勝利管道
SHENGLI PIPE

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1080)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

FINANCIAL HIGHLIGHTS

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

The board (the "Board") of directors (the "Directors") of Shengli Oil & Gas Pipe Holdings Limited (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018 (the "Year under Review") prepared in accordance with the International Financial Reporting Standards together with the comparative figures for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	**913,392**	2,155,750
Cost of sales and services		**(708,651)**	(2,041,103)
Gross profit		**204,741**	114,647
Other income and gains	5	**23,690**	18,843
Selling and distribution costs		**(33,760)**	(81,267)
Administrative expenses		**(170,609)**	(206,389)
Other expenses		**(2,141)**	(1,263)
Share of losses of:			
Joint ventures		**—**	(2,376)
Associates		**(728)**	(2,596)
Impairment loss recognised		**(15,782)**	(88,504)
Loss on disposal of investments, net		**(13,305)**	(8,197)
Gain on bargaining purchase of associates		**—**	9,966
Finance costs	6	**(47,423)**	(46,484)
LOSS BEFORE TAX	7	**(55,317)**	(293,620)
Income tax expense	8	**(2,500)**	(1,694)
LOSS FOR THE YEAR		**(57,817)**	(295,314)
Other comprehensive income/(loss) that may be subsequently reclassified to profit or loss:			
Exchange differences reclassified to profit or loss on disposal of subsidiaries		**(1)**	436
Exchange differences on translation of financial statements of foreign operations		**9,921**	(15,938)
		9,920	(15,502)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(47,897)**	(310,816)

	Notes	**2018** **RMB'000**	2017 RMB'000
LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(54,169)**	(250,831)
Non-controlling interests		**(3,648)**	(44,483)
		(57,817)	(295,314)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(44,249)**	(266,333)
Non-controlling interests		**(3,648)**	(44,483)
		(47,897)	(310,816)
LOSS PER SHARE *(RMB cents)*	*9*		
— Basic		**(1.65)**	(7.66)
— Diluted		**(1.65)**	(7.66)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018

	Notes	2018 RMB'000	2017 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment		**748,805**	882,774
Prepaid land lease payments		**234,744**	249,299
Goodwill		**—**	2,525
Deposits paid for acquisition of investments		**213,446**	203,214
Investment in associates	*11*	**416,136**	386,865
Deferred tax assets		**16,196**	22,927
		1,629,327	1,747,604
CURRENT ASSETS			
Inventories		**208,436**	169,906
Trade and bills receivables	*12*	**381,199**	428,285
Contract assets		**91,492**	95,327
Prepayments, deposits and other receivables	*13*	**163,917**	213,978
Prepaid land lease payments		**5,961**	6,193
Pledged deposits		**64,283**	20,096
Cash and cash equivalents		**106,076**	36,065
		1,021,364	969,850
CURRENT LIABILITIES			
Trade and bills payables	*14*	**255,707**	152,104
Other payables and accruals	*15*	**80,545**	119,216
Contract liabilities		**19,957**	70,348
Borrowings	*16*	**848,760**	891,883
Tax payable		**15,301**	15,014
Deferred income		**2,045**	854
		1,222,315	1,249,419
NET CURRENT LIABILITIES		**(200,951)**	(279,569)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,428,376**	1,468,035

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

1. GENERAL INFORMATION

The Company is a limited company incorporated in the Cayman Islands on 3 July 2009. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal places of business of the Company in Hong Kong Special Administrative Region ("Hong Kong") and the People's Republic of China (the "PRC") are located at Room 2111, 21st Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong, Zhongbu Town, Zhangdian District, Zibo City, Shandong Province 255082, the PRC, and 8 Binjiang Road, Gaoxin District, Xiangtan City, Hunan Province 411101, the PRC, respectively.

The Company acts as an investment holding company. The principal activities of its subsidiaries are the manufacture, processing and sale of welded steel pipes for oil and gas pipelines and other construction and manufacturing applications and trading of commodity.

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

2. BASIS OF PREPARATION

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

The Group incurred loss attributable to owners of the Company of approximately RMB54,169,000 for the year ended 31 December 2018, the Group had net current liabilities of approximately RMB200,951,000 as at 31 December 2018. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

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

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised IFRSs that are relevant to its operations and effective for its accounting year beginning on 1 January 2018. IFRSs comprise International Financial Reporting Standards; International Accounting Standards and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years, except as stated below.

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

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

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

4. OPERATING SEGMENT INFORMATION

During the year ended 31 December 2018, the Group has two (2017: two) reportable segments which comprise of pipes business and trading business. The pipes business segment produces submerged-arc helical welded pipes ("SAWH pipes") and submerged-arc longitudinal welded pipe ("SAWL pipes") which are mainly used for the oil and infrastructure industry ("Pipes Business"). The trading business mainly involve trading of coal ("Trading Business"). Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

Segment assets exclude deferred tax assets, pledged deposits, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude borrowings, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

The inter-segment sales were based on agreed selling prices between the parties involved.

Segment results represent the profit earned by each segment without taking into account the allocation of interest income, finance costs, impairment loss recognised on advance to a joint venture, impairment loss recognised on investment in an associate, loss/gain on disposal of subsidiaries, loss on disposal of an associate, gain on disposal of a joint venture and central administration costs including directors' fees, share-based payments, foreign currency exchange gains/losses, share of results of joint ventures and associates and items not directly related to the core business of the segments.

Segment revenue and results

For the year ended 31 December 2018

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

For the year ended 31 December 2017

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

Segment assets

As at 31 December 2018

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

As at 31 December 2017

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

Segment liabilities

As at 31 December 2018

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

As at 31 December 2017

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

Other segment information

2018

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

2017

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

(a) Revenue from external customers

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

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

(b) Non-current assets

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

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

Information about major customers

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

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

5. REVENUE, OTHER INCOME AND GAINS

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

Disaggregation of revenue from contracts with customers

2018

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

2017

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

Sales of steel pipes and rendering of related services

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

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

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

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

Trading business

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

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

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

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

6. FINANCE COSTS

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

7. LOSS BEFORE TAX

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

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

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

8. INCOME TAX EXPENSE

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

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

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

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

A reconciliation of the income tax expense applicable to loss before tax at the statutory rates for the jurisdictions in which the Group's principal operations are domiciled to the income tax expense at the Group's effective income tax rates, and a reconciliation of the applicable rates to the effective tax rates, are as follows:

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

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

Pursuant to the EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applied to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. The applicable tax rate for the Group is 10% and therefore the Group is liable to 10% withholding tax on dividends distributed by subsidiaries in the Mainland China in respect of earnings generated from 1 January 2008 and afterwards.

As at 31 December 2018 and 2017, the aggregate amounts of temporary differences associated with undistributed earnings of the subsidiaries in the Mainland China for which deferred tax liabilities have not been recognised were approximately RMB110,660,000 and RMB140,143,000, respectively. In the opinion of the Directors, it is not probable that its principal operating subsidiary, Shandong Shengli Steel Pipe Co., Ltd.[#] ("Shandong Shengli Steel Pipe") (山東勝利鋼管有限公司) will distribute such earnings in the foreseeable future.

\# The English name is for identification only

9. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

(a) Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately RMB54,169,000 (2017: approximately RMB250,831,000) and the weighted average number of 3,274,365,600 (2017: 3,274,365,600) ordinary shares in issue during the year.

(b) Diluted loss per share

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2018 and 2017 in respect of a dilution as there was no dilutive potential ordinary shares for the Company's outstanding options.

10. DIVIDEND

The Board of Directors has resolved not to declare a final dividend for the year ended 31 December 2018 (2017: RMB Nil).

11. INVESTMENT IN ASSOCIATES

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

Particulars of the associate of the Group are as follows:

Company name	**Place of incorporation/ operations**	**Registered paid-up capital**	**Percentage of equity interests attributable to the Group**		**Principal activities**
			2018	2017	
Shanghai Guoxin Industrial Co., Ltd.# ("Shanghai Guoxin") (上海國心實業有限公司)	The PRC/ The PRC	RMB500,000,000	**45%**	45%	Trading of metal commodity
Xinfeng Energy Enterprise Group Co., Ltd# ("Xinfeng Energy") (新鋒能源集團有限公司) (formerly known as Shanghai Xinfeng Enterprise Group Co., Ltd.# (上海新鋒企業集團有限公司))	The PRC/ The PRC	RMB820,000,000	**31.88%**	31.88%	Designing and construction of wind farms

The English name is for identification only

The following table shows information of the associates that is material to the Group. The associates are accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the IFRS financial statements of the associates.

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

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

12. TRADE AND BILLS RECEIVABLES

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

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

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

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

Reconciliation of allowance for trade receivables:

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

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

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

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

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

Notes:

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

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

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

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

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

14. TRADE AND BILLS PAYABLES

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

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

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

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

15. OTHER PAYABLES AND ACCRUALS

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

16. BORROWINGS

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

The borrowings are repayable as follows:

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

Notes:

(a) The Group's bank loans were secured by pledge of certain of the Group's properties, plant and equipment amounting to approximately RMB196,723,000 (2017: approximately RMB243,274,000) and prepaid land lease payments amounting to approximately RMB124,816,000 (2017: approximately RMB170,687,000).

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

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

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

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

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 2018 (the "Year under Review").

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

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

SECURING MORE ORDERS FOR NATIONAL PIPELINES DURING INDUSTRY GROWTH CYCLE

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

Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) ("**Hunan Shengli Steel Pipe**"), a non-wholly owned subsidiary of the Group, won the tender of Western Guangdong Natural Gas Trunk Pipeline Network under the Guangdong Pipeline Network* (廣東管網粵西天然氣主幹管網) and Submerged-arc Longitudinal Welded Pipes

Project of the Yangjiang — Jiangmen Trunk Line Project* (陽江—江門幹線項目直縫埋弧焊鋼管項目) from China National Offshore Oil Corporation ("**CNOOC**") in a total amount of over 30,000 tonnes. It is a historic high for single-specification orders for Hunan Shengli Steel Pipe.

ORGANISING ELABORATE PIPE PRODUCTION PLAN WITH RECORD HIGH PRODUCTION VOLUME

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

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

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

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

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

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

ENHANCING PRODUCT QUALITY WITH FOCUS ON TECHNOLOGICAL RESEARCH AND DEVELOPMENT

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

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

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

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

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

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

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

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

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

CONSOLIDATING STEEL PIPE CAPACITY BY DISPOSING OF LOSS-MAKING SUBSIDIARIES

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

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

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

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

Zhang Bizhuang
Executive Director & Chief Executive Officer

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

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

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

BUSINESS OVERVIEW

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

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

Pipes Business

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

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

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

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

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

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

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

Trading Business

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

FUTURE PROSPECTS

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

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

FINANCIAL REVIEW

Revenue

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

Cost of sales

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

Gross profit

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

Other income and gains

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

Selling and distribution costs

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

Administrative expenses

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

Finance costs

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

Impairment loss recognised

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

Loss on disposal of investments

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

Income tax expenses

Hong Kong profits tax is calculated at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the year. The profits tax rate of China Petro Equipment Holdings Pte. Ltd., a subsidiary of the Company incorporated in the Republic of Singapore, is 17% (2017: 17%) for the year. Under the EIT Law and Implementation Regulation of the EIT Law, the profits tax rate of the Company's subsidiaries in the PRC for the year is 25% (2017: 25%). Income tax for the year ended 31 December 2018 was approximately RMB2,500,000 (2017: income tax of approximately RMB1,694,000).

Total comprehensive loss for the year

Due to the combined effect of the above factors, the audited total comprehensive loss of the Group for the year ended 31 December 2018 was approximately RMB47,897,000, compared to the audited total comprehensive loss of the Group of approximately RMB310,816,000 for the year ended 31 December 2017.

Net current liabilities

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

Capital expenditure

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

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

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

Indebtedness

Borrowings

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

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

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

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

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

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

Financial management and fiscal policy

During the year ended 31 December 2018, the Group's revenue, expenses, assets and liabilities were primarily denominated in Renminbi. The Directors consider that the Group currently has limited foreign exchange exposure and has not entered into any hedging arrangement for its foreign exchange risk. The Group will closely monitor the foreign currency movement and will assess the need to adopt any measures in relation to foreign exchange risk from time to time.

Utilisation of the proceeds from initial public offering

The net proceeds obtained by the Group from the initial public offering were approximately RMB1,098,500,000. After the exercise of the over-allotment option on 13 January 2010, the net proceeds from the initial public offering increased to approximately RMB1,269,900,000. As at 31 December 2018, approximately RMB1,269,900,000 out of the total net proceeds from the initial public offering has been utilised in the manner specified in the Company's prospectus dated 9 December 2009 (the "Prospectus"), except for upgrading a cold-formed section steel production line as this project has been suspended.

As at 31 December 2018, the accumulated use of the capital raised is set out below:

Projects	**Amount allocated** *RMB'000*	**Actual expenditure as at 31 December 2018** *RMB'000*
Construction of one set of SAWH pre-welding and precision-welding production lines with production capacity of 360,000 tonnes per annum and two anti- corrosion coating production lines	440,000	525,267
Construction of one SAWL Pipe production line with production capacity of 200,000 tonnes per annum and one anti-corrosion coating production line	650,000	264,000
Upgrade of one cold-formed section steel production line to an ERW pipe production line with production capacity of 100,000 tonnes per annum	50,000	the project has been suspended
Working capital and other general corporate purposes	129,900	480,633
Total	1,269,900	1,269,900

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

LIQUIDITY AND FINANCIAL RESOURCES

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

The gearing ratio is defined as net debt (represented by borrowings, trade payables and other payables and accruals, net of cash and cash equivalents and pledged deposits) divided by total equity plus net debt. As at 31 December 2018, the gearing ratio of the Group was 41.9% (2017: 44.2%).

CONTINGENT LIABILITIES

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

FOREIGN EXCHANGE RISK

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

HUMAN RESOURCES AND REMUNERATION POLICIES

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

DIVIDENDS

The Board does not recommend the payment of final dividend for the year ended 31 December 2018.

CLOSURE OF REGISTER OF MEMBERS

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

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

CORPORATE GOVERNANCE CODE

The Directors recognise the importance of incorporating elements of good corporate governance in the management structure and internal control procedures of the Group so as to achieve effective accountability to the shareholders as a whole. The Board continues to strive to uphold good corporate governance and adopt sound corporate governance practices. The Company has applied the principles and code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Listing Rules.

For the year ended 31 December 2018, the Company has complied with all the code provisions set out in the Code.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the required standard for securities transactions by the Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that during the year ended 31 December 2018, they have complied with the required standards set out in the Model Code and the code of conduct regarding directors' securities transactions.

PURCHASE, REDEMPTION OR SALE OF SECURITIES

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

SCOPE OF WORK OF ZHONGHUI ANDA CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2018 as set out in this preliminary announcement have been agreed by the Group's auditor, ZHONGHUI ANDA CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the current year. The work performed by ZHONGHUI ANDA CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by ZHONGHUI ANDA CPA Limited on the preliminary announcement.

AUDIT OPINION FROM ZHONGHUI ANDA CPA LIMITED

ZHONGHUI ANDA CPA Limited has expressed an unqualified opinion on the audited consolidated financial statements of the Group for the financial year ended 31 December 2018.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established on 21 November 2009 with written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process. 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 currently serves as the chairman of the Audit Committee.

The Audit Committee has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2018.

PUBLICATION OF ANNUAL RESULTS ON THE WEBSITES OF THE COMPANY AND THE STOCK EXCHANGE

This annual results announcement is published on the websites of the Stock Exchange (http://www.hkexnews.hk) and the Company (http://www.slogp.com). The annual report for the year ended 31 December 2018 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and available on the above websites in due course.

APPRECIATION AND STRIVING FOR THE GOALS

Finally, on behalf of all Directors, I would like to take this opportunity to express my gratitude to all shareholders, customers and employees of the Company for their continuous support and encouragement for the Company to overcome difficulties and achieve success. The Company is positioned in the oil and gas and related equipment and pipeline industry, and has a close connection with the economic and strategic development of the PRC. With the highest quality and technical standards, unwavering efforts and unswerving dedication to corporate philosophy, we are committed to capturing each and every opportunity, with a view to enhancing the strength and precision of oil and gas pipeline products while actively pursuing and developing new partnership projects, thereby creating maximum values and returns for our shareholders.

By Order of the Board
SHENGLI OIL & GAS PIPE HOLDINGS LIMITED
Zhang Bizhuang
Executive Director and Chief Executive Officer

Zibo, Shandong, 24 March 2019

As at the date of this announcement, the Directors of the Company are:

Executive Directors:	*Mr. Zhang Bizhuang, Mr. Jiang Yong, Mr. Wang Kunxian, Ms. Han Aizhi and Mr. Song Xichen*
Non-executive Director:	*Mr. Wei Jun*
Independent non-executive Directors:	*Mr. Chen Junzhu, Mr. Wu Geng and Mr. Qiao Jianmin*

* *For identification purpose only*