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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 2019

FINANCIAL HIGHLIGHTS

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

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 2019 (the "**Year under Review**") prepared in accordance with the International Financial Reporting Standards together with the comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
REVENUE	5	**862,966**	913,392
Cost of sales and services		**(732,229)**	(708,651)
Gross profit		**130,737**	204,741
Other income and gains	5	**14,210**	23,690
Selling and distribution costs		**(44,745)**	(33,760)
Administrative expenses		**(191,813)**	(170,430)
Other expenses		**(1,198)**	(2,141)
Share of losses of associates		**(4,516)**	(728)
Reversal of impairment loss/(impairment loss recognised) on other receivables		**1,678**	(15,782)
Gain/(Loss) on disposal of subsidiaries		**10,333**	(13,305)
Loss on deregistration of subsidiaries		**(1,999)**	–
Impairment loss on non-current assets held for sale		**(24,468)**	–
Finance costs	6	**(49,810)**	(47,544)
LOSS BEFORE TAX	7	**(161,591)**	(55,259)
Income tax expense	8	**(10,344)**	(2,500)
LOSS FOR THE YEAR		**(171,935)**	(57,759)
Other comprehensive income/(loss) that may be subsequently reclassified to profit or loss:			
Exchange differences reclassified to profit or loss on disposal of subsidiaries		**(10,582)**	(1)
Exchange differences on translation of financial statements of foreign operations		**3,166**	9,921
		(7,416)	9,920
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(179,351)**	(47,839)

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(138,573)**	(54,111)
Non-controlling interests		**(33,362)**	(3,648)
		(171,935)	(57,759)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(145,989)**	(44,191)
Non-controlling interests		**(33,362)**	(3,648)
		(179,351)	(47,839)
LOSS PER SHARE *(RMB cents)*	*9*		
– Basic		**(4.23)**	(1.65)
– Diluted		**(4.23)**	(1.65)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	**As At 31 December 2019** ***RMB'000***	As At 31 December 2018 *RMB'000* (Restated)	As At 1 January 2018 *RMB'000* (Restated)
NON-CURRENT ASSETS				
Property, plant and equipment		**648,820**	748,805	882,774
Goodwill		**–**	–	2,525
Deposits paid for acquisition of investments		**216,549**	213,446	203,214
Investment in associates	*11*	**187,153**	416,136	386,865
Right-of-use assets		**239,097**	242,227	261,161
Deferred tax assets		**6,192**	16,196	22,927
		1,297,811	1,636,810	1,759,466
CURRENT ASSETS				
Inventories		**182,931**	208,436	169,906
Trade and bills receivables	*12*	**326,194**	381,199	428,285
Contract assets		**48,426**	91,492	95,327
Prepayments, deposits and other receivables	*13*	**229,410**	163,917	213,978
Pledged deposits		**27,312**	64,283	20,096
Cash and cash equivalents		**99,535**	106,076	36,065
		913,808	1,015,403	963,657
Non-current assets held for sale		**200,000**	–	–
		1,113,808	1,015,403	963,657
CURRENT LIABILITIES				
Trade and bills payables	*14*	**246,768**	255,707	152,104
Other payables and accruals	*15*	**64,214**	80,545	119,216
Contract liabilities		**53,553**	19,957	70,348
Lease liabilities		**1,184**	1,468	3,982
Borrowings	*16*	**777,205**	848,760	891,883
Tax payable		**15,308**	15,301	15,014
Deferred income		**1,583**	2,045	854
		1,159,815	1,223,783	1,253,401

	Notes	As At 31 December 2019 RMB'000	As At 31 December 2018 RMB'000 (Restated)	As At 1 January 2018 RMB'000 (Restated)
NET CURRENT LIABILITIES		**(46,007)**	(208,380)	(289,744)
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,251,804**	1,428,430	1,469,722
NON-CURRENT LIABILITIES				
Deferred income		**5,958**	7,079	5,609
Lease liabilities		**2,287**	104	1,795
Deferred tax liabilities		**309**	326	343
		8,554	7,509	7,747
NET ASSETS		**1,243,250**	1,420,921	1,461,975
EQUITY				
Equity attributable to owners of the Company				
Issued capital		**283,911**	283,911	283,911
Reserves		**896,249**	1,040,558	1,077,964
		1,180,160	1,324,469	1,361,875
Non-controlling interests		**63,090**	96,452	100,100
Total equity		**1,243,250**	1,420,921	1,461,975

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

1. GENERAL INFORMATION

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

The Company acts as an investment holding company. The principal activities of its subsidiaries are 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 RMB138,573,000 for the year ended 31 December 2019, the Group had net current liabilities of approximately RMB46,007,000 as at 31 December 2019. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

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

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised IFRSs that are relevant to its operations and effective for its accounting year beginning on 1 January 2019. IFRSs comprise International Financial Reporting Standards; International Accounting Standards and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years. except as stated below.

IFRS 16 "Leases"

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

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

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

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

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

4. OPERATING SEGMENT INFORMATION

During the year ended 31 December 2019, the Group has two (2018: two) reportable segments which comprise of pipes business and trading business. The pipes business segment mainly involves the production of submerged-arc helical welded pipes (the "**SAWH pipes**") and submerged-arc longitudinal welded pipe (the "**SAWL pipes**") which are mainly used for the oil and infrastructure industry (the "**Pipes Business**"). The trading business mainly involves trading of rolled coils (the "**Trading Business**"). Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

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

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

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

Segment results represent the profit earned by each segment without taking into account the allocation of interest income, finance costs, reversal of impairment loss on other receivables, impairment loss on non-current assets held for sale, loss/gain on disposal of subsidiaries, loss on deregistration of subsidiaries, and central administration costs including directors' fees, share-based payments, foreign currency exchange gains/losses, share of results of associates and items not directly related to the core business of the segments.

Segment revenue and results

For the year ended 31 December 2019

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

For the year ended 31 December 2018 (Restated)

	Pipes Business *RMB'000*	Trading Business *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
Segment revenue:				
Sales to external customers	910,832	2,560	–	913,392
Intersegment sales	40,261	–	(40,261)	–
Total revenue	951,093	2,560	(40,261)	913,392
Segment results	70,565	(8,838)		61,727
Interest income				755
Impairment loss recognized on other receivables				(15,782)
Loss on disposal of subsidiaries				(13,305)
Unallocated expenses				(41,110)
Finance costs				(47,544)
Loss before tax				(55,259)

Segment assets

As at 31 December 2019

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

As at 31 December 2018 (Restated)

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

Segment liabilities

As at 31 December 2019

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

As at 31 December 2018 (Restated)

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

Other segment information

2019

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

2018 (Restated)

	Pipes Business *RMB'000*	Trading Business *RMB'000*	Unallocated *RMB'000*	Consolidated *RMB'000*
Share of loss of associates	–	–	728	728
Reversal of allowance for trade receivables	(10,505)	–	–	(10,505)
Loss/(gain) on disposal of subsidiaries	13,383	–	(78)	13,305
Depreciation and amortisation	122,993	1,077	1,086	125,156
Investment in associates	–	–	416,136	416,136
Capital expenditure	4,900	3	–	4,903

(a) ***Revenue from external customers***

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

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

(b) ***Non-current assets***

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

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

Information about major customers

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

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

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

5. REVENUE, OTHER INCOME AND GAINS

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

Disaggregation of revenue from contracts with customers

2019

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

2018

	Pipes Business	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

Sales of pipes and rendering of related services

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

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

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

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

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

Trading business

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

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

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

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

6. FINANCE COSTS

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

7. LOSS BEFORE TAX

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

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

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

8. INCOME TAX EXPENSE

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

Hong Kong profits tax is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year.

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

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

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

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

Notes:

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

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

As at 31 December 2019 and 2018, the aggregate amounts of temporary differences associated with undistributed earnings of the subsidiaries in the PRC for which deferred tax liabilities have not been recognised were approximately RMB77,117,000 and RMB110,660,000, respectively. In the opinion of the Directors, it is not probable that its principal operating subsidiary, Shandong Shengli Steel Pipe Co., Ltd.# ("**Shandong Shengli Steel Pipe**") (山東勝利鋼管有限公司) will distribute such earnings in the foreseeable future.

The English name is for identification only

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 RMB138,573,000 (2018: approximately RMB54,111,000) and the weighted average number of 3,274,365,600 (2018: 3,274,365,600) ordinary shares in issue during the year.

(b) Diluted loss per share

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2019 and 2018 in respect of a dilution as there was no dilutive potential ordinary shares for the Company's outstanding options.

10. DIVIDEND

The Board of Directors has resolved not to declare a final dividend for the year ended 31 December 2019 (2018: Nil).

11. INVESTMENT IN ASSOCIATES

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

Particulars of the associate of the Group are as follows:

Company name	**Place of incorporation/ operations**	**Registered paid-up capital**	**Percentage of equity interests attributable to the Group as at 31 December**		**Principal activities**
			2019	2018	
Shanghai Guoxin Industrial Co., Ltd.#* ("**Shanghai Guoxin**") (上海國心實業有限公司)	The PRC/The PRC	RMB500,000,000	**–**	45%	Trading of metal commodity
Xinfeng Energy Enterprise Group Co., Ltd.# ("**Xinfeng Energy**") (新鋒能源集團有限公司) (formerly known as Shanghai Xinfeng Enterprise 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* 2019	Shanghai Guoxin* 2018	**Xinfeng Energy 2019**	Xinfeng Energy 2018
Principal place of business/country of incorporation	**PRC/PRC**	PRC/PRC	**PRC/PRC**	PRC/PRC
Principal activities	**Trading of metal commodity**	Trading of metal commodity	**Designing and construction of wind farms**	Designing and construction of wind farms
% of ownership interests/voting rights held by the Group as at 31 December	**–/–**	45%/45%	**31.88%/31.88%**	31.88%/31.88%
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
As at 31 December:				
Non-current assets	**–**	27,573	**341,028**	234,508
Current assets	**–**	1,627,623	**1,172,174**	1,159,091
Current liabilities	**–**	(1,298,325)	**(622,695)**	(420,988)
Non-current liabilities	**–**	–	**(303,451)**	(171,031)
Net assets	**–**	356,871	**587,056**	801,580
Group's share of net assets	**–**	160,592	**187,153**	255,544
For the year ended 31 December:				
Revenue	**279**	1,152,888	**248,097**	49,044
Loss for the year	**(3,454)**	(1,699)	**(9,289)**	(2,323)
Other comprehensive income	**–**	–	**–**	2,436
Total comprehensive (loss)/income for the year	**(3,454)**	(1,699)	**(9,289)**	113
Dividends received from the associate	**–**	–	**–**	–

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

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

12. TRADE AND BILLS RECEIVABLES

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

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

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

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

Reconciliation of allowance for trade receivables:

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

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**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2019					
Weighted average expected loss rate	**0%**	**0%**	**18%**	**27%**	**6%**
Receivable amount *(RMB'000)*	**178,429**	**51,593**	**107,623**	**3,720**	**341,365**
Loss allowance *(RMB'000)*	**–**	**(183)**	**(18,879)**	**(999)**	**(20,061)**
At 31 December 2018					
Weighted average expected loss rate	0%	0%	6%	99%	25%
Receivable amount *(RMB'000)*	238,571	132,363	3,592	124,252	498,778
Loss allowance *(RMB'000)*	–	–	(221)	(122,758)	(122,979)

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

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

Notes:

(a) As at 31 December 2019, included in the advances to entities is a loan of approximately RMB18,700,000 (2018: approximately RMB17,000,000) which was unsecured, bears an interest rate of 10% and repayable within 2 years.

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

(c) The advances is a loan of RMB30,000,000 which is secured by 20% of the equity interest in an entity, bears an interest rate of 4.35% per annum and repayable on demand. An impairment loss recognised on advances to shareholders of an entity of approximately RMB5,600,000 has been recognised during the year ended 31 December 2018. The entity settled RMB18,000,000 during the year ended 31 December 2019.

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

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

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

14. TRADE AND BILLS PAYABLES

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

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

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

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

15. OTHER PAYABLES AND ACCRUALS

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

16. BORROWINGS

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

The borrowings are repayable as follows:

	2019 RMB'000	2018 RMB'000
On demand or within one year	**777,205**	848,760
In the second year	**–**	–
In the third to fifth years, inclusive	**–**	–
	777,205	848,760
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(777,205)**	(848,760)
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 RMB88,512,000 (2018: approximately RMB196,723,000) and right-of-use assets amounting to approximately RMB76,900,000 (2018: approximately RMB124,816,000).

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

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

(d) The loan refers to advance from Directors and employees of approximately RMB61,605,000(2018: approximately RMB61,260,000) which is unsecured, bears an interest rate of 10% per annum and repayable within one year.

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

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 2019 (the "**Year under Review**").

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

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

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

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

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

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

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

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

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

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

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

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

OPTIMISING THE MANAGEMENT TEAM TO ENHANCE INTERNAL MANAGEMENT OF THE COMPANY

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

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

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

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

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

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

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

INTEGRATING GROUP STRUCTURE TO OPTIMISE OUR BUSINESS

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

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

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

FUTURE PROSPECTS

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

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

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

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

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

Zhang Bizhuang
Executive Director & Chief Executive Officer

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

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

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

BUSINESS REVIEW

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

The Group's major customers are large-scale national petroleum and natural gas enterprises such as CNPC, SINOPEC and CNOOC and their subsidiaries. The Group focuses on the design, manufacturing, anticorrosion processing and servicing of pipes used for the transport of crude oil, refined petroleum products and natural gas.

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

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

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

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

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

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

FINANCIAL REVIEW

Revenue

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

Cost of sales and services

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

Gross profit

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

Other income and gains

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

Selling and distribution costs

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

Administrative expenses

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

Reversal of impairment loss recognised on other receivables

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

Gain on disposal of subsidiaries

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

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

Impairment loss on non-current assets held for sale

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

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

Finance costs

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

Income tax expenses

Hong Kong profits tax is calculated at the rate of 16.5% (2018: 16.5%) on the estimated assessable profit for the year. The profits tax rate of China Petro Equipment Holdings Pte. Ltd., a subsidiary of the Company incorporated in the Republic of Singapore, is 17% (2018: 17%) for the year. Under the EIT Law and Implementation Regulation of the EIT Law, the profits tax rate of the Company's subsidiaries in the PRC for the year is 25% (2018: 25%). Income tax for the year ended 31 December 2019 was approximately RMB10,344,000 (2018: income tax of approximately RMB2,500,000), primarily due to recognition of relevant income tax expenses as a result of reversal of corresponding deferred tax assets upon maturity of previously recognised deferred tax losses as of 31 December 2019.

Total comprehensive loss for the year

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

Net current liabilities

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

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

Capital expenditure

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

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

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

Indebtedness

Borrowings

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

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

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

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

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

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

Financial management and fiscal policy

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2019, cash and cash equivalents of the Group amounted to approximately RMB99,535,000 (2018: approximately RMB106,076,000). As at 31 December 2019, the Group had borrowings of approximately RMB777,205,000 (2018: approximately RMB848,760,000).

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 2019, the gearing ratio of the Group was 44.9% (2018: 41.9%).

CONTINGENT LIABILITIES

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

FOREIGN EXCHANGE RISK

In 2019, the Group's businesses have been mainly transacted and settled in functional currency of subsidiaries, so the Group has had minimal exposure to foreign currency risk. The Group did not utilise any forward contracts or other means to hedge its foreign exchange exposure. However, the management will closely monitor the exchange rate fluctuations to ensure sufficient precautionary measures against any adverse impacts are in place.

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group reviews its human resources and remuneration policies periodically with reference to local legislations, market conditions, industry practice and assessment of the performance of the Group and individual employees. As at 31 December 2019, the Group's workforce comprised of 1,009 employees (including the Directors). The total salaries and related costs (including the Directors' fees) amounted to approximately RMB91,364,000 (2018: approximately RMB106,956,000).

DIVIDENDS

The Board does not recommend the payment of final dividend for the year ended 31 December 2019.

CLOSURE OF REGISTER OF MEMBERS

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

The register of members of the Company will be closed from Tuesday, 16 June 2020 to Friday, 19 June 2020, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the annual general meeting. In order to be eligible to attend and vote at the annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at 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, 15 June 2020. 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 2019, 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 2019, 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 2019.

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 2019 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 announcement 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 2019.

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 and Mr. Chen Junzhu 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 2019.

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 2019 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 strengthening and sharpening up our oil and gas pipeline transportation products while at the same time proactively exploring into new business sectors, 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, 29 March 2020

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

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