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 2021

FINANCIAL HIGHLIGHTS

- For the Year under Review, revenue was approximately RMB1,526,684,000, representing an increase of approximately RMB670,257,000 as compared to that in 2020.

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

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

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

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

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 2021 (the "**Year under Review**") prepared in accordance with the International Financial Reporting Standards together with the comparative figures for the year ended 31 December 2020 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2021

	Notes	**2021** **RMB'000**	2020 RMB'000
REVENUE	*5*	**1,526,684**	856,427
Cost of sales and services		**(1,390,864)**	(812,192)
Gross profit		**135,820**	44,235
Other income and gains	*5*	**67,424**	24,094
Selling and distribution costs		**(52,183)**	(63,804)
Administrative expenses		**(173,407)**	(152,343)
Other expenses		**(8,723)**	(2,612)
Share of profit of an associate		**1,821**	4,936
(Impairment)/reversal of impairment loss on other receivables		**(14,773)**	9,994
Impairment loss on non-current assets held for sale		**–**	(195,672)
Impairment loss on deposits paid for acquisition of investments		**(193,576)**	–
Finance costs	*6*	**(34,669)**	(39,192)
LOSS BEFORE TAX	*7*	**(272,266)**	(370,364)
Income tax expense	*8*	**(3,583)**	(1,956)
LOSS FOR THE YEAR		**(275,849)**	(372,320)
Other comprehensive loss that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(5,397)**	(13,509)
		(5,397)	(13,509)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(281,246)**	(385,829)

	Notes	**2021** **RMB'000**	2020 RMB'000
LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(260,719)**	(325,392)
Non-controlling interests		**(15,130)**	(46,928)
		(275,849)	(372,320)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(266,116)**	(338,901)
Non-controlling interests		**(15,130)**	(46,928)
		(281,246)	(385,829)
LOSS PER SHARE *(RMB cents)*	*9*		
– Basic		**(6.75)**	(9.94)
– Diluted		**(6.75)**	(9.94)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2021 RMB'000	2020 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**471,330**	568,876
Deposits paid for acquisition of investments		**4,067**	203,040
Deposits paid for acquisition of property, plant and equipment		**14,029**	–
Investment in an associate	*11*	**193,910**	192,089
Right-of-use assets		**225,498**	234,221
Deferred tax assets		**762**	4,361
		909,596	1,202,587
CURRENT ASSETS			
Inventories		**318,503**	290,778
Trade and bills receivables	*12*	**287,183**	283,596
Contract assets		**92,960**	27,499
Prepayments, deposits and other receivables	*13*	**145,854**	251,267
Pledged deposits		**31,280**	66,953
Cash and cash equivalents		**134,311**	113,159
		1,010,091	1,033,252
Non-current assets held for sale	*14*	**–**	4,328
		1,010,091	1,037,580
CURRENT LIABILITIES			
Trade and bills payables	*15*	**519,765**	360,366
Other payables and accruals	*16*	**27,465**	67,575
Contract liabilities		**32,847**	150,151
Lease liabilities		**1,162**	1,052
Borrowings	*17*	**691,000**	780,600
Tax payable		**15,308**	15,308
Deferred income		**1,583**	1,583
		1,289,130	1,376,635
NET CURRENT LIABILITIES		**(279,039)**	(339,055)
TOTAL ASSETS LESS CURRENT LIABILITIES		**630,557**	863,532

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. GENERAL INFORMATION

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

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

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

2. BASIS OF PREPARATION

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

The Group incurred loss attributable to owners of the Company of approximately RMB260,719,000 for the year ended 31 December 2021, the Group had net current liabilities of approximately RMB279,039,000 as at 31 December 2021. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

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

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised IFRSs that are relevant to its operations and effective for its accounting year beginning on 1 January 2021. IFRSs comprise International Financial Reporting Standards; International Accounting Standards and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years.

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

4. OPERATING SEGMENT INFORMATION

During the year ended 31 December 2021, the Group has two (2020: two) reportable segments which comprise of pipes business and trading business. The pipes business segment mainly involves the production of submerged-arc helical welded pipes (the "**SAWH pipes**") and submerged-arc longitudinal welded pipe (the "**SAWL pipes**") which are mainly used for the oil and infrastructure industry (the "**Pipes Business**"). The trading business mainly involves trading of rolled coils (the "**Trading Business**"). Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

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

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

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

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

Segment revenue and results

For the year ended 31 December 2021

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

For the year ended 31 December 2020

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

Segment assets

As at 31 December 2021

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

As at 31 December 2020

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

Segment liabilities

As at 31 December 2021

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

As at 31 December 2020

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

Other segment information

2021

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

2020

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

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

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

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

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

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

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

Information about major customers

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

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

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

5. REVENUE, OTHER INCOME AND GAINS

(i) Disaggregation of revenue from contracts with customers

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

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

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

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

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

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

(iii) Performance obligations for contracts with customers

Sales of pipes and rendering of related services

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

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

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

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

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

Trading business

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

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

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

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

6. FINANCE COSTS

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

7. LOSS BEFORE TAX

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

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

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

8. INCOME TAX EXPENSE

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

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

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

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

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

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

Notes:

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

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

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 RMB260,719,000 (2020: approximately RMB325,392,000) and the weighted average number of 3,864,502,586 (2020: 3,274,365,600) ordinary shares in issue during the year.

(b) Diluted loss per share

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2021 and 2020 in respect of a dilution as there were no dilutive potential ordinary shares for the Company's outstanding options.

10. DIVIDEND

The Board of Directors has resolved not to declare a final dividend for the year ended 31 December 2021 (2020: Nil).

11. INVESTMENT IN AN ASSOCIATE

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

Particulars of the associate of the Group are as follows:

Company name	Place of incorporation/ operations	Registered paid-up capital	Percentage of equity interests attributable to the Group as at 31 December 2021	2020	Principal activities
Xinfeng Energy Enterprise Group Co., Ltd.# ("Xinfeng Energy") (新鋒能源集團有限公司)	The PRC	RMB820,000,000	**31.88%**	31.88%	Designing and construction of wind farms, sale of the whole machine and components of wind turbine sets and mechanical equipment and software development of digital wind farm system

\# The English name is for identification only

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

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

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

12. TRADE AND BILLS RECEIVABLES

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

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

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

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

Reconciliation of allowance for trade receivables:

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

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

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

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

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

Notes:

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

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

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

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

14. NON-CURRENT ASSETS HELD FOR SALE

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

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

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

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

15. TRADE AND BILLS PAYABLES

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

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

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

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

16. OTHER PAYABLES AND ACCRUALS

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

17. BORROWINGS

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

The borrowings are repayable as follows:

	RMB'000	*RMB'000*
On demand or within one year	**691,000**	780,600

Notes:

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

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

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

CO-CHIEF EXECUTIVE OFFICER'S STATEMENT

Dear shareholders,

On behalf of the Board of the Company, I hereby present to you the audited results of the Group for the year ended 31 December 2021.

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

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

WINNING BIDS FROM PIPECHINA WITH TIGHTENED GRIPS ON NEW INDUSTRY OPPORTUNITIES

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

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

VENTURING INTO THE INSULATION PIPELINE MARKET TO NURTURE NEW GROWTH DRIVERS

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

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

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

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

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

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

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

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

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

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

FUTURE PROSPECTS

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

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

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

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

Last but not least, I would like to take this opportunity to express gratitude to our shareholders and customers, and our management and staff for their dedication. With timely moves to seize business opportunities and proactive planning, the Group, while maintaining stable growth for the existing pipes principal business and strengthening and optimising oil and gas transportation products, will continue to exploit new business opportunities along energy and pipeline industry chain and deliver long-term value to our shareholders.

Zhang Bizhuang
Executive Director & Co-Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

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

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

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

BUSINESS REVIEW

As one of China's largest oil and gas pipeline manufacturers offering superior quality products with top-rated facilities, cutting-edge technologies, advanced technique and a comprehensive quality inspection and assurance system, the Group is one of the few domestic qualified suppliers capable of providing, among other things, large-diameter pipes designed to sustain the high pressure in long distance transportation of crude oil, refined petroleum and natural gas for major oil and gas pipeline projects in China.

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

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

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

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

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

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

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

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

FINANCIAL REVIEW

Revenue

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

Cost of sales and services

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

Gross profit

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

Other income and gains

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

Selling and distribution costs

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

Administrative expenses

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

Share of profit of an associate

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

Impairment losses

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

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

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

Finance costs

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

Income tax expenses

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

Total comprehensive loss for the year

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

Net current liabilities

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

PipeChina has completely taken over the relevant oil and gas pipeline assets of the Three Barrels and commenced integration and commercial operation. It is expected that national oil and gas trunk line network will be gradually improved with construction progress significantly accelerated. In the next five years, PipeChina initially proposes to construct over 25,000 kilometres of oil and gas pipelines, offering more pipeline construction opportunities in future. In addition, the PRC government's policy on achieving Carbon Dioxide Peaking and Carbon Neutrality is expected to expedite the construction of national major and superior oil and gas pipeline network, which in turn is well-positioned to further boost the sales volume of pipes, the principal business of the Group. As such, the Group will keep close track of the progress in pipeline construction, so as to grasp sound development opportunities in the pipes industry and proactively strive for more pipes orders. Through reasonable allocation of funds and meticulous operation, the Group is confident to ensure on-going stability of its production and operations and to gradually minimise its net current liabilities.

Capital expenditure

The Group incurred capital expenditure for the acquisition of property, plant and equipment, expansion of production facilities and purchase of machinery for the manufacture of steel pipe products. Capital expenditure during each of the two years ended 31 December 2020 and 2021 were primarily related to the purchase of property, plant and equipment.

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

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

Indebtedness

Borrowings

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

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

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

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

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

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

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

The gearing ratio is defined as net debt (represented by borrowings, trade payables, contract liabilities and other payables and accruals, net of cash and cash equivalents and pledged deposits) divided by total equity plus net debt. As at 31 December 2021, the gearing ratio of the Group was 56.0% (2020: 55.2%).

Contingent liabilities

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

Foreign exchange risk

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

Human resources and remuneration policies

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

DIVIDENDS

The Board does not recommend the payment of final dividend for the year ended 31 December 2021.

EVENTS AFTER THE YEAR UNDER REVIEW

(1) On 21 December 2021, Shandong Shengli Steel Pipe (an indirect wholly-owned subsidiary of the Company), Xiangtan Iron & Steel Group Co., Ltd.* (湘潭鋼鐵集團有限公司) ("**Xiangtan Steel**") and Hunan Shengli Steel Pipe entered into the equity transfer and capital increase agreement, pursuant to which Shandong Shengli Steel Pipe agreed to transfer and Xiangtan Steel agreed to acquire 8.9% equity interest of Hunan Shengli Steel Pipe for a consideration of RMB17,296,233. Further, subject to the completion of the equity transfer, Shandong Shengli Steel Pipe and Xiangtan Steel agreed to make capital contributions of RMB17,280,000 and RMB18,720,000 to Hunan Shengli Steel Pipe, respectively, in proportion to their respective shareholding percentage in Hunan Shengli Steel Pipe. Upon the completion, Hunan Shengli Steel Pipe will be owned as to 48.0% and 52.0% by Shandong Shengli Steel Pipe and Xiangtan Steel, respectively and the total registered capital of Hunan Shengli Steel Pipe will be increased from RMB464,000,000 to RMB500,000,000. On 21 February 2022, Shandong Shengli Steel Pipe completed the equity transfer and capital contribution, and accordingly Hunan Shengli Steel Pipe ceased to be a subsidiary of the Company, and instead is accounted for as an associate of the Company using the equity method, and its financial results will no longer be consolidated into the financial statements of the Group.

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

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

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

Save as those disclosed above, no other important events which have an impact on the Group took place after the end of the Year under Review.

CLOSURE OF REGISTER OF MEMBERS

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

The register of members of the Company will be closed from Tuesday, 14 June 2022 to Friday, 17 June 2022, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the annual general meeting. In order to be eligible to attend and vote at the annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Monday, 13 June 2022. During the period mentioned above, no transfers of shares will be registered.

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 2021, 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 as set out in Appendix 10 to the Listing Rules as the required standard for securities transactions by the Directors. The Company has made specific enquiries with all Directors and all Directors confirmed that during the year ended 31 December 2021, they have complied with the required standards set out in the Model Code and the code of conduct regarding directors' securities transactions.

PURCHASE, REDEMPTION OR SALE OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of their respective securities during the year ended 31 December 2021.

SUFFICIENT PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Board confirmed that the Company has maintained sufficient public float as required under the Listing Rules during the Year under Review.

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 2021 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 2021.

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 2021.

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 (www.hkexnews.hk) and the Company (www.slogp.com). The annual report for the year ended 31 December 2021 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 the Board, 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, and while maintaining steady progress in the existing principal business of pipes and strengthening and optimizing oil and gas transportation products, we will venture into other business fields along the energy and pipeline industry chain for new opportunities, in a bid to create sustainable value for our shareholders.

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

Zibo, Shandong, 27 March 2022

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

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

* *For identification purpose only*