勝利管道
SHENGLI PIPE

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

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1080)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCIAL HIGHLIGHTS

- For the year ended 31 December 2022 ("**Year under Review**"), revenue was approximately RMB1,046,891,000, representing a decrease of approximately RMB479,793,000 as compared to that in 2021.

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

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

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

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

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 2022 (the "**Year under Review**") prepared in accordance with the International Financial Reporting Standards together with the comparative figures for the year ended 31 December 2021 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2022

	Notes	**2022** *RMB'000*	2021 *RMB'000*
Revenue	*4*	**1,046,891**	1,526,684
Cost of sales and services		**(944,910)**	(1,390,864)
Gross profit		**101,981**	135,820
Other income and gains	*5*	**14,384**	67,424
Selling and distribution expenses		**(53,651)**	(52,183)
Administrative expenses		**(111,973)**	(172,629)
Other expenses		**(2,323)**	(8,723)
Share of results of associates	*11*	**26,738**	1,821
Provision for impairment loss on other receivables		**–**	(14,773)
Provision for impairment loss on deposits paid for acquisition of investments		**–**	(193,576)
Gain on disposal of equity interests in a subsidiary	*17*	**64,939**	–
Loss on partial disposal of equity interests in an associate	*11*	**(44,294)**	–
Provision for impairment loss on investment in an associate	*11*	**(8,570)**	–
Reversal of (Provision for) impairment loss on trade receivables, net	*12(a)*	**1,276**	(778)
Finance costs	*6*	**(17,579)**	(34,669)
Loss before tax	*7*	**(29,072)**	(272,266)
Income tax expense	*8*	**(186)**	(3,583)
Loss for the year		**(29,258)**	(275,849)
Other comprehensive loss:			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial statements of foreign operations		**(137)**	(5,397)
Total comprehensive loss for the year		**(29,395)**	(281,246)

	Notes	**2022** *RMB'000*	2021 *RMB'000*
(Loss) Profit for the year attributable to:			
Owners of the Company		**(33,004)**	(260,719)
Non-controlling interests		**3,746**	(15,130)
		(29,258)	(275,849)
Total comprehensive (loss) income for the year attributable to:			
Owners of the Company		**(33,141)**	(266,116)
Non-controlling interests		**3,746**	(15,130)
		(29,395)	(281,246)
Loss per share	*9*		
Basic *(RMB cents)*		**(0.85)**	(6.75)
Diluted *(RMB cents)*		**(0.85)**	(6.75)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2022

	Notes	2022 RMB'000	2021 RMB'000
Non-current assets			
Property, plant and equipment		**220,823**	471,330
Right-of-use assets		**177,938**	225,498
Investments in associates	*11*	**227,064**	193,910
Deposits paid for acquisition of investments		**–**	4,067
Deposits paid for acquisition of property, plant and equipment		**2,703**	14,029
Deferred tax assets		**560**	762
		629,088	909,596
Current assets			
Inventories		**111,265**	318,503
Trade and bills receivables	*12*	**95,530**	287,183
Contract assets		**52,910**	92,960
Prepayments, deposits and other receivables	*13*	**88,986**	145,854
Pledged deposits		**19,843**	31,280
Cash and cash equivalents		**158,776**	134,311
		527,310	1,010,091
Current liabilities			
Trade and bills payables	*14*	**52,260**	519,765
Other payables and accruals	*15*	**29,976**	27,465
Contract liabilities		**129,691**	32,847
Lease liabilities		**831**	1,162
Borrowings	*16*	**321,310**	691,000
Deferred income		**854**	1,583
Tax payable		**15,308**	15,308
		550,230	1,289,130
Net current liabilities		**(22,920)**	(279,039)
Total assets less current liabilities		**606,168**	630,557

	2022	2021
	RMB'000	*RMB'000*
Non-current liabilities		
Lease liabilities	**1,933**	25
Deferred income	**1,385**	2,791
Deferred tax liabilities	**260**	276
	3,578	3,092
NET ASSETS	**602,590**	627,465
Capital and reserves		
Issued capital	**334,409**	334,409
Reserves	**259,129**	292,024
Equity attributable to owners of the Company	**593,538**	626,433
Non-controlling interests	**9,052**	1,032
TOTAL EQUITY	**602,590**	627,465

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Year ended 31 December 2022

1. GENERAL INFORMATION

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

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

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

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

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

Going concern

At 31 December 2022, the current liabilities of the Group exceeded its current assets by approximately RMB22,920,000. The directors of the Company have prepared the Group's cash flow projections covering a period of not less than twelve months from the end of the reporting period. Based on the cash flow projections, the Group will have sufficient financial resources to meet its financial obligations as and when they fall due in the coming twelve months from 31 December 2022. In addition, the major shareholder of the Company has confirmed its intention to make available adequate funds to the Company as and when required to maintain the Company as a going concern. The directors of the Company are of the opinion that, taking into account of (i) continuous net cash inflows from operating activities; (ii) the cash flow projections of the Group; and (iii) the financial support from the major shareholder of the Company, the Group has sufficient working capital for its present requirements. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

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

Changes in accounting policies and future changes in IFRSs

In the current year, the Group has adopted all the new and revised IFRSs and effective for its accounting year beginning on 1 January 2022. 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 year.

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.

3. OPERATING SEGMENT INFORMATION

During the years ended 31 December 2022 and 2021, the Group has two reportable segments which comprise of (i) production of submerged-arc helical welded pipes (the "**SAWH pipes**") and submerged-arc longitudinal welded pipe (the "**SAWL pipes**") and the related services which are mainly used for the oil and infrastructure industry (the "**Pipes Business**") and (ii) trading of commodities (the "**Trading Business**"). Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

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

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

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

Segment revenue and results

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

For the year ended 31 December 2022

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

For the year ended 31 December 2021

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

Segment assets and liabilities

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

For the year ended 31 December 2022

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

For the year ended 31 December 2021

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

Note:

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

Geographical Information

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

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

Non-current assets

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

Information about major customers

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

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

Note:

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

4. REVENUE

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

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

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

	For the year ended 31 December 2021		
	Pipes Business	Trading Business	Total
	RMB'000	*RMB'000*	*RMB'000*
Geographical markets			
The PRC	1,523,249	3,435	1,526,684
Timing of revenue recognition			
At a point in time	1,523,249	3,435	1,526,684

(ii) Performance obligations for contracts with customers

Sales of pipes and rendering of related services

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

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

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

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

Trading Business

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

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

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

5. OTHER INCOME AND GAINS

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

Note:

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

6. FINANCE COSTS

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

7. LOSS BEFORE TAX

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

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

Note:

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

8. INCOME TAX EXPENSE

	2022	2021
	RMB'000	*RMB'000*
Current tax	**–**	–
Deferred tax	**186**	3,583
Income tax expense	**186**	3,583

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

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

Under the Law of the PRC on Enterprise Income Tax (the "**EIT Law**") and Implementation Regulation of the EIT Law, the tax rate of subsidiaries of the Company in the PRC was 25% for the years ended 31 December 2022 and 2021. PRC Enterprise Income Tax has not been provided for the years ended 31 December 2022 and 2021 as the Group's entities in the PRC incurred a loss for taxation purposes.

9. LOSS PER SHARE

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

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

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

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

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

10. DIVIDENDS

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

11. INVESTMENTS IN ASSOCIATES

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

Particulars of the associates of the Group are as follows:

Name of associates	Place of incorporation/ registration and operation	Registered paid-up capital	% of equity interests/voting rights held by the Group at 31 December		Principal activities
			2022	2021	
Xinfeng Energy Enterprise Group Co., Ltd.# ("**Xinfeng Energy**") (新鋒能源集團有限公司)	The PRC	RMB800,000,000 (2021: RMB738,580,000) *(Note)*	**21.95%** *(Note)*	31.88%	Designing and construction of wind farms, sale of the whole machine and components of wind turbine sets and mechanical equipment and software development of digital wind farm system
Hunan Shengli Xianggang Steel Pipe Co., Ltd.# ("**Hunan Shengli Steel Pipe**") (湖南勝利湘鋼鋼管有限公司)	The PRC	RMB500,000,000 (2021: RMB464,000,000) *(Note 17)*	**48.00%**	56.90% *(Note 17)*	Manufacturing, processing and sale of SAWL pipelines and SAWH pipelines and provision of anti-corrosion service for oil and gas pipelines and other construction and manufacturing applications and trading of commodities

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

The English name is for identification only

Note:

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

Relationship with associates

Xinfeng Energy is engaged in the designing and construction of wind farms, sale of the whole machine and components of wind turbine sets and mechanical equipment and software development of digital wind farm system in the PRC which allows the Group to diversify the income stream and business risks.

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

Impairment assessment

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

Xinfeng Energy

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

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

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

Hunan Shengli Steel Pipe

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

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

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

Financial information of individually material associates

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

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

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

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

12. TRADE AND BILLS RECEIVABLES

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

(a) Trade receivables

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

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

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

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

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

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

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

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

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

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

Note:

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

14. TRADE AND BILLS PAYABLES

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

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

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

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

15. OTHER PAYABLES AND ACCRUALS

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

16. BORROWINGS

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

	RMB'000	*RMB'000*
Borrowings are repayable as follows:		
On demand or within one year	**321,310**	691,000

Notes:

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

(ii) At 31 December 2021, the bank loans were secured by the pledge of certain of the Group's property, plant and equipment and right-of-use assets amounting to approximately RMB173,387,000 and RMB36,740,000, respectively. An amount of approximately RMB146,540,000 out of bank loans of approximately RMB340,000,000 were guaranteed by a shareholder of a former subsidiary. Upon the completion of Hunan Disposal (as defined in Note 17), the bank loans have been de-recognised during the year ended 31 December 2022.

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

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

17. DISPOSAL OF A SUBSIDIARY

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

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

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

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

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

Note:

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

18. RELATED PARTY TRANSACTIONS

(a) Significant related party transactions

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

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

(b) Significant related party balances

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

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

(c) Key management compensation

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

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

CO-CHIEF EXECUTIVE OFFICER'S STATEMENT

Dear shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of the Company, I hereby present to you the audited results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2022 (the "**Year under Review**").

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

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

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

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

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

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

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

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

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

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

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

PROACTIVELY EXPEDITING AUTOMATION TRANSFORMATION AND ENHANCING TECHNOLOGICAL STRENGTH

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

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

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

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

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

STREAMLINING BUSINESS LAYOUT WITH A VISION TOWARDS SUSTAINABLE DEVELOPMENT

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

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

FUTURE PROSPECTS

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

* *The English names are for identification only*

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

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

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

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

Zhang Bizhuang
Executive Director & Co-Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

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

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

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

BUSINESS REVIEW

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

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

During the Year under Review, Shandong Shengli Steel Pipe, a subsidiary of the Group, won the bid of SAWH pipes from PipeChina in its 2022 annual pipeline framework agreement procurement bidding, and was selected as one of PipeChina's major suppliers of SAWH pipes. In 2022, orders secured from PipeChina accounted for approximately 47.7% of the total orders of Shandong Shengli Steel Pipe. Besides, the Group also proactively extended its footprints to the general market, and secured fresh breakthroughs. It was officially admitted as one of the pipeline suppliers of CR Gas with a top ranking, and developed customer-supplied materials processing orders to optimize the overall order structure. Furthermore, the Group also made progresses in the insulation pipeline business, achieved independent production and gained recognition from customers for product quality.

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

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

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

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

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

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

FINANCIAL REVIEW

Revenue

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

Cost of sales and services

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

Gross profit

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

Other income and gains

Other income and gains of the Group decreased by approximately 78.7% from approximately RMB67,424,000 for the year ended 31 December 2021 to approximately RMB14,384,000 for the year ended 31 December 2022, which was mainly due to compensations received from local government authorities of approximately RMB46,830,000 for resumption of land use right of a plot of land of the Group located in Rizhao City, Shandong, the PRC and the construction and fixtures thereon in 2021, while there was no such compensation in 2022.

Selling and distribution costs

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

Administrative expenses

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

Share of results of associates

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

Gain/losses on disposal of equity interests

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

Impairment losses

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

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

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

For the year ended 31 December 2021, the Group recognised impairment losses of (i) approximately RMB193,576,000 in respect of the deposit paid for the proposed acquisition of 56% of the issued share capital of Blossom Time Group Limited ("**Blossom Time**"), a company established in the British Virgin Islands and its subsidiaries are mainly engaged in investments and mineral business; (ii) approximately RMB5,076,000 in respect of property, plant and equipment as the recoverable amount of certain property, plant and equipment is lower than its carrying amount; and (iii) approximately RMB14,773,000 in respect of other receivables for which the debtor was known to have financial difficulties. For further details of impairment loss in respect of the deposit paid, please refer to the announcement dated 3 March 2022 and the 2021 annual report of the Company.

Finance costs

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

Income tax expenses

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

Total comprehensive loss for the year

Due to the combined effect of the above factors, the audited total comprehensive loss of the Group for the year ended 31 December 2022 was approximately RMB29,395,000, as compared to the audited total comprehensive loss of the Group of approximately RMB281,246,000 for the year ended 31 December 2021.

Net current liabilities

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

Capital expenditure

The Group incurred capital expenditure for the acquisition of property, plant and equipment, expansion of production facilities and purchase of machinery for the manufacture of steel pipe products. Capital expenditure during the years ended 31 December 2022 and 2021 were primarily related to the purchase of property, plant and equipment.

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

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

Indebtedness

Borrowings

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

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

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

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

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

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

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

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

The gearing ratio is defined as net debt (represented by borrowings, trade payables, contract liabilities and other payables and accruals, net of cash and cash equivalents and pledged deposits) divided by total equity plus net debt. For the year ended 31 December 2022, the gearing ratio of the Group was 37.0% (2021: 56.0%).

Contingent liabilities

For the year ended 31 December 2022, the Group did not have any material contingent liabilities (2021: Nil).

Capital commitments

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

Pledged of assets

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

Foreign exchange risk

During the year ended 31 December 2022, the Group's businesses have been mainly transacted and settled in functional currency of subsidiaries of the Company, 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. For the year ended 31 December 2022, the Group's workforce comprised of 539 employees (including the Directors) (915 employees as at 31 December 2021). The total salaries and related costs (including the Directors' fees) amounted to approximately RMB76,004,000 (2021: approximately RMB103,819,000). Such decrease in the total salaries and related costs was primarily because the financial results of Hunan Shengli Steel Pipe were no longer consolidated into the Group commencing from the Shareholding Change Completion Date during the year ended 31 December 2022.

DIVIDENDS

The Board does not recommend the payment of final dividend for the year ended 31 December 2022.

EVENTS AFTER THE YEAR UNDER REVIEW

Save as the subsequent events disclosed herein, no other important events which have an impact on the Group took place after the end of the year ended 31 December 2022.

CLOSURE OF REGISTER OF MEMBERS

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

The register of members of the Company will be closed from Tuesday, 13 June 2023 to Friday, 16 June 2023, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the annual general meeting. In order to be eligible to attend and vote at the annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 12 June 2023. During the period mentioned above, no transfer 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 2022, 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 2022, 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 2022.

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 MAZARS 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 2022 as set out in this preliminary announcement have been agreed by the Group's auditor, Mazars CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the current year. The work performed by Mazars 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 Mazars CPA Limited on this preliminary announcement.

AUDIT OPINION FROM MAZARS CPA LIMITED

Mazars CPA Limited has expressed an unqualified opinion on the audited consolidated financial statements of the Group for the financial year ended 31 December 2022.

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 2022.

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 2022 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.

* *For identification purpose only*

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

Zibo, Shandong, 29 March 2023

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

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