Peking University in 1995 with a bachelor's degree in law, majoring in economic law and international economic law. He graduated from the 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.

Mr. Qiao Jianmin, aged 62, has been our independent non-executive Director since April 2016. He is currently serving as the deputy chairman of the Zhejiang Returned Overseas Entrepreneurs' Association* (浙江省海歸創業協會) and the 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. Mr. Qiao held tutorship in the materials faculty of Zhejiang University from 1989 to 1991, became a postdoctoral researcher in Santa Clara University in the United States from 1991 to 1994, a senior engineer and the engineering manager in Applied Materials, Inc. in the United States from 1994 to 1997, the research and development engineer in chief in Cypress Semiconductor Corp. in the United States from 1998 to 2000, the international affair director in the International Technological University in the United States from 1992 to 2002, worked on technological research and development, and production management in Advanced Optical Solutions, LLC in the United States from 2000 to 2001, became a general manager in HQ Technologies, Inc. in the United States from 2002 to 2003, a senior technical officer in Piconetics, Inc. in the United States from 2004 to 2005, 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, 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 and a technical director in China Seven Star New Energy Holdings Limited from 2014 to 2016.

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 authorised as a senior engineer at professor level and expert consultant by the 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 the 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 50, has been our co-chief executive officer since June 2021, primarily responsible for sales of welded pipes for national pipeline projects of the Group. Mr. Zhang worked in the Shandong Dongming County Finance Bureau* (山東省東明縣財政局) from July 1996 to July 2001, 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) from June 2004 to July 2014, a director and the deputy general manager of Sinostar PEC Holdings Limited ("Sinostar PEC"), a company listed on the Singapore Exchange (stock code: C9Q.SGX) from September 2008 to March 2015 and re-designated to act as a director and the chief executive officer of Sinostar PEC from March 2015 to May 2021, 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 and 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.

Mr. Zhang has served as a director 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") 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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)".

Mr. Zhang obtained a bachelor's degree of accounting from Shandong University in 1996, a master's degree in agricultural economic management from China Agricultural University in 2004, and an executive master's degree of business administration from Tsinghua University in 2020. Mr. Zhang also obtained the qualification of a 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 33, 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 two subsidiaries of the Group, primarily responsible for the listing compliance and corporate governance of the Company as well as the routine work at the Company's Hong Kong office. He has extensive accounting experience and company secretarial practices in respect of listed companies in Hong Kong.

Mr. Zhang Feng obtained a bachelor's degree of business from James Cook University in 2012 and a master's degree of science in marketing and international business from 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 consolidated financial statements for the year ended 31 December 2022.

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 2022. The principal activities and other particulars of the subsidiaries and associates of the Company are set out in notes 17 and 19 to the consolidated financial statements, respectively.

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 19 of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

Business Risk and Uncertainties

The Group's principal business activity is pipes business, whose principal risks include the quality of the pipes and the security during production. The Group has taken comprehensive measures to ensure that both quality and security will meet the industry standards. Fluctuations in the construction schedule of cross-border and domestic large-scale oil and gas pipeline projects had a significant impact on the performance of the Group's pipes business during the Year under Review. For further details on the discussion of business risks and our measures to manage such risks, please refer to the 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 6 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 of 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, a subsidiary of the Group and Hunan Shengli Steel Pipe, an associate of the Group 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 63 to 107 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 2022.

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, 13 June 2023 to Friday, 16 June 2023, 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, 12 June 2023. 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 52.9% (2021: 42.3%) of the total sales and the top five suppliers accounted for approximately 69.0% (2021: 54.7%) of the total purchases for the year. In addition, the Group's largest customer accounted for approximately 31.2% (2021: 11.6%) of the total sales and the Group's largest supplier accounted for approximately 24.3% (2021: 20.4%) 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 2022 and the financial positions of the Company and the Group for the year ended 31 December 2022 are set out in the consolidated financial statements on pages 116 to 207.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution represent the share premium, contributed surplus and profit which in aggregate amounted to RMB245 million for the year ended 31 December 2022 (2021: RMB253 million). Details of the reserves of the Company for the year ended 31 December 2022 are set out in note 32 to the consolidated financial statements.

FIXED ASSETS

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

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 31 to the consolidated financial statements.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors in financial year 2022 and up to the date of this report were:

Executive Directors

Mr. Zhang Bizhuang *(Co-Chief Executive Officer)*
Mr. Zhang Danyu (appointed on 13 January 2023)
Mr. Wang Kunxian *(Vice President)*
Ms. Han Aizhi *(Vice President)*
Mr. Zhang Bangcheng

Non-executive Directors

Mr. Wei Jun *(Chairman)*
Mr. Huang Guang (retired on 17 June 2022)

Independent non-executive Directors

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

Pursuant to article 84(1) of the articles of association of the Company, at each annual general meeting, one-third of the Directors for the time being shall retire from office by rotation. Each of the Directors has entered into a service contract or an appointment letter with the Company for a term of three years. Pursuant to the articles of association of the Company, Mr. Wang Kunxian, Mr. Chen Junzhu and Mr. Qiao Jianmin shall retire and Mr. Wang Kunxian, Mr. Chen Junzhu and Mr. Qiao Jianmin are eligible and will stand for re-election at the forthcoming annual general meeting of the Company.

Pursuant to article 83(3) of the articles of association of the Company, Mr. Zhang Danyu, who was appointed as an executive Director on 13 January 2023, shall hold office only until the forthcoming annual general meeting of the Company, and he is 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 to be 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 2022, the interests or short positions of the Directors or chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required 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 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 2022
Wei Jun	Interest in controlled corporation(1)	620,000,000	N/A	16.003%
Zhang Bizhuang	Interest in controlled corporation(2)	153,130,224	N/A	3.952%
	Beneficial owner	79,800,000(3)	N/A	2.06%
Wang Kunxian	Interest in controlled corporation(4)	26,708,760	N/A	0.689%
Han Aizhi	Interest in controlled corporation(5)	26,708,760	N/A	0.689%

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.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2022, none of the Directors, and chief executives of the Company or the chairman of the Company or their respective associates 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 the 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 optimise 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 summarised 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 in accordance with and subject to 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 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 1 January 2022 and 31 December 2022, the total number of shares available for grant under the scheme limit of the Share Option Scheme were 156,663,060 and 139,893,060, representing approximately 4.0436% and 3.6107% of the issued shares of the Company of 3,874,365,600 shares as at the date of this report, respectively.

As at 31 December 2022, movements of options granted under the Share Option Scheme are set out below:

Name	Capacity	Exercise price	Outstanding as at 1 January 2022	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2022	Approximate percentage of the issued share capital of the Company as at 31 December 2022	Notes
Directors									
Zhang Bizhuang	Beneficial owner	HK$0.80	1,200,000	0	0	1,200,000	0	0%	(1)
Wang Kunxian	Beneficial owner	HK$0.80	960,000	0	0	960,000	0	0%	(1)
Han Aizhi	Beneficial owner	HK$0.80	1,200,000	0	0	1,200,000	0	0%	(1)
Employees									
Employees	Beneficial owner	HK$0.80	13,410,000	0	0	13,410,000	0	0%	(1)
Employees	Beneficial owner	HK$0.10	74,400,000	0	0	0	74,400,000	1.9203%	(2)
Total			91,170,000	0	0	16,770,000	74,400,000	1.9203%	

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 were 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 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.

Further details in respect of the Share Option Scheme are disclosed in note 33 to the consolidated 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 2022, the following persons (other than Directors or chief executives of the Company) were interested in 5% or more of the issued share capital of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or required to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules:

Name of shareholder	Capacity	Number of issued ordinary shares/ underlying shares held	Percentage of the issued share capital of the Company
Mefun Group Limited	Beneficial owner (1)	620,000,000	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%
Huang Guang	Interest in controlled corporation(3)	600,000,000	15.486%
Du Jichun	Interest of spouse (4)	79,800,000	2.06%
	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.

(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 2022, 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 2022.

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 2022, 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 2022.

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2022, cash and cash equivalents of the Group amounted to approximately RMB158,776,000 (2021: approximately RMB134,311,000). As at 31 December 2022, the Group had borrowings of approximately RMB321,310,000 (2021: approximately RMB691,000,000).

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 2022, the gearing ratio of the Group was 37.0% (2021: 56.0%).

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2022, the Group secured bank loans of RMB281,500,000 (31 December 2021: approximately RMB283,000,000) by pledge of certain of the property and plant amounting to approximately RMB110,855,000 (31 December 2021: approximately RMB125,088,000) and certain of the land use rights amounting to approximately RMB71,981,000 (31 December 2021: approximately RMB73,912,000).

As at 31 December 2021, an amount of approximately RMB146,540,000 out of bank loans of the Group of approximately RMB340,000,000 was guaranteed by a non-controlling shareholder of a subsidiary. At the same time, the bank loans were secured by pledge of certain property, plant and equipment amounting to approximately RMB173,387,000 and certain of the land use rights amounting to approximately RMB36,740,000.

CONTINGENT LIABILITIES

As at 31 December 2022, the Group did not have any material contingent liabilities (2021: Nil).

CAPITAL COMMITMENTS

The Group has a capital commitment of approximately RMB2,735,000 (2021: approximately RMB9,503,000) in respect of acquisition of property, plant and equipment as at 31 December 2022.

PLEDGE OF ASSETS

As at 31 December 2022, the bank loans were secured by pledge of certain of the Group's property, plant and equipment amounting to approximately RMB110,855,000 and right-of-use assets amounting to approximately RMB71,981,000.

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 exchange risk. The Group did not utilise any forward contracts or other means to hedge its foreign exchange exposure. However, the management will closely monitor the exchange rate fluctuations to ensure sufficient precautionary measures against any adverse impacts are in place.

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group reviews its human resources and remuneration policies periodically with reference to local legislations, market conditions, industry practice and assessment of the performance of the Group and individual employees. As at 31 December 2022, the Group's workforce comprised of 539 employees (including the Directors) (915 employees as at 31 December 2021). The total salaries and related costs (including the Directors' fees) amounted to approximately RMB76,004,000 (2021: approximately RMB103,819,000). Such decrease in the total salaries and related costs was primarily because the financial results of Hunan Shengli Steel Pipe were no longer consolidated into the Group commencing from the Shareholding Change Completion Date during the Year under Review.

The long-term incentive scheme include share options scheme and other incentive scheme as adopted by the Company from time to time to incentivise employees of the Company.

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 208. This summary does not form part of the audited consolidated 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 2 to the consolidated financial statements.

CONNECTED TRANSACTIONS

Further to certain related party transactions as disclosed in note 37 to the consolidated 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.

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 caps 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 ended 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 Iron & Steel Group Co., Ltd.* (湘潭鋼鐵集團有限公司) ("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 constituted 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.

REPORT OF THE DIRECTORS

RENEWING THE FRAMEWORK PURCHASE AGREEMENTS IN RELATION TO PURCHASE OF STEEL PLATES AND STEEL COILS BY HUNAN SHENGLI STEEL PIPE FROM HUNAN VALIN XIANGTAN IRON & STEEL CO., LTD.* (湖南華菱湘潭鋼鐵有限公司) ("HUNAN XIANGTAN"), 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")

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 ended 31 December 2022. Please refer to the announcement of the Company dated 25 November 2021 for further details. Transactions conducted under the Framework Purchase Agreements did not exceed the annual caps stipulated thereunder. Hunan Shengli Steel Pipe ceased to be a subsidiary of the Company on 21 February 2022.

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 was 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 to Valin International, it is wholly-owned by Hunan Xiangtan and was therefore a connected person of the Company at the subsidiary level pursuant to the Listing Rules. Accordingly, the transactions under the Framework Purchase Agreements constituted 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.

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 be 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 that 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 2022 to 31 December 2022 (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 2022.

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.

REPORT OF THE DIRECTORS

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 are no longer 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 Co., Ltd* (浙江勝管實業有限公司) ("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. Zhejiang Shengguan Industrial completed the equity transfer on 27 June 2022.

For further details of the above two transactions, please refer to the announcements of the Company dated 21 December 2021, 22 December 2021, 1 March 2022 and 29 June 2022, as well as the circular dated 6 January 2022; the 2021 annual report and 2022 interim report of the Company.

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.

REPORT OF THE DIRECTORS

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.

At the annual general meeting held on 17 June 2022, the Company re-appointed ZHONGHUI ANDA as auditors of the Company for the year ended 31 December 2022.

On 15 November 2022, Mazars CPA Limited, *Certified Public Accountants*, was appointed as the auditor of the Company to fill the casual vacancy occasioned by the resignation of ZHONGHUI ANDA. For further details, please refer to the announcement of the Company dated 15 November 2022.

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

29 March 2023

* *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 and enable shareholders' evaluation of such application. The Board continues to strive to uphold good corporate governance and adopts sound corporate governance practices. During the period from 1 January 2022 to 31 December 2022, the Company has applied the principles and code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules and has complied with all the code provisions and the recommended best practices, as appropriate.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

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 2022, 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 of five executive Directors, one non-executive Director and three independent non-executive Directors. The current Board members of the Company are:

Executive Directors

Mr. Zhang Bizhuang *(Co-Chief Executive Officer)*
Mr. Zhang Danyu (appointed on 13 January 2023)
Mr. Wang Kunxian *(Vice President)*
Ms. Han Aizhi *(Vice President)*
Mr. Zhang Bangcheng

Non-executive Director

Mr. Wei Jun *(Chairman)*
Mr. Huang Guang (retired on 17 June 2022)

CORPORATE GOVERNANCE REPORT

Independent non-executive Directors

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

The biographical details of all Directors are set out on pages 20 to 26 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 the 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 2022, respectively for the purpose of considering the Company's financial results, the Board held a total of seven meetings in 2022.

The Directors can attend meetings in person or through other means of electronic communication in accordance with the Company's articles of association. The company secretary of the Company (the "Company Secretary") assists the Chairman to prepare the agenda of the meeting and each Director may request to include any matters in the agenda. Generally, notice would be given for a regular meeting of the Company at least 14 days in advance. The Directors will receive details of agenda items for decision at least 3 days before each Board meeting. The Company Secretary is responsible for distributing detailed documents to each of the Directors prior to the meetings of the Board to ensure that the Directors may receive accurate, timely and clear information to make informed decisions regarding the matters to be discussed in the meetings. All Directors may access to the advice and services of the Company Secretary who regularly updates the Board on governance and regulatory matters. All Directors will also be provided with sufficient resources to discharge their duties, and upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances, at the Company's expense. The Company Secretary is also responsible for ensuring the procedures of Board meetings are observed and providing the Board with opinions on matters in relation to the compliance with the procedures of Board meetings. All minutes of Board meetings will be recorded in sufficient details, including the matters considered by the Board and the decisions reached.

For the year ended 31 December 2022, nine 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)*	9/9
Mr. Zhang Danyu (appointed on 13 January 2023)	N/A
Mr. Wang Kunxian *(Vice President)*	9/9
Ms. Han Aizhi *(Vice President)*	9/9
Mr. Zhang Bangcheng	9/9
Non-executive Directors	
Mr. Wei Jun *(Chairman)*	9/9
Mr. Huang Guang (retired on 17 June 2022)	3/9
Independent non-executive Directors	
Mr. Chen Junzhu	9/9
Mr. Wu Geng	9/9
Mr. Qiao Jianmin	9/9

Appointment, Re-election and Removal of Directors

Each of the Directors has entered into a service contract or an appointment letter with the Company for a term of three years. The service contracts or appointment letters are subject to termination in accordance with the provisions contained therein by 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 B.2.2, all Directors are subject to retirement by rotation at least once every three years.

Independent non-executive Directors

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

Company Secretary

Mr. Zhang Feng is a full-time employee of the Company and is familiar with the day-to-day affairs of the Company. For the year ended 31 December 2022, Mr. Zhang Feng has 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 – Senior Management" on page 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 organised 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 2022, all Directors have participated in appropriate continuous professional development in compliance with code C.1.4 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 (revised on 28 December 2022); 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 2022.

During the year ended 31 December 2022, the Audit Committee held three meetings. Details of the attendance of each member are as follows:

Name of Audit Committee Member	Attendance
Mr. Chen Junzhu *(Chairman)*	3/3
Mr. Wu Geng	3/3
Mr. Qiao Jianmin	3/3

During the year ended 31 December 2022, 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, reviewing the internal audit report summary for 2021 and reviewing the internal audit report for the first half of 2022, as well as reviewing the risk management and internal control system, and the procedures in relation to replacement of the external auditors of the Company.

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 2022, 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 2022, the Remuneration Committee had formulated the remuneration policy of Directors, approved the terms in service contracts of Directors, reviewing and/or approving matters relating to share schemes under Chapter 17 of the Listing Rules 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 remuneration 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 2022, 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 pages 32 to 33 of this annual report) an opportunity to have a personal stake in the Company and help motivate them to optimise 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 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 E.1.5 of the Code, the remuneration paid by the Group to members of senior management by bands for the year ended 31 December 2022 is set out below:

Remuneration band	Number of individuals
HK$0-HK$700,000	7
HK$700,001-HK$900,000	3
HK$900,001 or above	2

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 2022, the Nomination Committee held one meeting. Details of the attendance of each member are as follows:

Name of Nomination Committee Member	Attendance
Mr. Qiao Jianmin *(Chairman)*	1/1
Mr. Zhang Bizhuang	1/1
Mr. Wu Geng	1/1

During the year ended 31 December 2022, 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;

4. at least 75% of the Board members shall have more than ten years of experience in the industry he/she specialises 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.

The Board will take opportunities to increase the proportion of female members over time when selecting and making recommendations on suitable candidates for Board appointments. The Board would ensure that an appropriate balance of gender diversity is achieved with reference to stakeholders' expectation and international and local recommended best practices, with the ultimate goal of bringing the Board to gender diversity. The Board also aspires to having an appropriate proportion of directors who have direct experience in the Group's core markets, with different ethnic backgrounds and reflecting the Group's values and purposes.

The Company is also committed to a work environment that is both diverse and inclusive, where all colleagues feel respected and empowered to bring their authentic selves to work every day. Similar considerations are applied when recruiting and selecting Senior Management and other personnel across the Group's operations. As of 31 December 2022, 25% of our colleagues are female. For details, please refer to our ESG Report.

As of the date of this annual report, the Board has one female Director out of nine Directors. The Board targets to maintain at the least the current level of female representation on the Board, and in any event not less than the requirements under the Listing Rules. The Board is committed to further improving gender diversity as and when suitable candidates are identified. For further details, please refer to our ESG Report.

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 2022, 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 A.2.1 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 authorised 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 2022, 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 2022, the remuneration paid or payable to ZHONGHUI ANDA CPA Limited ("ZHONGHUI ANDA"), the prior auditors of the Company, and Mazars CPA Limited ("Mazars"), the current auditors of the Company, in respect of their audit and non-audit services were as follows:

Type of Services	**Total** HK$'000
Audit Services	
– ZHONGHUI ANDA	98
– Mazars	1,850
Non-audit Services	
– Review on interim report	545
– Other professional services	11
Total	2,504

RISK MANAGEMENT AND INTERNAL CONTROL

The Group has established the Administrative Measure of 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 formulated 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 inside 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. In accordance with the Listing Rules, the Company adopted a Shareholders Communication Policy, which sets out, among other things, how shareholders can communicate their views on various matters affecting the Company and how the Company solicits and understand the views of shareholders and stakeholders.

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 2022, the Company considers that the Shareholders Communication Policy was effectively implemented with the above measures in place.

During the year ended 31 December 2022, two general 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)*	2/2
Mr. Zhang Danyu (appointed on 13 January 2023)	N/A
Mr. Wang Kunxian *(Vice President)*	2/2
Ms. Han Aizhi *(Vice President)*	2/2
Mr. Zhang Bangcheng	2/2
Non-executive Directors	
Mr. Wei Jun *(Chairman)*	2/2
Mr. Huang Guang (retired on 17 June 2022)	2/2
Independent non-executive Directors	
Mr. Chen Junzhu, *ACCA, CICPA*	2/2
Mr. Wu Geng	2/2
Mr. Qiao Jianmin	2/2

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 2022, the Company made amendments to its articles of association, in order to improve its corporate governance and align with the revisions regarding core shareholder protection standards set out in Appendix 3 of the Listing Rules. For details, please refer to the announcement dated 22 April 2022 and the circular dated 17 May 2022 of the Company. Save as disclosed above, for the year ended 31 December 2022, there was no other significant change in the constitutional documents of the Company.

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 the environmental, social and governance aspect for the year ended 31 December 2022, and discloses the Group's ESG performances to such stakeholders as shareholders, employees, the government, customers, suppliers and the community.

Reporting Scope

The Report sets out 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 and insulation processing of SAWH pipes, as well as manufacturing facilities and ancillary office premises. The Report covers manufacturing bases in Zibo of Shandong Province and Urumqi of Xinjiang Uygur Autonomous Region in China, and offices located in Shanghai, Jinhua of Zhejiang Province and Hong Kong S.A.R, but excludes data of associates of the Group. As Rizhao Company was deregistered in October 2021, and Hunan Shengli Steel Pipe became an associate of the Group following completion of equity transfer in February 2022, these two companies were not covered in the reporting scope of the Report in 2022.

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 comparison to multiple trends

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》) (TSG07) 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, the Group's manufacturing base in Zibo of Shandong has 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, health, 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 and 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 changes in the 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 the Report.

Review and Approval

The Report was reviewed and approved by the Board in March 2023.

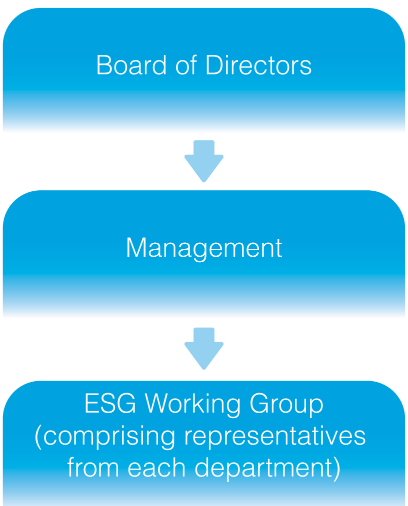
Contact and Respond

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, the public has been more concerned about the issue of sustainability and their expectations towards businesses on this issue have also increased. The Group attaches great importance to sustainability, and the Board strategically reviews the relevant issues from the Group-level. To expedite the sustainable development of the Group, the Board 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 implementation progress.

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 implementing 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 fully accountable for 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 meet strategic goals and maintain sustainable development. The Directors are also briefed 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 undertook appropriate continuous professional development trainings during the Reporting Period to keep their knowledge and skills up to date and ensure that they are fully informed and stay relevant when they are serving the Board. The Directors may complete professional development trainings 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 conducts 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 primarily 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

MATERIALITY ASSESSMENT

As the issues of stakeholders' concern may change over time, the Group meticulously conducts the 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

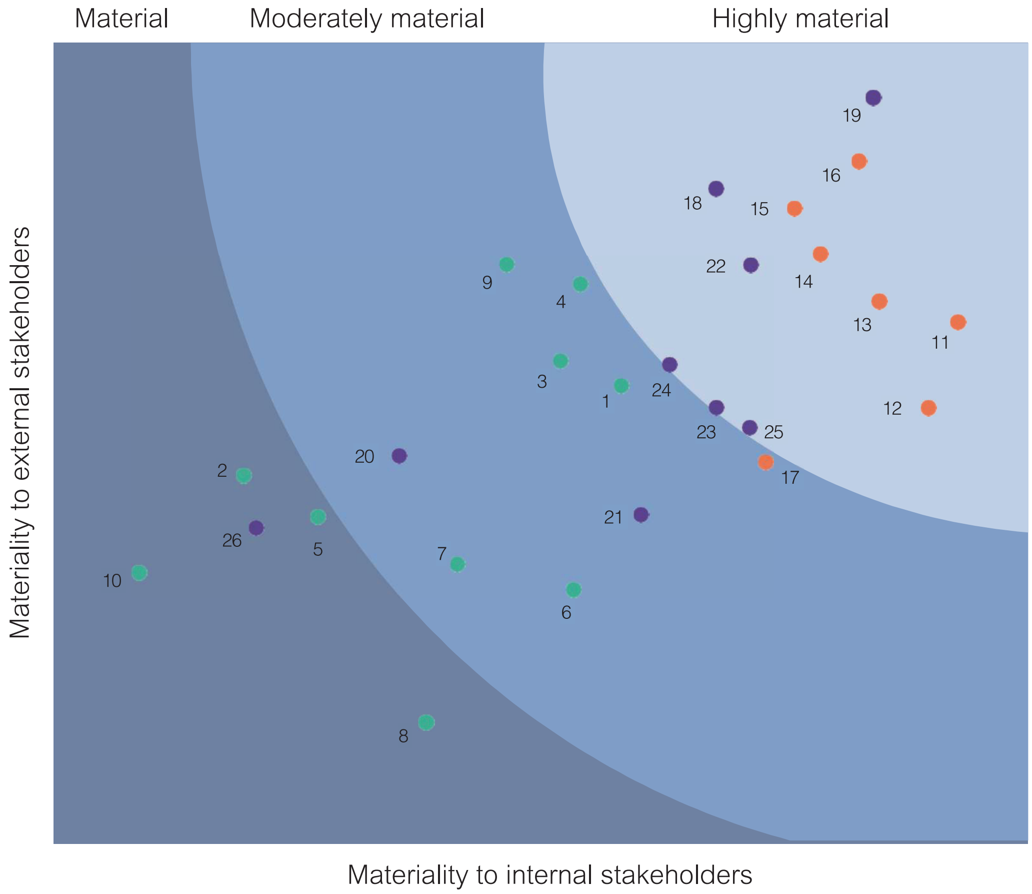
Collecting opinions
Collecting opinions from internal and external stakeholders on the issues identified via questionnaire survey

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, 12 were assessed to be highly material, 9 were assessed to be moderately material and 5 were assessed to be material. The results are demonstrated in the materiality matrix below:

Materiality Matrix



Environmental protection	Care for employees	Social welfare

Environmental protection

1. Exhaust emissions
2. Greenhouse gas emissions
3. Sewage discharge
4. Hazardous waste management
5. Non-hazardous waste management
6. Energy consumption and efficiency
7. Water consumption and efficiency
8. Use of packaging materials
9. Other impact on the environment and natural resources
10. Climate change

Care for employees

11. Recruitment, promotion and dismissal
12. Salary and benefits
13. Working hours and holidays
14. Equal opportunity, diversity and anti-discrimination
15. Occupational health and safety
16. Development and training
17. Prevention of child or forced labour

Social welfare

18. Environmental and social risks of supply chain
19. Health and safety of products and services
20. Responsible advertising and labelling
21. Private data protection
22. Customer service and complaint handling
23. Intellectual property rights protection
24. Product quality verification and re-call procedures
25. Prevention of bribery, corruption and money laundering
26. Community involvement and public welfare

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 contractually standards;
- 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 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 designated department on a regular and ad hoc basis. To incessantly strengthen environmental management and mitigate the impact of our activities on environment and natural resources, identification and assessment, routine inspection, joint patrol, compliance assessment, internal audit, external audit and management evaluation to the environment are carried out to identify, rectify and take precautions to potential issues, and make on-going improvements.

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 incompliance 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, the Controlling Procedures for 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 drums, waste paint buckets, waste paint, waste activated carbon, waste acetone, waste xylene, waste UV lamp tubes, waste rechargeable/disposable batteries, 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	**2022**	**2021**
Total (tonne)	200	156
Intensity (kg/per tonne of products)	1.38	0.59

The increase in total hazardous waste and intensity was due to the fact that although data of Hunan Shengli Steel Pipe, an associate of the Group, was excluded in 2022, the anti-corrosion and insulation production line of Shandong Shengli Steel Pipe commenced commercial production in 2022, leading to an increase in the quantity of waste activated carbon generated, and there was also an increase in the anti-corrosion production scale, resulting in an increase in the amount of waste paint generated by the Group.

The Group pay serious attention towards management and disposal of hazardous waste, so as to prevent environment pollution and minimize hazardous waste generation. 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 types of 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 qualified waste treatment institutions 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 the fire source and marked with fire prohibition sign and equipped with fire-fighting equipment to prevent fire accidents. Machine oil leaking from the equipment should be cleaned in time, and measures such as the 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

- Strengthening management over certain polluting waste through "returning used materials to get new ones" or delivering such waste 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 and production process, including domestic waste, canteen waste, green garbage and waste materials. Total non-hazardous waste generated during the Reporting Period is set out below:

Non-hazardous waste	**2022**	**2021**
Total (tonne)	101	319.9
Intensity (kg/per tonne of products)	0.7	1.22

The decrease in total non-hazardous waste and intensity during the Reporting Period was primarily attributable to the exclusion of data recorded by Hunan Shengli Steel Pipe, an associate of the Group in 2022.

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 designated for different kinds of waste in production plants for secure storage, and handed over such waste to qualified unit for disposal or recycling. Besides, it strengthened skills trainings for employees to enhance their expertise and competence. The Group also increased 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 the operation of production vehicles such as forklifts, cranes and pipe grabbers, as well as from the plasma and oxyacetylene cutting process. Moreover, greenhouse gases will also be generated indirectly 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	2022	2021
Scope 1 (tonnes of carbon dioxide equivalent)	357	723
Intensity (kg of carbon dioxide equivalent/per tonne of products)	2.46	2.76
Scope 2 (tonnes of carbon dioxide equivalent)	7,068	20,420
Intensity (kg of carbon dioxide equivalent/per tonne of products)	48.7	78

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 primarily due to exclusion of data recorded by Hunan Shengli Steel Pipe, an associate of the Group in 2022.

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 the Report.

Sewage discharge

The Group discharges sewage into water and land during production and office-work processes, including industrial wastewater, domestic sewage and canteen sewage. Water consumed in the 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 and treated by the Group on an annual basis, in order to ensure water quality is up to standard.

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, monitoring and performing assessments.

Energy consumption and efficiency

The Group consumes primarily 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	2022	2021
Electricity (kWh)	11,989,160	35,236,000
Diesel oil (kWh)	1,055,182	2,189,000
Gasoline (kWh)	212,943	354,000
Natural gas (kWh)	94,655	175,000
Total energy consumption (kWh)	13,351,940	37,954,000
Intensity (kWh/per tonne of products)	0.09	0.144

Total energy consumption and intensity recorded a decrease primarily due to the exclusion of data recorded by Hunan Shengli Steel Pipe, an associate of the Group in 2022.

The Group boosted energy use efficiency by way of upgrading the 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 the production process;

- Reasonable layout for lighting system for in the production process, use of energy efficient lighting products; and raise employees' awareness on energy saving through trainings, put up slogans, etc.;

- Cooperate closely with power companies to apply for capacity reduction based on planned electricity consumption when necessary. Adjustment of the Group's basic electricity billing 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 electricity bill is at the minimum method at the production bases;

- Conduct production activities during off-peak power consumption periods taking advantage of the period-by-period tariff policies of power companies. The Company launches noncontinuous productions during off-peak periods or normal charging periods, and imposes strict control on power consumption during production suspension. It will immediately notify relevant departments upon identifying abnormalities and will take corresponding countermeasures; and

- 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 inform each factory of high power consumption equipment, focusing on energy efficiency management and delivering better management results.

Water consumption and efficiency

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

Water consumption	2022	2021
Water (cubic meter)	53,412	234,217
Intensity (cubic meter/per tonne of products)	0.37	0.9

Both total water consumption and intensity recorded a decrease primarily due to the exclusion of data recorded by Hunan Shengli Steel Pipe, an associate of the Group in 2022.

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 sensors; raising employees' awareness on water saving through trainings, putting up slogans, etc.; and implementing 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 its 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:

Consumption of packaging materials	2022	2021
Pipe-end protectors (article)	80,000	192,452
Pipe-end seals (piece)	37,657	74,159
Nylon separation rope (strip)	80,620	317,633

Consumption 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:

<table>
<tr><th>No.</th><th colspan="2">Risk identification</th><th>Potential impact</th><th>Countermeasures</th></tr>
<tr><td>1</td><td rowspan="2">Physical risks</td><td>Acute risk-extreme weather such as typhoon, sandstorm, flood, extreme temperature difference, heavy air pollution, etc.</td><td>Causing damage to plants, products and other physical assets, interrupting supply chain and threatening lives.</td><td>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.</td></tr>
<tr><td>2</td><td>Chronic risk-prolonged high temperature</td><td>Causing damage to production facilities and employees’ health, and increasing work-related accidents.</td><td>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.</td></tr>
</table>

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 the 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 of 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;
- Increasing 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, assessing them and promoting among them the awareness of 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 environment at production bases; and
- Formulating corresponding contingency plans for environmental accidents and conducting regular drills.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CARE FOR EMPLOYEES

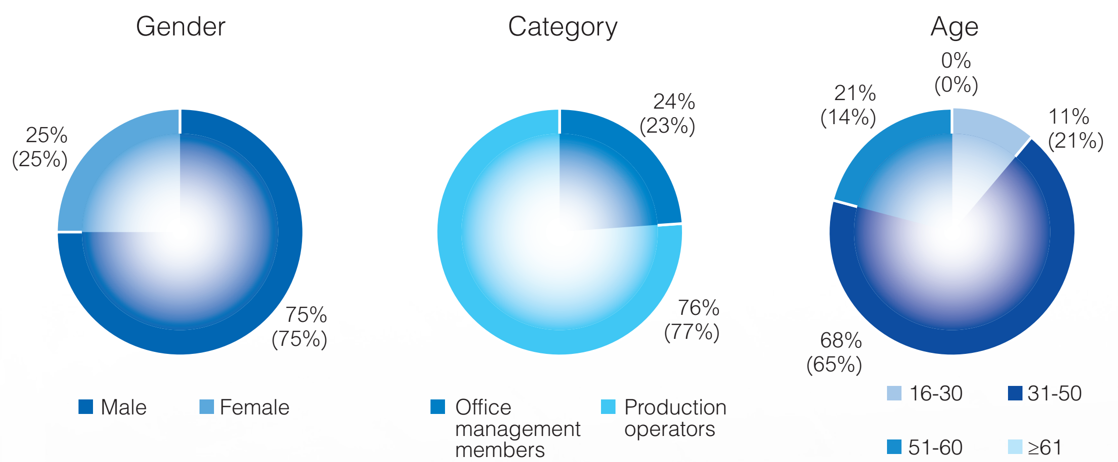
The Group regards employees as its valuable resources, and affirms their contributions to the business development of the Group. Accordingly, the Group dedicates itself to providing a desirable working environment for employees, allowing them to tap into their expertise and gain sense of achievement 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

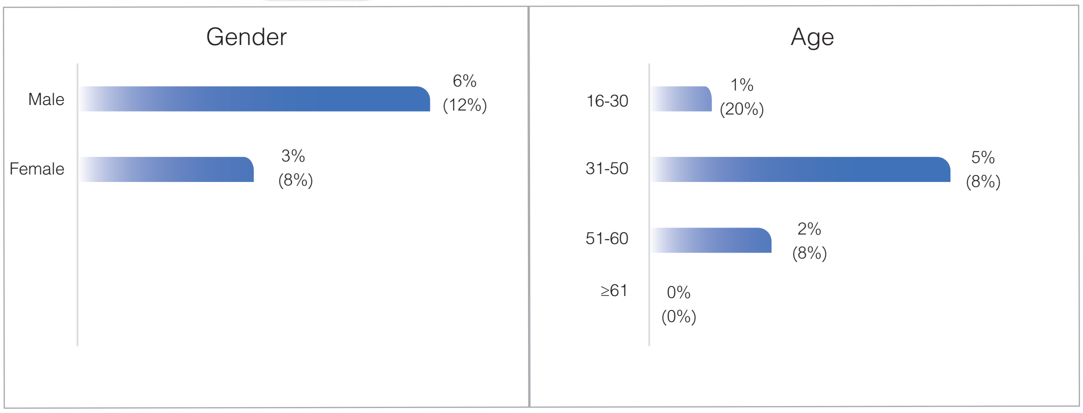
The Group has set up the Provisions on Administration of Staff Recruitment* (《員工招聘管理規定》), the Provisions on Administration of Labour Contracts* (《勞動合同管理規定》), the Provisions on Administration of Staff Leave* (《員工請假管理規定》), the Provisions on Administration of Labour Discipline* (《勞動紀律管理規定》), the Administrative 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 2022, the Group had a total of 539 employees (2021: 915 employees), the majority of whom were in mainland China. Set out below is a breakdown:



Percentages in the brackets represent employee information in 2021

A total of 47 employees left the Group during the Reporting Period (2021: 98 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 2021

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 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 the human resources department to ensure compliance with the applicable laws and regulations. The Group prepares the 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 attaches importance to talents and showed heartfelt care to newly recruited fresh graduates. On 4 August 2022, Shandong Shengli Steel Pipe staged a meeting for undergraduate interns to report their work in 2022. At the meeting, undergraduate interns summarized their performance in Shandong Shengli Steel Pipe since recruitment, and proposed upcoming working and study plans, drawing a perfect ending to their internship. Mr. Zhao Zengqiang, general manager of Shandong Shengli Steel Pipe, stated his expectations that interns will attach importance to the learning experience at the frontline, and make good use of the internship to learn from and conduct extensive communications with front-line staff, so as to set the solid foundation for completing technical tasks in the future. He also said that the company will provide, as far as practicable, better learning and promotion opportunities for them, and encouraged undergraduate interns to grow as soon as possible and have the innovative mentality after they become regular members of the company, and grow into a new generation of technical and management talent of the company.

Undergraduate interns work report meeting

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》), in August 2022, Shandong Shengli Steel Pipe launched registration by employees from different posts. After theoretical/practical examination, unit evaluation and final approval by the leading group of Shandong Shengli Steel Pipe, 63 employees were selected as senior technicians, who come from 10 different technical posts. Employees qualified as senior technicians are entitled to senior technician allowance from 1 September 2022. In October, Shandong Shengli Steel Pipe selected 22 internal technicians from the senior technicians pursuant to the Administrative Measures for Internal Technicians* (《內聘技師管理辦法》), and expects them to capitalize on their skill advantages, discharge their responsibilities with diligence, motivate other employees to effectively perform duties and spare no effort to improve post skills, thereby contributing to the development of the Group.

2022 senior technicians selection

Pursuant to the Administrative Measures for Qualifications and Remunerations of General Management Post, Finance Post and Technical Post* (《一般管理崗位、財務崗位、技術崗位任職資格及薪酬管理辦法》), Shandong Shengli Steel Pipe launched classification of personnel in general management post, finance post and technical post in July 2022, and staff competed for posts commensurate to their competence after duty performance appraisal (conducted on a semi-annual basis), English test and qualification verification with reference to their annual comprehensive assessment scores and experience, which fully mobilized employees, enhanced corporate cohesion and facilitated better corporate development.

Duty performance appraisal and English test

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 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 during 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" activity.

Women's Day activities organized by Shengguan Group and Shandong Shengli Steel Pipe on the playgrounds on 8 March 2022.

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.

- Launching the “Safety Production Month” activity. Head of each department shall be the safety production first responsible person in the department under his/her charge, and shall take the lead in strictly complying with safety production laws and regulations, fulfilling safety responsibilities, investigating hidden dangers and proceeding with rectification, effectively implementing the accountability system for persons in charge and resolutely keeping the bottom line of safety production. Pressing ahead with safety production inspection, and strictly and effectively materializing inspection and rectification of potential safety hazards. Earnestly conducting safety production propaganda and education, fostering a strong consensus of “everyone pays attention to, gets involved in and takes responsibility for safety production” within the Company, and promoting the penetration of the Company’s “Safety Production Month” activity.

On 16 June 2022, Shandong Shengli Steel Pipe held the "Safety Production Undertakings Provision and Fulfillment Oath Ceremony of Shandong Shengli Steel Pipe Co., Ltd.". At the ceremony, Mr. Zhao Zengqiang, general manager and the safety production first responsible person of Shandong Shengli Steel Pipe, guided each deputy general manager, person-in-charge of each department and employee representatives to solemnly make the oath.

Safety Production Undertakings Provision and Fulfillment Oath Ceremony

November 2022 marked the 12th legal fire prevention propaganda month in Shandong Province with the theme of "focusing on fire safety to guarantee quality development". To earnestly fulfill the political responsibilities of preventing and resolving major safety risks, implement the accountability system for fire prevention propaganda of industry players, and consolidate the fire prevention foundation among the public, the Safety Department of Shandong Shengli Steel Pipe formulated special plans for the fire prevention month based on actual corporate condition. Training plays an important role in fire prevention. On 23 November, the Safety Department of Shandong Shengli Steel Pipe launched fire prevention safety knowledge training. Upon completion of the trainings, the staff not only sharpened their awareness on fire prevention, mastered common sense on fire prevention, but also got more familiar with the use of fire-fighting equipment and improved their practical skills.

Fire prevention safety trainings launched by Shandong Shengli Steel Pipe on 23 November 2022

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)
2020	0	0	0	0
2021	3	0	0	118
2022	1	1	0.3	6,104

In the Report, working days lost are calculated with reference to the national standards of the People's Republic of China on Classification of Work-related Injuries and Casualties of Employees (GB6441-86).

The Group has conducted research into the two 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. Detailed inspection and resolution reports have been prepared for all the accidents pursuant to accident treatment requirements, and the Company has settled compensations and paid penalties according to relevant regulations.

Save as measures disclosed above, Shandong Shengli Steel Pipe also purchased the "Shandong 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.

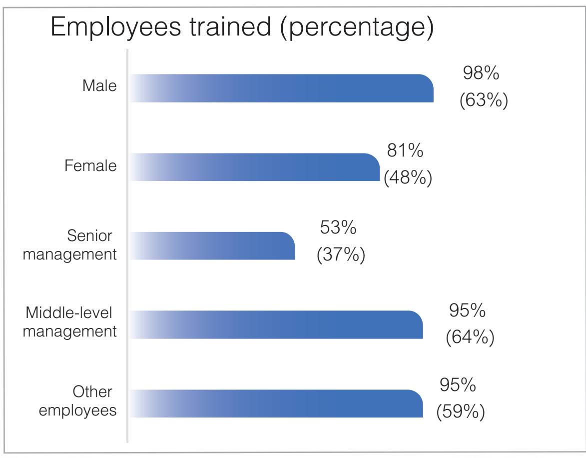
The Group has formulated provisions on the administration of occupational health and safety including the Planning Procedures for Identification of Origin of Hazards and Evaluation and Control of Risks* (《危險源辨識與風險評價和控制策劃程序》), the Control on Production Process and Control Procedures for Environmental,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

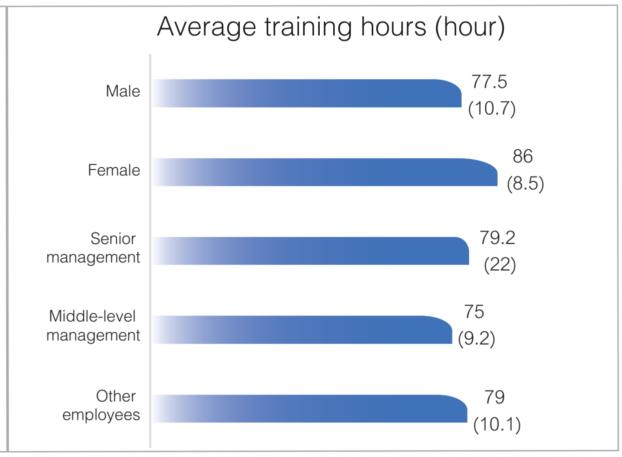
Development and Training

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% (2021: 100%). Internal trainings carried out during the Reporting Period include safety education training (level 3), position skills training, trainings regarding rules on safe operation and trainings on awareness of the quality, environment, and occupational health and safety management system; 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 512 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/data in the brackets represent employee information in 2021

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 242 (2021: 278) suppliers conducted transactions with the Group, the majority of which are located in the PRC. The decrease in the number of suppliers was mainly attributable to the exclusion of data from Hunan Shengli Steel Pipe, an associate of the Group in 2022. 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.

Shandong Shengli Steel Pipe Launched Internal Trainings on PipeChina's DEC Standards

On the morning of 21 June and 28 June 2022, Shandong Shengli Steel Pipe launched internal trainings on PipeChina's DEC standards and insulation standards. The trainings covered four aspects including pipe inspection, production, anti-corrosion and insulation. The executive deputy general manager, production deputy general manager, technology deputy general manager of Shandong Shengli Steel Pipe and staff from the pipe plant, anti-corrosion insulation plant, sales branch, logistics center, process and technology research center, quality inspection institute and quality management department attended the trainings. The trainings focused on the special requirements, thorny aspects in PipeChina's DEC standards, and differences with GB/T9711, API SPEC 5L, GB/T23257 and other standards, as well as major problems in routine on-site inspection. The technical staff explained and lectured the standards in simple language by means of illustration, data comparison and on-site drawing, which facilitated personnel attending the trainings to have an intuitive and comprehensive understanding of the standards, and set the foundation for upcoming mass production of pipes for PipeChina.

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 skillful 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 to reduce misjudgment, 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 the first batch of pipes for West-East Gas Pipeline No. 4 (Turpan-Zhongwei) Project Xinjiang Section. Leveraging meticulous assignment of production responsibilities, Shandong Shengli Steel Pipe maintained close exchange with steel plants, formulated rigorous production plans and engaged quality, technique and testing professionals to conduct spot check and recheck, in a bid to guarantee premium pipe quality and product supply.

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

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.

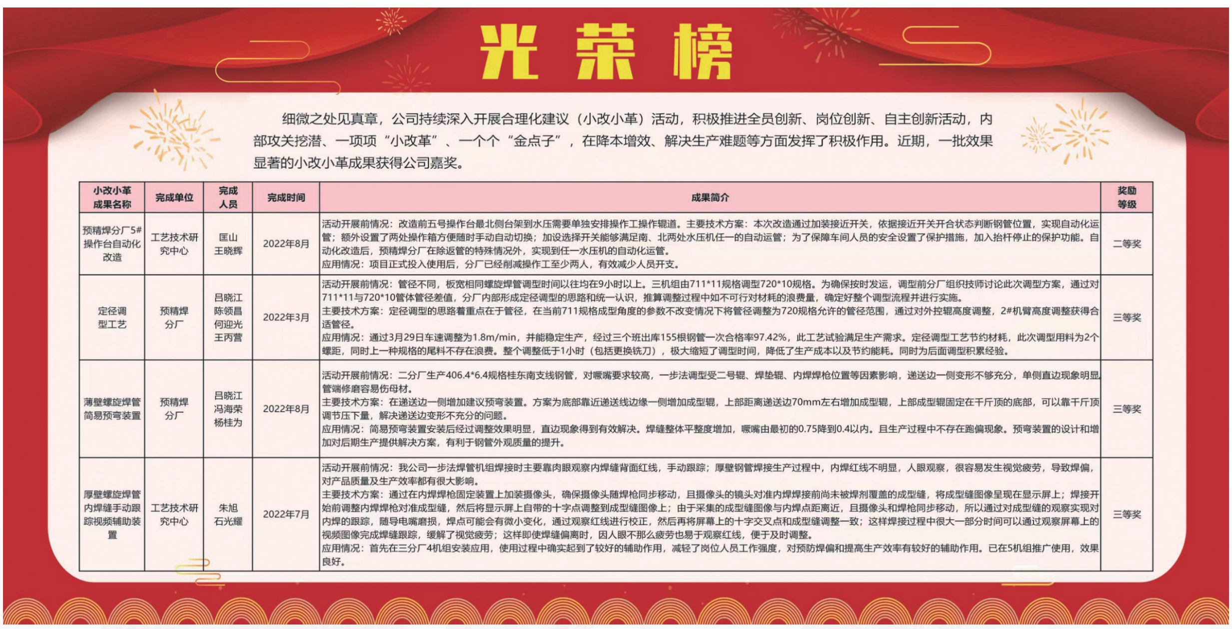
The Group observed Measures for the Administration of Commercial Franchise Information Disclosure* (《商業特許經營信息披露管理辦法》), Interim Regulations on Enterprise Information Publicity* (《企業信息公示暫行條例》), Interim Measures for Spot Check of Enterprise Publicity* (《企業公示抽查暫行辦法》) of the PRC, Advertising Law of the People's 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, three technical papers were published by technical staff from the Group in domestic professional magazines and industry annual conferences. Besides, two articles published in 2021 were included in the 2022 pipe low-carbon and energy conservation quality enhancement seminar. No complaints or proceedings regarding the infringement of intellectual property rights were received or brought against the Group.

The Group formulated the Incentive Measures for Rational Suggestions and Minor Reforms* (《合理化建議與小改小革獎勵辦法》), aiming to tap on the ingenuity of employees through brainstorming, and enhance their mobility to take the initiative to propose rational suggestions and minor reforms to the Company, so as to effectively promote the Company's rapid development, and achieve the goals of improving the economic benefits and management capabilities of the Company.



光荣榜

细微之处见真章，公司持续深入开展合理化建议（小改小革）活动，积极推进全员创新、岗位创新、自主创新活动，内部攻关挖潜、一项项“小改革”、一个个“金点子”，在降本增效、解决生产难题等方面发挥了积极作用。近期，一批效果显著的小改小革成果获得公司嘉奖。

小改小革成果名称	完成单位	完成人员	完成时间	成果简介	奖励等级
预精焊分厂5#操作台自动化改造	工艺技术研究中心	匡山 王晓辉	2022年8月	活动开展前情况：改造前五号操作台最北侧台架到水压需要单独安排操作工操作辊道。主要技术方案：本次改造通过加装接近开关，依据接近开关开合状态判断钢管位置，实现自动化运管；额外设置了两处操作箱方便随时手动自动切换；加设选择开关能够满足南、北两处水压机任一的自动运管；为了保障车间人员的安全设置了保护措施，加入抬杆停止的保护功能。自动化改造后，预精焊分厂在除返管的特殊情况外，实现到任一水压机的自动化运管。 应用情况：项目正式投入使用后，分厂已经削减操作工至少两人，有效减少人员开支。	二等奖
定径调型工艺	预精焊分厂	吕晓江 陈领昌 何迎光 王丙营	2022年3月	活动开展前情况：管径不同，板宽相同螺旋焊管调型时间以往均在9小时以上。三机组由711*11规格调型720*10规格。为确保按时发运，调型前分厂组织技师讨论此次调型方案，通过对711*11与720*10管体管径差值，分厂内部形成定径调型的思路和统一认识，推算调整过程中如不可行对材耗的浪费量，确定好整个调型流程并进行实施。 主要技术方案：定径调型的思路着重点在于管径，在当前711规格成型角度的参数不改变情况下将管径调整为720规格允许的管径范围，通过对外控辊高度调整，2#机臂高度调整获得合适管径。 应用情况：通过3月29日车速调整为1.8m/min，并能稳定生产，经过三个班出库155根钢管一次合格率97.42%，此工艺试验满足生产需求。定径调型工艺节约材耗，此次调型用料为2个螺距，同时上一种规格的尾料不存在浪费。整个调整低于1小时（包括更换铣刀），极大缩短了调型时间，降低了生产成本以及节约能耗。同时为后面调型积累经验。	三等奖
薄壁螺旋焊管简易预弯装置	预精焊分厂	吕晓江 冯海荣 杨桂为	2022年8月	活动开展前情况：二分厂生产406.4*6.4规格桂东南支线钢管，对噘嘴要求较高，一步法调型受二号辊、焊垫辊、内焊焊枪位置等因素影响，递送边一侧变形不够充分，单侧直边现象明显，管端修磨容易伤母材。 主要技术方案：在递送边一侧增加建议预弯装置。方案为底部靠近递送线边缘一侧增加成型辊，上部距离递送边70mm左右增加成型辊，上部成型辊固定在千斤顶的底部，可以靠千斤顶调节压下量，解决递送边变形不充分的问题。 应用情况：简易预弯装置安装后经过调整效果明显，直边现象得到有效解决。焊缝整体平整度增加，噘嘴由最初的0.75降到0.4以内。且生产过程中不存在跑偏现象。预弯装置的设计和增加对后期生产提供解决方案，有利于钢管外观质量的提升。	三等奖
厚壁螺旋焊管内焊缝手动跟踪视频辅助装置	工艺技术研究中心	朱旭 石光耀	2022年7月	活动开展前情况：我公司一步法焊管机组焊接时主要靠肉眼观察内焊缝背面红线，手动跟踪；厚壁钢管焊接生产过程中，内焊红线不明显，人眼观察，很容易发生视觉疲劳，导致焊偏，对产品质量及生产效率都有很大影响。 主要技术方案：通过在内焊焊枪固定装置上加装摄像头，确保摄像头随焊枪同步移动，且摄像头的镜头对准内焊焊接前尚未被焊剂覆盖的成型缝，将成型缝图像呈现在显示屏上；焊接开始前调整内焊焊枪对准成型缝，然后将显示屏上自带的十字点调整到成型缝图像上；由于采集的成型缝图像与内焊点距离近，且摄像头和焊枪同步移动，所以通过对成型缝的观察实现对内焊的跟踪，随导电嘴磨损，焊点可能会有微小变化，通过观察红线进行校正，然后再将屏幕上的十字交叉点和成型缝调整一致；这样焊接过程中很大一部分时间可以通过观察屏幕上的视频图像完成焊缝跟踪，缓解了视觉疲劳；这样即使焊缝偏离时，因人眼不那么疲劳也易于观察红线，便于及时调整。 应用情况：首先在三分厂4机组安装应用，使用过程中确实起到了较好的辅助作用，减轻了岗位人员工作强度，对预防焊偏和提高生产效率有较好的辅助作用。已在5机组推广使用，效果良好。	三等奖

Certain "minor reforms" proposed by employees were recognized by Shandong Shengli Steel Pipe in 2022

The Group proactively participated in the draft of national industry standards. In October 2022, Shandong Shengli Steel Pipe participated in the draft of two national industry standards including Non-destructive Testing of Steel Pipes – Magnetic Particle Testing Method for Surface Flaw of Ferromagnetic Seamless and Welded Steel Pipes* (《鋼管無損檢測鐵磁性無縫和焊接鋼管表面缺欠的磁粉檢測方法》), and Non-destructive Testing of Steel Pipes – Automatic Detection Method for Seamless and Welded Steel Pipe Layered Defects* (《鋼管無損檢測無縫和焊接鋼管分層缺欠的自動檢測方法》).

The Group effectively carried out brand maintenance and promotion and kept abreast of policy dynamics. In 2022, products of the Company were granted the title of "Shandong Famous Brand".

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

The Most Beautiful "Heroes in Harm's Way"

At the beginning of 2022, amid COVID-19 infected cases in several regions across China and the severe prevention and control situation, Zibo also came to a standstill overnight. In light of city-wide quarantine policy and nucleic acid test for all residents in each community, the property department was seriously understaffed. Certain employees from Shandong Shengli Steel Pipe braved all difficulties and helped to carry out checks immediately at night, launched anti-COVID-19 propaganda, guided residents to nucleic acid test sites, conducted community disinfection, patrol and guard control, and delivered food and medicines to residents. Tieshan Community of Zhongbu sent an appreciation letter, expressing its sincere gratitude and highest respect to 10 employees from Shandong Shengli Steel Pipe for their voluntary contributions to the community.

Striving to be a Contributor in the New Era

In Shandong Shengli Steel Pipe, there is a group of staff devoted to public welfare activities, who have contributed to society in low profile for almost seven years, and also invited other colleagues to join them. They have a shining name “Zibo Love 100 Charity Fleet”, which is a social welfare organization initiated by Zibo Love 100 Traffic Art Broadcasting with members voluntarily signing up. Love 100 Charity Fleet has successively won the honorary titles including the best volunteer service organization in Shandong Province, the advanced youth volunteer service group in Shandong Province, and persons of the year who moved Zibo.

In March 2022, Love 100 Charity Fleet of Shandong Shengli Steel Pipe welcomed the participation of another member, and so far there are five employees who convey positive energy with practical acts.

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.

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* *For identification purpose only*

INDEPENDENT AUDITOR'S REPORT

Mazars CPA Limited
中審眾環（香港）會計師事務所有限公司
42nd Floor, Central Plaza
18 Harbour Road, Wanchai, Hong Kong
香港灣仔港灣道 18 號中環廣場 42 樓
Tel 電話 : (852) 2909 5555
Fax 傳真 : (852) 2810 0032
Email 電郵 : info@mazars.hk
Website 網站 : www.mazars.hk

TO THE MEMBERS 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 116 to 207, which comprise the consolidated statement of financial position at 31 December 2022, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the 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 financial position of the Group at 31 December 2022, and of its financial performance and 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.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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.

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>Impairment of property, plant and equipment and right-of-use assets</td><td></td></tr>
<tr><td>At 31 December 2022, the Group has property, plant and equipment and right-of-use assets relating to pipe business with aggregate net carrying amounts of approximately RMB394,336,000.

The Group identified two cash generating units in relation to pipe business, namely "Shandong CGU" and "Xinjiang CGU". The Group's management engaged independent professional valuers to assess the recoverable amount of Shandong CGU and Xinjiang CGU using the value-in-use calculation based on cash flow projections and the fair value less cost of disposal calculation, respectively, for the purpose of impairment assessment of property, plant and equipment and right of use assets relating to pipe business.

We have identified the impairment assessment of pipe business related property, plant and equipment and right-of-use assets as a key audit matter due to the significance of the carrying amounts to the consolidated financial statements and significant estimates made by the Group's management in determining the recoverable amount of Shandong CGU and Xinjiang CGU.

Related disclosures are included in Notes 4(i), 16 and 20 to the consolidated financial statements.</td><td>Our procedures, among others, included:

• Evaluating the competence, capabilities and objectivity of the independent professional valuers;

• Assessing the appropriateness of the methodologies used by the independent professional valuers;

• Assessing the appropriateness of using the value-in-use calculation for Shandong CGU and the fair value less cost of disposal calculation for Xinjiang CGU in determining the respective recoverable amounts;

• Evaluating the reasonableness of key assumptions based on our knowledge of the industry and market of Shandong CGU and Xinjiang CGU;

• Checking, on a sample basis, the accuracy and relevance of the input data provided by management to independent professional valuers; and

• Checking arithmetical accuracy of the valuation calculation and recognition and disclosure of impairment loss (if any) of Shandong CGU and Xinjiang CGU.</td></tr>
</table>

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td> Impairment of investments in associates
At 31 December 2022, the net carrying amount of the Group's investments in associates and related impairment loss amounted to approximately RMB227,064,000 and RMB8,570,000, respectively.
The Group's management engaged an independent professional valuer to assess the recoverable amount of each investment in associate using the value-in-use calculation using cash flow projections and the fair value less cost of disposal calculation, as appropriate, for the purpose of impairment assessment of carrying amount of each investment in associate.
We have identified the impairment assessment of investments in associates as a key audit matter due to the significance of the carrying amounts to the consolidated financial statements and significant estimates made by the Group's management in determining the recoverable amount of investments in associates.
Related disclosures are included in Notes 4(iv) and 19 to the consolidated financial statements. </td>
<td> Our procedures, among others, included:

Evaluating the competence, capabilities and objectivity of the independent professional valuer;
Assessing the appropriateness of the methodologies used by the independent professional valuer;
Assessing the appropriateness of using the value-in-use calculation or the fair value less cost of disposal calculation for each investment in associate in determining the recoverable amount;
Evaluating the reasonableness of key assumptions based on our knowledge of the industry and market of each associate;
Checking, on a sample basis, the accuracy and relevance of the input data provided by management to independent professional valuer; and
Checking arithmetical accuracy of the valuation calculation and the recognition and disclosure of impairment loss (if any) of each investment in associate.
</td></tr>
</table>

<table>
<tr><th>Key audit matter</th><th>How our audit addressed the key audit matter</th></tr>
<tr><td>Expected credit losses ("ECL") assessment of trade receivables

At 31 December 2022, the gross carrying amount of trade receivables and the related allowance for ECL amounted to approximately RMB95,648,000 and RMB118,000, respectively.

At each reporting date, the management of the Group estimates the amount of ECL on trade receivables based on provision matrix that is based on historical data and is adjusted for forward-looking information of respective trade receivables.

The management of the Group believes that they have considered reasonable and supportable information that is relevant and available without undue cost and effort for this purpose. Such assessment has taken the quantitative and qualitative historical information and also, the forward-looking analysis.

We have identified ECL assessment of trade receivables as a key audit matter because the carrying amount of trade receivables was significant to the consolidated financial statements and the ECL assessment of these balances required significant judgement and involved high level of uncertainty.

Related disclosures are included in Notes 4(iii), 6 and 23 to the consolidated financial statements.</td><td>

Our procedures, among others, included:

• Understanding of the Group's credit risk management and practices and assessing the Group's ECL policy in accordance with the requirements of applicable accounting standards;

• Evaluating the methodologies, inputs and assumptions used by the Group in calculating the ECL;

• Checking the aging profile of the trade receivables at the end of reporting period and the post period-end subsequent settlement from customers, on a sample basis, to underlying accounting records and supporting documents;

• Understanding and evaluating the management's process in identifying the relevant forward-looking information for the ECL assessment; and

• Checking the calculation of ECL based on the methodology adopted by the Group and adequacy of the Group's disclosures in relation to credit risk of the Group in the consolidated financial statements.</td></tr>
</table>

Key audit matter	How our audit addressed the key audit matter
Disposal of 8.9% equity interests in Hunan Shengli Xianggang Steel Pipe Co., Ltd ("Hunan Shengli Steel Pipe")	
During the year ended 31 December 2022, the Group has completed the disposal of 8.9% equity interests in Hunan Shengli Steel Pipe (the "Hunan Disposal") which was since then ceased to be a subsidiary and become an associate of the Group accounted for under equity method in the Group's consolidated financial statements. The gain on the Hunan Disposal recognised in profit or loss was approximately RMB64,939,000 which represented the difference between (i) the fair value of the consideration plus the fair value of any interest retained in Hunan Shengli Steel Pipe; (ii) the carrying amount of non-controlling interests and (iii) the Group's share of the net assets of Hunan Shengli Steel Pipe at disposal date. The Group's management engaged an independent professional valuer to assess the fair value of interest retained in Hunan Shengli Steel Pipe at disposal date using present value of future cash flows. We have identified the Hunan Disposal as a key audit matter because the gain on the Hunan Disposal is significant to the Group's result for the year ended 31 December 2022 and the determination of the fair value of remaining interests in Hunan Shengli Steel Pipe at disposal date required significant judgement and involved high level of uncertainty. Related disclosures are included in Notes 19 and 35 to the consolidated financial statements.	Our procedures, among others, included: • Evaluating the competence, capabilities and objectivity of the independent professional valuer; • Assessing the appropriateness of the methodologies used by the independent professional valuer; • Evaluating the reasonableness of key assumptions based on our knowledge of the industry and market of Hunan Shengli Steel Pipe; • Checking, on a sample basis, the accuracy and relevance of the input data provided by management to independent professional valuer; and • Checking arithmetical accuracy of the valuation calculation of fair value of the retained interest in Hunan Shengli Steel Pipe.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the 2022 Annual Report of the Company but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do 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 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company 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 of the Company 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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. This report is made solely to you, as a body, in accordance with our agreed terms of engagement 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.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

- Conclude on the appropriateness of the use of the going concern basis of accounting by the directors of the Company and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law and regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Mazars CPA Limited
Certified Public Accountants
Hong Kong, 29 March 2023

The engagement director on the audit resulting in this independent auditor's report is:
She Shing Pang
Practising Certificate number: P05510

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
Revenue	8	**1,046,891**	1,526,684
Cost of sales and services		**(944,910)**	(1,390,864)
Gross profit		**101,981**	135,820
Other income and gains	9	**14,384**	67,424
Selling and distribution expenses		**(53,651)**	(52,183)
Administrative expenses		**(111,973)**	(172,629)
Other expenses		**(2,323)**	(8,723)
Share of results of associates	19	**26,738**	1,821
Provision for impairment loss on other receivables		**–**	(14,773)
Provision for impairment loss on deposits paid for acquisition of investments	18	**–**	(193,576)
Gain on disposal of equity interests in a subsidiary	35	**64,939**	–
Loss on partial disposal of equity interests in an associate	19	**(44,294)**	–
Provision for impairment loss on investment in an associate	19	**(8,570)**	–
Reversal of (Provision for) impairment loss on trade receivables, net	23(a)	**1,276**	(778)
Finance costs	10	**(17,579)**	(34,669)
Loss before tax	11	**(29,072)**	(272,266)
Income tax expense	13	**(186)**	(3,583)
Loss for the year		**(29,258)**	(275,849)
Other comprehensive loss:			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial statements of foreign operations		**(137)**	(5,397)
Total comprehensive loss for the year		**(29,395)**	(281,246)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
(Loss) Profit for the year attributable to:			
Owners of the Company		**(33,004)**	(260,719)
Non-controlling interests	17	**3,746**	(15,130)
		(29,258)	(275,849)
Total comprehensive (loss) income for the year attributable to:			
Owners of the Company		**(33,141)**	(266,116)
Non-controlling interests	17	**3,746**	(15,130)
		(29,395)	(281,246)
Loss per share	14		
Basic (RMB cents)		**(0.85)**	(6.75)
Diluted (RMB cents)		**(0.85)**	(6.75)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
Non-current assets			
Property, plant and equipment	16	**220,823**	471,330
Right-of-use assets	20	**177,938**	225,498
Investments in associates	19	**227,064**	193,910
Deposits paid for acquisition of investments	18	**–**	4,067
Deposits paid for acquisition of property, plant and equipment		**2,703**	14,029
Deferred tax assets	21	**560**	762
		629,088	909,596
Current assets			
Inventories	22	**111,265**	318,503
Trade and bills receivables	23	**95,530**	287,183
Contract assets	24	**52,910**	92,960
Prepayments, deposits and other receivables	25	**88,986**	145,854
Pledged deposits	26	**19,843**	31,280
Cash and cash equivalents	26	**158,776**	134,311
		527,310	1,010,091
Current liabilities			
Trade and bills payables	27	**52,260**	519,765
Other payables and accruals	28	**29,976**	27,465
Contract liabilities	24	**129,691**	32,847
Lease liabilities	20	**831**	1,162
Borrowings	29	**321,310**	691,000
Deferred income	30	**854**	1,583
Tax payable		**15,308**	15,308
		550,230	1,289,130
Net current liabilities		**(22,920)**	(279,039)
Total assets less current liabilities		**606,168**	630,557
Non-current liabilities			
Lease liabilities	20	**1,933**	25
Deferred income	30	**1,385**	2,791
Deferred tax liabilities	21	**260**	276
		3,578	3,092
NET ASSETS		**602,590**	627,465

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
Capital and reserves			
Issued capital	31	**334,409**	334,409
Reserves	32	**259,129**	292,024
Equity attributable to owners of the Company		**593,538**	626,433
Non-controlling interests	17	**9,052**	1,032
TOTAL EQUITY		**602,590**	627,465

The consolidated financial statements on pages 116 to 207 were approved and authorised for issue by the Board of Directors on 29 March 2023 and signed on its behalf by

Zhang Bizhuang
Director

Han Aizhi
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2022

	Attributable to owners of the Company									
	Issued capital RMB'000 (Note 31)	Share premium RMB'000 (Note 32(a))	Statutory surplus reserve RMB'000 (Note 32(b))	Share option reserve RMB'000 (Note 32(c))	Other reserve RMB'000 (Note 32(d))	Foreign currency translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2022	334,409	1,230,106	62,484	5,273	(9)	137	(1,005,967)	626,433	1,032	627,465
(Loss) Profit for the year	-	-	-	-	-	-	(33,004)	(33,004)	3,746	(29,258)
Other comprehensive loss										
Item that may be reclassified subsequently to profit or loss:										
Exchange differences on translation of financial statements of foreign operations	-	-	-	-	-	(137)	-	(137)	-	(137)
Total other comprehensive (loss) income for the year	-	-	-	-	-	(137)	-	(137)	-	(137)
Total comprehensive (loss) income for the year	-	-	-	-	-	(137)	(33,004)	(33,141)	3,746	(29,395)
Transactions with owners										
Contributions and distributions										
Equity-settled share-based payment expenses (Note 33)	-	-	-	246	-	-	-	246	-	246
Lapsed share options (Note 33)	-	-	-	(4,488)	-	-	4,488	-	-	-
	-	-	-	(4,242)	-	-	4,488	246	-	246
Change in ownership interests										
Disposal of a subsidiary (Note 35)	-	-	-	-	-	-	-	-	4,274	4,274
Total transactions with owners	-	-	-	(4,242)	-	-	4,488	246	4,274	4,520
At 31 December 2022	334,409	1,230,106	62,484	1,031	(9)	-	(1,034,483)	593,538	9,052	602,590

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2022

	Attributable to owners of the Company									
	Issued capital RMB'000 (Note 31)	Share premium RMB'000 (Note 32(a))	Statutory surplus reserve RMB'000 (Note 32(b))	Share option reserve RMB'000 (Note 32(c))	Other reserve RMB'000 (Note 32(d))	Foreign currency translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2021	283,911	1,230,106	62,484	38,573	(9)	5,534	(778,997)	841,602	16,162	857,764
Loss for the year	–	–	–	–	–	–	(260,719)	(260,719)	(15,130)	(275,849)
Other comprehensive loss										
Item that may be reclassified subsequently to profit or loss:										
Exchange differences on translation of financial statements of foreign operations	–	–	–	–	–	(5,397)	–	(5,397)	–	(5,397)
Total other comprehensive loss for the year	–	–	–	–	–	(5,397)	–	(5,397)	–	(5,397)
Total comprehensive loss for the year	–	–	–	–	–	(5,397)	(260,719)	(266,116)	(15,130)	(281,246)
Transactions with owners										
Contributions and distributions										
Issue of shares under general mandate (Note 31)	50,498	–	–	–	–	–	–	50,498	–	50,498
Equity-settled share-based payment expenses (Note 33)	–	–	–	449	–	–	–	449	–	449
Lapsed share options (Note 33)	–	–	–	(33,749)	–	–	33,749	–	–	–
Total transactions with owners	50,498	–	–	(33,300)	–	–	33,749	50,947	–	50,947
At 31 December 2021	334,409	1,230,106	62,484	5,273	(9)	137	(1,005,967)	626,433	1,032	627,465

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2022

	2022 RMB'000	2021 RMB'000
OPERATING ACTIVITIES		
Loss before tax	**(29,072)**	(272,266)
Adjustments for:		
Finance costs	**17,579**	34,669
Interest income	**(623)**	(1,553)
Share of results of associates	**(26,738)**	(1,821)
Depreciation of property, plant and equipment	**38,064**	99,593
Depreciation of right-of-use assets	**5,613**	6,585
Loss (Gain) on disposal of right-to-use assets and property, plant and equipment, net	**1,051**	(46,830)
Gain on disposal of non-current assets held for sale	**–**	(172)
Gain on disposal of equity interests in a subsidiary	**(64,939)**	–
(Reversal of) Provision for impairment loss on trade receivables, net	**(1,276)**	778
Provision for impairment loss on property, plant and equipment	**–**	5,076
Provision for impairment loss on deposits paid for acquisition of investments	**–**	193,576
Provision for impairment loss on investment in an associate	**8,570**	–
Loss on partial disposal of equity interests in an associate	**44,294**	–
Provision for impairment loss on other receivables	**–**	14,773
Write-down of inventories	**1,682**	1,418
Equity-settled share-based payment expenses	**246**	449
Recognition of deferred income	**(929)**	(1,584)
Operating cash flows before changes in working capital	**(6,478)**	32,691
Changes in working capital:		
Inventories	**49,844**	(29,143)
Trade and bills receivables	**(48,589)**	(4,365)
Contract assets	**(25,946)**	(65,461)
Prepayments, deposits and other receivables	**(9,600)**	88,302
Trade and bills payables	**(24,007)**	159,399
Other payables and accruals	**20,055**	(25,675)
Contract liabilities	**99,656**	(117,304)
Cash generated from operations and net cash from operating activities	**54,935**	38,444

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2022

	Notes	2022 RMB'000	2021 RMB'000
INVESTING ACTIVITIES			
Payment for purchase of property, plant and equipment		**(15,038)**	(30,182)
Deposits paid for acquisition of property, plant and equipment		**–**	(14,029)
Proceeds from disposal of right-of-use-assets and property, plant and equipment		**68**	59,876
Proceeds from disposal of non-current assets held for sale		**–**	4,500
Net cash flow from disposal of a subsidiary	35	**(20,781)**	–
Proceeds from assignment of deposits previously paid for acquisition of investments	18	**4,067**	–
Change in pledged deposits		**(120,359)**	35,673
Interest received		**623**	1,553
Net cash (used in) from investing activities		**(151,420)**	57,391
FINANCING ACTIVITIES			
Inception of borrowings		**452,310**	722,000
Repayment of borrowings		**(314,000)**	(811,600)
Inception of borrowings from a former non-controlling shareholder of a subsidiary		**–**	60,000
Repayment of borrowings from a former non-controlling shareholder of a subsidiary		**–**	(60,000)
Repayment of lease liabilities		**(1,198)**	(1,292)
Proceeds from issue of shares under general mandate		**–**	50,498
Interest paid		**(16,025)**	(34,589)
Net cash from (used in) financing activities		**121,087**	(74,983)
Net increase in cash and cash equivalents		**24,602**	20,852
Cash and cash equivalents at the beginning of the reporting period		**134,311**	113,159
Effect of foreign exchange rate, net		**(137)**	300
Cash and cash equivalents at the end of the reporting period	26	**158,776**	134,311

1. GENERAL INFORMATION

Shengli Oil & Gas Pipe Holdings Limited (the "Company" together with its subsidiaries collectively referred to as the "Group") is a limited liability company incorporated in the Caymans Islands on 3 July 2009. The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") since 18 December 2009. The address of the Company's registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands and its principal place of business of the Company in Hong Kong and the People's Republic of China (the "PRC") are located at Room 2111, 21st Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong and Zhongbu Town, Zhangdian District, Zibo City, Shandong Province 255082, the PRC, respectively.

The Company is an investment holding company. The principal activities of its subsidiaries and associates are set out in Notes 17 and 19 to the consolidated financial statements, respectively.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB"), which collective term includes all applicable individual IFRSs, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board (the "IASB") and the disclosure requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The consolidated financial statements are presented in Renminbi ("RMB") which is also the Company's functional currency and all amounts have been rounded to the nearest thousand ("RMB'000"), unless otherwise indicated.

A summary of the significant accounting policies adopted by the Group is set out below.

The measurement basis used in the preparation of the consolidated financial statements is historical cost.

The consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2021 consolidated financial statements except for the adoption of the new/revised IFRSs that are relevant to the Group and effective from the current year as set out below.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Going concern

At 31 December 2022, the current liabilities of the Group exceeded its current assets by approximately RMB22,920,000.

The directors of the Company have prepared the Group's cash flow projections covering a period of not less than twelve months from the end of the reporting period. Based on the cash flow projections, the Group will have sufficient financial resources to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2022. In addition, the major shareholder of the Company has confirmed its intention to make available adequate funds to the Company as and when required to maintain the Company as a going concern.

The directors of the Company are of the opinion that, taking into account of (i) continuous net cash inflows from operating activities; (ii) the cash flow projections of the Group; and (iii) the financial support from the major shareholder of the Company, the Group has sufficient working capital for its present requirements. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

Should the Group be unable to continue as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts and to provide for any further liabilities which might arise; and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect to these adjustments has not been reflected in the consolidated financial statements.

Changes in accounting policies

The Group has applied, for the first time, the following new/revised IFRSs:

Amendments to IFRS 16	Covid-19-Related Rent Concessions Beyond 30 June 2021
Amendments to IAS 16	Proceeds before Intended Use
Amendments to IAS 37	Cost of Fulfilling a Contract
Amendments to IFRS 3	Reference to the Conceptual Framework

Amendments to IFRS 16: COVID-19-Related Rent Concessions Beyond 30 June 2021

The amendments exempt lessees from having to consider individual lease contracts to determine whether rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and allow lessees to account for such rent concessions as if they were not lease modifications. It applies to COVID-19-related rent concessions that reduce lease payments due on or before 30 June 2022. The amendments do not affect lessors.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in accounting policies (Continued)

Amendments to IAS 16: Proceeds before Intended Use

The amendments clarify the accounting requirements for proceeds received by an entity from selling items produced while testing an item of property, plant or equipment before it is used for its intended purpose. An entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss and measures the cost of those items applying the measurement requirements of IAS 2.

Amendments to IAS 37: Cost of Fulfilling a Contract

The amendments clarify that for the purpose of assessing whether a contract is onerous under IAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (for example, direct labour and materials) and an allocation of other costs that relate directly to fulfilling contracts (for example, an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

Amendments to IFRS 3: Reference to the Conceptual Framework

The amendments update a reference in IFRS 3 to the Conceptual Framework for Financial Reporting issued in 2018. The amendments also add to IFRS 3 an exception to its requirement for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for some types of liabilities and contingent liabilities, an entity applying IFRS 3 should instead refer to IAS 37. The exception has been added to avoid an unintended consequence of updating the reference.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in accounting policies (Continued)

Annual Improvements Project – 2018-2020 Cycle

IFRS 1: Subsidiary as a First-time Adopter

This amendment simplifies the application of IFRS 1 for a subsidiary that becomes a first-time adopter of IFRSs later than its parent – i.e. if a subsidiary adopts IFRSs later than its parent and applies IFRS 1.D16(a), then a subsidiary may elect to measure cumulative translation differences for all foreign operations at amounts included in the financial statements of the parent, based on the parent's date of transition to IFRSs.

IFRS 9: Fees in the "10 per cent" Test for Derecognition of Financial Liabilities

This amendment clarifies that – for the purpose of performing the "10 per cent test" for derecognition of financial liabilities – in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

IFRS 16: Lease Incentives

The amendment removes the illustration of payments from the lessor relating to leasehold improvements. As currently drafted, Example 13 is not clear as to why such payments are not a lease incentive.

IAS 41: Taxation in Fair Value Measurements

This amendment removes the requirement to exclude cash flows for taxation when measuring fair value, thereby aligning the fair value measurement requirements in IAS 41 with those in IFRS 13.

The adoption of the above amendments does not have any significant impact on the consolidated financial statements.

Consolidation

The consolidated financial statements include the financial statements of the Company and all of 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Consolidation (Continued)

In the Company's statement of financial position which is presented within these notes, interests in subsidiaries are stated at cost less impairment loss. The carrying amounts of the interests are reduced to their respective recoverable amount on an individual basis, if it is higher than the recoverable amount. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

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

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

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

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

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

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

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Associates

An associate is entity 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.

Investments in associates are 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 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.

Foreign currency translation

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 also the functional currency of the Group and principal operating subsidiaries.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation (Continued)

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment

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

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

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

Buildings	20 – 30 years or over the terms 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.

2. 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 United State Dollars ("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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments

Recognition and derecognition

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 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Financial assets at amortised cost (Continued)

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

The Group's financial assets at amortised cost include trade and bills receivables, deposits and other receivables, pledged deposits and cash and cash equivalents.

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.

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.

The Group's financial liabilities include trade and bills payables, other payables and accrual, lease liabilities and borrowings. All financial liabilities, except for financial liabilities at fair value through profit or loss ("FVPL"), are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For classification in the statement of financial position, cash equivalents represent assets similar in nature to cash and which are not restricted as to use.

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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue from contracts with customers within IFRS 15

Nature of goods or services

The nature of the goods or services provided by the Group is as follows:

(a) Sale of pipes;

(b) Rendering of services related to pipe business; and

(c) Trading of commodities.

Identification of performance obligations

At contract inception, the Group assesses the goods or services promised in a contract with a customer and identifies as a performance obligation each promise to transfer to the customer either:

(a) a good or service (or a bundle of goods or services) that is distinct; or

(b) a series of distinct goods or services that are substantially the same and that have the same pattern of transfer to the customer.

A good or service that is promised to a customer is distinct if both of the following criteria are met:

(a) the customer can benefit from the good or service either on its own or together with other resources that are readily available to the customer (i.e. the good or service is capable of being distinct); and

(b) the Group's promise to transfer the good or service to the customer is separately identifiable from other promises in the contract (i.e. the promise to transfer the good or service is distinct within the context of the contract).

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers within IFRS 15 (Continued)

Timing of revenue recognition

Revenue is recognised when (or as) the Group satisfies a performance obligation by transferring a promised good or service (i.e. an asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

The Group transfers control of a good or service over time and, therefore, satisfies a performance obligation and recognises revenue over time, if one of the following criteria is met:

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

(b) the Group's performance creates or enhances an asset (for example, work in progress) 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 not satisfied over time, the Group satisfies the performance obligation at a point in time when the customer obtains control of the promised asset. In determining when the transfer of control occurs, the Group considers the concept of control and such indicators as legal title, physical possession, right to payment, significant risks and rewards of ownership of the asset, and customer acceptance.

Sale of pipes and trading of commodity are recognised at a point in time at which the customer obtains the control of the promised asset, which generally coincides with the time when the goods are delivered and title has been passed.

Revenue from rendering of services related to pipe business is recognised at a point in time at which the services are rendered. A receivable is recognised by the Group when the services are rendered to the customers at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contract assets and contract liabilities

If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, the contract is presented as a contract asset, excluding any amounts presented as a receivable. Conversely, if a customer pays consideration, or the Group has a right to an amount of consideration that is unconditional, before the Group transfers a good or service to the customer, the contract is presented as a contract liability when the payment is made or the payment is due (whichever is earlier). A receivable is the Group's right to consideration that is unconditional or only the passage of time is required before payment of that consideration is due.

For a single contract or a single set of related contracts, either a net contract asset or a net contract liability is presented. Contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

For the Group's pipe business, it is common for the Group to receive from the customer the whole or some of the contractual payments before the services are completed or when the goods are delivered (i.e. the timing of revenue recognition for such transactions). The Group recognises a contract liability until it is recognised as revenue. During that period, any significant financing components, if applicable, will be included in the contract liability and will be expensed as accrued unless the interest expense is eligible for capitalisation.

Revenue from other sources

Rental income

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

Interest income

Interest income from financial assets is recognised using the effective interest method. For financial assets measured at amortised cost that are not credit impaired, the effective interest rate is applied to the gross carrying amount of the assets while it is applied to the amortised cost (i.e. the gross carrying amount net of loss allowance) in case of credit-impaired financial assets.

Dividend income

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

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

Short term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees.

Employee leave entitlement

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.

Defined contribution plans

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 Hong Kong dollars ("HK$") 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.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Share-based payments

Equity-settled transactions

The Group's employees, including directors, receive remuneration in the form of share-based payment transactions, whereby the employees rendered services in exchange for shares or rights over shares. The cost of such transactions with employees is measured by reference to the fair value of the equity instruments at the grant date. The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in a reserve within equity. The fair value is determined using the binomial model, taking into account any market conditions and non-vesting conditions.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the vesting conditions are to be fulfilled, ending on the date on which the entitlement of relevant employees to the award is no longer conditional on the satisfaction of any non-market vesting conditions ("vesting date"). During the vesting period, the number of share options that is expected to vest ultimately is reviewed. Any adjustment to the cumulative fair value recognised in prior periods is charged/credited to profit or loss for the year of review, with a corresponding adjustment to the reverse within equity.

When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits/losses.

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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation

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

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

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

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

2. 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 Group or of the holding company of the Group.

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

(i) The entity and the Group are members of the same group (which means that each holding company, 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

(b) (Continued)

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

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

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company 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 Group or to the holding company of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the Group and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

In the definition of a related party, an associate includes subsidiaries of the associate and a joint venture includes subsidiaries of the joint venture.

Impairment of non-financial 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.

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

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

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

3. FUTURE CHANGES IN IFRSs

At the date of authorisation of these consolidated financial statements, the IASB has issued the following new/revised IFRSs that are not yet effective for the current year, which the Group has not early adopted.

Amendments to IAS 1	Disclosure of Accounting Policies [(1)]
Amendments to IAS 8	Definition of Accounting Estimates [(1)]
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction [(1)]
IFRS 17	Insurance Contract [(1)]
Amendment to IFRS 17	Initial Application of IFRS 17 and IFRS 9 – Comparative Information [(1)]
Amendments to IAS 1	Classification of Liabilities as Current or Non-current [(2)]
Amendments to IAS 1	Non-current Liabilities with Covenants [(2)]
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback [(2)]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture [(3)]

(1) Effective for annual periods beginning on or after 1 January 2023
(2) Effective for annual periods beginning on or after 1 January 2024
(3) The effective date to be determined

The directors of the Company do not anticipate that the adoption of the new/revised IFRSs in future periods will have any material impact on the consolidated financial statements of the Group.

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY ESTIMATES

Estimates and assumptions concerning the future and judgements are made by the directors of the Company in the preparation of the consolidated financial statements. They affect the application of the Group's accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosures made. They are assessed on an on-going basis and are based on experience and relevant factors, including expectations of future events that are believed to be reasonable under the circumstances. Where appropriate, revisions to accounting estimates are recognised in the period of revision and future periods, in case the revision also affects future periods.

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 reporting period.

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

Key sources of estimation uncertainty (Continued)

(i) Impairment loss on non-financial assets

The Group assesses whether there are any indicators of impairment for all non-financial assets, including property, plant and equipment and right-of-use assets, at the end of each reporting period in accordance with the accounting policies as disclosed in Note 2 to the consolidated financial statements. In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the management has to assess whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence. If any such indication exists, the recoverable amounts of the asset would be determined as the greater of the fair value less costs of disposal and value-in-use, the calculations of which involve the use of estimates. Owing to inherent risk associated with estimations in the timing and amounts of the future cash flows and fair value less costs of disposal, the estimated recoverable amount of the asset may be different from the amount actually received and profit or loss could be affected by accuracy of the estimations.

(ii) Useful lives of property, plant and equipment

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.

(iii) Loss allowance 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 bills receivables and prepayments, deposits 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.

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

Key sources of estimation uncertainty (Continued)

(iv) Impairment loss recognised in respect of investments in associates

Investments in associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Value-in-use calculation are used for assessing the recoverable amounts 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 amount of interests may not be recoverable; and (ii) whether the carrying amounts of the investments in associates can be supported by the recoverable amounts. Changing the estimations used by management in assessing impairment could materially affect the recoverable amounts used in the impairment test and as a result affect the Group's consolidated financial position and consolidated results of operations. In addition, the Group appointed an independent professional valuer to assess the impairment of investments in associates on an individual basis.

(v) 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 sale ability 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 sale ability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

5. 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 borrowings and equity attributable to owners of the Company, comprising issued share capital and reserves. The directors of the Company review the capital structure on a regular basis. As part of this review, the directors of the Company 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 during the years ended 31 December 2022 and 2021.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise pledged deposits, cash and cash equivalents and borrowings. 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 and bills receivables, trade and bills payables, contract assets, contract liabilities, other receivables and deposits, other payables and accruals and lease liabilities, which arise directly from its operations.

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

Interest rate risk

The Group's exposure to interest rate risk relates primarily to the Group's interest-bearing borrowings. The interest rates and terms of repayment of interest-bearing borrowings are disclosed in Note 29 to the consolidated financial statements.

At 31 December 2022, if interest rates at that date had been 1% lower with all other variables held constant, the Group's pre-tax results for the year would have been approximately RMB2,815,000 *(2021: approximately RMB6,910,000)* increased, arising mainly as a result of lower interest expense on interest-bearing borrowings. If interest rates had been 1% higher, with all other variables held constant, consolidated loss after tax for the year would have been approximately RMB2,815,000 *(2021: approximately RMB6,910,000)* decreased, arising mainly as a result of higher interest expense on interest-bearing borrowings.

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.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

The Group's other financial assets include pledged deposits, cash and cash equivalent and other receivables and deposit. Substantial amounts of the Group's pledged deposits, 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 and deposit arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group has no other financial assets which carry significant exposure to credit risk.

At the end of the reporting period, the Group had certain concentration of credit risk as approximately 50% *(2021: approximately 19%)* and approximately 90% *(2021: approximately 63%)* of the Group's trade receivables were due from the Group's largest trade debtor and the five largest trade debtors, 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.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

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 borrowings and its own funding sources.

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

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

The maturity profile of the Group's non-derivative financial liabilities at the end of the reporting period based on contractual undiscounted payments is summarised below:

	Within 1 year or on demand RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Total RMB'000	Carrying amount in the consolidated statement of financial position RMB'000
At 31 December 2022					
Trade and bills payables	52,260	–	–	52,260	52,260
Other payables and accruals	28,533	–	–	28,533	29,976
Lease liabilities	961	1,022	1,022	3,005	2,764
Borrowings	331,935	–	–	331,935	321,310
	413,689	1,022	1,022	415,733	406,310

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

	Within 1 year or on demand RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Total RMB'000	Carrying amount in the consolidated statement of financial position RMB'000
At 31 December 2021					
Trade and bills payables	519,765	–	–	519,765	519,765
Other payables and accruals	20,050	–	–	20,050	27,465
Lease liabilities	1,192	25	–	1,217	1,187
Borrowings	706,765	–	–	706,765	691,000
	1,247,772	25	–	1,247,797	1,239,417

Categories of financial instruments

	2022 RMB'000	2021 RMB'000
Financial assets:		
Financial assets at amortised cost		
Trade and bills receivables	**95,530**	287,183
Financial assets included in prepayments, deposits and other receivables	**66,713**	81,112
Pledged deposits	**19,843**	31,280
Cash and cash equivalents	**158,776**	134,311
	340,862	533,886

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Categories of financial instruments (Continued)

	2022 RMB'000	2021 RMB'000
Financial liabilities:		
Financial liabilities at amortised cost		
Trade and bills payables	52,260	519,765
Financial liabilities included in other payables and accruals	28,533	27,465
Borrowings	321,310	691,000
Lease liabilities	2,764	1,187
	404,867	1,239,417

Fair value

The following presents the assets and liabilities measured at fair value or required to disclose their fair value in these financial statements on a recurring basis across the three levels of the fair value hierarchy defined in IFRS 13, "Fair Value Measurement", with the fair value measurement categorised in its entirety based on the lowest level input that is significant to the entire measurement. The levels of inputs are defined as follows:

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;

- Level 3 (lowest level): unobservable inputs for the asset or liability.

During the years ended 31 December 2022 and 2021, there were no transfers between Level 1 and Level 2 fair value measurements and no transfers into and out of Level 3 fair value measurements.

At 31 December 2022 and 2021, in the opinion of the directors of the Company, the carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate to their respective fair values.

7. OPERATING SEGMENT INFORMATION

During the years ended 31 December 2022 and 2021, the Group has two reportable segments which comprise of (i) production of submerged-arc helical welded pipes (the "SAWH pipes") and submerged-arc longitudinal welded pipe (the "SAWL pipes") and the related services which are mainly used for the oil and infrastructure industry (the "Pipes Business") and (ii) trading of commodities (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.

Segment results represent the profit (loss) resulted by each segment without taking into account the allocation of interest income, rental income, finance costs, central administration costs including directors' and chief executive's fees, provision for impairment loss on other receivables, provision for impairment loss on deposits paid for acquisition of investments, gain on disposal of equity interests in a subsidiary, loss on partial disposal of equity interests in an associate, equity-settled share-based payments expenses, share of result of an associate and items not directly related to the core business of the segments.

7. OPERATING SEGMENT INFORMATION (Continued)

Segment revenue and results

The followings are analysis of the Group's revenue and results by reportable and operating segments:

For the year ended 31 December 2022

	Pipes Business RMB'000	Trading Business RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	1,037,956	8,935	1,046,891
Segment results	(12,146)	(3,501)	(15,647)
Interest income			623
Rental income			1,668
Share of result of an associate			3,454
Provision for impairment loss on investment in an associate			(8,570)
Gain on disposal of equity interests in a subsidiary			64,939
Loss on partial disposal of equity interests in an associate			(44,294)
Equity-settled share-based payments expenses			(246)
Unallocated expenses			(13,420)
Finance costs			(17,579)
Loss before tax			(29,072)
Income tax expense			(186)
Loss for the year			(29,258)

7. OPERATING SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the year ended 31 December 2021

	Pipes Business RMB'000	Trading Business RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	1,523,249	3,435	1,526,684
Segment results	(14,069)	(2,609)	(16,678)
Interest income			1,553
Rental income			1,263
Share of result of an associate			1,821
Provision for impairment loss on other receivables			(14,773)
Provision for impairment loss on deposits paid for acquisition of investments			(193,576)
Equity-settled share-based payments expenses			(449)
Unallocated expenses			(16,758)
Finance costs			(34,669)
Loss before tax			(272,266)
Income tax expense			(3,583)
Loss for the year			(275,849)

7. OPERATING SEGMENT INFORMATION (Continued)

Segment assets and liabilities

An analysis of the Group's assets and liabilities by operating segments is set out below:

For the year ended 31 December 2022

	Pipes Business RMB'000	Trading Business RMB'000	Unallocated RMB'000	Total RMB'000
Segment assets	956,489	25,833	174,076	1,156,398
Segment liabilities	(251,092)	(98)	(302,618)	(553,808)
Other segment information:				
Rental income	–	–	1,668	1,668
Write-down of inventories	1,682	–	–	1,682
Reversal of impairment loss on trade receivables, net	1,276	–	–	1,276
Gain on disposal of equity interests in a subsidiary	–	–	64,939	64,939
Share of results of associates	23,284	–	3,454	26,738
Provision for impairment loss on investment in an associate	–	–	8,570	8,570
Loss on partial disposal of equity interests in an associate	–	–	44,294	44,294
Loss on disposal of property, plant and equipment, net	1,051	–	–	1,051
Depreciation	42,339	197	1,141	43,677
Investments in associates	82,564	–	144,500	227,064
Finance costs	–	–	17,579	17,579
Capital expenditure (Note)	25,411	–	–	25,411

7. OPERATING SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

For the year ended 31 December 2021

	Pipes Business RMB'000	Trading Business RMB'000	Unallocated RMB'000	Total RMB'000
Segment assets	1,676,813	11,687	231,187	1,919,687
Segment liabilities	(581,788)	(199)	(710,235)	(1,292,222)
Other segment information:				
Rental income	–	–	1,263	1,263
Write-down of inventories	1,418	–	–	1,418
Provision for impairment loss on trade receivables, net	778	–	–	778
Provision for impairment loss on other receivables, net	–	–	14,733	14,733
Gain on disposal of right-of-use assets and property, plant and equipment, net	46,830	–	–	46,830
Provision for impairment losses of property, plant and equipment	5,076	–	–	5,076
Depreciation	105,136	–	1,042	106,178
Investments in associates	–	–	193,910	193,910
Finance costs	–	–	34,669	34,669
Capital expenditure (Note)	15,747	–	–	15,747

Note:

Amount included in the capital expenditure represented the addition of property, plant and equipment of approximately RMB25,411,000 (2021: approximately RMB15,747,000).

7. OPERATING SEGMENT INFORMATION (Continued)

Geographical Information

The geographical location of the Group's revenue from external customers is presented based on the location of the customers. No geographical analysis on revenue from external customers is provided as substantially all of the Group's revenue is principally attributable to the PRC.

The geographical location of the Group's non-current assets, other than investments in associates and deferred tax assets, is presented based on the location of the assets as follows:

Non-current assets

	2022 RMB'000	2021 RMB'000
The PRC	398,717	709,833
Hong Kong	2,747	5,091
	401,464	714,924

Information about major customers

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

	Segment	2022 RMB'000	2021 RMB'000
Customer A	Pipes Business	(Note)	176,827
Customer B	Pipes Business	326,967	176,298

Note: The customer contributed less than 10% of the total revenue of the Group for the year ended 31 December 2022.

8. REVENUE

(i) Disaggregation of revenue from contracts with customers within IFRS 15

	2022 RMB'000	2021 RMB'000
Types of goods or service		
Pipes business		
Sales of pipes	952,702	1,362,455
Rendering of services related to pipes business	85,254	160,794
	1,037,956	1,523,249
Trading business		
Trading of commodities	8,935	3,435
	1,046,891	1,526,684

	For the year ended 31 December 2022		
	Pipes Business RMB'000	Trading Business RMB'000	Total RMB'000
Geographical markets			
The PRC	1,037,956	8,935	1,046,891
Timing of revenue recognition			
At a point in time	1,037,956	8,935	1,046,891

	For the year ended 31 December 2021		
	Pipes Business RMB'000	Trading Business RMB'000	Total RMB'000
Geographical markets			
The PRC	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

8. REVENUE (Continued)

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

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

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

Trading Business

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

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

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

9. OTHER INCOME AND GAINS

	2022 RMB'000	2021 RMB'000
Other income		
Interest income	623	1,553
Government grants (Note)	929	1,584
Rental income	1,668	1,263
Exchange gain, net	662	–
Others	1,175	4,303
	5,057	8,703
Other gains		
Gain on sales of materials	9,327	11,719
Gain on disposal of right-of-use assets and property, plant and equipment, net	–	46,830
Gain on disposal of non-current assets held for sale	–	172
	9,327	58,721
	14,384	67,424

Note: In the opinion of the directors of the Company, there was no unfulfilled condition or contingency relating to the government grants.

10. FINANCE COSTS

	2022 RMB'000	2021 RMB'000
Interest on bank loans	16,025	34,479
Interest on other loans from a non-controlling shareholder of a former subsidiary	–	110
Interest on other loans	1,519	–
Interest on lease liabilities	35	80
	17,579	34,669

11. LOSS BEFORE TAX

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

	2022 RMB'000	2021 RMB'000
Employees benefits expenses (including directors' remuneration in Note 12):		
Wages and salaries	60,039	85,609
Performance related bonus	493	504
Pension scheme contributions	12,858	14,123
Welfare and other expenses	2,368	3,134
Equity-settled share-based payment expenses (included in administrative expenses)	246	449
	76,004	103,819
Other items		
Auditors' remuneration		
– Audit services	1,713	1,826
– Non-audit services	473	480
Cost of inventories sold (Note)	894,768	1,303,596
Cost of services	50,142	87,268
Depreciation of property, plant and equipment	38,064	99,593
Depreciation of right-of-use assets	5,613	6,585
Exchange (gain) losses, net	(662)	945
Loss (Gain) on disposal of land use right and property, plant and equipment, net	1,051	(46,830)
Provision for impairment loss on property, plant and equipment (included in other expenses)	–	5,076
Short-term lease payments	271	7

Note: Included in the cost of inventories sold is an amount of approximately RMB1,682,000 and RMB7,246,000 *(2021: approximately RMB1,418,000 and RMB31,195,000)* related to the write-down of inventories and research and development expenses, respectively, for the year ended 31 December 2022.

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

12(a) Directors' and chief executive's emoluments

Directors' and chief executive's emoluments for the reporting period, disclosed pursuant to the Listing Rules and the Hong Kong Companies Ordinance, is as follows:

	For the year ended 31 December 2022				
	Directors' fees RMB'000	Salaries, wages, allowances and benefits-in-kind RMB'000	Performance related bonus RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive directors:					
Zhang Bizhuang	173	612	43	66	894
Han Aizhi	173	477	36	16	702
Wang Kunxian	173	499	36	65	773
Zhang Bangcheng (Note (i))	173	605	–	32	810
Co-chief executive officer:					
Zhang Liucheng (Note (iii))	–	1,254	288	68	1,610
Non-executive directors:					
Wei Jun	259	–	–	–	259
Huang Guang (Note (iv))	115	–	–	–	115
Independent non-executive directors:					
Chen Junzhu	259	–	–	–	259
Wu Geng	259	–	–	–	259
Qiao Jianmin	259	–	–	–	259
	1,843	3,447	403	247	5,940

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

12(a) Directors' and chief executive's emoluments (Continued)

	For the year ended 31 December 2021				
	Directors' fees RMB'000	Salaries, wages, allowances and benefits-in-kind RMB'000	Performance related bonus RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive directors:					
Zhang Bizhuang	166	680	72	35	953
Han Aizhi	166	476	60	14	716
Song Xichen (Note (v))	32	568	–	17	617
Wang Kunxian	166	572	60	31	829
Zhang Bangcheng (Note (i))	133	512	–	6	651
Co-chief executive officer:					
Zhang Liucheng (Note (iii))	–	677	144	13	834
Non-executive directors:					
Jiang Yong (Note (v))	249	–	–	–	249
Wei Jun	249	–	–	–	249
Huang Guang (Note (iv))	249	–	–	–	249
Independent non-executive directors:					
Chen Junzhu	156	–	–	–	156
Wu Geng	249	–	–	–	249
Qiao Jianmin	200	–	–	–	200
	2,015	3,485	336	116	5,952

Notes:

(i) On 10 March 2021, Mr. Zhang Bangcheng was appointed as an executive director of the Company.

(ii) On 13 January 2023, Mr. Zhang Danyu was appointed as an executive director of the Company.

(iii) On 30 June 2021, Mr. Zhang Liucheng was appointed as a co-chief executive officer of the Company.

(iv) Mr. Huang Guang was appointed and resigned as a non-executive director of the Company on 10 March 2021 and 17 June 2022, respectively.

(v) On 10 March 2021, Mr. Song Xichen and Mr. Jiang Yong resigned as an executive director and a non-executive director of the Company, respectively.

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

12(a) Directors' and chief executive's emoluments (Continued)

For the years ended 31 December 2022 and 2021, no emoluments were paid by the Group to the directors or chief executive of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or agreed to waive any emoluments in respect of the years ended 31 December 2022 and 2021.

12(b) Five highest paid individuals' emoluments

The five highest paid individuals of the Group for the years ended 31 December 2022 and 2021 were the four directors and one co-chief executive officer whose emoluments are reflected in the analysis presented above.

For the years ended 31 December 2022 and 2021, no emoluments were paid by the Group to the highest paid individuals as a payment for loss of office or as an inducement to join or upon joining the Group.

For the years ended 31 December 2022 and 2021, no highest paid individuals as set out above waived or agreed to waive any emoluments.

13. INCOME TAX EXPENSE

	2022 RMB'000	2021 RMB'000
Current tax	–	–
Deferred tax (Note 21)	186	3,583
Income tax expense	186	3,583

For the years ended 31 December 2022 and 2021, the assessable profits of Hong Kong incorporated subsidiaries of the Group are entitled to the two-tiered profits tax rates regime that the first HK$2,000,000 of assessable profits of qualifying corporations will be taxed at 8.25%, and assessable profits above HK$2,000,000 will be taxed at 16.5%. The assessable profits of corporations in the Group not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Hong Kong Profits Tax has not been provided as the Group had no assessable profits in Hong Kong for the years ended 31 December 2022 and 2021.

13. INCOME TAX EXPENSE (Continued)

Singapore Corporate Income Tax ("CIT") is calculated at 17% of the assessable profits for the years ended 31 December 2022 and 2021. Singapore CIT has not been provided as the Group had no assessable profits in Singapore for the years ended 31 December 2022 and 2021.

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 the years ended 31 December 2022 and 2021. PRC Enterprise Income Tax has not been provided for the years ended 31 December 2022 and 2021 as the Group's entities in the PRC incurred a loss for taxation purposes.

Reconciliation of income tax expense

	2022 RMB'000	2021 RMB'000
Loss before tax	**(29,072)**	(272,266)
Tax at the applicable tax rate of companies within the Group of 25% (2021: 25%)	**(7,268)**	(68,067)
Expenses not deductible for tax	**13,513**	53,907
Income not taxable for tax	**(16,673)**	(3,290)
Tax losses not recognised	**16,364**	20,986
Effect of different tax rates of subsidiaries	**935**	902
Tax effect of results attributable to associates	**(6,685)**	(455)
Tax losses utilised from previous periods	**–**	(400)
Income tax expense	**186**	3,583

Note:

At 31 December 2022, the Group has unused tax losses of approximately RMB383,809,000 (2021: approximately RMB732,320,000) available for offset against future profits. No deferred tax asset has been recognised of such losses for the years ended 31 December 2022 and 2021 due to the unpredictability of future profit streams. The unused tax loss will be expired from 2023 to 2027.

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

The calculation of basic and diluted loss per share attributable to the owners of the Company is based on the following data:

	2022 RMB'000	2021 RMB'000
Loss:		
Loss attributable to the owners of the Company, used in basic loss per share calculation	(33,004)	(260,719)

	2022	2021
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	3,874,365,600	3,864,502,586

The computation of diluted loss per share does not assume the exercise of the outstanding share options since the assumed conversion would result in decrease in loss per share for the years ended 31 December 2022 and 2021 and the exercise price per share option was higher than the average share price of the Company for the years ended 31 December 2022 and 2021, respectively.

The diluted loss per share is the same as the basic loss per share for the years ended 31 December 2022 and 2021.

15. DIVIDENDS

The Board of Directors has resolved not to declare a final dividend and an interim dividend for the years ended 31 December 2022 and 2021.

16. PROPERTY, PLANT AND EQUIPMENT

Year ended 31 December 2022

	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
Costs						
At 1 January 2022	450,405	993,709	9,992	15,778	17,955	1,487,839
Additions	769	4,966	1,532	72	18,072	25,411
Transfers	1,169	25,009	–	–	(26,178)	–
Disposals	–	(5,407)	(1,836)	(334)	–	(7,577)
Disposal of a subsidiary (Note 35)	(140,657)	(436,289)	(1,049)	(9,496)	(1,717)	(589,208)
At 31 December 2022	311,686	581,988	8,639	6,020	8,132	916,465
Accumulated depreciation and impairment losses						
At 1 January 2022	146,720	843,485	7,862	13,366	5,076	1,016,509
Disposals	–	(4,353)	(1,781)	(324)	–	(6,458)
Depreciation	12,953	24,026	559	526	–	38,064
Disposal of a subsidiary (Note 35)	(40,309)	(302,987)	(867)	(8,310)	–	(352,473)
At 31 December 2022	119,364	560,171	5,773	5,258	5,076	695,642
Carrying amounts						
At 31 December 2022	192,322	21,817	2,866	762	3,056	220,823

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

Year ended 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
Costs						
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 losses						
At 1 January 2021	147,816	770,425	9,623	13,425	–	941,289
Disposals	(21,227)	(5,680)	(2,137)	(405)	–	(29,449)
Depreciation	20,131	78,740	376	346	–	99,593
Impairment losses (Note c)	–	–	–	–	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

Notes:

(a) At 31 December 2022 and 2021, the Group was in the process of applying for the title certificates of buildings with an aggregate net carrying amount of approximately RMB6,155,000 *(2021: approximately RMB6,324,000)*. The directors of the Company are of the view that the Group is entitled to lawful and valid 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 at 31 December 2022 and 2021.

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes: (Continued)

(b) In light of the continuous segment losses of the Group's Pipes Business over past years, the management of the Group considered that the property, plant and equipment and right-of-use assets relating to the Pipes Business might be impaired. In view of this, the management of the Group estimated the recoverable amount of the cash-generating unit in relation to the Pipes Business as the higher of the fair value less costs of disposal calculation and the value-in-use calculation.

At 31 December 2022, the Group identified two cash generating units in relation to the Pipes Business, namely "Shandong CGU" and "Xinjiang CGU".

Shandong CGU

In respect of Shandong CGU, the Group estimated its recoverable amount at 31 December 2022 with reference to the value-in-use calculation using cash flow projections based on the valuation report prepared by Roma Appraisal Limited, an independent professional valuer. The financial budgets of Shandong CGU adopted in cash flow projections were approved by the Group's management covering a 5-year period to be derived from Shandong CGU. The significant inputs into this valuation approach are (i) the budgeted gross margin; (ii) pre-tax discount rate to derive the present value of future cash flows; and (iii) long-term growth rate.

At 31 December 2022, the net carrying amounts of property, plant and equipment and right-of-use assets relating to Shandong CGU were approximately RMB188,126,000 *(2021: approximately RMB194,789,000)* and RMB165,923,000 *(2021: approximately RMB169,983,000)*, respectively, totalling approximately RMB354,049,000 *(2021: approximately RMB364,772,000)*. Based on the assessment, the recoverable amount of Shandong CGU based on the value-in-use calculation exceeds its net carrying amount and therefore no impairment loss was recognised in respect of Shandong CGU for the year ended 31 December 2022.

Xinjiang CGU

In respect of Xinjiang CGU, the Group estimated its recoverable amount at 31 December 2022 with reference to the fair value less cost of disposal calculation by reference to recent market transactions of similar plant and machinery and depreciated replacement cost for land and buildings based on the valuation report prepared by 新疆華光萬象資產評估有限公司Xinjiang Huaguang Wanxiang Assets Evaluation Co., Ltd.#, an independent professional valuer. The significant inputs into this valuation approach are (i) the relevant price indices and (ii) expected useful life of the relevant assets.

At 31 December 2022, the net carrying amounts of property, plant and equipment and right-of-use assets relating to Xinjiang CGU were approximately RMB31,033,000 *(2021: approximately RMB31,701,000)* and RMB9,254,000 *(2021: RMB9,508,000)*, respectively, totalling approximately RMB40,287,000 *(2021: approximately RMB41,209,000)*. Based on the assessment, the recoverable amount of Xinjiang CGU based on the fair value less cost of disposal exceeds its net carrying amount and therefore no impairment loss was recognised in respect of Xinjiang CGU for the year ended 31 December 2022.

The fair values of the Shandong CGU and Xinjiang CGU were categorised into the level 3 fair value hierarchy as defined in IFRS 13 "Fair Value Measurement".

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

The English names are for identification only

17. SUBSIDIARIES

Particulars of the Company's major subsidiaries during the reporting period are set out below:

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued and paid-up share/registered paid-up capital	% of ownership interests/voting rights held by the Group	Principal activities
Indirectly held:				
Shandong Shengli Steel Pipe Co., Ltd.# ("Shandong Shengli Steel Pipe") (山東勝利鋼管有限公司) (Note)	The PRC	RMB1,153,790,300 *(2021: RMB1,153,790,300)*	100% *(2021: 100%)*	Manufacturing, processing and sale of SAWH pipelines and provision of anti-corrosion service for oil and gas pipelines and other construction and manufacturing applications and trading of commodities
Xinjiang Shengli Steel Pipe Co., Ltd.# ("Xinjiang Shengli Steel Pipe") (新疆勝利鋼管有限公司)	The PRC	RMB180,000,000 *(2021: RMB180,000,000)*	56.43% *(2021: 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)	The PRC	RMB500,000,000 *(2021: RMB464,000,000)* (Note 19)	Note 19 *(2021: 56.90%)*	Manufacturing, processing and sale of SAWL pipes and SAWH pipelines and provision of anti-corrosion service for oil and gas pipelines and other construction and manufacturing applications and trading of commodities

17. SUBSIDARIES (Continued)

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued and paid-up share/registered paid-up capital	% of ownership interests/voting rights held by the Group	Principal activities
Shanghai Shengguan New Energy Technology Co., Ltd.# (上海勝管新能源科技有限公司) (Note)	The PRC	RMB50,000,000 *(2021: RMB50,000,000)*	100% *(2021: 100%)*	New energy technical development and trading of environmental energy equipment, fuel oil and chemical products commodities
Shengli Steel Pipe Co., Ltd# (勝利鋼管有限公司) (Note)	The PRC	RMB79,898,000 *(2021: RMB79,898,000)*	100% *(2021: 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)	The PRC	RMB406,000,000 *(2021: RMB406,000,000)*	100% *(2021: 100%)*	Trading of commodities

The English names are for identification only

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affected the results or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors of the Company, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding during the reporting period or at the end of the reporting period.

Note: These entities are wholly owned foreign enterprises.

17. SUBSIDIARIES (Continued)

Financial information of subsidiaries with individually material non-controlling interests ("NCI")

The following table shows information of subsidiaries that have NCI material to the Group. The summarised financial information represents amounts before inter-company eliminations.

	Xinjiang Shengli Steel Pipe		Hunan Shengli Steel Pipe	
	2022	2021	**2022**	2021
Principal place of business/ country of incorporation	The PRC/The PRC		The PRC/The PRC	
% of ownership interests/voting rights held by NCI during the year/until the date of disposal	**43.57%**	43.57%	**43.10%**	43.10%
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 31 December/Date of disposal: Summarised statement of financial position				
Non-current assets	**40,847**	41,971	**282,522**	291,796
Current assets	**1,142**	11,190	**682,287**	601,401
Non-current liabilities	**(1,385)**	(2,192)	**(477)**	(599)
Current liabilities	**(19,829)**	(27,587)	**(974,249)**	(913,840)
Net assets (liabilities)	**20,775**	23,382	**(9,917)**	(21,242)
Accumulated NCI	**9,052**	10,188	**(4,274)**	(9,156)
For the year ended 31 December (or until the date of disposal): Summarised statement of profit or loss and other comprehensive income				
Revenue	**–**	–	**191,433**	899,803
(Loss) Profit for the year	**(2,607)**	(5,785)	**11,327**	(29,255)
Total comprehensive (loss) income	**(2,607)**	(5,785)	**11,327**	(29,255)
Profit (Loss) allocated to NCI	**(1,136)**	(2,521)	**4,882**	(12,609)
Dividends paid to NCI	**–**	–	**–**	–

17. SUBSIDIARIES (Continued)

Financial information of subsidiaries with individually material non-controlling interests ("NCI") (Continued)

	Xinjiang Shengli Steel Pipe		Hunan Shengli Steel Pipe	
	2022 RMB'000	2021 RMB'000	**2022 RMB'000**	2021 RMB'000
Summarised statement of cash flows				
Net cash (used in) from operating activities	**(8)**	(3)	**2,037**	54,450
Net cash (used in) from investing activities	**–**	–	**(99,812)**	7,233
Net cash from (used in) financing activities	**–**	–	**96,520**	(70,285)
Net decrease in cash and cash equivalents	**(8)**	(3)	**(1,255)**	(8,602)

At 31 December 2022, the bank and cash balances of these subsidiaries in the PRC denominated in RMB amounted to approximately RMB5,000 (2021: approximately RMB22,065,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

18. DEPOSITS PAID FOR ACQUISITION OF INVESTMENTS

	2022 RMB'000	2021 RMB'000
Deposits paid for proposed acquisition of the allotted and issued share capital	–	4,067

Note:

In prior years, Gold Apple, a direct wholly-owned subsidiary of the Company, entered into a share transfer agreement (the "Share transfer agreement") with an independent third party (the "Seller"), pursuant to which, Gold Apple has agreed to acquire and the Seller agreed to sell 56% of the allotted and issued share capital of Blossom Time Group Limited ("Blossom Time"), a company established in the BVI and principally engaged in investments and minerals business (the "Proposed Acquisition"). A deposit was paid for the Proposed Acquisition and the share transfer was 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 directors of the Group 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, Gold Apple 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 Gold Apple under the share transfer agreement in respect of the acquisition of Blossom Time and to assign all the right, benefits and interests of Gold Apple 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.

During the year ended 31 December 2022, the transaction under the Deed of Assignment and Novation has been completed and the consideration of US$640,000 (equivalent to approximately RMB4,067,000) was settled by KBS in March 2022. Details of which are set out in the Company's announcement dated 3 March 2022.

19. INVESTMENTS IN ASSOCIATES

	2022 RMB'000	2021 RMB'000
Unlisted investments in the PRC:		
Share of net assets	235,634	193,910
Less: Impairment losses	(8,570)	–
	227,064	193,910

Particulars of the associates of the Group are as follows:

Name of associates	Place of incorporation/ registration and operation	Registered paid-up capital	% of equity interests/voting rights held by the Group at 31 December		Principal activities
			2022	2021	
Xinfeng Energy Enterprise Group Co., Ltd.# ("Xinfeng Energy") (新鋒能源集團有限公司)	The PRC	RMB800,000,000 *(2021: RMB738,580,000)* (Note)	21.95% (Note)	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
Hunan Shengli Steel Pipe	The PRC	RMB500,000,000 *(2021: RMB464,000,000)* (Note 17)	48.00% (Note 17)	(Note 17)	Manufacturing, processing and sale of SAWL pipelines and SAWH pipelines and provision of anti-corrosion service for oil and gas pipelines and other construction and manufacturing applications and trading of commodities

All of the above associates are accounted for using the equity method in the consolidated financial statements. There are no capital commitment and contingent liabilities in relation to the associates themselves.

The English name is for identification only

19. INVESTMENTS IN ASSOCIATES (Continued)

Note:

On 22 December 2021, Zhejiang Shengguan Industrial, an indirect wholly-owned subsidiary of the Company has entered into the equity transfer agreement with an independent third party (the "Buyer") in respect of the disposal of 9.9% of equity interests in Xinfeng Energy at consideration of (i) the Buyer agreed to pay up the unpaid registered capital of RMB81,420,000 with regard to the transferred shares and (ii) RMB1.00 in cash payable to Zhejiang Shengguan Industrial. On 27 June 2022, the disposal was completed. A loss on partial disposal of equity interests in investment in an associate of approximately RMB44,294,000 was recognised in the profit or loss during the year ended 31 December 2022 and Zhejiang Shengguan Industrial continues to hold approximately 21.95% of equity interests and voting rights in Xinfeng Energy. In the opinion of the directors of the Company, Zhejiang Shengguan Industrial continues to have significant influence over Xinfeng Energy. Accordingly, Xinfeng Energy continues to be accounted for as an associate of the Group under the equity method.

Relationship with associates

Xinfeng Energy is engaged in the 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 in the PRC which allows the Group to diversify the income stream and business risks.

Hunan Shengli Steel Pipe is engaged in manufacturing, processing and sale of SAWL and SAWH pipelines and provision of anti-corrosion service for oil and gas pipelines and other construction and manufacturing applications and trading of commodities which allows the Group to expand its Pipes Business.

19. INVESTMENTS IN ASSOCIATES (Continued)

Impairment assessment

The Group performed impairment assessment of investments in Xinfeng Energy and Hunan Shengli Steel Pipe at the end of the reporting period.

Xinfeng Energy

In light of continuous loss of certain investments of Xinfeng Energy caused by COVID-19 pandemic, the management considered that the investment in Xinfeng Energy at 31 December 2022 may be impaired. In a view of this, the Group estimated its recoverable amount at 31 December 2022 with reference to the fair value less cost of disposal calculation using assets approach based on the valuation report prepared by Roma Appraisal Limited, an independent professional valuer. The significant inputs into this valuation approach are (i) the relevant price indices and (ii) expected useful life of the relevant assets.

Based on the assessment, the recoverable amount of investment in Xinfeng Energy based on the fair value less cost of disposal with an amount of approximately RMB144,500,000 which is lower than its net carrying amount of approximately RMB153,070,000 and therefore an impairment loss of approximately RMB8,570,000 was recognised in respect of investment in Xinfeng Energy for the year ended 31 December 2022.

The fair value of the investment in Xinfeng Energy was categorised into the level 3 fair value hierarchy as defined in IFRS13, "Fair Value Measurement".

Hunan Shengli Steel Pipe

In respect of investment in Hunan Shengli Steel Pipe, the Group estimated its recoverable amount at 31 December 2022 with reference to the value-in-use calculation using cash flow projections based on the valuation report prepared by Roma Appraisal Limited, an independent professional valuer. The financial budgets of Hunan Shengli Steel Pipe adopted in cash flow projections were approved by the Group's management covering a 5-year period to be derived from Hunan Shengli Steel Pipe. The significant inputs into this valuation approach are (i) the budgeted gross margin; (ii) pre-tax discount rate to derive the present value of future cash flows; and (iii) long-term growth rate.

Based on the assessment, the recoverable amount of investment in Hunan Shengli Steel Pipe based on the value-in-use calculation exceeds its net carrying amount and therefore no impairment loss was recognised in respect of investment in Hunan Shengli Steel Pipe for the year ended 31 December 2022.

The fair value of the investment in Hunan Shengli Steel Pipe was categorised into the level 3 fair value hierarchy as defined in IFRS13, "Fair Value Measurement".

19. INVESTMENTS IN ASSOCIATES (Continued)

Financial information of individually material associates

Summarised financial information of each of the material associates of the Group is set out below, which represents amounts shown in the associates' financial statements prepared in accordance with IFRSs and adjusted by the Group for equity accounting purposes including any differences in accounting policies and fair value adjustments.

	Xinfeng Energy	
	2022	2021
	RMB'000	RMB'000
At 31 December:		
Summarised statement of financial position		
Non-current assets	**324,866**	313,131
Current assets	**1,219,159**	1,047,895
Current liabilities	**(679,797)**	(591,163)
Non-current liabilities	**(166,870)**	(161,613)
Net assets	**697,358**	608,250
Reconciliation:		
% of ownership interests/voting rights held by the Group (Note)	**21.95%**	31.88%
Group's share of net assets	**153,070**	193,910
Less: Impairment losses	**(8,570)**	–
Carrying amount of investments	**144,500**	193,910
For the year ended 31 December:		
Summarised statement of profit or loss and other comprehensive income		
Revenue	**266,455**	163,918
Profit for the year	**7,688**	5,712
Total comprehensive income	**7,688**	5,712
Group's share of profit and total comprehensive income	**3,454**	1,821

19. INVESTMENTS IN ASSOCIATES (Continued)

Financial information of individually material associates (Continued)

	Hunan Shengli Steel Pipe 2022 RMB'000
At 31 December:	
Summarised statement of financial position	
Non-current assets	476,626
Current assets	811,479
Non-current liabilities	(128,460)
Current liabilities	(987,637)
Net assets	172,008
Reconciliation:	
% of ownership interests/voting rights held by the Group	48%
Carrying amount of the investment	82,564
For the year ended 31 December (from the date of recognition as an associate):	
Summarised statement of profit or loss and other comprehensive income	
Revenue	1,300,557
Profit for the period	48,508
Total comprehensive income	48,508
Group's share of profit and total comprehensive income:	23,284

As at 31 December 2022, the bank and cash balances of these associates that denominated in RMB amounted to approximately RMB40,793,000 *(2021: approximately RMB4,625,000)*. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

20. LEASE AND RIGHT-OF-USE ASSETS

The Group as lessee

	2022 RMB'000	2021 RMB'000
Right-of-use assets		
Land use rights	175,177	224,359
Land and buildings	2,761	1,139
	177,938	225,498
Lease liabilities		
Current	831	1,162
Non-current	1,933	25
	2,764	1,187

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.

At 31 December 2022 and 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 RMB2,278,000 *(2021: approximately RMB2,338,000)*. The directors of the Company are of the view that the Group is entitled to lawful and valid 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 at 31 December 2022 and 2021.

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

Right-of-use assets

Further information about the right-of-use assets is as follow:

	Land use rights RMB'000	Land and buildings RMB'000	Total RMB'000
Year ended 31 December 2022			
Depreciation	**(4,495)**	**(1,118)**	**(5,613)**
Additions	**–**	**2,740**	**2,740**
Disposal of a subsidiary (Note 35)	**(44,687)**	**–**	**(44,687)**
At 31 December 2022			
Net carrying amount	**175,177**	**2,761**	**177,938**

	Land use rights RMB'000	Land and buildings RMB'000	Total RMB'000
Year ended 31 December 2021			
Depreciation	(5,468)	(1,117)	(6,585)
Additions	2,334	191	2,525
Disposals	(4,422)	–	(4,422)
At 31 December 2021			
Net carrying amount	224,359	1,139	225,498

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

Lease liabilities

The present value of lease liabilities is summarised as below:

	Lease payments		Present value of lease payments	
	2022 RMB'000	2021 RMB'000	**2022 RMB'000**	2021 RMB'000
Amounts payable:				
Within one year	**961**	1,192	**831**	1,162
More than one year, but not exceeding three years	**2,044**	25	**1,933**	25
	3,005	1,217	**2,764**	1,187
Less: future finance charges	**(241)**	(30)		
Total lease liabilities	**2,764**	1,187		

At 31 December 2022, the average effective borrowing rate was 5.41% *(2021: 4.57%)*.

The Group has recognised the following amounts in the profit or loss during reporting period:

	2022 RMB'000	2021 RMB'000
Depreciation of right-of-use assets	**5,613**	6,585
Interest on lease liabilities	**35**	80
Short-term lease payments	**271**	7
Expenses recognised in profit or loss	**5,919**	6,672

The total cash outflow for leases (excluding short-term lease) for the year ended 31 December 2022 was approximately RMB1,198,000 *(2021: approximately RMB1,292,000)*.

21. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The movements in deferred tax assets (liabilities) during the reporting period are as follows:

	2022 RMB'000	2021 RMB'000
Deferred tax assets		
At the beginning of the reporting period	762	4,361
Deferred tax charged to the profit or loss during the year (Note 13)	(202)	(3,599)
At the end of the reporting period	560	762
Deferred tax liabilities		
At the beginning of the reporting period	(276)	(292)
Deferred tax credited to the profit or loss during the year (Note 13)	16	16
At the end of the reporting period	(260)	(276)
Net deferred tax assets	300	486

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

	2022 RMB'000	2021 RMB'000
Deferred tax assets		
Government grants received but not yet recognised as income	560	762
Deferred tax liabilities		
Excess of fair value of identifiable assets and liabilities over carrying value in acquisition of subsidiaries	(260)	(276)
Net deferred tax assets	300	486

22. INVENTORIES

	2022 RMB'000	2021 RMB'000
Raw materials	57,628	152,404
Work in progress	4,851	29,032
Finished and semi-finished goods	48,786	137,067
	111,265	318,503

23. TRADE AND BILLS RECEIVABLES

	Note	2022 RMB'000	2021 RMB'000
Trade receivables from third parties		95,648	286,542
Less: Loss allowance		(118)	(3,425)
	23(a)	95,530	283,117
Bills receivables		–	4,066
		95,530	287,183

23(a) Trade receivables

Included in the balances are the trade receivables (before loss allowance) from contracts with customers within IFRS15:

	2022 RMB'000	2021 RMB'000
At the beginning of the reporting period	286,542	265,344
At the end of the reporting period	95,648	286,542

23. TRADE AND BILLS RECEIVABLES (Continued)

23(a) Trade receivables (Continued)

The Group's trading terms with its customers are mainly on credit generally ranging from 90 to 180 days *(2021: 90 to 180 days)*. All bills receivables are due within 90 to 180 days *(2021: 90 to 180 days)*.

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

	2022 RMB'000	2021 RMB'000
Within 3 months	79,610	254,373
3 to 6 months	15,251	5,249
6 months to 1 year	–	11,608
1 to 2 years	–	9,099
Over 2 years	669	2,788
	95,530	283,117

The movement in the loss allowance for trade receivables during the year is summarised below:

	2022 RMB'000	2021 RMB'000
At the beginning of the reporting period	3,425	2,647
(Reversal of) Provision for loss allowance	(1,276)	778
Disposal of a subsidiary	(2,031)	–
	118	3,425

23. TRADE AND BILLS RECEIVABLES (Continued)

23(a) Trade receivables (Continued)

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

	Current RMB'000	Within 1 year past due RMB'000	1 to 2 years past due RMB'000	Over 2 years past due RMB'000	Total RMB'000
At 31 December 2022					
Weighted average expected loss rate (%)	**0.0%**	**0.0%**	**0.0%**	**15.0%**	**0.1%**
Gross Amount	**94,861**	**–**	**–**	**787**	**95,648**
Loss allowance	**–**	**–**	**–**	**(118)**	**(118)**
Net amount	**94,861**	**–**	**–**	**669**	**95,530**
At 31 December 2021					
Weighted average expected loss rate (%)	0.0%	1.8%	13.6%	60.0%	1.2%
Gross Amount	263,574	10,226	9,480	3,262	286,542
Loss allowance	–	(183)	(1,288)	(1,954)	(3,425)
Net amount	263,574	10,043	8,192	1,308	283,117

The Group does not hold any collateral over trade receivables at 31 December 2022 and 2021.

24. CONTRACT ASSETS AND CONTRACT LIABILITIES

	At 31 December 2022 RMB'000	At 31 December 2021 RMB'000	At 1 January 2021 RMB'000
Pipes Business			
Total contract assets	**52,910**	92,960	27,499
Total contract liabilities	**129,691**	32,847	150,151

Contract Assets

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 2022, the Group's contracts assets amounted to approximately RMB25,152,000 *(2021: approximately RMB78,761,000)* 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 movements (excluding those arising from increases and decreases both occurred within the same year) of contract assets within IFRS 15 during the reporting period are as follows:

	2022 RMB'000	2021 RMB'000
At the beginning of the reporting period	**92,960**	27,499
Transfer of contract assets to trade receivables	**(12,028)**	(15,983)
Increase in contract assets	**37,974**	81,444
Disposal of a subsidiary (Note 35)	**(65,996)**	–
At the end of the reporting period	**52,910**	92,960

The Group's credit terms and credit policy with customers are disclosed in Note 6 to the consolidated financial statement.

24. CONTRACT ASSETS AND CONTRACT LIABILITIES (Continued)

Contract Liabilities

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.

The movements (excluding those arising from increases and decreases both occurred within the same year) of contract liabilities within IFRS 15 during the reporting period are as follows:

	2022 RMB'000	2021 RMB'000
At the beginning of the reporting period	32,847	150,151
Recognised as revenue	(24,268)	(316,062)
Increase in contract liabilities or recognition of trade receivables	123,924	198,758
Disposal of a subsidiary (Note 35)	(2,812)	–
At the end of the reporting period	129,691	32,847

At 31 December 2022, the Group's contracts liabilities amounted to approximately RMB1,528,000 *(2021: approximately RMB6,822,000)* were expected to be recovered more than twelve months after the end of the reporting period. The Group classifies these contract liabilities as current because it expects to realise them in its normal operating cycle.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2022 RMB'000	2021 RMB'000
Advances to suppliers (Note)	47,138	70,278
Value-added tax recoverables	1,388	35,070
Prepayments	1,048	2,535
Deposits	17,496	17,459
Tender deposits to customers	2,341	9,678
Security deposits in respect of sales contract with customers	16,516	–
Others	3,059	10,834
	88,986	145,854

Note:

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

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2022 RMB'000	2021 RMB'000
Cash and bank balances	160,619	165,591
Non-pledged time deposits with original of 3 months or less when acquired	18,000	–
	178,619	165,591
Less: Pledged deposits	(19,843)	(31,280)
Cash and cash equivalents	158,776	134,311
Cash and cash equivalents and pledged deposits denominated in RMB	175,917	163,746

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 earn 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. TRADE AND BILLS PAYABLES

	2022 RMB'000	2021 RMB'000
Trade payables	52,260	214,096
Bills payables	–	305,669
	52,260	519,765

27. TRADE AND BILLS PAYABLES (Continued)

The trade payables are non-interest bearing. The payment terms with suppliers are normally on credit ranging from 90 to 180 days (2021: 90 to 180 days) from the time when goods are received from suppliers.

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

	2022 RMB'000	2021 RMB'000
Within 3 months	42,520	182,535
3 to 6 months	1,737	13,892
6 months to 1 year	6,511	10,401
1 to 2 years	5	3,402
Over 2 years	1,487	3,866
	52,260	214,096

28. OTHER PAYABLES AND ACCRUALS

	2022 RMB'000	2021 RMB'000
Accruals	8,202	7,414
Tender deposits to suppliers	4,010	4,490
Payable in acquisition of property, plant and equipment	6,322	6,469
Other tax payables	1,443	637
Interest payables in respect of other loans	1,519	–
Others	8,480	8,455
	29,976	27,465

29. BORROWINGS

	2022			2021		
	Effective interest rate (%)	Maturity (year)	RMB'000	Effective interest rate (%)	Maturity (year)	RMB'000
Bank loans						
Secured (Note (i))	4.00%-4.44%	2023	281,500	4.35%-4.57%	2022	283,000
Secured and guaranteed (Note (ii))	N/A	N/A	–	4.35%	2022	340,000
Guaranteed (Note (iii))	N/A	N/A	–	4.785%	2022	68,000
			281,500			691,000
Other loans						
Unsecured (Note (iv))	5.00%	2023	39,810	N/A	N/A	–
			321,310			691,000
Borrowings are repayable as follows:			RMB'000			RMB'000
On demand or within one year			321,310			691,000

Notes:

(i) The bank loans were secured by pledge of certain of the Group's property, plant and equipment amounting to approximately RMB110,855,000 (2021: approximately RMB125,088,000) and right-of-use assets amounting to approximately RMB71,981,000 (2021: approximately RMB73,912,000).

(ii) At 31 December 2021, the bank loans were secured by the pledge of certain of the Group's property, plant and equipment and right-of-use assets amounting to approximately RMB173,387,000 and RMB36,740,000, respectively. An amount of approximately RMB146,540,000 out of bank loans of approximately RMB340,000,000 were guaranteed by a shareholder of a former subsidiary. Upon the completion of Hunan Disposal, the bank loans have been de-recognised during the year ended 31 December 2022.

(iii) At 31 December 2021, the bank loans of approximately RMB29,308,000 out of bank loans of approximately RMB68,000,000 were guaranteed by a shareholder of a former subsidiary. Upon the completion of Hunan Disposal, the bank loans have been de-recognised during the year ended 31 December 2022.

(iv) The other loans represented the advance from directors of the Company and employees approximately RMB39,810,000 which is unsecured, bears a fixed interest rate of 5% per annum and repayable within one year.

30. DEFERRED INCOME

	2022 RMB'000	2021 RMB'000
Government grants		
At the beginning of the reporting period	4,374	5,958
Recognised as other income during the year	(929)	(1,584)
Disposal of a subsidiary (Note 35)	(1,206)	–
At the end of the reporting period	2,239	4,374
Less: Current portion	(854)	(1,583)
Non-current portion	1,385	2,791

In August 2011, Xinjiang Shengli received a government grant of RMB12,330,000 in relation to a 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 corresponding expected useful lives of the plant and machineries.

31. SHARE CAPITAL

	2022		2021	
	No. of shares	HK$'000	No. of shares	HK$'000
Ordinary share of HK$0.1 each				
Authorised:				
At the beginning of the reporting period and at the end of the reporting period	5,000,000,000	500,000	5,000,000,000	500,000

31. SHARE CAPITAL (Continued)

	No. of shares	Issued Capital HK$'000	Issued Capital RMB'000
Issued and fully paid:			
At 1 January 2021	3,274,365,600	327,437	283,911
Issue of shares under general mandate (Note)	600,000,000	60,000	50,498
At 31 December 2021, 1 January 2022 and 31 December 2022	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$60,000,000.

32. RESERVES

(a) Share premium

Share premium represents the excess of the net proceeds from issuance of the Company's shares over its par value. Under the laws of the Cayman Islands and the Company's Articles of Association, it is distributable to the Company's shareholders provided that the Company is able to pay its debts as they fall due in the ordinary course of business.

(b) 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.

(c) Share option reserve

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

32. RESERVES (Continued)

(d) Other reserve

Other reserve represents the reserve arising from Group reorganisation.

The Group

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2022 and 2021 are presented in the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of changes in equity.

The Company

The amounts of the Company's reserves and the movements therein for the years ended 31 December 2022 and 2021 are as follows:

	Share premium RMB'000 (Note 32(a))	Share option reserve RMB'000 (Note 32(c))	Accumulated losses RMB'000	Total RMB'000
At 1 January 2021	1,230,445	38,573	(809,294)	459,724
Loss and total comprehensive loss for the year	–	–	(206,831)	(206,831)
Transactions with owners				
Contributions and distributions				
Equity-settled share-based payment expenses	–	449	–	449
Lapse of share options (Note 33)	–	(33,749)	33,749	–
Total transactions with owners	–	(33,300)	33,749	449
At 31 December 2021	1,230,445	5,273	(982,376)	253,342

32. RESERVES (Continued)

The Company (Continued)

	Share premium RMB'000 (Note 32(a))	Share option reserve RMB'000 (Note 32(c))	Accumulated losses RMB'000	Total RMB'000
At 1 January 2022	1,230,445	5,273	(982,376)	253,342
Loss and total comprehensive loss for the year	–	–	(8,131)	(8,131)
Transactions with owners				
Contributions and distributions				
Equity-settled share-based payment expenses	–	246	–	246
Lapse of share options (Note 33)	–	(4,488)	4,488	–
Total transactions with owners	–	(4,242)	4,488	246
At 31 December 2022	1,230,445	1,031	(986,019)	245,457

33. 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:

	2022 RMB	2021 RMB
Granted on 3 January 2012 (Note (i))	–	16,770,000
Granted on 22 June 2020 (Note (ii))	74,400,000	74,400,000
	74,400,000	91,170,000

33. SHARE-BASED PAYMENTS (Continued)

Number of outstanding share options are set out as following:

	2022		2021	
	No. of share options	**Weighted average exercise price HK$'000**	No. of share options	Weighted average exercise price HK$'000
At the beginning of the reporting period	**91,170,000**	**0.23**	292,890,000	0.35
Lapse of share options	**(16,770,000)**	**0.37**	(201,720,000)	0.41
At the end of the reporting period	**74,400,000**	**0.17**	91,170,000	0.23

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 each 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.

During the year ended 31 December 2022, the Group recognised share-based payments of approximately RMB246,000 *(2021: approximately RMB449,000)*, which has been charged to the consolidated statement of profit or loss and other comprehensive income.

33. SHARE-BASED PAYMENTS (Continued)

Notes:

(i) 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 "2012 Share Options").

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%

During the year ended 31 December 2022, 16,770,000 share options *(2021: 1,770,000)* share options were lapsed.

The share option reserve of RMB4,488,000 *(2021: approximately RMB512,000)* has been transferred to accumulated losses within equity. There was no outstanding share options for the 2012 Share Options at 31 December 2022.

(ii) 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 "2020 Share Options").

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.

33. SHARE-BASED PAYMENTS (Continued)

Notes: (Continued)

(ii) (Continued)

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%

During the year ended 31 December 2022, no share options *(2021: 900,000 share options)* were lapsed.

The share option reserve of Nil *(2021: approximately RMB6,000)* has been transferred to accumulated losses within equity. There was outstanding share options of 74,400,000 *(2021: 74,400,000)* for the 2020 Share Options at 31 December 2022.

(iii) In addition to above share option schemes, during the year ended 31 December 2021, there were total 203,050,000 share options in relation to share option schemes granted on 28 January 2015, 26 April 2016 and 11 October 2016 lapsed and accordingly approximately RMB33,231,000 were transferred from share option reserve to accumulated losses within equity. There were no outstanding share options for the above share option schemes at 31 December 2021.

34. OTHER CASH FLOW INFORMATION

(a) Major non-cash transactions

In addition to the information disclosed elsewhere in the consolidated financial statements, the Group had the following major non-cash transactions:

(i) During the year ended 31 December 2022, part of the consideration of approximately of RMB17,280,000 in relation to the disposal of 8.9% equity interests in Hunan Shengli Steel Pipe was settled by Xiangtan Iron & Steel Group Co., Ltd. ("Xiangtan Steel") as a capital contribution into Hunan Shengli Steel Pipe on behalf of the Group which is set out in Note 35 to the consolidated financial statements.

(ii) During the year ended 31 December 2022, the Group recognised right-of-use assets by incurring lease liabilities of approximately RMB2,740,000 *(2021: approximately RMB191,000)*.

34. OTHER CASH FLOW INFORMATION (Continued)

(b) Reconciliation of liabilities arising from financing activities

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

For the year ended 31 December 2022

	Lease liabilities RMB'000	Interest payable RMB'000	Borrowings RMB'000	Total RMB'000
At 1 January 2022	1,187	–	691,000	692,187
Non-cash changes				
Additions	2,740	–	–	2,740
Finance costs	35	17,544	–	17,579
Disposal of a subsidiary (Note 35)	–	–	(508,000)	(508,000)
Cash (outflow) inflow in financing activities:				
Inception of borrowings	–	–	452,310	452,310
Repayment of borrowings	–	–	(314,000)	(314,000)
Repayment of lease liabilities	(1,198)	–	–	(1,198)
Interest paid	–	(16,025)	–	(16,025)
At 31 December 2022	2,764	1,519	321,310	325,593

34. OTHER CASH FLOW INFORMATION (Continued)

(b) Reconciliation of liabilities arising from financing activities (Continued)

For the year ended 31 December 2021

	Lease liabilities RMB'000	Interest payable RMB'000	Borrowings RMB'000	Total RMB'000
At 1 January 2021	2,153	–	780,600	782,753
Non-cash changes				
Additions	191	–	–	191
Finance costs	80	34,589	–	34,669
Exchange realignment	55	–	–	55
Cash (outflow) inflow in financing activities:				
Inception of borrowings	–	–	722,000	722,000
Inception of borrowings from a former non-controlling shareholder of a subsidiary	–	–	60,000	60,000
Repayment of borrowings	–	–	(811,600)	(811,600)
Repayment of lease liabilities	(1,292)	–	–	(1,292)
Repayment of borrowings from a former non-controlling shareholder of a subsidiary	–	–	(60,000)	(60,000)
Interest paid	–	(34,589)	–	(34,589)
At 31 December 2021	1,187	–	691,000	692,187

35. DISPOSAL OF A SUBSIDIARY

On 21 December 2021, Shandong Shengli Steel Pipe, an indirect wholly-owned subsidiary of the Company, and Xiangtan Steel, one of the shareholders of Hunan Shengli Steel Pipe entered into the equity transfer and capital transfer agreement, pursuant to which Shandong Shengli Steel Pipe agreed to sell and Xiangtan Steel agreed to acquire the 8.9% of equity interests in Hunan Shengli Steel Pipe, a non-wholly-owned subsidiary of the Company, at a consideration of approximately RMB17,296,000 (the "Hunan Disposal"). Further, subject to the completion of the Hunan Disposal, Shandong Shengli Steel Pipe and Xiangtan Steel agreed to make capital contributions of approximately RMB17,280,000 and approximately RMB18,720,000 into Hunan Shengli Steel Pipe, respectively, in proportion to their respective shareholding percentage in Hunan Shengli Steel Pipe.

The Hunan Disposal was completed on 21 February 2022 and part of the consideration of approximately RMB17,280,000 was settled by Xiangtan Steel as a capital contribution into Hunan Shengli Steel Pipe on behalf of the Group on 25 February 2022.

After the completion of the Hunan Disposal, the Group no longer had control but retained significant influence over Hunan Shengli Steel Pipe with its holding of 48% of equity interests in Hunan Shengli Steel Pipe. Accordingly, the remaining 48% equity interests in Hunan Shengli Steel Pipe held by the Group has been accounted for as an associate under equity method.

35. DISPOSAL OF A SUBSIDIARY (Continued)

The following table summarises the consideration received/receivable for the disposal of Hunan Shengli Steel Pipe and the net liabilities of Hunan Shengli Steel Pipe as at the date of disposal:

	RMB'000
Consideration received/receivable, satisfied by:	
Cash received	16
Cash paid to Hunan Shengli Steel Pipe settlement of capital injection into Hunan Shengli Steel Pipe on behalf of the Group	17,280
	17,296
Net liabilities disposed of:	
Property, plant and equipment (Note 16)	236,735
Right-of-use assets (Note 20)	44,687
Deposits paid for acquisition of property, plant and equipment	1,100
Inventories	155,712
Trade and bill receivables	241,518
Contract assets (Note 24)	65,996
Prepayments, deposits and other receivables	66,468
Pledged deposits	131,796
Cash and cash equivalents	20,797
Trade and bills payables	(443,498)
Other payables and accruals	(19,210)
Contract liabilities (Note 24)	(2,812)
Borrowings	(508,000)
Deferred income (Note 30)	(1,206)
Net liabilities upon disposal	(9,917)
Non-controlling interests	4,274
Fair value of the investment in an associate retained (Note)	(42,000)
Consideration	(17,296)
Gain on disposal of a subsidiary	(64,939)
Net cash outflow from the Hunan Disposal	
Cash consideration received	16
Less: cash and cash equivalent disposed of	(20,797)
	(20,781)

35. DISPOSAL OF A SUBSIDIARY (Continued)

Note:

The fair value of the investment in associate retained at disposal date was determined using present value of future cash flows with reference to the valuation report prepared by Roma Appraisal Limited, an independent professional valuer.

36. CAPITAL COMMITMENTS

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

	2022 RMB'000	2021 RMB'000
Contracted, but not provided for, net of deposits paid (if any)	**2,735**	9,503

37. RELATED/CONNECTED PARTY TRANSACTIONS

(a) Significant related/connected party transactions

During the years ended 31 December 2022 and 2021 the Group had the following material transactions with related parties. In the opinion of the management of the Group, they are under normal commercial terms that are fair and reasonable and in the best interests of the Group:

	2022 RMB'000	2021 RMB'000
Disposal of a subsidiary to a non-controlling shareholder of that subsidiary	**17,296**	–
Interest to a non-controlling shareholder of a former subsidiary	**–**	110
Other loans from directors, chief-executive and other members of key management	**8,280**	–
Interest on other loans paid to directors of the Company	**69**	–

37. RELATED/CONNECTED PARTY TRANSACTIONS (Continued)

(b) Significant related party balances

At the end of the reporting period, the Group had the following balances with its related parties:

	2022 RMB'000	2021 RMB'000
Other loans from directors, chief executive and other members of key management	2,100	–

(c) Key management compensation

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

	2022 RMB'000	2021 RMB'000
Directors' fees	1,843	2,015
Salaries, wages, allowances and other benefits in kind	5,543	5,131
Performance related bonus	493	504
Retirement benefit scheme contributions	359	140
	8,238	7,790

Further details of directors' and chief executive's emoluments are included in Note 12 to the consolidated financial statements.

37. RELATED/CONNECTED PARTY TRANSACTIONS (Continued)

(d) Connected party transactions

During the years ended 31 December 2022 and 2021 the Group had the following transactions with connected parties:

	2022 RMB'000	2021 RMB'000
Purchase of raw materials from 上海華菱湘鋼國際貿易有限公司Shanghai Valin Xianggang International Trading Co., Ltd.* ("Valin International")	**64,906**	371,017
Purchase of raw materials from 湖南華菱湘潭鋼鐵有限公司Hunan Valin Xiangtan Iron & Steel Co., ltd.* ("Hunan Xiangtan")	**7,783**	81,217
Purchase of raw materials from 湖南華菱電子商務有限公司Hunan Valin E-Commerce Co., Ltd.* ("Valin E-commerce")	**7,302**	214,233

Hunan Xiangtan and Valin E-commerce are associates of Xiangtan Steel, a shareholder of Hunan Shengli Steel Pipe, Valin International is a subsidiary of Hunan Xiangtan. Therefore, they were connected parties of the Company at the subsidiary level under the Listing Rules. Upon completion of the Hunan disposal as disclosed in note 35 to the consolidated financial statements, Valin International, Hunan Xiangtan and Valin E-Commerce ceased to be connected parties of the Company.

Details of the connected party transactions are disclosed in the "Report of the Directors" section of the annual report.

* The English names are for identification only.

38. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2022 RMB'000	2021 RMB'000
Non-current assets			
Property, plant and equipment		7	–
Right-of-use assets		2,740	1,023
Investments in subsidiaries		577,526	580,177
		580,273	581,200
Current assets			
Prepayments, deposits and other receivables		978	745
Cash and cash equivalents		4,190	9,698
		5,168	10,443
Current liabilities			
Other payables and accruals		2,835	2,826
Lease liabilities		807	1,066
		3,642	3,892
Net current assets		1,526	6,551
Total assets less current liabilities		581,799	587,751
Non-current liabilities			
Lease liabilities		1,933	–
NET ASSETS		579,866	587,751
Capital and reserves			
Share capital		334,409	334,409
Reserves	32	245,457	253,342
TOTAL EQUITY		579,866	587,751

The statement of financial position was approved and authorised for issue by the Board of Directors on 29 March 2023 and signed on its behalf by

Zhang Bizhuang
Director

Han Aizhi
Director

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				
	2022 **RMB'000**	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Revenue	**1,046,891**	1,526,684	856,427	862,966	913,392
Loss before tax	**(29,072)**	(272,266)	(370,364)	(161,591)	(55,259)
Income tax expense	**(186)**	(3,583)	(1,956)	(10,344)	(2,500)
Loss for the year	**(29,258)**	(275,849)	(372,320)	(171,935)	(57,759)
Attributable to:					
Owners of the Company	**(33,004)**	(260,719)	(325,392)	(138,573)	(54,111)
Non-controlling interests	**3,746**	(15,130)	(46,928)	(33,362)	(3,648)
	(29,258)	(275,849)	(372,320)	(171,935)	(57,759)

ASSETS AND LIABILITIES

	As at 31 December				
	2022 **RMB'000**	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
Total assets	**1,156,398**	1,919,687	2,240,167	2,411,619	2,652,213
Total liabilities	**(553,808)**	(1,292,222)	(1,382,403)	(1,168,369)	(1,231,292)
Net assets	**602,590**	627,465	857,764	1,243,250	1,420,921
Attributable to:					
Owners of the Company	**593,538**	626,433	841,602	1,180,160	1,324,469
Non-controlling interests	**9,052**	1,032	16,162	63,090	96,452
	602,590	627,465	857,764	1,243,250	1,420,921