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)

2023 Annual Report

CORPORATE PROFILE

SHENGLI OIL & GAS PIPE HOLDINGS LIMITED
(the "Company") is one of the largest oil and gas pipe manufacturers in China. We focus on the design, manufacturing, anti corrosion processing, insulation processing and servicing of submerged arc helical welded pipes ("SAWH pipes") and submerged arc longitudinal welded pipes ("SAWL pipes") that are used to transport crude oil, refined petroleum, natural gas and other related products.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Wei Jun *(Chairman)*

Independent non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

Mr. Wu Geng *(Chairman)*
Mr. Chen Junzhu, *ACCA, CICPA*
Mr. Wei Jun

NOMINATION COMMITTEE

Mr. Qiao Jianmin *(Chairman)*
Mr. Zhang Bizhuang
Mr. Wu Geng

CO-CHIEF EXECUTIVE OFFICER

Mr. Zhang Liucheng *(resigned on 24 March 2024)*

COMPANY SECRETARY

Mr. Zhang Feng

AUTHORISED REPRESENTATIVES

Ms. Han Aizhi
Mr. Zhang Feng

REGISTERED OFFICE

Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

HEADQUARTERS IN CHINA

Zhongbu Town
Zhangdian District, Zibo City
Shandong Province
the PRC
Postal Code: 255082

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2111, 21st Floor, Wing On Centre
111 Connaught Road Central
Hong Kong

PRINCIPAL BANKS

China Construction Bank
Agricultural Bank of China
Industrial & Commercial Bank of China
The Hongkong and Shanghai Banking Corporation Limited
Industrial and Commercial Bank of China (Asia)

LEGAL ADVISER AS TO HONG KONG LAW

DeHeng Law Offices (Hong Kong) LLP

AUDITORS

Mazars CPA Limited
42nd Floor, Central Plaza
18 Harbour Road
Wanchai, Hong Kong

SHARE REGISTRARS

Principal Share Registrar and Transfer Office

Suntera (Cayman) Limited

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited

LISTING EXCHANGE INFORMATION

Main Board
The Stock Exchange of Hong Kong Limited

STOCK CODE

1080

COMPANY WEBSITE

www.slogp.com

FINANCIAL HIGHLIGHTS

- For the year ended 31 December 2023 ("Year under Review"), revenue was approximately RMB591,885,000, representing a decrease of approximately RMB455,006,000 as compared to that in 2022.

- For the Year under Review, gross profit margin was approximately 5.7%, representing a decrease of approximately 4.0 percentage points as compared to that in 2022.

- For the Year under Review, the loss for the year attributable to owners of the Company amounted to approximately RMB98,414,000, representing an increase of approximately RMB65,410,000 as compared to that in 2022.

- For the Year under Review, basic and diluted loss per share attributable to owners of the Company was approximately RMB2.54 cents, representing an increase of approximately RMB1.69 cents as compared to that in 2022.

- The Board did not recommend the declaration of any final dividend and interim dividend for the year ended 31 December 2023.

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 2023 (the "Year under Review").

In 2023, global challenges emerged one after another, casting uncertainties over the recovery of the world economy on many fronts. As domestic epidemic prevention and control entered a new stage, the order of production and living gradually resumed. Economic development gradually recovered. With the improvement of the global financial environment, it was expected that the economic growth rate would slightly rebound to 4% and 4.2% in 2023 and 2024, respectively. However, the Organization for Economic Co-operation and Development (OECD) emphasized that the world economy faced a series of risks such as intensified geopolitical tensions, sluggish trade growth, persistently high core inflation and rising financial vulnerabilities, and the global economy still faced great downward pressure, especially in developed economies. From the perspective of the energy industry, the energy system has strengthened the guarantee of resources such as coal, electricity, gas, and has made every effort to ensure the stable supply of energy. It has achieved steady growth in the production of raw coal, crude oil and natural gas, accompanied by increased exploration and development of oil and gas and ramped up reserves and output. Against this backdrop, the stability and certainty brought by China to the world economy seemed especially rare and valuable. In 2023, China's GDP exceeded RMB126 trillion, with a growth rate of 5.2%. A number of international organizations have recently raised their forecasts for China's economic growth in 2024.

During the Year under Review, in order to ensure the smooth operation of "one pipeline network nationwide* (全國一張網)", China Oil & Gas Pipeline Network Corporation* (國家石油天然氣管網集團有限公司) ("PipeChina") continued to carry out the transformation of one-click start and stop, automatic distribution and remote control functions of the natural gas pipeline network. The centralized scheduling and control rate of the natural gas pipeline network reached 98%, enabling more precise control the operation of the pipeline network. On the other hand, since 2023, China has vigorously promoted the construction of oil and gas pipeline network infrastructure, and a batch of national key projects have been accelerated and put into production smoothly. According to the data, the length of new main oil and gas pipelines in China from January to September exceeded 2,500 kilometres. The Group will continue to consolidate 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.

CHIEF EXECUTIVE OFFICER'S STATEMENT

ANNUAL FRAMEWORK BIDING OF PIPECHINA HAS ACHIEVED NEW REMARKABLE ACHIEVEMENTS WHILE STEADILY EXPANDING THE SOCIAL MARKET

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, once again achieved satisfactory results in PipeChina's 2023 annual pipeline framework bidding. The Company ranked second in the bidding for the SAWH pipes project, advancing one spot from the ranking of 2022, and continued to maintain its position as a major supplier. This marks another solid step taken by the Group in deeply participating in the supply guarantee of SAWH pipes for construction of the national pipeline network project, and the product quality and services have been fully recognised by the users of PipeChina. As of the end of December, the Group had signed sales contracts in accordance with 2023 annual framework, with a total amount of RMB690 million, with supply gradually slated for completion throughout 2024.

While diligently maintaining key customers such as China Petroleum & Chemical Corporation ("SINOPEC"), China National Petroleum Corporation ("CNPC") and China Petroleum Technology Development Company, the Group steadily expanded its presence in the social market. During the Year under Review, Shandong Shengli Steel Pipe cultivated relationships with 8 new customers, especially the cooperation with leading enterprises in the heat preservation industry, laying a foundation for deepening cooperation in heat preservation processing, and maintaining the total output of Shandong Shengli Steel Pipe at the same level as that of the corresponding period last year under the circumstances that the PipeChina's annual framework bidding was postponed and orders were significant decrease during the Year under Review. In addition, the proportion of the social market's customer-supplied materials processing business has also been enhanced, which has optimised the order structure and saved funds for the purchase of steel coils and plates.

IMPROVING PROCESSES AND EQUIPMENT CAPABILITIES, SUCCESSFULLY FULFILLING PRODUCTION AND DELIVERY RESPONSIBILITIES LEVERAGING RATIONAL PLANNING AND SHREWD ARRANGEMENT OF PRODUCTION

In 2023, production branches of Shandong Shengli Steel Pipe successfully completed production of welded and anti-corrosion pipelines used for the transmission of oil, gas and water, including large-scale pipeline projects such as PipeChina Tianjin Liquefied Natural Gas (LNG) Export Pipeline Double-track Project* (國家管網集團天津液化天然氣(LNG)外輸管道復線項目), SINOPEC Shandong Pipeline and Jiqing Pipeline (Zhangqiu-Jiaozhou Section) Upgrading and Renovation Project* (中石化山東管道濟青管道(章丘—膠州段)提升改造工程), the PipeChina Nanning-Pingxiang Branch Line (Nanning-Chongzuo Section) Natural Gas Pipeline Project* (國家管網集團南寧—憑祥支線(南寧—崇左段)天然氣管道工程), PipeChina Jinzhou-Zhengzhou Oil Pipeline Project* (國家管網集團錦州—鄭州成品油管道工程), PipeChina Hulin-Changchun Natural Gas Pipeline Project (國家管網集團虎林—長春天然氣管道工程) and local projects such as Long-distance Heat Pipeline Project in Toktor, Inner Mongolia* (內蒙古托克托熱力長輸管道工程), Hubei Urban Water Supply Project (湖北城區供水工程), Henan Province Natural Gas Pipeline Project* (河南省天然氣管道工程), Tianjin Eco-city Heat Supply Project* (天津生態城供熱項目) and Weihai Downtown Heat Supply Pipeline Network Project* (威海市中心城區供熱管網工程).

CHIEF EXECUTIVE OFFICER'S STATEMENT

In terms of production tasks and personnel arrangements, each production branch of the Group carefully organised production, and the Group rationalized arrangement based on specific orders and raw materials, and optimized the working process to maximize efficiency and guarantee scheduled delivery in the agreed quality and quantity. The Group undertook major projects in Inner Mongolia, achieving the continuous production of 1,620-gauge 13.2 metres weldless pipes, and the first-time pass rate of major pipelines of PipeChina with specifications of 1,016*17.5 and 1,219*18.4 produced by the Group reached a record high.

To fulfill the mission of ensuring high-quality supply at all times, the Group summarized its experience, refined its processes, updated, renovated and improved its equipments repeatedly to enhance its equipment capabilities, including the addition of hydraulic systems to accelerate the speed of the rollers in and out of the pipes and improve inspection efficiency; transforming the proportionality coefficient adjustment system of the hydraulic presses, reducing the impact of water pressure tests on the straightness of steel pipes, and improving product quality; independently designing and completing the pipe pushing structure of the hydraulic presses, improving work efficiency and reducing labour intensity through electric operation; increasing medium-frequency heating in the anti-corrosion production line to improve the quality of internal spraying in winter; transforming the internal spraying equipment into the cantilever structure, eliminating impurities and reducing the material consumption of internal coatings.

ENHANCING INTERNAL CORPORATE GOVERNANCE TO BOOST FUNDAMENTAL MANAGEMENT

During the Year under Review, the Group continued its endeavors to improve the management framework to support the enhancement of management efficiency and employee quality. In response to the shift in responsibilities across departments, the corporate management department of Shandong Shengli Steel Pipe revised and distributed the 15 regulations of the Company. To ensure that all staff members are well-versed in and strictly adhere to the management rules of the Company, all staff members were required to join comprehensive trainings and learning sessions. This initiative aims to promote smooth operations of the Company.

Furthermore, during the Year under Review, the Group launched, for the first time, quantitative performance appraisal for senior management members of Shandong Shengli Steel Pipe through vesting the Company's operational targets for each individual based on their responsibilities at the beginning of the year and determining specific quantitative appraisal indicators. Besides, the Group collected the results of quantitative appraisals on a monthly basis and communicated the feedback to senior management members in a timely manner to facilitate their rectifications and improvements. At the end of the year, the performance salary of senior management was strictly paid according to the quantitative appraisal, thus rewarding excellence and addressing shortcomings to motivate senior management in fulfilling their duties. In addition, a comprehensive contract model has been implemented in the five major primary units of Shandong Shengli Steel Pipe, which boosted the initiative of front-line staff leveraging the workload-based remuneration allocation system and the healthy competition among different shifts, thereby contributing to fresh breakthroughs in pipeline production efficiency and a remarkable improvement in ex-factory qualification rate.

BOOSTING QUALITY MANAGEMENT THROUGH MAINTAINING VALID QUALIFICATION CERTIFICATES

During the Year under Review, Shandong Shengli Steel Pipe launched an internal audit of the quality, environmental, occupational health and safety management system and the pressure pipe component manufacturing quality assurance system, and successfully renewed the API 5L and API Spec Q1 certification. Besides, it completed the annual supervision and audit of quality, environmental and occupational health and safety management systems. It also successfully passed the CNAS (China National Accreditation Service for Conformity Assessment) on-site audit and renewed the accreditation, thereby maintaining valid quality, environmental, occupational health and safety management system certificate, API certificates and CNAS laboratory certificate, and providing effective guarantee for the Group in customer maintenance and market exploration.

For the key oil and gas projects of the PipeChina and local markets, the Group thoroughly studied the standard requirements, formulated the key points of quality control and inspection, and implemented the system of self-inspection by job personnel and review of key points by technical personnel to ensure that the products delivered meet the standards and user satisfaction.

INTENSIFYING MANAGEMENT ON ENERGY CONSUMPTION TO STRIVE FOR ENERGY CONSERVATION AND EMISSION REDUCTION

During the Year under Review, the Group intensified efforts on the management, supervision and assessment of energy consumption and achieved energy conservation and emission reduction.

Despite maintaining welded pipe output levels consistent with the corresponding period of the previous year, Shandong Shengli Steel Pipe achieved a decline in power consumption per tonne of products to varying degrees. The pipe manufacturing sub-factory rationally arranged the production time and staggered the peaks and valleys of electricity consumption. According to the monthly pre-scheduling demand, combined with the industrial electricity season and the distribution of peak period and valley period, we made full use of low-priced valley period and deep valley period to avoid peak period and timely adjust working time. The Group achieved a decline in power consumption per tonne of products to varying degree, with a total year-on-year electricity saving of 827,300 KWh. In addition, the Group also stepped up efforts in the supervision, inspection and assessment of energy consumption, and facilitated the energy conservation and emission reduction initiative of the Company, in an endeavor to protect the ecological environment, rein in production costs and reinforce the Company's competitiveness.

Moreover, the Group proactively fulfilled its corporate social responsibilities. Shandong Shengli Steel Pipe introduced photovoltaic power generation projects on the roofs of the production plants and building rooftops, which generated a total of approximately 3.265 million kWh of electricity, and removal of CO_2 by 3.2 kilotonnes (equivalent to emission reduction achieved by 1,814 green plants). At present, all power generation equipment operates in a sound condition with high efficiency. While striving to reduce power costs, the Group will also contribute to the "carbon peaking and neutrality" initiative proposed in China's "14th five-year" plan.

CHIEF EXECUTIVE OFFICER'S STATEMENT

PROACTIVELY EXPEDITING AUTOMATION TRANSFORMATION, IMPROVING TECHNOLOGY CAPABILITIES

During the Year under Review, Shandong Shengli Steel Pipe implemented 5 technology projects, including the Automatic Welding Seam Tracking System for 3# Unit* (3#機組內焊縫自動跟蹤系統), the 2# Continuous Detection Equipment Upgrade and Technological Transformation in No. 2 Factory* (二分廠2#連探設備升級技改項目), 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 Automatic Pipe-end Measuring System of Pre-welding Finished Products* (預精焊成品管端自動測量系統), the Ultrasonic Phased Array Detection of Pre-welding Branch Factories* (預精焊分廠超聲波相控陣檢測). In addition, the Group implemented 24 equipment technology upgrading and transformation, including Transforming the Remote Control of the Western Cross Zhongtian Vehicles by Pre-welding (預精焊西跨中天車改遙控), the Pipe End Grinding Dust Collector (管端修磨除塵器), the Flux Recovery Device of No. 2 Factory (二分廠焊劑回收裝置), the Fine Welding Back Frame Automatic Pipe Conveying System of Pre-welding Plants* (預精焊分廠精焊後台架自動運管系統) and 1# Anti-corrosion Line Interior Spraying Equipment Upgrade (防腐1#線內噴塗設備改造), in order to further improve the level of equipments.

During the Year under Review, Shandong Shengli Steel Pipe, by virtue of its long-term leading technical strength in the industry, participated in the drafting and revision of relevant national standards. The Company participated in the drafting of GB/T42673 Non-destructive Testing of Steel Pipes – Magnetic Particle Testing 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》) and GB/T20490 Non-destructive Testing of Steel Pipes – Automatic Ultrasonic Detection 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超聲檢測》), both of which were issued on 6 August 2023. At the same time, the Company participated in the revision of the national standard Evaluation Method for the Suitability of Hydrogenblended Natural Gas Pipeline Transportation* (《天然氣管道摻氫輸送適用性評價方法》), and the proposed revision suggestions were adopted. Technicians of the Group published 2 scientific papers on periodicals, and 1 published article was included as a meeting paper at the 2023 National Welded Pipes Academic Annual Meeting. 3 senior managements of the Company were appointed as special experts in the Steel Rolling Committee of the Chinese Society for Metals (中國金屬學會軋鋼分會). 1 utility model patent has been authorized and 1 invention patent is being applied for, fully demonstrating the Group's technological strength in the industry.

FUTURE PROSPECTS

2024 is a critical year to achieve the goals and tasks of the national "14th Five-Year Plan". With a number of positive developments such as approaching the target time of 240,000 kilometres of the national oil and gas pipeline network in 2025 determined by the National Development and Reform Commission and the National Energy Administration, the intensification of the demand for clean energy such as natural gas from the dual-carbon strategy and the increase in the demand for the construction of long-distance heating pipeline network from centralized heating, the Group believes that macro market demand for pipeline construction will witness a rally ahead.

Since its establishment, PipeChina has been committed to expediting the construction of oil and gas pipeline infrastructure. At present, the welding of the entire main line of West-East Gas Pipeline No. 4 Natural Gas Pipeline Project Turpan-Zhongwei Section* (西氣東輸四線天然氣管道工程吐魯番一中衛全線主體線路) has been completed. Tianjin LNG Transmission Pipeline* (天津LNG外輸管道) was successfully put into operation in one go. The projects such as Sichuan-to-East Natural Gas Pipeline No. 2 Project* (川氣東送二線天然氣管道工程) and Hulin-Changchun Natural Gas Pipeline Project* (虎林一長春天然氣管道工程) have successively commenced construction. Shandong Shengli Steel Pipe, a subsidiary of the Group, as a major supplier of PipeChina in 2023, will give full play to its advantages in production capacity and technology, and strive for more project orders from PipeChina with high-quality and efficient supply performance; it also will actively deploy 2024 annual framework agreement bidding to stabilize the position of the main supplier. The Group believes that by leveraging its desirable performance and good quality advantages, 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 forward to 2024, the Group will further optimise the order structure, focus on the customer-supplied materials processing market and the large-diameter heat pipeline market, and form a situation where we can successfully complete both social pipeline orders and national pipeline network orders. The Group will deeply explore the heat preservation pipe market, increase high-quality partners, ensure a stable increase in orders in the high-quality heat preservation market, and achieve industrial extension in the field of processing of steel pipe heat preservation materials. The Company will also focus on the performance of each business segment, assets and investment to refine its operations, and remain focused on its principal businesses, in an endeavor to enhance its core profitability and sustainability in the long term.

Last but not least, I would like to take this opportunity to express gratitude to our shareholders, customers and stakeholders, and our management and staff for their dedication. By making timely moves to seize business opportunities and proactive planning and embracing the "fighting spirit", the Group, while strengthening and optimizing oil and gas transmission 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 & Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

In 2023, the global economy exhibited a weak recovery trend. According to the World Economic Outlook report published by the International Monetary Fund, the global economy was expected to grow by 2.9% in 2023. The global economy has suffered a setback but maintained moderate growth amid the prolonged impact of the COVID-19, the series of crises caused by the war in Ukraine and the Israeli-Palestinian conflict, and the complicated international situation of the decrease in income due to high inflation in many countries. In China, with the relaxation of COVID-19 pandemic prevention measures and the monetary and fiscal policies, China's GDP increased by 5.2% year-on-year in 2023, representing an increase of 2.2 percentage points compared to 2022. In general, the national economy has been steadily on the road towards recovery in post-pandemic.

In 2023, new achievements were made in China's high-quality energy development, and the capacity of energy security and stable supply was steadily enhanced. Crude oil production above designated size and natural gas production industry players reached 208 million tonnes and 230 billion cubic metres, representing a year-on-year increase of over 3 million tonnes and 4.5%, respectively. At its 2023 work promotion assembly with a focus on intensifying oil and gas exploration and development efforts, the National Energy Administration stated that the energy system and oil and gas industry shall adhere to the decisions made by the 20th National Congress of the Communist Party of China regarding "pressing ahead with the energy reform" and "intensifying oil and gas exploration and development efforts and increasing reserve and production", in a drive to guarantee China's oil and gas supply. During the year, branches of Shandong Shengli Steel Pipe, a subsidiary of the Group, completed the production of welded and anti-corrosion pipes used for the transmission of oil, gas and water across several regions of the nation, enhanced internal organization management and gained steady progress in technological and equipment upgrade to further improve the level of production automation.

Looking ahead to 2024, it is expected that the international uncertainties will persist. While in China, the central government announced that it plans to strengthen macroeconomic control and policy coordination to underpin and accelerate the momentum of economic recovery. At the 2024 National Energy Work Conference, it was emphasised that China is committed to giving better play to the role of coal in ensuring the satisfaction of basic needs, promote the stable production of crude oil at 200 million tonnes, and natural gas will maintain a good momentum of increasing production. The National Energy Administration will improve the independent controllable level of the energy industrial chain and supply chain and improve the energy technology innovation system. In addition, China will coordinate and deepen energy cooperation with major countries under the guidance of jointly building the Belt and Road Initiative. In respect of people's livelihood, China will continue to improve infrastructure construction of energy consumption for people's livelihood, and promote the clean heating in northern regions and clean and low-carbon energy transformation in rural regions. The Group will actively respond to national construction needs, strive for more bidding opportunities for construction projects, and keep on making every effort to dig into production and research and development, providing energy guarantee for social construction and people's livelihood.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

Major customers of the Group comprise PipeChina and large-scale state-owned oil and gas enterprises and their subsidiaries such as the Three Barrels (including SINOPEC, China National Petroleum Corporation ("CNPC") and China National Offshore Oil Corporation ("CNOOC")). The Group focuses on the design, manufacturing, anti-corrosion processing, insulation processing and servicing of submerged-arc helical welded pipes (the "SAWH pipes") and submerged-arc longitudinal welded pipes (the "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, achieved notable success by securing the second position for the SAWH pipes project in PipeChina's 2023 annual pipeline framework bidding, representing an increase of one place as compared with that in 2022, and continued to be a major supplier as well as expanded into new social markets, such as Inner Mongolia, Hubei and Henan. The proportion of materials processing business increased, which optimized the order structure and reduced the capital occupancy for the purchase of steel coils and plates.

For the year ended 31 December 2023, the annual production capacity of the SAWH pipes, the ancillary anti-corrosion production line and the insulation pipe production line of the Group reached approximately 800,000 tonnes, 7.20 million square metres and 110 kilometres, respectively.

For the year ended 31 December 2023, pipes manufactured by the Group's subsidiaries were used in the world's major oil and gas pipelines with a cumulative total length of approximately 35,162 kilometres, of which 94.8% were installed in China while the remaining 5.2% were installed outside China.

MANAGEMENT DISCUSSION AND ANALYSIS

During the Year under Review, large-scale pipe projects using SAWH pipes manufactured by the Group's subsidiaries included: PipeChina Sichuan-to-East No. 2 Natural Gas Pipeline Project Sichuan-Chongqing-Hubei Section* (國家管網集團川氣東送二線天然氣管道工程川渝鄂段工程), PipeChina Tianjin Liquefied Natural Gas (LNG) Export Pipeline Double-track Project* (國家管網集團天津液化天然氣(LNG)外輸管道復線項目), SINOPEC Shandong Pipeline and Jiqing Pipeline (Zhangqiu-Jiaozhou Section) Upgrading and Renovation Project* (中石化山東管道濟青管道(章丘－膠州段)提升改造工程), the PipeChina Nanning-Pingxiang Branch Line (Nanning-Chongzuo Section) Natural Gas Pipeline Project* (國家管網集團南寧－憑祥支線(南寧－崇左段)天然氣管道工程), PipeChina Jinzhou-Zhengzhou Oil Pipeline Project* (國家管網集團錦州－鄭州成品油管道工程), SINOPEC Nanling-Fanchang Natural Gas Pipeline Project* (中石化南陵－繁昌天然氣管道工程), PipeChina Hulin-Changchun Natural Gas Pipeline Project* (國家管網集團虎林－長春天然氣管道工程), Long-distance Transmission and Supply Heating Pipeline Network Project from Inner Mongolia Tuoketuo Power Plant to Hohhot* (內蒙古托克托電廠至呼和浩特市長輸供熱管網工程), Raw Water Relocation and Renovation Project of Water Supply System in Xiaogan City, Hubei* (湖北孝感城區供水系統原水遷改工程), Henan Province Natural Gas Pipeline Network Luoyang Yichuan-Zhengzhou Xuedian (Phase I) Natural Gas Transmission Pipeline Project* (河南省天然氣管網洛陽伊川－鄭州薛店(一期)天然氣輸氣管道工程), Tianjin Eco-city Heat Supply Project* (天津生態城供熱項目) and Heating Pipeline Network Project in the Central District of Weihai City* (威海市中心城區供熱管網工程).

Large-scale pipeline projects using anti-corrosion pipes manufactured by the Group's subsidiaries included: PipeChina Tianjin Liquefied Natural Gas (LNG) Export Pipeline Double-track Project* (國家管網集團天津液化天然氣(LNG)外輸管道復線項目), PipeChina Sichuan-to-East No. 2 Natural Gas Pipeline Project Sichuan-Chongqing-Hubei Section* (國家管網集團川氣東送二線天然氣管道工程川渝鄂段工程), PipeChina Jinzhou-Zhengzhou Oil Pipeline Project* (國家管網集團錦州－鄭州成品油管道工程), the PipeChina Nanning-Pingxiang Branch Line (Nanning-Chongzuo Section) Natural Gas Pipeline Project* (國家管網集團南寧－憑祥支線(南寧－崇左段)天然氣管道工程), SINOPEC Shandong Pipeline and Jiqing Pipeline (Zhangqiu-Jiaozhou Section) Upgrading and Renovation Project* (中石化山東管道濟青管道(章丘－膠州段)提升改造工程), SINOPEC Nanling-Fanchang Natural Gas Pipeline Project* (中石化南陵－繁昌天然氣管道工程), PipeChina Hulin-Changchun Natural Gas Pipeline Project* (國家管網集團虎林－長春天然氣管道工程), Henan Province Natural Gas Pipeline Network Luoyang Yichuan-Zhengzhou Xuedian (Phase I) Natural Gas Transmission Pipeline Project* (河南省天然氣管網洛陽伊川－鄭州薛店(一期)天然氣輸氣管道工程) and Shandong Yantai Port Crude Oil Pipeline Double-track Shouguang Branch Line Project* (山東煙台港原油管道復線壽光支線工程).

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2023, the Group's sales revenue witnessed a decline of approximately 43.5%, decreasing from approximately RMB1,046,891,000 in the previous year to approximately RMB591,885,000. The majority of revenue was attributable to the Group's primary business, the pipe business, where the revenue from the sales of SAWH pipes diminished by approximately 35.6% to approximately RMB510,914,000 (2022: approximately RMB793,316,000), the SAWL pipes segment's revenue regressed to nil (2022: approximately RMB159,386,000). Furthermore, the anti-corrosion processing business experienced an approximately 47.8% decrease to approximately RMB36,770,000 (2022: approximately RMB70,474,000), coupled with the insulation processing business plummeting by approximately 99.0% to approximately RMB143,000 (2022: approximately RMB14,780,000). Conversely, the trading segment burgeoned by approximately 393.1%, amassing revenue of approximately RMB44,058,000 (2022: approximately RMB8,935,000).

The decline in revenue primarily stemmed from PipeChina, one of the Group's principal customers, deferring the 2023 annual pipeline framework bidding, with the culmination of order signings concentrated around the financial year end date. This precipitated a notable reduction in the volume of national pipeline sales and anti-corrosion processing business during the Year under Review, as compared to the year 2022. Additionally, the cessation of Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) ("Hunan Shengli Steel Pipe") as a subsidiary after 21 February 2022, following the dilution of the Group's equity stake to 48%, resulted in the relevant financial results not being consolidated into the Group's financial statements. Consequently, the Group did not recognize any revenue from the sale of SAWL pipes during the Year under Review, leading to a significant decrease revenue of the Group as compared to 2022.

Cost of sales and services

The Group's cost of sales and services decreased by approximately 40.9% from approximately RMB944,910,000 for the year ended 31 December 2022 to approximately RMB558,422,000 for the year ended 31 December 2023. The decrease in cost of sales and services was mainly due to the facts that the significant decrease in the sales volume of the national pipeline and anti-corrosion processing business during the Year under Review as compared to 2022, resulting in a significant decrease in the cost of sales of SAWH pipes and the cost of services for anti-corrosion processing business as compared to 2022; and the financial results of Hunan Shengli Steel Pipe were no longer consolidated into the Group after 21 February 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit

The gross profit of the Group decreased from approximately RMB101,981,000 for the year ended 31 December 2022 to approximately RMB33,463,000 for the year ended 31 December 2023. The decrease in gross profit was primarily attributable to the significant decrease in sales volume of national pipeline and anti-corrosion processing business with a higher gross profit during the Year under Review as compared to 2022. The gross profit margin of the Group decreased from approximately 9.7% for the year ended 31 December 2022 to approximately 5.7% for the Year under Review, which was mainly due to the significant decrease in the proportion of national pipeline and anti-corrosion processing business which have higher gross profit margin during the Year under Review as compared to 2022, and the significant increase in the proportion of projects secured from the general market which have lower gross profit margin as compared to 2022. The Group has entered into several pipe business contracts with PipeChina at the end of 2023, which will be delivered in 2024.

Other income and gains

Other income and gains of the Group increased from approximately RMB14,384,000 for the year ended 31 December 2022 to approximately RMB17,838,000 for the year ended 31 December 2023, which was mainly due to increase in the gain on sales of remaining sheet material by the Group during the Year under Review.

Selling and distribution costs

Selling and distribution costs of the Group decreased from approximately RMB53,651,000 for the year ended 31 December 2022 to approximately RMB27,730,000 for the year ended 31 December 2023. The significant decrease in selling and distribution costs was primarily attributable to the fact that the substantial reduction in freight charges borne by the Group's subsidiaries during the Year under Review.

Administrative expenses

The Group's administrative expenses decreased from approximately RMB111,973,000 for the year ended 31 December 2022 to approximately RMB94,281,000 for the year ended 31 December 2023. The decrease in administrative expenses was primarily because Hunan Shengli Steel Pipe ceased to be a subsidiary of the Group commencing from 21 February 2022 and its financial results were no longer consolidated into the Group, leading to a decrease in the Group's administrative expenses during the Year under Review as compared to 2022.

Share of results of associates

For the year ended 31 December 2023, the Group's share of results of associates was approximately RMB11,773,000, as compared to share of results of associates of approximately RMB26,738,000 for the year ended 31 December 2022.

Gain/loss on disposal of equity interests

For the year ended 31 December 2023, the Group recorded gain of approximately RMB1,029,000 on partial disposal of equity interests in an associate, representing gain on disposal of 2% equity interests in Xinfeng Energy Enterprise Group Co., Ltd. ("Xinfeng Energy"). For further details of the aforesaid disposal, please refer to the announcements of the Company dated 24 November 2023 and 5 December 2023. 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 8.9% equity interests in Hunan Shengli Steel Pipe, and recorded loss of approximately RMB44,294,000 on partial disposal of equity interests in an associate, representing loss on disposal of approximately 9.9% equity interests in Xinfeng Energy.

Impairment loss on investment in an associate

For the year ended 31 December 2023, the Group recognised an impairment loss of approximately RMB39,044,000, primarily attributable to the impairment of the Group's investment in an associate, namely Xinfeng Energy. A thorough evaluation of the investment was conducted by the Group after reviewing historical financial performance of Xinfeng Energy including its direct investee companies (collectively referred to as the "Xinfeng Energy Group") and its current operational status. A valuation in respect of Xinfeng Energy was conducted by ValQuest Advisory (Hong Kong) Limited (the "Valuer") as part of the evaluation.

As a result of the review, the Group determined that there may be an impairment of its investment in Xinfeng Energy Group as of 27 December 2023 (being date of disposal of 2% equity interests in Xinfeng Energy and re-designated to Designated FVOCI as mentioned in Notes 18 and 19 to the consolidated financial statements) and recognised an impairment loss of approximately RMB39,044,000 with reference to the independent valuation, in addition to the impairment loss of approximately RMB8,570,000 recorded in the previous year, which was also attributed to the impairment of the investment in Xinfeng Energy Group. Further information in relation to the impairment assessment on Xinfeng Energy Group is set out below.

As at 27 December 2023, the Group performed an impairment assessment on Xinfeng Energy Group to determine its recoverable amount based on the fair value less cost of disposal which falls within level 3 fair value hierarchy as defined in IFRS 13 "*Fair Value Measurement*". Overall, the fair value less cost of disposal of the investment in Xinfeng Energy Group, was assessed based on the valuation report prepared by the Valuer using the adjusted net asset approach. The adoption of the adjusted net asset approach, with reference to the net asset value of Xinfeng Energy Group, is consistent with the valuation approach adopted in last year, and was selected because most of the investee companies were not generating profit and/or significant revenue.

In the valuation, the significant input is the marketability discount of 16.0% to the adjusted net assets value of Xinfeng Energy Group, which aligns with the prevailing practice according to the Valuer's assessment. The Valuer estimated the entire value of Xinfeng Energy based on a lack of marketability basis as it is not a listed company. Other considerations in arriving adjusted net assets value of Xinfeng Energy Group included the possible risk and uncertainties from the political, legal and fiscal views and the economic conditions of Xinfeng Energy and each of its investee companies.

Other key bases and assumptions for the valuation: (i) the information and estimates (such as the possible exposure of legal liabilities, the composition of the investment profile, and the business and value of Xinfeng Energy and its direct investee companies) provided by management of the Company are accurate and reliable; (ii) the public and statistical information obtained from reputable sources is also reliable; (iii) the political, legal, fiscal, and economic conditions in the countries where the business operates are expected to remain stable; (iv) the overall economic and industry outlook is anticipated to remain relatively stable, ensuring business continuity and fair value of shares; (v) no significant changes have occurred in important factors such as tax rates, interest rates, borrowing rates, and exchange rates in the countries where the business operates, which would significantly impact its operations; (vi) the business has competent management and staff to support ongoing operations, ensuring successful operation with sufficient resources; and (vii) no major changes are expected in management, business strategies, and operational structure, which will continue to follow the current mode.

Based on the assessment, the recoverable amount of investment in Xinfeng Energy Group at 27 December 2023 based on the fair value less cost of disposal is lower than its net carrying amount, and therefore, an impairment loss of approximately RMB39,044,000 was recognised in respect of investment in Xinfeng Energy for the year ended 31 December 2023.

Finance costs

The Group incurred finance costs of approximately RMB14,503,000 for the year ended 31 December 2023 (2022: approximately RMB17,579,000), which were primarily derived from interest on bank loans. Such decrease was due to a decline in interest rate of bank borrowings during the Year under Review as compared to last year, and the financial results of Hunan Shengli Steel Pipe were no longer consolidated into the Group commencing from 21 February 2022, leading to a decrease in the Group's finance costs during the Year under Review as compared to 2022.

Income tax credit (expenses)

Hong Kong profits tax is calculated at the rate of 16.5% (2022: 16.5%) on the estimated assessable profit for the year ended 31 December 2023. The profits tax rate of China Petro Equipment Holdings Pte. Ltd., a subsidiary of the Company incorporated in the Republic of Singapore, is 17% (2022: 17%) for the year ended 31 December 2023. 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% (2022: 25%). Income tax credit for the year ended 31 December 2023 was approximately RMB15,122,000 (2022: income tax expenses of approximately RMB186,000). Income tax credit recognised for the Year under Review was primarily due to the reversal of income tax provided in prior years of approximately RMB15,308,000 after the Group confirmed the treatment of certain previously unresolved tax matters with the PRC tax authority during the year ended 31 December 2023.

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 2023 was approximately RMB99,233,000, as compared to the audited total comprehensive loss of the Group of approximately RMB29,395,000 for the year ended 31 December 2022.

Net current assets

As of 31 December 2023, the Group's net current assets amounted to approximately RMB18,868,000, as compared to net current liabilities of approximately RMB22,920,000 as of 31 December 2022. Such turnaround from net current liabilities to net current assets was primarily attributable to the change in maturities of certain bank borrowings of the Group from short term to mid-to-long term, leading to a decrease in current liabilities.

Capital expenditure

The Group incurred capital expenditure for the purchase 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 2023 and 2022 were primarily related to the purchase of property, plant and equipment.

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

	2023 **RMB'000**	2022 RMB'000
Purchase of property, plant and equipment	**13,355**	25,411

Indebtedness

Borrowings

As at 31 December 2023, the borrowings of the Group amounted to approximately RMB329,567,000 (2022: approximately RMB321,310,000).

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

	2023 RMB'000	2022 RMB'000
Loans:		
Bank loans – Secured	280,800	281,500
Other loans – Unsecured	48,767	39,810
	329,567	321,310

The amount of loans of approximately RMB237,167,000 shall be repayable within one year. The following table sets forth the annual interest rates of the Group's bank loans:

	2023 %	2022 %
Effective interest rate per annum	3.97 to 4.38	4.00 to 4.44

The other loans carried a fixed annual interest rate of 5% during the year ended 31 December 2023.

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

Financial management and fiscal policy

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Zhang Bizhuang, aged 56, has been our executive Director since July 2009, the chief executive officer from July 2009 to June 2021, the co-chief executive officer from June 2021 to March 2024 and will serve as the chief executive officer with effect from 24 March 2024. Mr Zhang is responsible for the overall management of our Group's business operations, and had been the chairman of the Board from August 2012 to April 2016. Mr. Zhang currently serves as a director of 12 subsidiaries of the Group. Mr. Zhang worked in Shengli Steel Pipe Co., Ltd.* (勝利鋼管有限公司) ("Shengli Steel Pipe", known as Shengli Administration of Petroleum Steel Pipe Factory* (勝利石油管理局鋼管廠) and Shengli Oilfield Zibo Pipe Co., Ltd.* (勝利油田淄博制管有限公司) before reconstruction of state-owned enterprises) from July 1990 to December 2008, serving various positions including as the department head of technical supervision department and quality control inspection department, the deputy general manager and the general manager, with his last position as the chairman. He also served in various positions in Shandong Shengli Steel Pipe including as the executive director and the general manager between December 2007 and June 2013, and has been its chairman since December 2008. He has been the general manager of Shengguan Group* (勝管集團) since July 2013.

Mr. Zhang graduated from Chongqing University with a bachelor's degree in Bachelor of Engineering in 1990, majoring in Metal Materials and Heat Treatment and obtained his master's degree in business administration from the Hong Kong Metropolitan University (formerly known as the Open University of Hong Kong) in 2004. He is a certified senior engineer in the PRC, and holds the Chinese Career Manager qualification.

Mr. Wang Kunxian, aged 55, has been our vice president since October 2010, and our executive Director since August 2014, responsible for the technology development, quality control and production management of the Group. Mr. Wang currently serves as a director of six subsidiaries of the Group. Mr. Wang served various positions in Shengli Steel Pipe from July 1990 to December 2008, including as a factory officer and the deputy chief engineer, with his last position as the deputy general manager. He was the deputy general manager of Shandong Shengli Steel Pipe between December 2007 and June 2013 and has been its director since December 2008. Since July 2013, Mr. Wang served in various positions in Shengguan Group* (勝管集團), including as the deputy general manager and the technical director of quality production, and currently holds the position of deputy general manager, responsible for technology development, quality control and production management.

Mr. Wang graduated from Chongqing University with a bachelor's degree in Bachelor of Engineering in 1990, majoring in metal pressure processing and obtained his master's degree in business administration from the Hong Kong Metropolitan University (formerly known as the Open University of Hong Kong) in 2004. He is a certified senior engineer in the PRC.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Han Aizhi, aged 56, has been our executive Director since July 2009, and has been serving as a vice president of the Company since March 2011, responsible for the Group's external investment business and operational supervision, listing compliance, investor and public relation matters and finance management. Ms. Han currently serves as a director of nine subsidiaries and a supervisor of an associate of the Group. Ms. Han served various positions in Shengli Steel Pipe from July 1988 to December 2008, including as the head of the technology supervision division, an officer of corporate management department, an officer of the general manager's office, an assistant to the general manager, the deputy general manager and a management representative. She served as the deputy general manager of Shandong Shengli Steel Pipe from December 2007 to June 2013, and has been its director since December 2008. Since July 2013, Ms. Han served various positions in Shengguan Group* (勝管集團), including as the deputy general manager and a director of securities investment, and currently holds the position of deputy general manager, responsible for overseeing quality management, environment, occupational health and safety system management, investor relations, listing compliance, public relations, external investment business, operational supervision and finance management.

Ms. Han graduated from Chengde Petroleum College in 1988 with a major in welding technology and graduated from the Party School of the Shandong Province Committee of CPC in 2002 with a major in economic management. Ms. Han obtained a master's degree in business administration from the HongKong Metropolitan University (formerly known as the Open University of Hong Kong) in 2004. She is a certified engineer in the PRC, and holds the PRC Registered Quality Professional Technician Qualification (middle tier).

Mr. Zhang Danyu, aged 56, has been our executive Director since January 2023, responsible for the formulation and execution of strategies for corporate development and financing schemes of the Group. Mr. Zhang was a cadre of Nam Kwong (Group) Company Limited (南光(集團)有限公司) in Macau from May 1989 to December 1995, the general manager of Shanghai Danli International Trade Co., Ltd.* (上海丹力國際貿易有限公司) from May 1996 to May 1998, the general manager of Shanghai Sanle Industrial Development Co., Ltd.* (上海三樂實業發展有限公司) from May 1998 to May 2001, the assistant to general manager and the deputy general manager of Hangzhou TianMuShan Pharmaceutical Enterprise Co., Ltd.* (杭州天目山藥業股份有限公司) (a company listed on the Shanghai Stock Exchange with stock code: 600671) from May 2001 to July 2006, the legal representative and general manager of Shanghai Tianmu Import and Export Co., Ltd.* (上海天目進出口公司) from February 2007 to April 2021 and the vice president of Crown International Corporation Limited (皇冠環球集團有限公司) (a company listed on the Main Board of the Stock Exchange with stock code: 727) from May 2015 to May 2016.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhang Bangcheng, aged 52, has been our executive Director since March 2021, responsible for the overall sales of steel pipes of the Group. Mr. Zhang served as the investment director of Beijing Beirong International Investment Co., Ltd.* (北京北融國際投資有限公司) from July 2005 to December 2007, the vice president of Sino-Singapore Lion Investment Pte Ltd.* (新加坡中獅投資私人有限公司) from May 2008 to September 2010, the managing director of Magic Group (HK) International Holdings Co., Limited (神奇集團(香港)國際控股有限公司) from June 2013 to March 2017, the chairman of the board of directors of Hami Tianzhi New Energy Technology Co., Ltd.* (哈密天智新能源科技有限公司) from April 2017 to December 2018 and the risk control manager of Beijing X&H Investment Management Co., Ltd.* (北京蕭何投資管理有限公司) from July 2019 to January 2021.

Mr. Zhang graduated from China Agricultural University (中國農業大學) in 2006 and obtained a master's degree in agricultural economics management; and obtained the fund practicing qualification from the Securities Association of China in 2019.

NON-EXECUTIVE DIRECTOR

Mr. Wei Jun, aged 55, has been our non-executive Director and the chairman of the Board since January 2019. He currently serves as the general manager of Beijing Zhenhong Xingye Trading Co., Ltd.* (北京臻鴻興業商貿有限公司), responsible for its overall management and international trading. Mr. Wei was the assistant to the director of operating department and the head of external economics department in Central Iron & Steel Research Institute (as defined below) from 1995 to 1999, and the standing deputy general manager of Beijing Jinggang International Trading Limited Company* (北京京鋼國際貿易有限公司), i.e. the department of international trading business of Advanced Technology & Materials Co., Ltd.* (安泰科技股份有限公司) ("Advanced Technology* (安泰科技)"), the shares of which are listed on the Shenzhen Stock Exchange, from 1999 to 2003.

Mr. Wei graduated from Chongqing University with a bachelors' degree in Bachelor of Engineering in 1990, majoring in iron and steel metallurgy, and obtained a degree in Master of Engineering from China Iron & Steel Research Institute Group* (中國鋼研科技集團公司) (formerly known as the Ministry of Metallurgical Industry of Central Iron & Steel Research Institute* (冶金工業部鋼鐵研究總院) ("Central Iron & Steel Research Institute* (鋼鐵研究總院)") in 1993. He is a certified senior engineer in the PRC.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chen Junzhu, aged 48, has been our independent non-executive Director since May 2013. He currently serves as the general manager of Shenzhen Junyuan Capital Management Co., Ltd* (深圳市浚源資本管理有限公司). Mr. Chen served as a certified public accountant and senior auditor for Deloitte Touche Tohmatsu CPA Ltd from August 2001 to August 2004. He was an audit manager of the internal audit department in Wal-Mart (China) Investment Co., Ltd. from September 2004 to June 2006. From July 2006 to June 2007, Mr. Chen was a certified public accountant and a manager of the M&A transaction department in Ernst & Young Certified Public Accountants. He was a partner of Guangdong Zheng Yuan Public Accountants * (廣東正源會計師事務所) from July 2007 to January 2022. He served as a director and the chief financial officer of Huakang Insurance Agency Co., Ltd.* (華康保險代理有限公司) from September 2011 to September 2014, an independent director and the chairman of the audit committee of Guangdong Tapai Group Co. Ltd.* (廣東塔牌集團股份有限公司), a company listed on the Shenzhen Stock Exchange, from May 2013 to June 2019, an independent director of Shenzhen Genvict Technologies Co., Ltd.* (深圳市金溢科技股份有限公司), a company listed on the Shenzhen Stock Exchange since March 2020, an independent director of Guangdong PAK Corporation Co., Ltd.* (廣東三雄極光照明股份有限公司) since May 2021, and an independent director of Telepower Communication Co., Ltd.* (廣東天波信息技術股份有限公司), a company listed on the National Equities Exchange and Quotations since September 2021.

Mr. Chen graduated from China Foreign Affairs University with a bachelor's degree in arts in 1998, and graduated from Southwest University of Political Science & Law with a master's degree in law in 2003. Mr. Chen is a member of the Chinese Institute of Certified Public Accountants and a member of the Association of Chartered Certified Accountants.

Mr. Wu Geng, aged 52, has been our independent non-executive Director since March 2015. He currently serves as the director of Drew & Napier LLC in Singapore, an independent non-executive director, a member of the nomination and remuneration committee and a member of the audit and risk committee of Sasseur Asset Management Pte. Ltd, the manager of Sasseur Real Estate Investment Trust, the securities of which are listed on the main board of the Singapore Exchange Securities Trading Limited, and an independent non-executive Director of Southern Packaging Group Limited. From July 1999 to December 1999, Mr. Wu was a legal adviser and foreign trade assistant at Pan-Commercial Pte Ltd. in Singapore. From January 2000 to January 2002, Mr. Wu had been a graduate assistant at the department of political science and international relations of University of Delaware, and studied for a master's degree at the same time. Mr. Wu successively served as a Chinese law adviser and foreign consultant both at Hoh Law Corporation and Colin Ng & Partners in Singapore, from January 2002 to October 2003. From October 2003 to April 2008, Mr. Wu served as the legal director of the PRC business at Hoh Law Corporation in Singapore.

Mr. Wu graduated from Peking University in 1995 with a bachelor's degree in law, majoring in economic law and international economic law. He graduated from the National University of Singapore with a master's degree in comparative law in 1999, and graduated from University of Delaware with a master's degree in political science and international relations in 2002. Mr. Wu is a practicing advocate and solicitor in Singapore.

Mr. Qiao Jianmin, aged 63, has been our independent non-executive Director since April 2016. He is currently serving as the deputy chairman of the Zhejiang Returned Overseas Entrepreneurs' Association* (浙江省海歸創業協會) and the standing deputy president of Zhejiang University Returned Overseas Entrepreneurs' Club* (浙江大學海歸校友創業俱樂部). Mr. Qiao has profound experience in advanced technology and new energy. Mr. Qiao held tutorship in the materials faculty of Zhejiang University from 1989 to 1991, became a postdoctoral researcher in Santa Clara University in the United States from 1991 to 1994, a senior engineer and the engineering manager in Applied Materials, Inc. in the United States from 1994 to 1997, the research and development engineer in chief in Cypress Semiconductor Corp. in the United States from 1998 to 2000, the international affair director in the International Technological University in the United States from 1992 to 2002, worked on technological research and development, and production management in Advanced Optical Solutions, LLC in the United States from 2000 to 2001, became a general manager in HQ Technologies, Inc. in the United States from 2002 to 2003, a senior technical officer in Piconetics, Inc. in the United States from 2004 to 2005, the deputy president in Hanli International Microelectronics (Hangzhou) Company Limited* (漢力國際微電子(杭州)有限公司) from 2005 to 2008, the general manager and a legal representative in Hangzhou Hanyu Technology Company Limited* (杭州漢宇科技有限公司) from 2008 to 2014 and a technical director in China Seven Star New Energy Holdings Limited from 2014 to 2016.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Qiao graduated from Zhejiang University, majoring in silicate engineering with a bachelor's degree of engineering in 1982 and obtained a doctorate degree in materials engineering from Zhejiang University and the Sapienza University of Rome in 1989. Mr. Qiao has been committed to conducting researches on advanced technology and possesses over 20 invention patents. Mr. Qiao was authorised as a senior engineer at professor level and expert consultant by the Ministry of Human Resources and Social Security of Zhejiang in 2013. He was elected as one of the outstanding overseas entrepreneurs by the People's Government of Xiaoshan, Hangzhou in 2011. In 2010, he was granted the Outstanding Overseas Chinese Professional Entrepreneur Award* (海外華僑華人專業人士傑出創業獎) by the Overseas Chinese Office of the People's Government of Zhejiang. He was recognised as a preeminent scientist by the government of the United States and founded International Technology University (國際科技大學) which was engaged in hi-tech education for postgraduates in the United States in 1994.

SENIOR MANAGEMENT

Mr. Zhang Feng, aged 34, has served as the company secretary and authorised representative of the Company with effect from June 2021 and concurrently serves as the head of Hong Kong office of the Company and a director of two subsidiaries of the Group, primarily responsible for the listing compliance and corporate governance of the Company as well as the routine work at the Company's Hong Kong office. He has extensive accounting experience and company secretarial practices in respect of listed companies in Hong Kong.

Mr. Zhang Feng obtained a bachelor's degree of business from James Cook University in 2012 and a master's degree of science in marketing and international business from Lingnan University in 2016. Mr. Zhang Feng is a Chartered Secretary, a Chartered Governance Professional and an associate of both The Hong Kong Chartered Governance Institute (formerly known as The Hong Kong Institute of Chartered Secretaries) and The Chartered Governance Institute (formerly known as The Institute of Chartered Secretaries and Administrators). Mr. Zhang Feng is the nephew of Mr. Zhang Bizhuang, an executive Director.

REPORT OF THE DIRECTORS

The Directors submit herewith their annual report together with the audited consolidated financial statements for the year ended 31 December 2023.

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

The Company is a limited liability company incorporated in the Cayman Islands and its principal place of business in Hong Kong is Room 2111, 21st Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding during the year ended 31 December 2023. The principal activities and other particulars of the subsidiaries and associates of the Company are set out in notes 17 and 18 to the consolidated financial statements, respectively.

Further discussion and analysis of the Group's principal activities as required by Schedule 5 of the Companies Ordinance, including a review of the Group's business and an indication of likely development in the Group's business, can be found in the Management Discussion and Analysis set out on pages 10 to 18 of this annual report.

PRINCIPAL RISKS AND UNCERTAINTIES

Business Risk and Uncertainties

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

Financial Risk

The Group's main risks arising from its financial instruments are credit risk, liquidity risk, interest rate risk and price risk. Details of the financial risk management objectives and policies are set out in note 6 to the consolidated financial statements.

TAX RELIEF AND EXEMPTION

The Directors are not aware of any tax relief and exemption available to the shareholders by reason of their holding of the Company's securities.

REPORT OF THE DIRECTORS

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to contributing to the sustainability of the environment and the development of the society. Shandong Shengli Steel Pipe, a subsidiary of the Group and Hunan Shengli Steel Pipe, an associate of the Group have received certification of the ISO 14001 environmental management system, which indicates the Group's remarkable environmental management performance. The Group will keep reviewing and improving the internal environmental protection system from time to time.

Details of the Group's development, performance and operation in the environmental aspect are set out in the Environmental, Social and Governance Report on pages 54 to 106 of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group has adopted internal control and risk management policies to monitor the on-going compliance with the relevant laws and regulations. As far as the Board is concerned, the Group has complied with the relevant laws and regulations that have a significant impact on the business and operation of the Company and its subsidiaries in all material aspects.

DIVIDENDS

The Board does not recommend the payment of final dividend for the year ended 31 December 2023.

EVENTS AFTER THE YEAR UNDER REVIEW

No other important events which have an impact on the Group took place after the end of the year ended 31 December 2023.

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, 18 June 2024 to Friday, 21 June 2024, 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, 17 June 2024. During the period mentioned above, no transfer of shares will be registered.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for approximately 64.2% (2022: 52.9%) of the total sales and the top five suppliers accounted for approximately 78.6% (2022: 69.0%) of the total purchases for the year. In addition, the Group's largest customer accounted for approximately 33.8% (2022: 31.2%) of the total sales and the Group's largest supplier accounted for approximately 45.3% (2022: 24.3%) of the total purchases for the year.

To the best knowledge of the Directors, at no time during the Year under Review, the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the share capital of the Company) had any interest in these major customers and suppliers.

KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group is in good relationship with its employees and we have policies in place to ensure competitive remuneration, well-developed welfare package and continuous professional training for our employees.

The Group also maintains a good relationship with its customers and suppliers, without whom its production and operation may not be successfully guaranteed.

FINANCIAL STATEMENTS

The results of the Group for the year ended 31 December 2023 and the financial positions of the Company and the Group for the year ended 31 December 2023 are set out in the consolidated financial statements on pages 114 to 203.

DISTRIBUTABLE RESERVES

The Company's reserves available for distribution under the laws of the Cayman Islands and the Company's Articles of Association represent the share premium, contributed surplus and profit which in aggregate amounted to RMB146 million for the year ended 31 December 2023 (2022: RMB245 million). Details of the reserves of the Company for the year ended 31 December 2023 are set out in note 32 to the consolidated financial statements.

FIXED ASSETS

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

SHARE CAPITAL

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

REPORT OF THE DIRECTORS

DIRECTORS

The Directors in financial year 2023 and up to the date of this report were:

Executive Directors

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

Non-executive Directors

Mr. Wei Jun *(Chairman)*

Independent non-executive Directors

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

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

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company considers that all of the independent non-executive Directors to be independent. None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2023, the interests or short positions of the Directors or chief executives in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Name of Director	Capacity	Number of issued ordinary shares held	Number of shares subject to options granted under the Share Option Scheme	Percentage of the issued share capital of the Company as at 31 December 2023
Wei Jun	Interest in controlled corporation(1)	620,000,000	N/A	16.003%
Zhang Bizhuang	Interest in controlled corporation(2)	153,130,224	N/A	3.952%
	Beneficial owner	79,800,000(3)	N/A	2.06%
Wang Kunxian	Interest in controlled corporation(4)	26,708,760	N/A	0.689%
Han Aizhi	Interest in controlled corporation(5)	26,708,760	N/A	0.689%

Notes:

(1) Mefun Group Limited holds 620,000,000 shares of the Company (representing 16.003% of the issued shares of the Company) and is the single largest shareholder of the Company. Mefun Group Limited is held as to 65.97% and 34.03% by Mr. Wei Jun and HZJ Holding Limited, respectively. Mr. Wei Jun is the chairman and a non-executive Director of the Company. Therefore, Mr. Wei Jun is deemed to be interested in the shares of the Company held by Mefun Group Limited by virtue of the SFO.

(2) Goldmics Investments Limited ("Goldmics Investments") holds 153,130,224 shares of the Company, representing 3.952% of the issued shares of the Company. Mr. Zhang Bizhuang holds 40% interest of the issued share capital of Goldmics Investments, and Ms. Du Jichun, his spouse, holds the remaining 60% interest. Therefore, Mr. Zhang Bizhuang is deemed to be interested in the shares of the Company held by Goldmics Investments by virtue of the SFO.

(3) Mr. Zhang Bizhuang holds 79,800,000 shares of the Company, representing 2.06% of the issued shares of the Company.

(4) Glad Sharp Limited ("Glad Sharp") holds 26,708,760 shares of the Company, representing 0.689% of the issued shares of the Company. Mr. Wang Kunxian owns the entire issued share capital of Glad Sharp and is therefore deemed to be interested in the shares of the Company held by Glad Sharp by virtue of the SFO.

(5) Crownova Limited ("Crownova") holds 26,708,760 shares of the Company, representing 0.689% of the issued shares of the Company. Ms. Han Aizhi owns the entire issued share capital of Crownova and is therefore deemed to be interested in the shares of the Company held by Crownova by virtue of the SFO.

REPORT OF THE DIRECTORS

Save as disclosed above, as at 31 December 2023, none of the Directors, and chief executives of the Company or the chairman of the Company or their respective associates had registered an interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which will be required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Save as disclosed above, at no time during the Year under Review was the Company, or any of its holding companies, its subsidiaries or its fellow subsidiaries a party to any arrangement to enable the Directors and chief executives of the Company (including their spouses and minor children) to hold any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations.

SHARE OPTION SCHEME

At the extraordinary general meeting held on 20 May 2016, the shareholders of the Company approved and adopted a new share option scheme (the "New Scheme") and terminated the then share option scheme (the "Old Scheme") (the Old Scheme and New Scheme are collectively referred to as the "Share Option Scheme"). The Old Scheme was adopted on 21 November 2009, which was valid for a period of 10 years from the date of adoption. The Company has granted all share options under the Old Scheme, and all outstanding share options granted prior to the termination of the Old Scheme will remain in force.

The purpose of the New Scheme is to give the Eligible Persons (as defined in the New Scheme) an opportunity to have a personal stake in the Company and help motivate them to optimise their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain ongoing relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and in the case of executives, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Participants referred to below are the "Eligible Persons" under the New Scheme, which include:

(a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group ("Executive"), any full-time or part-time employee, or any person for the time being seconded to work full-time or part-time for any member of the Group ("Employee");

(b) a director or proposed director (including an independent non-executive director) of any member of the Group;

(c) a direct or indirect shareholder of any member of the Group;

(d) a supplier of goods or services to any member of the Group;

(e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group;

(f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and

(g) an associate (as defined under the Listing Rules) of any of the persons referred to in paragraphs (a) to (c) above.

The principal terms of the New Scheme are summarised as follows:

The New Scheme was adopted for a period of 10 years commencing from 20 May 2016 and will remain in force until 19 May 2026. The Company may at any time terminate the operation of the New Scheme by resolution in general meeting. Upon termination of the New Scheme as aforesaid, no further options shall be granted but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All options granted prior to such termination and not then exercised shall continue to be valid and exercisable in accordance with and subject to the New Scheme. An offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1.0 in total by the grantee. The exercise period of the share options granted is determined by the Directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of offer of the share options. The subscription price in respect of any particular share option shall be such price as the Board may in its discretion determine at the time of grant of the relevant share option (and shall be stated in the letter containing the offer of the grant of the share option) but shall not be less than whichever is the highest of:

(a) the nominal value of a share;

(b) the closing price of a share as stated in the Stock Exchange's daily quotations sheet on the date of offer; and

(c) the average closing price of a share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of offer.

The maximum number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other schemes of the Group shall not in aggregate exceed 327,436,560 shares, being 10% of the shares in issue as of the date of adoption (the "Scheme Mandate Limit"), provided that:

(a) The Company may at any time as the Board may think fit seek approval from the shareholders of the Company to refresh the Scheme Mandate Limit, save that the maximum number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other schemes of the Company shall not exceed 10% of the shares in issue as of the date of approval by shareholders in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the New Scheme and any other schemes of the Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other schemes of the Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. The Company shall send to our shareholders a circular containing the details and information required under the Listing Rules.

(b) The Company may seek separate approval from its shareholders in general meeting for granting options beyond the Scheme Mandate Limit, provided that the options in excess of the Scheme Mandate Limit are granted only to the Eligible Person(s) specified by the Company before such approval is obtained. The Company shall send to our shareholders a circular containing the details and information required under the Listing Rules.

(c) The maximum number of shares which may be issued upon full exercise of outstanding options granted under the New Scheme and any other schemes of the Group shall not exceed 30% of the Company's issued share capital from time to time. No options may be granted under the New Scheme and any other share option schemes of the Company if this will result in such limit being exceeded.

No option may be granted to any one person such that the total number of shares issued and to be issued upon exercise of options granted and to be granted to that person in any 12-month period exceeds 1% of the Company's issued share capital from time to time. Where any further grant of options to such Eligible Person would result in the shares issued and to be issued upon exercise of all options granted and to be granted to such Eligible Person in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the shares in issue, such further grant shall be separately approved by the shareholders of the Company in general meeting with such Eligible Person and his/her/its associate(s) abstaining from voting. The Company shall send a circular to our shareholders disclosing the identity of the Eligible Person, the number and terms of the options to be granted (and options previously granted) to such Eligible Person, and containing the details and information required under the Listing Rules. The number and terms (including the subscription price) of the options to be granted to such Eligible Person must be fixed before the approval of the shareholders of the Company and the date of the Board meeting proposing such grant shall be taken as the offer date for the purpose of calculating the subscription price of those options.

On 22 June 2020, the Board granted 77,100,000 share options to 40 management members and key staff of the Company and its subsidiaries at an exercise price of HK$0.10 per share under the New Scheme. 1,800,000 share options held by four employees were lapsed following their departure in 2020. 900,000 share options held by two employees were lapsed following their departure in 2021. 450,000 share options held by an employee were lapsed following his departure in 2023.

After taking into account of the shares available for issue after deducting those which have been exercised or lapsed under the Share Option Scheme, as at 1 January 2023 and 31 December 2023, the total number of shares available for grant under the scheme limit of the Share Option Scheme were 139,893,060 and 139,443,060, representing approximately 3.6107% and 3.5991% of the issued shares of the Company of 3,874,365,600 shares as at the date of this report, respectively.

As at 31 December 2023, movements of options granted under the Share Option Scheme are set out below:

Name	Capacity	Exercise price	Outstanding as at 1 January 2023	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2023	Approximate percentage of the issued share capital of the Company as at 31 December 2023	Note
Employees									
Employees	Beneficial owner	HK$0.10	74,400,000	0	0	450,000	73,950,000	1.9087%	(1)
Total			74,400,000	0	0	450,000	73,950,000	1.9087%	

Note:

(1) The share options granted by the Company are exercisable for 5 years. The grantees may exercise up to one-third, two-thirds and 100% of the respective total share options granted from the first, second and third anniversaries of the date of grant (i.e. 22 June 2020), respectively. These share options are exercisable at HK$0.10 each according to the rules of the New Scheme during the period from 22 June 2020 to 21 June 2025.

Further details in respect of the Share Option Scheme are disclosed in note 33 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As far as the Company is aware, as at 31 December 2023, the following persons (other than Directors or chief executives of the Company) were interested in 5% or more of the issued share capital of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or required to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules:

Name of shareholder	Capacity	Number of issued ordinary shares/ underlying shares held	Percentage of the issued share capital of the Company
Mefun Group Limited	Beneficial owner(1)	620,000,000	16.003%
HZJ Holding Limited	Interest in controlled corporation(2)	620,000,000	16.003%
Chen Haili	Interest in controlled corporation(2)	620,000,000	16.003%
Yang Zhihui	Interest of spouse(2)	620,000,000	16.003%
LM Global Asset LP	Beneficial owner(3)	600,000,000	15.486%
LMT International Corporation Limited (魯民投國際有限公司)	Interest in controlled corporation(3)	600,000,000	15.486%
Shandong Private Joint Investment Holding Co., Ltd.* (山東民營聯合投資控股股份有限公司)	Interest in controlled corporation(3)	600,000,000	15.486%
LM Asset Management Corp	Interest in controlled corporation(3)	600,000,000	15.486%
Huang Guang	Interest in controlled corporation(3)	600,000,000	15.486%
Du Jichun	Interest of spouse(4)	79,800,000	2.06%
	Interest in controlled corporation(5)	153,130,224	3.952%

Notes:

(1) Mefun Group Limited holds 620,000,000 shares of the Company (representing 16.003% of the issued shares of the Company), which is in turn owned as to 65.97% by Mr. Wei Jun. Mr. Wei Jun also acts as the director of Mefun Group Limited. Please refer to the paragraph headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" for details.

(2) HZJ Holding Limited holds 34.03% of the issued share capital of Mefun Group Limited and HZJ Holding Limited is held as to 59% and 12% by Ms. Chen Haili and Mr. Yang Zhihui, respectively. Mr. Yang Zhihui is the spouse of Ms. Chen Haili. Therefore, HZJ Holding Limited, Ms. Chen Haili and Mr. Yang Zhihui are deemed to be interested in the shares of the Company held by Mefun Group Limited by virtue of the SFO.

(3) LM Global Asset LP is a limited partnership registered under the laws of the British Virgin Islands and holds 600,000,000 shares of the Company, representing 15.486% of the issued shares of the Company. LMT International Corporation Limited is a limited partner of LM Global Asset LP and holds approximately 49.18% of the partnership interest in LM Global Asset LP. LMT International Corporation Limited is wholly owned by Shandong Private Joint Investment Holding Co., Ltd. The general partner of LM Global Asset LP is LM Asset Management Corp, which is in turn owned as to approximately 70% by Mr. Huang Guang. Therefore, each of Mr. Huang Guang, LM Asset Management Corp, LMT International Corporation Limited and Shandong Private Joint Investment Holding Co., Ltd. is deemed to be interested in the shares of the Company held by LM Global Asset LP by virtue of the SFO.

(4) Ms. Du Jichun is the spouse of Mr. Zhang Bizhuang. Therefore, by virtue of the provisions of Divisions 2 and 3 of Part XV of the SFO, Ms. Du Jichun is deemed to be interested in all the shares held by Mr. Zhang Bizhuang.

(5) Goldmics Investments holds 153,130,224 shares of the Company, representing 3.952% of the issued shares of the Company. Ms. Du Jichun holds 60% interest of the issued share capital of Goldmics Investments, and Mr. Zhang Bizhuang, her spouse, holds the remaining 40% interest. Therefore, Ms. Du Jichun is deemed to be interested in the shares of the Company held by Goldmics Investments by virtue of the SFO. Mr. Zhang Bizhuang is the director of Goldmics Investments.

Save as disclosed above, as at 31 December 2023, as far as the Company is aware, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares or debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance had been entered into between the Company or any of its subsidiaries and the controlling shareholders for the year ended 31 December 2023.

COMPETING BUSINESS

During the Year under Review and up to the date of this report, none of the Directors and controlling shareholders of the Company has any interest in business which competes, either directly or indirectly, with the business of the Group under the Listing Rules.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, for the year ended 31 December 2023, the Company has maintained a public float of not less than 25% as required under the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

Save as the service contracts of the Directors as disclosed above, no contract of significance to which the Company, its holding companies, or any of its subsidiaries was a party, and in which a Director or an entity connected with a Director had a material interest, subsisted at the end of the year or at any time during the year ended 31 December 2023.

REPORT OF THE DIRECTORS

LIQUIDITY AND FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As at 31 December 2023, cash and cash equivalents of the Group amounted to approximately RMB137,318,000 (2022: approximately RMB158,776,000). As at 31 December 2023, the Group had borrowings of approximately RMB329,567,000 (2022: approximately RMB321,310,000).

The gearing ratio is defined as net debt (represented by borrowings, trade payables, contract liabilities and other payables and accruals, net of cash and cash equivalents and pledged deposits) divided by total equity plus net debt. As at 31 December 2023, the gearing ratio of the Group was 46.0% (2022: 37.0%).

CHARGES ON THE GROUP'S ASSETS

As at 31 December 2023, the Group secured bank loans of RMB280,800,000 (31 December 2022: approximately RMB281,500,000) by pledge of certain of the property and plant amounting to approximately RMB101,501,000 (31 December 2022: approximately RMB110,855,000) and certain of the land use rights amounting to approximately RMB70,046,000 (31 December 2022: approximately RMB71,981,000).

CONTINGENT LIABILITIES

For the year ended 31 December 2023, the Group did not have any material contingent liabilities (2022: Nil).

CAPITAL COMMITMENTS

The Group has a capital commitment of approximately RMB242,000 (2022: approximately RMB2,735,000) in respect of acquisition of property, plant and equipment as at 31 December 2023.

PLEDGE OF ASSETS

As at 31 December 2023, the bank loans were secured by pledge of the Group's property, plant and equipment amounting to approximately RMB101,501,000 (2022: approximately RMB110,855,000) and right-of-use assets amounting to approximately RMB70,046,000 (2022: approximately RMB71,981,000) .

FOREIGN EXCHANGE RISK

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

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group reviews its human resources and remuneration policies periodically with reference to local legislations, market conditions, industry practice and assessment of the performance of the Group and individual employees. As of 31 December 2023, the Group's workforce comprised of 513 employees (including the Directors) (31 December 2022: 539 employees). The total salaries and related costs (including the Directors' fees) amounted to approximately RMB68,522,000 (2022: approximately RMB76,004,000). Such decrease in the total salaries and related costs was mainly due to the optimization of the Group's employment during the Year under Review, as well as the decrease in the production volume of pipes business and anti-corrosion processing business, which led to the decrease in overtime pay and floating wages payable by the Group to its employees.

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

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities and non-controlling interests of the Group for the last five financial years is set out on page 204. This summary does not form part of the audited consolidated financial statements.

RETIREMENT SCHEMES

During the Year under Review, the Group did not have any payments or benefits in relation to termination of service of Directors. Particulars of employee retirement schemes of the Group are set out in note 2 to the consolidated financial statements.

CONNECTED TRANSACTIONS

Apart from certain related party transactions as disclosed in note 36 to the consolidated financial statements, during the Year under Review, the Group did not have any connected transactions under Chapter 14A of the Listing Rules.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated.

PURCHASE, REDEMPTION OR SALE OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of their respective securities during the year ended 31 December 2023.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the Year under Review.

PERMITTED INDEMNITY PROVISION

The Company has arranged for appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against its Directors and senior management arising out of corporate activities. The permitted indemnity provision is in force for the benefit of the Directors as required by section 470 of the Companies Ordinance when the Report of the Directors prepared by the Directors is approved in accordance with section 391(1)(a) of the Companies Ordinance.

SIGNIFICANT INVESTMENTS HELD

The Group did not hold any significant investments during the Year under Review.

MATERIAL ACQUISITIONS OR DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES, AND PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

On 24 November 2023, Zhejiang Shengguan Industrial Co., Ltd* (浙江勝管實業有限公司) ("Zhejiang Shengguan Industrial") (an indirect wholly-owned subsidiary of the Company) entered into an agreement to conditionally dispose of 2% equity interest in Xinfeng Energy to Hangzhou Hanyue New Energy Co., Ltd.* (杭州晗月新能源有限公司) ("Hangzhou Hanyue") at a consideration of RMB10,780,000. Please refer to the announcements of the Company dated 24 November 2023 and 5 December 2023 for further details. Up to the date of this report, the Disposal has been completed and Xinfeng Energy Group is owned as to approximately 19.95% by Zhejiang Shengguan Industrial and 11.93% by Hangzhou Hanyue, respectively.

Save as disclosed above, there was no significant investments held, or material acquisition or disposal of subsidiaries, associates or joint ventures by the Group during the Year under Review, and the Company does not have any future plan for material investments or capital assets as at the date of this report.

AUDITORS

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

At the annual general meeting held on 16 June 2023, the Company re-appointed Mazars CPA Limited as auditor of the Company for the year ended 31 December 2023.

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

27 March 2024

* *For identification purposes only*

CORPORATE GOVERNANCE REPORT

OVERVIEW

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability to the shareholders as a whole and enable shareholders' evaluation of such application. The Board continues to strive to uphold good corporate governance and adopts sound corporate governance practices. During the period from 1 January 2023 to 31 December 2023, the Company has applied the principles and code provisions of the Corporate Governance Code (the "Code") as set out in Appendix C1 to the Listing Rules and has complied with all the code provisions and the recommended best practices, as appropriate.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted the Model Code as set out in Appendix C3 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 2023, they have complied with the required standards set out in the Model Code and the code of conduct regarding directors' securities transactions.

BOARD OF DIRECTORS

Composition of the Board

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

Executive Directors

Mr. Zhang Bizhuang *(Chief Executive Officer)*
Mr. Wang Kunxian *(Vice President)*
Ms. Han Aizhi *(Vice President)*
Mr. Zhang Danyu
Mr. Zhang Bangcheng

Non-executive Director

Mr. Wei Jun *(Chairman)*

Independent non-executive Directors

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

The biographical details of all Directors are set out on pages 19 to 24 of this report. Save as those disclosed in this report, there are not any other financial, business, family or other material or relevant relationships among the members of the Board.

The composition of the Board is well balanced with each Director having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The Board brings a variety of experience and expertise to the Company.

Functions of the Board

The principal functions of the Board are to consider and approve the overall strategies, financial objectives, annual budget and investment proposals of the Group, and assume the responsibilities of corporate governance of the Group. The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group's businesses to the executive Directors and senior management, and certain specific responsibilities to the Board committees.

Board Meetings and Board Practices

Except for the Board meetings held in March and August 2023, respectively for the purpose of considering the Company's financial results, the Board held a total of four meetings in 2023.

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

For the year ended 31 December 2023, six Board meetings were held by the Company. Details of the attendance of each Director are as follows:

Name of Director	Attendance
Executive Directors	
Mr. Zhang Bizhuang *(Chief Executive Officer)*	6/6
Mr. Wang Kunxian *(Vice President)*	6/6
Ms. Han Aizhi *(Vice President)*	6/6
Mr. Zhang Danyu	5/6
Mr. Zhang Bangcheng	6/6
Non-executive Directors	
Mr. Wei Jun *(Chairman)*	6/6
Independent non-executive Directors	
Mr. Chen Junzhu	6/6
Mr. Wu Geng	6/6
Mr. Qiao Jianmin	6/6

Appointment, Re-election and Removal of Directors

Each of the Directors has entered into a service contract or an appointment letter with the Company for a term of three years. The service contracts or appointment letters are subject to termination in accordance with the provisions contained therein by either party giving the other not less than 3-month prior written notice for executive Directors or 1-month prior written notice for non-executive Directors.

In accordance with the articles of association of the Company, one-third of the Directors (including executive Directors, non-executive Directors and independent non-executive Directors) shall retire from office by rotation. Pursuant to the code provision B.2.2, all Directors are subject to retirement by rotation at least once every three years.

Independent non-executive Directors

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

Company Secretary

Mr. Zhang Feng is a full-time employee of the Company and is familiar with the day-to-day affairs of the Company. For the year ended 31 December 2023, Mr. Zhang Feng has received professional trainings as required under Rule 3.29 of the Listing Rules. Biographical details of Mr. Zhang Feng are set out in the section headed "Biographical Details of Directors and Senior Management – Senior Management" on page 24 of this report.

Continuous Professional Development

The Company also provides regular updates on the business development of the Group. The Directors are regularly briefed on the latest development regarding the Listing Rules and other applicable statutory requirements to ensure compliance and upkeep of good corporate governance practices. In addition, the Company has been encouraging the Directors to enroll in professional development courses and seminars relating to the Listing Rules, Companies Ordinance and corporate governance practices organised by professional bodies or chambers in Hong Kong. All Directors are requested to provide the Company with their respective training records pursuant to the code provision.

During the year ended 31 December 2023, all Directors have participated in appropriate continuous professional development in compliance with code C.1.4 and refreshed their knowledge and skills so as to ensure that their contribution to the Board remains informed and relevant. Such professional development was completed by way of attending briefings, conferences, courses, forums, seminars and lectures which are relevant to the business or Directors' duties, as well as reading relevant information and participating in business-related research.

Delegation of Powers

The Board delegates day-to-day operations of the Group to executive Directors and management of the Company with department heads responsible for different aspects of the business/duties, while reserving strategic decisions on certain key matters for its approval. When the Board delegates aspects of its management and administration functions to the management, it gives clear directions as to the powers of the management, in particular, with respect to the circumstances where the management needs to report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

BOARD COMMITTEES

The Board has established (i) an audit committee, (ii) a remuneration committee, and (iii) a nomination committee, with defined terms of reference which are in line with the code provisions of the Code. For the purpose of complying with the principles and code provisions as set out in the Code, the Board has adopted (i) revised terms of reference for the audit committee on 1 January 2019, (ii) revised terms of reference for the remuneration committee on 10 March 2012 (revised on 28 December 2022); and (iii) revised terms of reference for the nomination committee on 11 November 2013. The terms of reference of the Board committees which explain their respective functions and the authority delegated to them by the Board have been made available on the websites of the Company and the Stock Exchange. The Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance in appropriate circumstances, at the Company's expenses.

Audit Committee

Composition

The audit committee of the Company (the "Audit Committee") was established on 21 November 2009 in compliance with the requirements of the Listing Rules. The primary duties of the Audit Committee are to make recommendations to the Board on the appointment and removal of external auditors and review and supervise the financial reporting process and internal control system of the Group. All members of the Audit Committee are appointed by the Board. The Audit Committee currently consists of three independent non-executive Directors of the Company, namely, Mr. Chen Junzhu, Mr. Wu Geng and Mr. Qiao Jianmin. Mr. Chen Junzhu serves as the chairman. The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2023.

During the year ended 31 December 2023, the Audit Committee held three meetings. Details of the attendance of each member are as follows:

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

During the year ended 31 December 2023, the Audit Committee had performed, among others, the following functions: approving the audit proposal for the 2022 annual results of the auditors, reviewing the interim and annual results, approving the 2023 Interim AUP ("agreed-upon-procedures") proposal of the auditors, reviewing the 2023 Interim AUP report of the auditors, reviewing the internal audit report summary for 2022 and reviewing the internal audit report for the first half of 2023, as well as reviewing the risk management and internal control system, and the procedures in relation to replacement of the external auditors of the Company.

The Audit Committee did not have any disagreement with the Board regarding the selection, appointment, resignation or removal of the external auditors.

Remuneration Committee

Composition

The remuneration committee of the Company (the "Remuneration Committee") was established on 21 November 2009 in compliance with the requirements of the Listing Rules. The primary functions of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's remuneration, review and approve proposals for the management's remuneration, and make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. The Remuneration Committee currently consists of two independent non-executive Directors, namely Mr. Wu Geng and Mr. Chen Junzhu, and one non-executive Director, namely Mr. Wei Jun and Mr. Wu Geng serves as the chairman.

During the year ended 31 December 2023, the Remuneration Committee held two meetings. Details of the attendance of each member are as follows:

Name of Remuneration Committee Member	Attendance
Mr. Wu Geng *(Chairman)*	2/2
Mr. Chen Junzhu	2/2
Mr. Wei Jun	2/2

During the year ended 31 December 2023, the Remuneration Committee had formulated the remuneration policy of Directors, approved the terms in service contracts of Directors, reviewing and/or approving matters relating to share schemes under Chapter 17 of the Listing Rules and reviewed the distribution of bonus for the year based on assessment on performances of the executive Directors and senior management. The term of non-executive Directors is generally three years from the date of appointment.

Remuneration Policies for Directors and Senior Management

The remuneration policy of the employees of the Group is determined on the basis of their merits, qualifications and competence.

The emoluments of the Directors are recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance, experience, responsibility, workload and time devoted to the Company and comparable market statistics information. Each of the executive Directors is entitled to a basic salary which is reviewed annually. In addition, each of the executive Directors may receive a discretionary bonus as the Board may recommend, subject to the approval by the Remuneration Committee. As at 31 December 2023, no Directors has waived or agreed to waive any emoluments.

The Company has adopted the new share option scheme on 20 May 2016. The purpose of the New Scheme is to give the Eligible Persons (as mentioned on pages 30 to 31 of this report) an opportunity to have a personal stake in the Company and help motivate them to optimise their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain ongoing cooperation and relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and in the case of executives, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Pursuant to E.1.5 of the Code, the remuneration paid by the Group to members of senior management by bands for the year ended 31 December 2023 is set out below:

Remuneration band	**Number of individuals**
HK$0-HK$700,000	5
HK$700,001-HK$900,000	3
HK$900,001 or above	4

Nomination Committee

Composition

The nomination committee of the Company (the "Nomination Committee") was established on 21 November 2009 in compliance with the requirements of the Listing Rules, to ensure continuous satisfaction of the needs of the Company and compliance with the Code. The principal duties of the Nomination Committee of the Company include: (a) reviewing the structure, size and diversity of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's strategy; (b) identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; (c) assessing the independence of independent non-executive Directors of the Company; (d) making recommendations to the Board on the appointment or reappointment of Directors of the Company and reviewing the succession planning for the chairman, the chief executive officer of the Group as well as the senior management, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future, together with the Board, as appropriate; (e) reviewing the board diversity policy as appropriate, and reviewing the measurable objectives that the Board has set for implementing the board diversity policy and the progress on achieving the objectives; (f) attending annual general meetings of the Company and answering questions raised in the annual general meetings. The Nomination Committee will recommend qualified candidates to the Board for approval.

The Nomination Committee currently consists of two independent non-executive Directors, namely Mr. Qiao Jianmin and Mr. Wu Geng, and one executive Director, namely, Mr. Zhang Bizhuang, and Mr. Qiao Jianmin serves as the chairman. During the year ended 31 December 2023, the Nomination Committee held two meetings. Details of the attendance of each member are as follows:

Name of Nomination Committee Member	Attendance
Mr. Qiao Jianmin *(Chairman)*	2/2
Mr. Zhang Bizhuang	2/2
Mr. Wu Geng	2/2

During the year ended 31 December 2023, the Nomination Committee had reviewed the structure, size and composition of the Board, and conducted full review on the professional qualifications and career background of all candidates to directorships and members of each Board committee as well as the independence of the independent Directors.

Board Diversity Policy

The Nomination Committee has adopted the board diversity policy in compliance with the Code during the Year under Review. The Company recognises and embraces the benefits of diversity in the Board to the performance enhancement of the Company.

To achieve a sustainable and balanced development, the Company sees increasing diversity in the composition of the Board as an essential element in supporting the attainment of its strategic objectives and its sustainable development. In designing the Board's composition, board diversity has been considered from a number of aspects.

All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. Therefore, the Board has set measurable objectives for the implementation of the board diversity policy. Selection of candidates to directorships will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision will be based on the merit and contribution that the selected candidates will bring to the Board. For the purpose of implementing the board diversity policy, the Company has adopted measurable objectives as follows:

1. at least one-third of the Board members shall be independent non-executive Directors;

2. at least one of the Board members shall have obtained accounting or other professional qualifications;

3. at least one of the Board members shall be female;

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

5. at least one-third (or above) of the Board members shall have more than five years of working experience in the industry the Company is engaged in.

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

The Company is also committed to a work environment that is both diverse and inclusive, where all colleagues feel respected and empowered to bring their authentic selves to work every day. Similar considerations are applied when recruiting and selecting Senior Management and other personnel across the Group's operations. As of 31 December 2023, 23.6% of our colleagues are female. For details, please refer to our ESG Report.

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

With reference to the above measurable objectives, the Nomination Committee is satisfied with the successful implementation of the board diversity policy. For the year ended 31 December 2023, the Company had achieved all of the five measurable objectives of the board diversity policy listed above. The Nomination Committee will continue to monitor the implementation of the board diversity policy and review the policy as appropriate to ensure its effectiveness.

CORPORATE GOVERNANCE FUNCTION

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board in compliance with code provision A.2.1 of the Code, which includes (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the Code and make disclosure in the corporate governance report.

Dividend Policy

The memorandum of association and articles of association of the Company expressly set out the relevant dividend policy. Major dividend policy includes (a) the Company in general meeting may from time to time declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the Board; (b) dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the Directors determine is no longer needed. With the sanction of an ordinary resolution, dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the law; (c) the Board may from time to time pay to the members such interim dividends as appear to the Board to be justified by the profits of the Company and in particular if at any time the share capital of the Company is divided into different classes, the Board may pay such interim dividends in respect of those shares in the capital of the Company which confer on the holders thereof deferred or non-preferential rights as well as in respect of those shares which confer on the holders thereof preferential rights with regard to dividend and may also pay any fixed dividend which is payable on any shares of the Company half-yearly or on any other dates, whenever such profits, in the opinion of the Board, justifies such payment.

ACCOUNTABILITY AND AUDIT

Directors' and Auditors' Responsibilities for the Financial Statements

The Board acknowledges its responsibility to prepare the Group's financial statements for each financial period to give a true and fair view of the financial position, results and cash flows of the Group for the period. In preparing the financial statements for the year ended 31 December 2023, the Board has selected appropriate accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

For the year ended 31 December 2023, the remuneration paid or payable to Mazars CPA Limited ("Mazars"), the current auditors of the Company, in respect of their audit and non-audit services were as follows:

Type of Services	**Total** HK$'000
Audit Services	1,790
Non-audit Services	
– Agreed-upon-procedures on interim report	300
– Others	110
Total	2,200

NATURE OF NON-AUDIT SERVICES

The non-audit services provided by the auditor of the Company for the year ended 31 December 2023 included agreed-upon-procedures on interim report, attending the annual general meeting of the Company and the agreed-upon-procedures on preliminary announcement of annual results for the year ended 31 December 2023.

RISK MANAGEMENT AND INTERNAL CONTROL

The Company has established the Administrative Measure of Information Disclosure* (《信息披露管理辦法》), the Administrative Measure for Internal Audit* (《內部審計管理辦法》), the Administrative Measure for Connected Transactions* (《關連交易管理辦法》), the Planning Procedure for Identification, Evaluation and Control of Environmental Factors* (《環境因素識別、評價與控制策劃程序》), the Energy and Resource Control Procedure* (《能源、資源控制程序》), the Production Process Control and Environmental and Occupational Health and Safety Operation Control Procedure* (《生產過程控制及環境職業健康安全運行控制程序》), the Internal Reporting System for Contingency Matters* (《應急事件內部通報預案》) and other systems to identify, assess and manage material risks of the Group. The risk management and internal control systems of the Group are characterised by distinct division between power and authority, clear procedures, high transparency and efficiency.

The Board is responsible for maintaining reliable and effective risk management and internal control systems to safeguard the interests of shareholders and the assets of the Group. The Group's risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group has set up strict internal audit functions, including organising internal audit every half year, conducting supervision and examination on financial management, contract management, human resources management, significant investment projects, environmental, social and governance issues etc., identifying problems and overseeing the rectification and correction of these problems, and reporting to the Audit Committee and the Board any material issues identified in the internal audit and the rectification and correction thereof for their review. The Board holds meetings to review the effectiveness of the risk management and internal control systems of the Group in terms of financial, operation and compliance controls through the Audit Committee twice a year and ensures the adequacy of resources, staff qualifications and experience, training programmes for employees and budget of the accounting, internal audit and financial reporting functions. In addition, the Company's external independent auditors communicate with the Board about the risk management and internal control issues identified in the audit every year.

In order to ensure the truthfulness, accuracy, completeness and timeliness of information disclosure and safeguard the legal interests of shareholders, the Company has formulated the Administrative Measure of Information Disclosure* (《信息披露管理辦法》) in strict compliance with the related requirements of the Listing Rules, the SFO and the Guidelines on Disclosure of Inside Information issued by the Securities and Futures Commission. The Company discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours as provided in the SFO. Before the inside information is fully disclosed to the public, the Company ensures the information is kept strictly confidential. If the Company believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached at any time, the Company would immediately disclose the information to the public. The Company has notified related personnel of the implementation of the Administrative Measure of Information Disclosure and provided related trainings, so as to ensure such personnel understand the procedures of handling and disclosing inside information.

The Board is of the view that the Company's risk management and internal control systems during the Year under Review were efficient and adequate. No significant risks which would affect the operation of the Group have been identified.

INVESTORS AND SHAREHOLDERS RELATIONS

The Board is well aware of the importance of maintaining clear, timely and effective communication with the shareholders of the Company and investors. The Board also recognises that an effective communication with investors is the key to establish investors' confidence and to attract new investors. Therefore, the Group is committed to maintaining a high degree of transparency, in order to ensure that the investors and the shareholders of the Company can receive accurate, clear, comprehensive and timely information of the Group via the issue of annual reports, interim reports, announcements and circulars. The Company also publishes all such documents on the Company's website at www.slogp.com. In accordance with the Listing Rules, the Company adopted a Shareholders Communication Policy, which sets out, among other things, how shareholders can communicate their views on various matters affecting the Company and how the Company solicits and understand the views of shareholders and stakeholders.

CORPORATE GOVERNANCE REPORT

We promptly respond to investors' enquiries. We also organise and plan exchange activities on a regular basis, such as investor conferences, seminars and presentations. These initiatives can help us extend an in-depth reach of our business strengths and competitive advantages into the market, which is ultimately reflected in the market value of the Company.

The investor relations team regularly informs the Board of the latest market perceptions and developments of the Company, for the Board to keep abreast of the concerns of investors in a timely manner, to get deeper understanding of the prevailing policies, and to make better efforts in the Company's own investor relations with reference to the best international standards. The Directors and members of the Board committees will attend annual general meetings and extraordinary general meetings to answer questions. Separate resolutions on each distinct issue would be proposed at the general meetings. During the year ended 31 December 2023, the Company considers that the Shareholders Communication Policy was effectively implemented with the above measures in place.

During the year ended 31 December 2023, one general meeting was held by the Company. Details of the attendance of each Director are as follows:

Name of Director	Attendance
Executive Directors	
Mr. Zhang Bizhuang *(Chief Executive Officer)*	1/1
Mr. Wang Kunxian *(Vice President)*	1/1
Ms. Han Aizhi *(Vice President)*	1/1
Mr. Zhang Danyu	1/1
Mr. Zhang Bangcheng	1/1
Non-executive Directors	
Mr. Wei Jun *(Chairman)*	1/1
Independent non-executive Directors	
Mr. Chen Junzhu, *ACCA, CICPA*	1/1
Mr. Wu Geng	1/1
Mr. Qiao Jianmin	1/1

Shareholders' Rights

Procedures by which shareholders may convene extraordinary general meetings and putting forward proposals at general meetings

Pursuant to the articles of association of the Company, any one or more shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right to vote at general meetings of the Company shall at all times have the right, by written requisition to the Board (by mail to the Company at Room 2111, 21st Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong or by email to ir@slogp.com), to require an extraordinary general meeting to be called by the Board for the handling of any business specified in such requisition and such meeting shall be held within two months after the deposit of such requisition. If, within 21 days after such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

If shareholders wish to put forward proposal(s) at a general meeting and request the Company to give notice to its shareholders on the resolution(s) intended to be moved at the general meeting, they shall send a signed written notice with their contact information by mail to the Company at Room 2111, 21st Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong or by email to ir@slogp.com.

Procedures by which Enquiries May be Put to the Board

Shareholders may send their enquiries and concerns to the Board by mail to the Company at Room 2111, 21st Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong or by email to ir@slogp.com. The Company will forward communications relating to matters within the Board's direct responsibilities to the Directors and communications relating to ordinary business matters, such as suggestions, enquiries and customer complaints, to the Chief Executive Officer of the Company.

Significant Change in Constitutional Documents

For the year ended 31 December 2023, there was no other significant change in the constitutional documents of the Company.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE REPORT

The Environmental, Social and Governance ("ESG") Report of the Group (the "Report") mainly illustrate show the Group had complied with all the mandatory disclosure requirements and the "comply or explain" provisions as set out in the Environmental, Social and Governance Reporting Guide (the "Appendix 27 Guide") as set out in Appendix C2 to the Listing Rules in the environmental, social and governance aspect for the year ended 31 December 2023, and discloses the Group's ESG performances to such stakeholders as shareholders, employees, the government, customers, suppliers and the community.

Reporting Scope

The Report sets out the information and data of the principal businesses of the Group during the Reporting Period, including the information regarding manufacturing, sales and supporting anti-corrosion processing and insulation processing of SAWH pipes, as well as manufacturing facilities and ancillary office premises. The Report covers manufacturing bases in Zibo of Shandong Province and Urumqi of Xinjiang Uygur Autonomous Region in China, and offices located in Shanghai, Jinhua of Zhejiang Province and Hong Kong S.A.R. The scope of the Report is basically the same as last year.

Reporting Principles

The Report has been prepared based on the following principles:

- Materiality: to determine the materiality of each issue with reference to the materiality assessment involving internal and external stakeholders
- Quantitative: to update key performance indicators to furnish explanations for the quantitative information, and provide comparisons where applicable
- Balance: to give a fair and impartial view of the performance of an enterprise, and avoid affecting decision or judgement by readers by means of improper reporting
- Consistency: to use consistent statistical approach for meaningful comparison to multiple trends

Adoption of Standards

The Report was prepared pursuant to the requirements of the Appendix C2 Guide to the Listing Rules. In preparing the Report, the Group also adopted and made reference to the following standards or requirements, including the People's Republic of China (the "PRC") National Standard for Environmental Management Systems – Requirements with Guidance for Use* (《中華人民共和國國家標準環境管理體系要求及使用指南》) (GB/T24001 idt ISO14001), the PRC National Standard for Occupational Health and Safety Management Systems – Requirements with Guidance for Use* (《中華人民共和國國家標準職業健康安全管理體系要求及使用指南》) (GB/T45001 idt ISO45001) and the PRC National Standard for Quality Management Systems – Requirements* (《中華人民共和國國家標準質量管理體系要求》) (GB/T19001 idt ISO9001), the License Rules for Special Equipment Production and Filling Units* (《特種設備生產和充裝單位許可規則》) (TSG07) issued by the State Administration of Market Supervision of the PRC and the Quality Management System Specification for Manufacturing Organizations to the Petroleum and Natural Gas Industry* (《石油天然氣行業製造企業質量管制體系規範》) (API Spec Q1) issued by the American Petroleum Institute, and has established related manuals, procedures, management systems and operating guidelines.

Currently, the Group's manufacturing base in Zibo of Shandong has established management systems for quality, environment and occupational health and safety. Continuous improvements are made to these systems to maintain their effectiveness, while product quality is assured by the implementation of environmental, health, safe and civilised production. Other offices have also set up their own systems with reference to the above management systems for environment, occupational health and safety and the legal and regulatory requirements of their respective place of incorporation with an aim to step up environmental and social management as well as governance standards.

Forward-looking Statements

Forward-looking statements contained herein are based on the estimates, forecasts and assumptions of the current and future business development of the Group and market environment where the Group operates, and are no guarantee of the future performance of the Group. The performance of the Group as set out herein may be subject to changes in the market environment, uncertainties and factors beyond control of the Group. As a result, actual results and operating performance may be different from the assumptions and statements made in the Report.

Review and Approval

The Report was reviewed and approved by the Board in March 2024.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

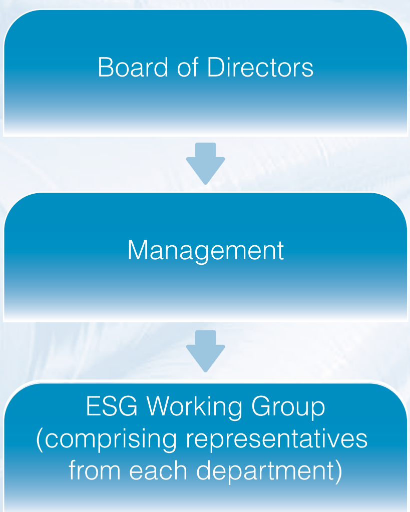
Contact and Respond

We believe that maintaining extensive communication with stakeholders will facilitate the Group to make continuous progress in environmental, social and governance aspects. The Group welcomes valuable advice from stakeholders on the Report. If you have any advice or feedback, please contact us (by mail to the Company at Room 2111, 21st Floor, Wing On Centre, 111 Connaught Road Central, Hong Kong or by email to ir@slogp.com).

SUSTAINABLE DEVELOPMENT GOVERNANCE

In recent years, the public has been more concerned about the issue of sustainability and their expectations towards businesses on this issue have also increased. The Group attaches great importance to sustainability, and the Board strategically reviews the relevant issues from the Group-level. To expedite the sustainable development of the Group, the Group has established a sustainable development governance structure, with details as follows:

Sustainable Development Governance Structure



The Board oversees the Group's environmental, social and governance risks and opportunities to develop sustainable development strategies and targets for the Group. Meanwhile, it supervises the Group's sustainability performance and progress. The management formulates corresponding policies and measures based on the strategies made by the Board and facilitate and monitor the implementation progress.

The ESG Working Group comprises representatives from relevant business departments, including, among others, the Human Resources Department, Finance Department and Production Department, and is responsible for implementing policies in day-to-day operation, and collecting data to oversee operating performances and provide assistance in the preparation of ESG reports.

The Board is fully accountable for the ESG strategies and reporting of the Group. For relevant information regarding the Board structure of the Group, please refer to the section headed "Corporate Governance Function" in the Corporate Governance Report.

Directors' Trainings and Development

To achieve sustainable and balanced development, the Group regards Board composition diversity as the key for the Group to meet strategic goals and maintain sustainable development. The Directors are also briefed on the latest updates of the Listing Rules and other applicable laws and regulations on a regular basis, so as to ensure that they comply with and maintain sound corporate governance practices.

All of the Directors undertook appropriate continuous professional development trainings during the Reporting Period to keep their knowledge and skills up to date and ensure that they are fully informed and stay relevant when they are serving the Board. The Directors may complete professional development trainings through multiple channels, including attending briefings, meetings, courses, forums, seminars and lectures on business development or directorships, reading relevant materials and joining business-related research.

ESG Risk Management

The Group has maintained in place a well-established risk management and internal control structure to address potential risks arising from business operations, and the internal audit department conducts an internal audit twice a year concerning ESG-related risks. In addition, the ESG Working Group also keeps a close eye on the ESG-related risks in operating activities, formulate countermeasures and report major risks to the management or the Board as and when appropriate.

For information regarding the Group's risk management and internal control, please refer to the section headed "Risk Management and Internal Control" in the Corporate Governance Report.

STAKEHOLDER ENGAGEMENT

The Group values the opinions of our stakeholders while formulating sustainable development strategies. Stakeholders of the Group primarily fall into seven categories, who either affect or are affected by the business operations of the Group. The Group maintains communication with our stakeholders through multiple channels:

Categories of stakeholders	Channels for engagement
Employees	Internal e-mails and publications Meetings and briefings Trainings Employee activities Performance appraisal
Customers	Corporate website Customer conference
Investors and shareholders	Annual general meetings Annual and interim reports Newsletters and announcements
Suppliers and business partners	Business conference Performance appraisal
Government and regulators	E-mails and telephone calls and conferences
Social organizations and the public	E-mails and telephone calls
Media	Press releases

MATERIALITY ASSESSMENT

As the issues of stakeholders' concern may change over time, the Group meticulously conducts the materiality assessment to determine the priority of the ESG issues and make timely adjustments to the sustainable development policies and resource allocation. The materiality assessment involves four steps:

Identifying issues
A total of 26 ESG issues were identified with reference to international standards and disclosures made by peers

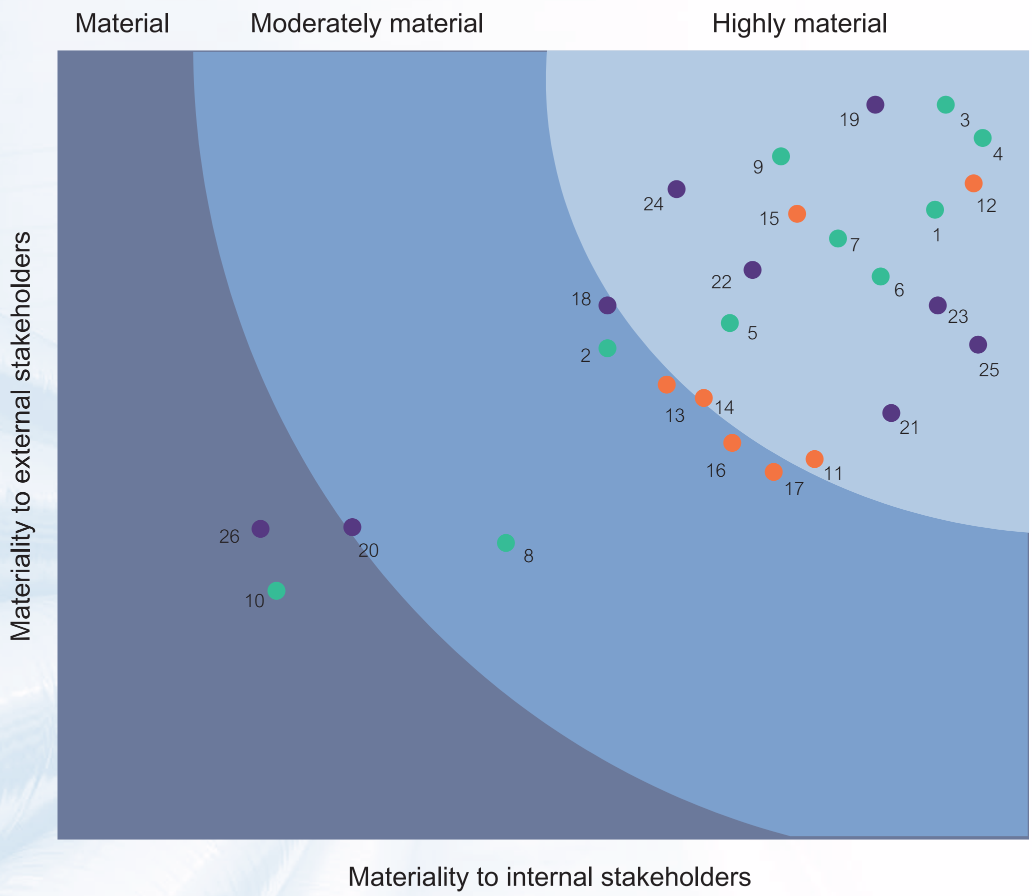
Collecting opinions
Collecting opinions from internal and external stakeholders on the issues identified via questionnaire survey

Assessing priority
Determining the priority of issues based on results of the questionnaire survey and drawing the materiality matrix

Confirming results
Submitting the results of the materiality assessment to the Board for review and confirmation

Of the 26 issues identified, 17 were assessed to be highly material, 7 were assessed to be moderately material and 2 were assessed to be material. The results are demonstrated in the materiality matrix below:

Materiality Matrix



Environmental protection

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

Care for employees

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

Social welfare

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

Environmental Protection

The Group recognizes the importance of environmental protection to local development. It follows laws and regulations as well as industry practices in China and the place where it operates, and formulates the “Preventing Pollution and Creating a Clean Environment” policy, striving to foster a clean environment and protect natural resources. The Group strictly supervises and urges members to earnestly implement such policy, and identify and control environmental factors in production and office processes, in a bid to constantly mitigate environmental impact and improve environmental performance.

As a responsible enterprise, the Group has developed compliance targets and performance targets in the environmental aspect.

Compliance targets

- The discharge of contaminated wastes entirely conforms with the required standards;
- The consumption of raw materials is controlled within contractually standards;
- No complaints are lodged by related parties in respect of environmental control; and
- There are no material environmental accidents.

Performance targets

Category	Total targets from 2021 to 2030	Expected achievement time
Greenhouse gases	Reducing emissions by 10% as compared with those of finished products per unit in 2021	2030
Waste	Reducing waste by 5% as compared with that of finished products per unit in 2021	2030
Use of resources	Reducing consumption by 5% as compared with that of finished products per unit in 2021	2030
Water consumption	Reducing consumption by 5% as compared with that of finished products per unit in 2021	2030

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group and its members delegate the environmental targets to its frontline production teams and management departments. Departmental environmental targets are set up and monitored on a monthly basis, while environmental management is included as part of the performance assessment of each department, which is monitored and overseen by designated department on a regular and ad hoc basis. To incessantly strengthen environmental management and mitigate the impact of our activities on the environment and natural resources, identification and assessment, routine inspection, joint patrol, compliance assessment, internal audit, external audit and management evaluation to the environment are carried out to identify, rectify and take precautions to potential issues, and make on-going improvements.

Waste Management

The Group acts in strict compliance with the Environmental Protection Law of the PRC* (《中華人民共和國環境保護法》), the Law of the PRC on Prevention and Control of Water Pollution* (《中華人民共和國水污染防治法》), the Law of the PRC on Prevention and Control of Environmental Pollution by Solid Wastes* (《中華人民共和國固體廢物污染環境防治法》), the Law of the PRC on Promoting Clean Production* (《中華人民共和國清潔生產促進法》), the National Catalogue of Hazardous Wastes* (《國家危險廢物名錄》), the Regulations on the Safety Administration of Dangerous Chemicals* (《危險化學品安全管理條例》), the Technological Policies on Prevention and Control of Pollution by Waste Batteries* (《廢電池污染防治技術政策》) and other laws and regulations. The Group did not identify any case of incompliance during the Reporting Period.

The Group has introduced corresponding procedures and systems, for example, the Planning Procedures for Identification, Evaluation and Control of Environmental Factors* (《環境因素識別、評價與控制策劃程序》), the Control on Production Process and Control Procedures for Environmental, the Controlling Procedures for Occupational Health and Safety Operation* (《生產過程控制及環境職業健康安全運行控制程序》), the Procedures for Administration of Pollutants* (《污染物管理程序》), the Procedures for Administration of Dangerous Chemicals* (《危險化學品管理程序》), and the Rules on Handling Chemical Drug Wastes* (《化學藥品廢棄物處理規定》), which stipulate the control requirements for emissions of offices and production plants of the Company. The aim of such procedures and systems is to impose effective control on emissions, thus improving the environmental conditions at the office premises and production plants.

Hazardous waste management

The Group generates waste primarily from production and office processes. Hazardous waste is mainly generated from production, including waste mineral oil, waste acid, waste fixing/developer solutions, waste ink cartridges, waste toner cartridges, waste oil drums, waste paint buckets, waste paint, waste activated carbon, waste acetone, waste xylene, waste UV lamp tubes, waste philtre cotton, waste isocyanate packaging drums, industrial wastes, etc.

Hazardous waste is also generated from office work, but to a lesser extent, including waste ink cartridges, waste toner cartridges, waste rechargeable/disposable batteries and waste mercury lamps. Total hazardous waste generated during the Reporting Period is set out below:

Hazardous waste	**2023**	**2022**
Total (tonne)	190	200
Intensity (kg/per tonne of products)	1.36	1.38

During the Reporting Period, the total amount and intensity of hazardous waste were generally the same as that in 2022.

The Group pays serious attention towards management and disposal of hazardous waste, so as to prevent environment pollution and minimize hazardous waste generation. Set out below are the approaches adopted by the Group in disposal of hazardous waste:

- In the collection, storage, transportation and disposal of polluting wastes, measures must be taken to prevent scattering, draining, leakage or other types of environmental pollution; and dumping, stacking, discarding or scattering without authorization is prohibited;

- Setting up specific rubbish bins for a variety of wastes including scrap iron, industrial wastes, domestic wastes, oil-bearing wastes and recyclable metal in production plants, storing collected wastes by category and delivering them to qualified waste treatment institutions for waste disposal or recycling;

- The polluting wastes generated should be stored by classification; and waste mineral oil and oil-bearing waste must be sealed and stored in a special container which shall be far away from the fire source and marked with fire prohibition sign and equipped with fire-fighting equipment to prevent fire accidents. Machine oil leaking from the equipment should be cleaned in time, and measures such as the oil drip pan should be taken to prevent land pollution;

- For acidic reagents that require neutralisation, the resulting pH value of the reagents after neutralisation should reach 6-9 before being discharged with appropriate amount of water; and

- Strengthening management over certain polluting waste through "returning used materials to get new ones" or delivering such waste to qualified unit for disposal, so as to reduce waste generation.

The Group disposed of hazardous waste according to regulations during the Reporting Period, and did not cause environment pollution or receive relevant complaints.

Non-hazardous waste management

Non-hazardous waste is primarily generated from office and production process, including domestic waste, canteen waste, green garbage and waste materials. Total non-hazardous waste generated during the Reporting Period is set out below:

Non-hazardous waste	2023	2022
Total (tonne)	102	101
Intensity (kg/per tonne of products)	0.72	0.7

During the Reporting Period, the total amount and intensity of non-hazardous waste were generally the same as that of the previous year.

Although such category of waste does not result in material environment pollution, the Group is still committed to proper treatment and disposal of non-hazardous waste, and adopts measures to reduce its generation. For instance, the Group set up several trash bins designated for different kinds of waste in production plants for secure storage, and handed over such waste to qualified unit for disposal or recycling. Besides, it strengthened skills trainings for employees to enhance their expertise and competence. The Group also increased assessment on consumables and energy consumption indicators without prejudicing product quality to reduce waste generation.

Greenhouse gas emissions and exhaust gas emissions

During production, carbon dioxide, methane, nitrous oxide and other greenhouse gases will be directly emitted during the operation of production vehicles such as forklifts, cranes and pipe grabbers, as well as from the plasma and oxyacetylene cutting process. Moreover, greenhouse gases will also be generated indirectly from water and electricity consumption.

During office work, carbon dioxide, methane, nitrous oxide and other greenhouse gases will be directly generated from running vehicles and natural gas used in the canteen, and indirectly from water and electricity consumption.

Total greenhouse gas emissions of the Group during the Reporting Period are set out below:

Greenhouse gas emissions	2023	2022
Scope 1 (tonnes of carbon dioxide equivalent)	392	357
Intensity (kg of carbon dioxide equivalent/per tonne of products)	2.8	2.46
Scope 2 (tonnes of carbon dioxide equivalent)	5,832	7,068
Intensity (kg of carbon dioxide equivalent/per tonne of products)	41.6	48.7

The greenhouse gases emissions in the Report are calculated with reference to the "Reporting Guidance on Environmental KPIs" issued by the Hong Kong Stock Exchange, the "2019 China Regional Power Grid Baseline Emission Factors For Emission Reduction Project" issued by the Ministry of Ecology and Environment of the PRC, the "Greenhouse gas reporting: conversion factors 2021" issued by the Department for Business, Energy & Industrial Strategy of the UK Government and research reports issued by other institutions.

Scope 1 greenhouse gas emissions during the Reporting Period were primarily generated from natural gas, acetylene, diesel oil and gasoline; and scope 2 greenhouse gas emissions were primarily generated from power consumption. Overall, the greenhouse gas emission intensity decreased by approximately 13%, which was mainly due to the decrease in electricity consumption during the production process as a result of the decrease in anti-corrosion production output as compared to the previous year.

The major measures taken to mitigate emissions were reducing energy consumption, the details of which are set out in the section headed "Energy Consumption and Efficiency" in the Report.

Sewage discharge

The Group discharges sewage into water and land during production and office-work processes, including industrial wastewater, domestic sewage and canteen sewage. Water consumed in the production process will generally be recycled, and sewage will be treated in the sedimentation tank before being discharged, so as to comply with local regulations on sewage discharge, and avoid polluting local drinking water. In addition, the Group also entrusts qualified third party testing institutions to conduct tests for sewage generated and treated by the Group on an annual basis, in order to ensure that the water quality is up to standard.

Efficient Use of Resources

The Group formulated the Procedures for Control of Energy and Resources* (《能源、資源控制程序》), which stipulates the administrative measures for the general use of energy and resources to enhance energy and resources management. Corporate management department is responsible for setting up annual targets based on production needs, monitoring and performing assessments.

Energy consumption and efficiency

The Group consumes primarily electricity, gasoline, diesel oil and natural gas in production and office work. Total energy consumption of the Group during the Reporting Period is set out below:

Energy consumption	**2023**	**2022**
Electricity (kWh)	9,892,212	11,989,160
Diesel oil (kWh)	1,121,630	1,055,182
Gasoline (kWh)	298,537	212,943
Natural gas (kWh)	102,731	94,655
Total energy consumption (kWh)	11,415,110	13,351,940
Intensity (kWh/per tonne of products)	0.08	0.09

During the Reporting Period, the total energy consumption decreased as compared with 2022, mainly due to the decrease in electricity consumption during the production process as a result of the decrease in anti-corrosion production output. The intensity was generally stable.

The Group's effort to boost energy use efficiency by way of upgrading the assessment mechanism, adopting new approaches and conducting staff trainings:

- Further optimisation of the assessment mechanism for material consumption and enhancement of incentives on cost reduction and efficiency enhancement of production units to raise energy efficiency during the production process;

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

- Cooperate closely with power companies to apply for capacity reduction based on planned electricity consumption when necessary. Adjustment of the Group's basic electricity billing method at the production bases as and when appropriate based on the Group's actual production condition and power consumption policy to ensure that its electricity bill is at the minimum method at the production bases;

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

- Strengthening energy control and supervision by joining hands with the technology department to check equipment power consumption in each production factory, identifying the equipment with the most power consumption and informing each factory of high power consumption equipment, focusing on energy efficiency management and delivering better management results.

Water consumption and efficiency

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

Water consumption	2023	2022
Water (cubic meter)	68,476	53,412
Intensity (cubic meter/per tonne of products)	0.46	0.37

During the Reporting Period, the total water consumption and intensity increased compared with 2022, mainly due to the continuous low winter temperatures in 2023 causing certain water pipes and fire hydrants to freeze and leak.

The Group adopted multiple measures to enhance water efficiency, including reusing water for production; promoting the use of water-saving taps and sanitary wares with sensors; raising employees' awareness on water saving through trainings, putting up slogans, etc.; and implementing various measures such as organizing water-saving corporate activities. The water source that is fit for purpose of the Group is the running water supplied by the government, which guarantees its reliable quality and ample supply. There has been no suspension of water supply without any reason.

Use of packaging materials

Pipe-end protectors, pipe-end seals and nylon separation ropes are used in simple packaging of our pipes according to clients' needs. Relevant consumption data during the Reporting Period is set out below:

Consumption of packaging materials	2023	2022
Pipe-end protectors (article)	54,100	80,000
Pipe-end seals (piece)	38,025	37,657
Nylon separation rope (strip)	60,110	80,620

Consumption of packing materials is determined by sales volume of pipes and customer requirements. The Group vigorously controls consumption indicators to minimize waste of packaging materials.

Climate Change

Climate change may intensify in the coming decades, so the Group has been committed to mitigating the risk of climate change. The Group strives to reduce greenhouse gas emissions, various wastes and consumption of energy resources, so as to reduce the financial risks caused by climate change.

To enhance control over risks arising from climate change, the Group identified physical risks relevant to the business operations of the Group (being risks relating to the physical impact of climate change) and transitional risks (being risks relating to transition to the low carbon economy) with reference to suggestions from the Task Force on Climate-Related Financial Disclosures. Details of such risks, their potential impact and countermeasures of the Group are set out below:

No.	Risk identification		Potential impact	Countermeasures
1	Physical risks	Acute risk-extreme weather such as typhoon, sandstorm, flood, extreme temperature difference, heavy air pollution, etc.	Causing damage to plants, products and other physical assets, interrupting supply chain and threatening lives.	Due to the geographical conditions of the places where members of the Group are domiciled, extreme weather such as typhoon, sandstorm, flood and extreme temperature difference rarely occur. Establish emergency response mechanism for heavy air pollution, improve employees' capability to prevent, alert against and respond to heavy air pollution, timely and effectively implement emergency response to heavy air pollution, minimise air pollution and create a good environment.
2		Chronic risk-prolonged high temperature	Causing damage to production facilities and employees' health, and increasing work-related accidents.	The office is equipped with air conditioning, and the production site is equipped with fans to reduce temperature. Employees will be granted cooling supplies and bonuses from June to September each year, and outdoor work during high temperature period will be reduced or shifted to night work. Emergency plans for heatstroke are formulated and exercised on a regular basis.

No.	Risk identification		Potential impact	Countermeasures
3	Transitional risks	Policy and legal risks-changes in climate-related policies and laws (such as implementation of the carbon-pricing regime)	Restricting operating activities and escalating operating and compliance cost.	The Group keeps a close eye on changes in laws and regulations and actively responds to local government actions. There were no changes in climate-related laws and policies during the Reporting Period.
4		Technology risk-development of new low carbon technologies (such as renewable energy and energy efficiency)	Lagging behind in application and development of new technologies may cripple competitiveness, while applying and developing new technologies may incur higher investment and equipment replacement rate.	The Group will make various evaluations on new technologies and new products to ensure that the principal business of the Group will not be affected and the competitiveness of the Group will not be weakened.
5		Market risk-the market increasingly heightens awareness on issues concerning climate change and any change in market preference may impact the supply and demand of products	Increase in price of environmental-friendly materials driven by higher demand will boost cost.	The Group will keep close track of market trends and make timely adjustments to production and sales strategies.
6		Reputation risk – opinions of customers or society on contributions made to transit to the low-carbon economy	Falling-short-of expectation achievements in transition to the low-carbon economy may affect the Company's reputation.	The Group will maintain communication with stakeholders from all circles of society to understand their view and suggestions to the Group and respond to them whenever appropriate.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Management over Impact on the Environment and Natural Resources

The Group has formulated the Planning Procedures for Identification, Evaluation and Control of Environmental Factors* (《環境因素識別、評價與控制策劃程序》) and the Procedures for Control of Energy and Resources* (《能源、資源控制程序》), which set out policies on minimising the impact on the environment and natural resources. These policies also designate control requirements for identifying, evaluating and updating environmental factors and administrative measures for the general use of energy and resources, so as to promote clean production.

The Group considers environmental factors resulted from the production process that have global influence, cause deep concern of the community, receive reasonable complaints from related parties, affect corporate image, and are included in the National Catalogue of Hazardous Wastes* (《國家危險廢物名錄》) as significant environmental factors. These factors comprise of four aspects, namely consumption of energy and resources, emission of hazardous wastes, fire smoke and noise. The following measures have been taken to control the relevant impacts:

- Enhancing maintenance and ensuring proper functioning of equipment with the installation of devices for sewage treatment, smoke recovery and noise elimination to reduce environmental impact;

- Handing hazardous waste over to qualified institutions for disposal or recycling;

- Increasing trainings and conducting regular supervisions and inspections to prevent any adverse impact caused by improper operation on the environment;

- Enhancing skill levels and competence of employees, setting up assessment criteria and promoting the awareness of energy saving and consumption reduction;

- Planting grass lawn and trees in the surroundings of production bases and roadsides and designating specific personnel to conduct green management in a bid to reduce environmental impact caused in the production process and create a green environment at production bases; and

- Formulating corresponding contingency plans for environmental accidents and conducting regular drills.

CARE FOR EMPLOYEES

The Group regards employees as its valuable resources, and affirms their contributions to the business development of the Group. Accordingly, the Group dedicates itself to providing a desirable working environment for employees, allowing them to tap into their expertise and gain sense of achievement from work. Meanwhile, the Group attaches significant importance to employees' health and safety, and has established the following targets:

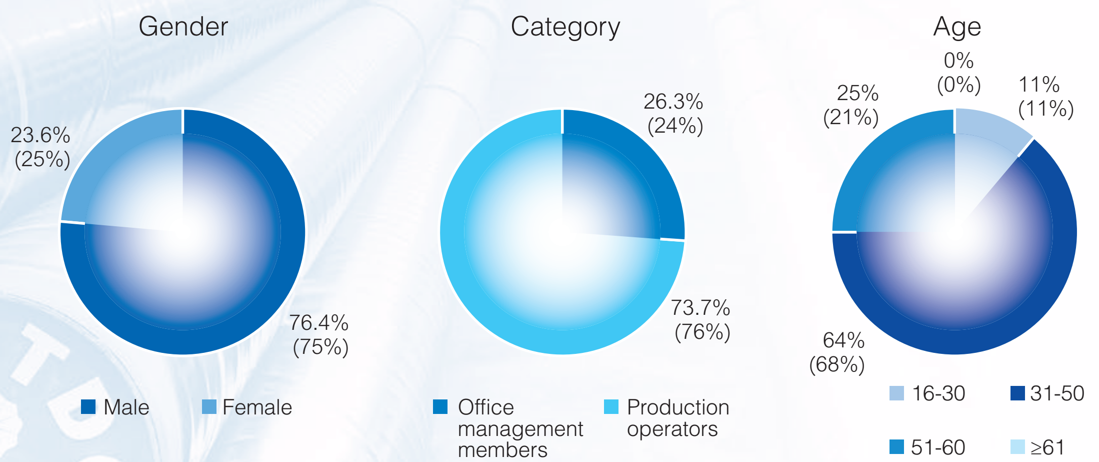
- Zero incident of general accidents, major accidents and serious accidents throughout the year;
- Zero incident of occupational diseases throughout the year;
- Minor accident rate of less than 5‰ throughout the year;
- No material fires, major equipment accidents, explosions or poisoning accidents throughout the year;
- 100% intact rate for safety facilities, occupational health facilities and fire-fighting facilities;
- 100% rectification rate for potential dangers;
- 100% coverage rate for employee safety trainings and 100% training coverage for principals and safety management personnel;
- 100% registration rate for special equipment, 100% inspection rate for special equipment and 100% inspection rate for accessories;
- 100% qualification rate for occupational safety trainings and 100% certified rate for special operation personnel; and
- Over 98% inspection acceptance rate for occupational hazard factors in worksites and workplaces.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

EMPLOYMENT

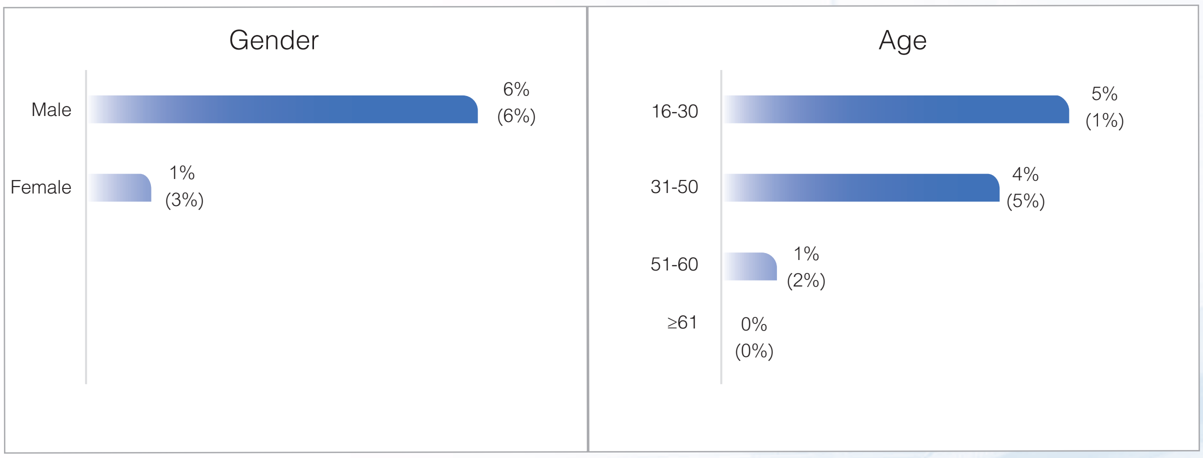
The Group has set up the Provisions on Administration of Staff Recruitment* (《員工招聘管理規定》), the Provisions on Administration of Labour Contracts* (《勞動合同管理規定》), the Provisions on Administration of Staff Leave* (《員工請假管理規定》), the Provisions on Administration of Labour Discipline* (《勞動紀律管理規定》), the Administrative System for Staff Rewards and Punishments* (《員工獎懲管理制度》), the Ranking Measure for Operating Positions* (《操作崗位分級辦法》), the Ranking Measure for Professional Technical Positions* (《專業技術崗位分級辦法》), the Ranking Measure for General Management Positions* (《一般管理崗位分級辦法》), the Administrative and Assessment Measures for Intermediate and Senior Management* (《中高層管理人員管理考核辦法》) and other systems in accordance with the Constitution of the PRC* (《中華人民共和國憲法》), the Labour Contract Law of the PRC* (《中華人民共和國勞動合同法》), the Law of the PRC on the Protection of Rights and Interests of Women* (《中華人民共和國婦女權益保障法》), the Administrative Rules for Training and Assessment of Special Equipment Operators* (《特種設備作業人員培訓考核管理規則》) and other laws and regulations. These systems set out express requirements in respect of compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare of employees. Comprehensive promotion mechanism, reasonable remuneration structure and good benefits and welfare are also offered to attract, motivate and retain talents. No case of noncompliance was identified by the Group during the Reporting Period.

For the year ended 31 December 2023, the Group had a total of 513 employees (2022: 539 employees), the majority of whom were in mainland China. Set out below is a breakdown:



Percentages in the brackets represent employee information in 2022

A total of 36 employees (2022: 47 employees) left the Group during the Reporting Period, all of whom were in mainland China. The turnover rate fell in the normal range. Set out below is a breakdown of employee turnover rate by gender and age:



Percentages in the brackets represent employee information in 2022

Equal opportunity, diversity and anti-discrimination

The Group pays respect to the individual and cultural backgrounds of each employee and believes that discrepancies in background may offer an opportunity for them to learn from each other, and help to improve creativity. Therefore, the Group opposes discrimination and does not discriminate against employees because of, among others, gender, disability, pregnancy, family status, race and religion. Employees are provided with equal and diversified development opportunities to foster a harmonious working environment.

Recruitment, promotion and dismissal

The Group has established administrative systems such as the Procedures for Administration of Human Resources* (《人力資源管理程序》) and the Provisions on Administration of Labour Contracts* (《勞動合同管理規定》), which provide express requirements for recruitment. Such systems are amended and finalized by the human resources department to ensure compliance with the applicable laws and regulations. The Group prepares the annual recruitment plan based on annual demand forecast. Meanwhile, the Group organises recruitment programmes according to the Provisions on Administration of Staff Recruitment* (《員工招聘管理規定》) by setting up selection, interview and overall evaluation process to ensure recruited personnel conform to the Company's requirements.

Employees of the Group are categorized on the basis of their position types, including operating, technical and management positions, with each position divided into different grades. Smooth career progression is offered to employees who are capable to compete for senior positions when they fulfil the criteria of seniority and performance.

The Group encouraged employees to strive for promotion opportunities. Pursuant to the Measures for Selection of Senior Technicians in Operating Posts* (《操作崗位高級技術工選拔辦法》), in August 2023, Shandong Shengli Steel Pipe launched registration by employees from different posts. After theoretical/practical examination, unit evaluation and final approval by the leading group of Shandong Shengli Steel Pipe, 63 employees were selected as senior technicians, who come from 10 different technical posts. Employees qualified as senior technicians are entitled to senior technician allowance from 1 September 2023. In October, Shandong Shengli Steel Pipe selected 18 internal technicians from the senior technicians pursuant to the Administrative Measures for Internal Technicians* (《內聘技師管理辦法》), and expected them to capitalize on their skill advantages, discharge their responsibilities with diligence, motivate other employees to effectively perform duties and spare no effort to improve post skills, thereby contributing to the development of the Group.

2023 senior technicians selection

Pursuant to the Administrative Measures for Qualifications and Remunerations of General Management Post, Finance Post and Technical Post* (《一般管理崗位、財務崗位、技術崗位任職資格及薪酬管理辦法》), Shandong Shengli Steel Pipe launched classification of personnel in general management post, finance post and technical post in July 2023, and staff competed for posts commensurate to their competence after duty performance appraisal (conducted on a semi-annual basis), English test and qualification verification with reference to their annual comprehensive assessment scores and experience, which fully mobilized employees, enhanced corporate cohesion and facilitated better corporate development.

English test

In order to provide more support and care to undergraduate interns, on 1 September 2023, Shandong Shengli Steel Pipe launched the 2023 exchange meeting for undergraduate interns. Leaders of the company and relevant departments, as well as ten undergraduate interns participated in the meeting. Shandong Shengli Steel Pipe encourages undergraduate interns to take advantage of the precious learning time to set the solid foundation, and explore more skills and knowledge with the professional staff, so as to better adapt to the new working environment, and expects them to grow up as soon as possible and contribute to the development of the company with their own strength.

Seminar for undergraduate interns

Salary and benefits, working hours and holidays

The Group offers competitive remuneration packages depending on the nature, responsibilities, levels of skills required for the positions as well as other factors such as working environment, working hours, post requirements and rewards and punishments. In addition, the Group offers sales commission, options and other incentives.

The Group has complied with the laws and regulations and industry practices with regard to working hours and rest periods. Some employees are required to work in non-working hours or statutory holidays out of work demands, to which end the Group has formulated various compensation systems such as overtime pay and rotating days-off.

The Group operates canteens and bachelor's quarters in production bases, providing catering services and accommodation to employees with reasonable price, and also arranges commuting shuttle buses for employees for free. In summer, the Company distributes cooling products to employees and grants cooling bonuses, and conducts regular occupational health checks for staff in specific positions, while during traditional festivals like Lunar New Year and Mid-Autumn Festival, festive benefits are distributed.

On 8 March 2023, gifts for Women's Day activities were distributed to female employees

Occupational Health and Safety

The Group considers safety as the bottom line that cannot be treaded upon. Upholding the people first and life foremost principle, it gives top priority to protecting people's life safety, persists in the safe development concept and remains committed to the safety policies, so as to preclude and mitigate material safety issues at the source. Major health and safety measures include:

- Setting up a safety production committee to ensure the Company's safety production, occupational health, double prevention system, fire safety, radiation safety, emergency rescue, environmental protection and hazardous waste disposal.

- Each subsidiary conscientiously implements the safety management principle of "Complying with Laws and Regulations to Ensure Health and Safety" of the Group, identifies and controls the sources of dangers in production and office activities, and determines responsible units to reduce the safety impact and improve the safety performance.

- Each subsidiary observes relevant laws and regulations, delegates the environmental and safety objectives to the production frontline and relevant management departments, establishes departmental environmental and safety objectives and maintains supervision on a monthly basis, and incorporates environmental and safety management into the performance appraisal of each department, which is monitored and overseen by particular department on a regular and ad hoc basis.

- The environmental and safety aspect is emphasised in the supervision and management measures carried out by the Group, including daily check, joint inspection, identification and assessment of hazardous environmental factors, compliance assessment, internal audit, external audit and management evaluation, so that any matters of concern can be identified, rectified and continuously improved with precaution measures. Incessant effort has been made to strengthen environmental management and mitigate the impact on environment and natural resources.

- Strengthening the management over on-site violations, implementing the safety production responsibility system for all employees, and strictly cracking down on on-site violations. Management at all levels are required to perform their job responsibilities, enhance management and service awareness, and effectively discharge supervision responsibilities while completing their post tasks. Control measures must be formulated for material risks with executives of the Company taking the lead and frontline employees to implement, so as to develop the control model of "executives of branch factories taking the lead + instructions by the functional departments + implementation by frontline employees" to ensure effective risk control.

- Carrying out special production safety rectification activities, conducting targeted special inspections based on the actual situation of the subsidiaries of the Company, and initiating regular or irregular safety inspections by way of random inspection, special inspection, self-inspection and mutual inspection. Proactively conducting regular inspection over the special equipment, fire control facilities, etc. of the subsidiaries, and preventing operations with illness. Effectively managing the safety operation of hand-held electric tools and slings of each subsidiary, so as to avoid potential safety hazards and accidents.

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

On 30 January 2023, at the beginning of work after the Spring Festival holiday, Shandong Shengli Steel Pipe organised all employees to carry out the safety training and education activity named "First Lesson after Back to Work" upon 2023 Spring Festival holiday. Zhao Zengqiang, its main person in charge and general manager, gave lectures to all employees, aiming to call on them to enhance safety awareness before starting work. Upon completion of the training, each employee can transform the ideas from "I need to be safe" to "I want to be safe" to "I will be safe" to "I can be safe" and raise their awareness. The training also emphasised firmly abandoning the old thoughts and bad habit of "production volume is priority regardless of safety" and "work is priority regardless of safety", and repeated that everyone is the first person responsible for his/her own safety.

First lesson after back to work upon the Spring Festival

On 2 June 2023, Shandong Shengli Steel Pipe held the launch ceremony of the 22nd National "Safety Production Month" activity, which was presided over by its chief safety officer, and its deputy general manager, department heads and employee representatives attended the launch ceremony.

Launch ceremony of "Safety Production Month" activity

On 7 October 2023, the first working day after the Mid-Autumn Festival and National Day holiday, in order to ensure that the Company's employees are quickly ready for work after the holiday and firmly establish the idea of "the first thing to start work is to pay attention to safety and emphasize safety", the "first lesson" of starting work with safety as the main content was organised to effectively gather the personnel's thoughts, strengthen the safety awareness of all employees, and firmly prevent the occurrence of production safety accidents. Shandong Shengli Steel Pipe carried out "the first lesson to start work" activity for safe production in a centralised manner.

The first lesson to start work after the National Day holiday

In order to further improve the ability of each unit of the Company to deal with production safety accidents, standardize emergency management work, improve the level of on-site disposal of production safety accidents, and minimize the casualties and financial losses caused by accidents, in April 2023, Shandong Shengli Steel Pipe made a re-preparation and evaluation of the Company's emergency plan for production safety accidents in accordance with the requirements of relevant laws and regulations. The emergency plan demonstrates our implementation of the safety principle of "safety first, prevention oriented, and comprehensive governance". At the same time, it can standardize the emergency management work, enhance the ability to deal with and prevent risks and accidents, protect the life, health and safety of employees and the public, and minimize financial loss, environmental loss and social impact.

Review for emergency plans

In order to implement the theme of "everyone pays attention to safety, everyone responds to emergencies well" for the 22nd National Safety Production Month, and also to test the effectiveness and suitability of the Company's production safety accident emergency plan (2023 version) and improve emergency response capabilities, Shandong Shengli Steel Pipe held an emergency drill of "special emergency plan for mechanical injury accidents" at the No. 3 Factory in the afternoon of 28 June 2023 in accordance with the Company's annual emergency response plan.

The drill of emergency plan for mechanical injury accidents

In order to further promote the spirit of the document on rectification of major accidents in the industrial trade industry, on 20 July 2023, Shandong Shengli Steel Pipe engaged Shandong Jinshun Safety Consulting Service Co., Ltd.* (山東金舜安全諮詢服務有限公司) to conduct production safety review on the Company. The review comprehensively evaluated eight aspects of the Company's production safety management, safety quality of employees, safety risk control and potential safety hazards management, production safety investment, safe operation of industrial equipment, intelligent construction of information technology, preparation and drills for emergency plans and other matters through on-site inspection, file review, personnel inquiry and investigation. Production safety review is an important part of fulfilling the main responsibility of corporate production safety and realizing the institutionalization and standardization of safety risk control and potential safety hazards investigation and governance. In the future, the Company will strengthen the management of potential safety hazards investigation and governance, and further improve the Company's safety management level and production safety guarantee ability.

The review meeting for production safety

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

On 30 November 2023, the Safety Department of Shandong Shengli Steel Pipe organized the heads of production units and team leaders of the Company to conduct special training on safety management. The main content of the training is: basic knowledge of production safety management, Order No. 10 of the Ministry of Emergency Management of the People's Republic of China, "Standards for Determining the Potential Risks of Major Accidents of Industry and Trade Enterprises" (《工貿企業重大事故隱患判定標準》), "Basis for Industrial and Trade Safety Inspection Problems" (《工貿安全檢查問題依據》) and related accident cases. The purposes of this training are to deeply analyze the actual problems of the Company and strengthen production safety management through the interpretation of document standards; interpret the purpose and specific implementation methods of various safety management systems; explain basic risk identification and control methods, and master the operating mode of the Company's double prevention system; remind everyone of the importance of production safety through shocking warning accident cases.

The special training for safety management

Set out below is the information regarding the work-related injuries and casualties of the Group for the last three years:

Year	Work-related injuries (individual)	Work-related casualties (individual)	Proportion (%)	Working days lost (day)
2021	3	0	0	118
2022	1	1	0.3	6,104
2023	4	0	0.77	395

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

The Group has conducted research into the four work-related injuries during the Reporting Period and launched safety education for the responsible personnel. Employees who suffered from work-related injuries are required to receive the safety awareness assessment before getting back to work after recovery, and only those passing the assessment are permitted to return to their posts. Detailed inspection and resolution reports have been prepared for all the accidents pursuant to accident treatment requirements, and the Company has settled compensations and paid penalties according to relevant regulations.

Save as measures disclosed above, Shandong Shengli Steel Pipe also purchased the "Shandong Inclusive and Preferential Insurance* (齊惠保)" issued in Zibo City for its employees for four consecutive years, which extended the medical coverage provided to employees beyond the basic medical insurance.

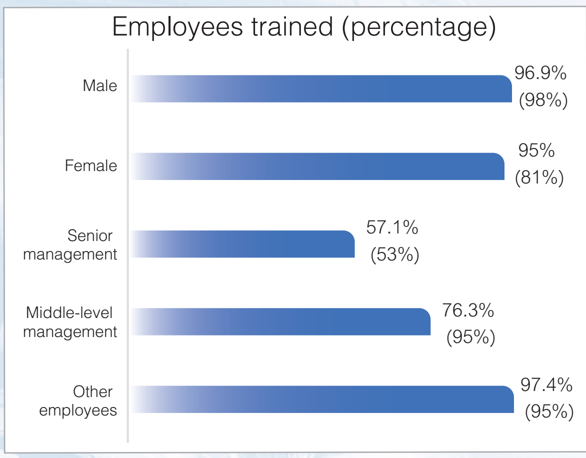
The Group has formulated provisions on the administration of occupational health and safety including the Planning Procedures for Identification of Origin of Hazards and Evaluation and Control of Risks* (《危險源辨識與風險評價和控制策劃程序》), the Control on Production Process and Control Procedures for Environmental, Occupational Health and Safety Operation* (《生產過程控制及環境職業健康安全運行控制程序》), the Procedures for Administration of On-site Safety Protection* (《現場安全防護管理程序》), the Procedures for Administration of Labour Protection* (《員工勞動保護管理程序》), and the Provisions on Administration of Fire Protection* (《消防安全管理規定》) in compliance with the Law of the PRC on Safe Production* (《中華人民共和國安全生產法》), the Fire Protection Law of the PRC* (《中華人民共和國消防法》), the Law of the PRC on Prevention and Control of Radioactive Pollution* (《中華人民共和國放射性污染防治法》), the Measures for Regular Supervision and Administration of Hazardous Factors of Occupational Diseases of Employers* (《用人單位職業病危害因素定期監測管理規範》), the Provisions on Administration of Labour Protection Articles* (《勞動防護用品管理規定》), the Administrative Measures for Occupational Health of Radiological Personnel* (《放射工作人員職業健康管理辦法》), the Administrative Measures for Occupational Health Surveillance* (《職業健康監護管理辦法》), the Regulation on Work-Related Injury Insurances* (《工傷保險條例》) and other laws and regulations. The purpose of these provisions is to prevent the occurrence of safety issues/accidents by strengthening the control over origin of hazards, fostering the enhancement of occupational health and safety conditions and raising the occupational health and safety awareness of employees. No case of violation was identified during the Reporting Period.

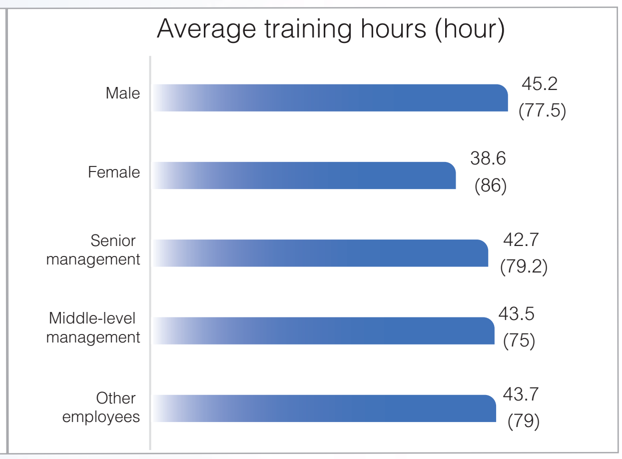
Development and Training

Pursuant to relevant requirements, the Group compares the knowledge and competence necessary for its staff at positions of different levels and functions with those possessed by its existing employees, and determines the training needs for its employees according to the difference between the former and the latter.

The Group enhances the competence of its employees by a combination of internal trainings and external trainings. The implementation rate of training programmes during the Reporting Period was 100% (2022: 100%). Internal trainings carried out during the Reporting Period include safety education training (level 3), position skills training, trainings regarding rules on safe operation and trainings on awareness of the quality, environment, and occupational health and safety management system; and external trainings carried out include training for special equipment operating personnel, product standard training, physical and chemical employee training, safety management personnel training, and induction training for administrator of hazardous chemical substances.

A total of 487 employees received trainings provided by the Group during the Reporting Period. Set out below is a breakdown of percentage of employees trained and average trainings hours:





Percentages/data in the brackets represent employee information in 2022

PREVENTION OF CHILD OR FORCED LABOUR

The Group has formulated labour systems such as the Provisions on Administration of Staff Recruitment* (《員工招聘管理規定》) and the Provisions on Administration of Labour Contracts* (《勞動合同管理規定》), which specify staff recruitment procedures to avoid the recruitment of child labour and ensure the fulfilment of entry requirements by recruited staff through examining their identification cards and graduation certificate. The Group is required to enter into written labour contracts with employees upon their entry, which can be terminated upon mutual agreement between subsidiaries of the Company and the employees in accordance with the provisions on termination of contracts. There is no forced labour within the Group.

The Group acts in strict compliance with the Labour Contract Law of the PRC* (《中華人民共和國勞動合同法》), the Law of the PRC on the Protection of Minors* (《中華人民共和國未成年人保護法》), the Provisions on the Prohibition of Using Child Labour* (《禁止使用童工規定》) and other laws and regulations. No case of violation was identified during the Reporting Period.

SUPPLY CHAIN MANAGEMENT

The Group is committed to satisfying the needs of customers with quality products and services. As in the production process, the Group uses products and services from different suppliers, supply chain management is therefore a crucial component of the Group's operation. The Group expects to exert a positive influence on the customers and suppliers through business operations and promote local harmony, so as to ultimately share the economic benefits with them.

The Group has formulated the Procedures for Control of Suppliers* (《供方控制程序》), which sets out the requirements for the evaluation, selection, re-evaluation and control over suppliers to ensure the products procured meet the procurement requirements. The suppliers of the Group provide raw materials, equipment, accessories, labour protection articles and transportation services. During the Reporting Period, a total of 319 (2022: 242) suppliers conducted transactions with the Group, the majority of which are located in the PRC. The increase in the number of suppliers was mainly due to an increase in the number of suppliers for minor procurement, maintenance and transportation. In order to reduce procurement costs, the Group increased suppliers through various channels and selected suppliers that provide the most preferential price. Based on the degree of impact of products or services rendered by suppliers in terms of product quality, environment and health and safety, the Group distinguishes between essential suppliers and general suppliers and conducts evaluation, selection and control accordingly.

The Group primarily selects and evaluates suppliers from the following aspects:

- Evaluating their technology and management foundation;
- Comparing the historical level and test results of similar products and the experience of other users;
- Evaluating the standards of the their products;
- Evaluating their production capacity, delivery quality, reputation, product price and services;
- Implementing First Article Inspection to ensure that the purchased products meet the specified requirements;
- Whether the products supplied by them meet the specific requirements under the restrictions of patents, laws and regulations and/or contract terms;
- Evaluating their product samples, which may be conducted through experimental activities; and
- Adopting on-site review where necessary.

MANAGING ENVIRONMENTAL AND SOCIAL RISKS OF SUPPLY CHAIN

The Group selects suppliers which are able to provide premium products and services and observe the Group's ESG standards. With regard to suppliers in possession of administrative licences of regulations and safety technical guidelines, the Group not only examines the quality, environment, health and safety certification and its validity of the suppliers, but also confirms the qualification of them.

In addition to the above-mentioned considerations concerning qualifications, quality and economy, the Group also pays attention to the environmental and social performance of suppliers, which is one of the criteria of the Group in selecting suppliers. The Group rejects suppliers who use child or forced labour, and gives priority to more environmental-friendly products provided that they have reasonable technology and cost. The Group has established a win-win cooperation relationship with suppliers, and expects to exert positive influence on their environment, health and safety performance, and urge them to make improvements, so as to facilitate the Group to manage potential environmental and social risks.

PRODUCT RESPONSIBILITY

The Group strictly abides by the Law of the PRC on Product Quality* (《中華人民共和國產品質量法》), the Law of the PRC on the Safety of Special Equipment* (《中華人民共和國特種設備安全法》), the Trademark Law of the PRC* (《中華人民共和國商標法》), the Patent Law of the PRC* (《中華人民共和國專利法》), the Basic Requirements of Quality Assurance System for Manufacture, Installation, Alteration and Repair of Special Equipment* (《特種設備製造、安裝、改造、維修質量保證體系基本要求》), the Provisions on the Supervision and Inspection on Pressure Pipe Units Manufacturing* (《壓力管道元件製造監督檢驗規則》) and other laws and regulations to strengthen the control over production process and the control over environmental, health and safety operation. No case of violation was identified during the Reporting Period.

At the beginning of the production for the national pipe network project in 2023, in order to ensure the quality of the Company's steel pipes and improve the technical level of inspectors, the quality inspection institute of Shandong Shengli Steel Pipe conducted technical training for inspectors in batches in September and October 2023 according to the production tasks.

Technical training for inspectors

On 28 November 2023, as the PipeChina Hulin-Changchun Natural Gas Pipeline Project (國家管網工程虎林－長春天然氣管道工程) was about to start construction, Shandong Shengli Steel Pipe launched the 2023 quality awareness training. More than 60 people, including the leaders of the company, leaders of each grassroots unit, team leaders and key personnel, participated in this training.

Quality awareness training

In late November 2023, Pre-welding Branch Factories of Shandong Shengli Steel Pipe took advantage of the time for material maintenance to organise the comprehensive training and learning activities for each staff in key positions to carry out post-process and operation procedures in batches. Taking the post-process execution and operation standards, lubrication and maintenance and safety as the core, the training has further enhanced the safety and quality awareness of staff in key positions, familiarised them with lubrication points of equipment and conducted onsite self-examination and self-correction, as well as increased the investigation of risks points hidden in post, which made a good guidance for safety production in the future.

Comprehensive training and learning activities

On 12 December 2023, Shandong Shengli Steel Pipe carried out the internal training on the 10th edition of API Spec Q1, and relevant leaders and internal auditors participated in this training. The 10th edition of API Spec Q1 was published in September 2023 and will be officially implemented on 18 September 2024. The quality management department organised this training on the changes of the standards in the new version, and deepened the participants' understanding of the training content and changes of the standards through answering questions on test papers.

Internal training on the 10th edition of API Spec Q1

Health and safety of products and services, product quality verification and re-call procedures

The Group currently owns a provincial research centre for steel pipe engineering technology for the transmission of oil and natural gas and a nationally recognised quality testing laboratory, equipped with skillful production inspection teams and state-of-the-art production inspection facilities and devices. Solid quality assurance systems such as the Planning Procedures for Product Realisation* (《產品實現策劃程序》), the Procedures for Product Surveillance and Survey Control* (《產品監視和測量控制程序》) and the Procedures for Control of Defective Goods* (《不合格品控制程序》), as well as systems for safety management and position duties have also been established. Leveraging on its advantages in respect of production, technology, economics and management and its strength, the Group provides customers with premium, healthy and safe products.

The Group has formulated the non-destructive testing review and re-examination system to avoid the testing omission of defects through the implementation of review of radiographic testing drawing by non-destructive testing technicians, re-examination of qualified steel pipes via ultrasonic testing by designated personnel with metal detectors, and review of radiographic testing drawing by a third party. In case any suspected defects are identified during the review and re-examination process, the defective steel pipes are required to be returned to the branch factories for inspection and treatment. Any steel pipes that miss testing will be withheld in strict accordance with the steel pipe withholding process to prevent the defective pipes from being delivered to the construction sites of customers. Meanwhile, the relevant responsible personnel shall be strictly assessed and handled.

By optimizing and upgrading the radiographic testing equipment, the Group increased the proportion of radiographic testing shooting to improve the sensitivity of radiographic inspection. In order to reduce misjudgment, the submerged-arc helical welded pipe branches were required to at least achieve shooting at the pipe joints and ends of the preceding and succeeding pipes. The Group also strengthened the management of key testing processes such as radiographic testing and non-destructive testing to prevent defective products from leaving the factory.

During the Reporting Period, the Group did not experience any return of products sold or delivered out of safety and health reasons.

Customer service and complaint handling

The Group attaches great importance to product quality and customer opinions. To handle customer complaints with effectiveness and standardization, the Group has formulated the Procedures for Control of Customer-Related Process* (《與顧客有關過程的控制程序》), the Procedures for Control of Defective Goods* (《不合格品控制程序》) and the Contingency Plan for Quality Risks* (《質量風險應急預案》), which set out expressly the procedures and time limit for handling product complaints and product returns.

The Group has set up a localised after-sales service office for important pipelines. Before the products are transported to the construction site, the service personnel shall arrive first to assist the customers in accepting the products, and deal with the possible product quality problems that may be caused during transportation and possible problems involving the products during on-site construction as soon as possible, so as to meet the needs of customers with high-quality after-sales services.

After receiving product complaints, the Group will take the initiative to communicate with customers and negotiate about the ways to deal with the complaints. For on-site product quality issues, responsible staff will be assigned to the construction site to identify, evaluate and record the matter of concern of products within 24 hours. Complaints in other aspects will be investigated and handled in three days, and the outcome of investigation will be reported back to the complaining customers.

The Group did not receive any product or service complaints during the Reporting Period.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Responsible advertising and labeling

The Group acts in good faith and is dedicated to establishing long-term and mutually beneficial relations with customers. Therefore, the Group resolutely safeguards the interests of customers, and requires accurate, true and objective information release and product labeling. To this end, the Group has formulated the Measures for the Administration of Information Disclosure* (《信息披露管理辦法》), the Regulations for the Administration of Publicity and Reporting* (《宣傳報道管理規定》), the Regulations for the Administration of Publicity of Enterprise Information* (《企業信息公示管理規定》), the Administrative System for Trademark* (《商標管理制度》) and the Regulations for the Administration of Product Labels* (《產品標識管理規定》) to regulate the process of releasing advertisements and labeling.

The Group observed Measures for the Administration of Commercial Franchise Information Disclosure* (《商業特許經營信息披露管理辦法》), Interim Regulations on Enterprise Information Publicity* (《企業信息公示暫行條例》), Interim Measures for Spot Check of Enterprise Publicity* (《企業公示抽查暫行辦法》) of the PRC, Advertising Law of the People's Republic of China* (《中華人民共和國廣告法》) and other regulations. No case of violation was identified during the Reporting Period.

Protection of private data and intellectual property rights

The Group has formulated the Administrative System for Technology* (《科技管理制度》), the Provisions on Administration of Computer* (《計算機管理規定》), the Provisions on Administration of Corporate Email* (《企業郵箱管理規定》) and the Provisions on Administration of Network Information System* (《網管信息系統管理規定》), etc. to determine the management requirements for privacy matters such as consumer data, intellectual property rights and information security.

The Group values intellectual property rights, and strictly prohibits employees from using images, designs and other forms of intellectual property rights that do not belong to the Group or themselves without authorization. Meanwhile, the Group encourages employees to apply for patents and publish papers, and resolutely protects the intellectual property rights in the Group's possession. During the Reporting Period, three technical papers were published by technical staff from the Group in domestic professional magazines and industry annual conferences. One authorized utility model patent has been obtained and one invention patent has been in the process of applying. No complaints or proceedings regarding the infringement of intellectual property rights were received or brought against the Group.

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

The Group proactively participated in the draft of national industry standards. Shandong Shengli Steel Pipe participated in the draft of two national industry standards including Non-destructive Testing of Steel Pipes–Magnetic Particle Testing Method for Surface Flaw of Ferromagnetic Seamless and Welded Steel Pipes* (《鋼管無損檢測鐵磁性無縫和焊接鋼管表面缺欠的磁粉檢測方法》), and Non-destructive Testing of Steel Pipes–Automatic Detection Method for Seamless and Welded Steel Pipe Layered Defects* (《鋼管無損檢測無縫和焊接鋼管分層缺欠的自動檢測方法》), which were officially published on 6 August 2023.

GB

中华人民共和国国家标准

钢管无损检测　无缝和焊接钢管
分层缺欠的自动超声检测

GB

中华人民共和国国家标准

钢管无损检测
铁磁性无缝和焊接钢管表面缺欠的磁粉检测

Two standards participated in drafting

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

From 29 November to 1 December 2023, the 2023 National Welding Pipe Academic Annual Conference was successfully held in Baoji. During the conference, a well-known domestic expert exclusively issued a report on the situation and development trend of domestic and international pipes in 2023. Wang Kunxian (王坤顯), Zhang Shengguang (張聖光) and Li Guosong (李國松) of Shandong Shengli Steel Pipe were awarded the title of distinguished experts in the Steel Rolling Committee of the Chinese Society for Metals (中國金屬學會軋鋼分會). The Application and Improvement of Edge Milling Machine for Spiral Weld Pipe* (《螺旋焊管用銑邊機的應用研究與設計改進》), a paper written by Wu Yusheng* (吳禹勝) of the company, was referenced at the conference, and then he gave a technical exchange lecture.

Pipe academic annual conference

To guarantee information security, the Group has standardized the processes of collecting, storing and using information. For example, the Group only collects information for legal and commercial operation purposes, and only grants relevant employees access to such information. In addition, full-time or part-time staff is deployed to perform centralized management of computer systems and networks, and through enhancing the management of labor discipline and streamlining work procedures, the risk of leakage of corporate information is kept to minimal.

The Group observed Patent Law of the People's Republic of China (revised in 2020)* (《中華人民共和國專利法(2020修正)》), Detailed Rules for the Implementation of the Patent Law of the People's Republic of China (revised in 2010)* (《中華人民共和國專利法實施細則(2010修訂)》), Regulations of Shandong Province on Science and Technology Progress* (《山東省科學技術進步條例》), Regulations on the Promotion of Intellectual Property Rights of Shandong Province* (《山東省知識產權促進條例》), Patent Labelling and Marking Method* (《專利標識標注辦法》), Patent Compulsory Licensing Method* (《專利實施強制許可辦法》) and other regulations. No case of violation was identified during the Reporting Period.

PREVENTION OF BRIBERY, EXTORTION, FRAUD AND MONEY LAUNDERING

The Group has established the Administrative System for Staff Awards and Punishments* (《員工獎懲管理制度》), which sets out the types, measures and procedures of awards and punishments, in strict compliance with the Criminal Law of the PRC* (《中華人民共和國刑法》), the Law of the PRC on Tenders and Bids* (《中華人民共和國招標投標法》), the Contract Law of the PRC* (《中華人民共和國合同法》) and other laws and regulations, with an aim to avoid bribery, extortion, fraud and money laundering. Severe punishment will be imposed on those who violate the laws and discipline for their own benefit, while lenient punishment or mitigation or remission of punishment will be administered to those who make voluntary confession or blow the whistle on others to avoid losses.

The Group conducts stringent management on procurement and tender process, where corruption is likely to take place. Approaches which enable multi-participant and multi-stage approval such as contract review and tender meetings are adopted, reviewed and monitored on a regular basis, so as to prevent bribery, extortion, fraud and money laundering. Meanwhile, various channels to report instances of corruption to senior management of the Group by the employees and other relevant parties have been established, including via phone call, mail, letter and the General Manager's Mailbox. The Group is concerned about each case of corruption and noncompliance, so as to conduct fair and rigorous investigation, and keeps the identity of whistle-blowers confidential to protect their interests.

The Group attaches importance to strengthening the anti-corruption awareness and capability of our employees and external parties engaging in business transactions with the Group, carries out regular inspection over acts in violation of laws and regulations among Group members, and updates and timely popularizes the knowledge system concerning anti-corruption, aiming to enhance the awareness of all employees and parties against corruption.

During the Reporting Period, the Group did not encounter any corruption proceedings or cases.

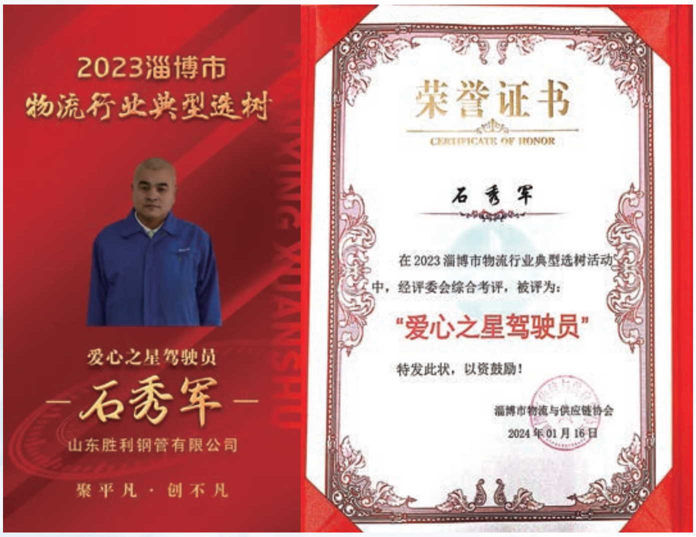
COMMUNITY INVOLVEMENT AND PUBLIC WELFARE

Help students dreams come true with love
During the college entrance examination period from 7 June to 10 June 2023, Love 100 Charity Fleet of FM100 Zibo Transport Voice Broadcasting (FM100淄博交通音樂廣播愛心一百公益車隊) provided emergent services for candidates at the examination site. Love 100 Charity Fleet participates in the love assistance for examination every year, which is a major event. They fully cooperate with urban management, schools, traffic police, public security and other departments to provide various convenient services for candidates. Zhang Zhipeng (張 志 鵬) from Shandong Shengli Steel Pipe participated in this event as a member of Love 100 Charity Fleet.

Care for the elderly to send warmth
On 22 October 2023, the east branch of Love 100 Charity Fleet of FM100 Zibo Transport Voice Broadcasting sent love and warmth to the elderly in Linyu Village, Lingzi Town, Zichuan District in the fourth year. Zhang Zhipeng (張志鵬) from Shandong Shengli Steel Pipe participated in this event as a member of Love 100 Charity Fleet.

The "Love Star" driver

Shi Xiujun (石秀軍) from Shandong Shengli Steel Pipe, a member of Love 100 Charity Fleet of FM100 Zibo Transport Voice Broadcasting, has always been committed to being a dedicated employee without seeking anything in return. He was continuously awarded as an outstanding member of charity fleet and a charity star during the period from 2015 to 2023. In 2023, he was awarded as a "Love Star" driver in the typical selection activity of Zibo logistics industry.



Zhang Jianrong (張建榮) from Shandong Shengli Steel Pipe was awarded as the "Outstanding Member" by "Love 100 Charity Fleet of FM100 Zibo Transport Voice Broadcasting" in 2023.

Zhang Zhipeng (張志鵬) from Shandong Shengli Steel Pipe was awarded the honorary title of the "Charity Star" by "Love 100 Charity Fleet of FM100 Zibo Transport Voice Broadcasting" in 2023.

Shi Xiujun (石秀軍) and Zhang Jianrong (張建榮) from Shandong Shengli Steel Pipe have been enthusiastic about free blood donation for many years. In February 2023, they were awarded the honorary certificates of "Gold Award of Free Blood Donation" by the "National Health Commission of the People's Republic of China", "Red Cross Society of China" and "Health Bureau of the Logistics Support Department of the Central Military Commission".

The Group not only provided mental support for employees to take part in social and welfare activities, but also rewarded them with physical assistance and incentives, so as to pass the spirit of devotion of remaining true to original aspiration and pressing ahead to each employee and let them feel the love and care around.

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* *For identification purpose only*

INDEPENDENT AUDITOR'S REPORT

Mazars CPA Limited
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TO THE MEMBERS OF SHENGLI OIL & GAS PIPE HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Shengli Oil & Gas Pipe Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 114 to 203, which comprise the consolidated statement of financial position at 31 December 2023, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group at 31 December 2023, and of its financial performance and cash flows for the year then ended in accordance with IFRS Accounting Standards issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). Our responsibilities under those standards are further described in the "*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*" section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment of property, plant and equipment and right-of-use assets At 31 December 2023, the Group has property, plant and equipment and right-of-use assets relating to the pipe business with aggregate net carrying amounts of approximately RMB381,035,000. The Group identified two cash generating units in relation to the pipe business, namely "Shandong CGU" and "Xinjiang CGU". The Group's management engaged independent professional valuers to assess the recoverable amounts of Shandong CGU and Xinjiang CGU using the value-in-use calculation based on cash flow projections and the fair value less cost of disposal calculation, respectively, for the purpose of impairment assessment of property, plant and equipment and right-of-use assets relating to the pipe business. We have identified the impairment assessment of pipe business related property, plant and equipment and right-of-use assets as a key audit matter due to the significance of the carrying amounts to the consolidated financial statements and significant estimates made by the Group's management in determining the recoverable amounts of Shandong CGU and Xinjiang CGU. Related disclosures are included in Notes 4(i), 16 and 20 to the consolidated financial statements.	Our procedures, among others, included: • Evaluating the competence, capabilities and objectivity of the independent professional valuers; • Assessing the appropriateness of the methodologies used by the independent professional valuers; • Assessing the appropriateness of using the value-in-use calculation for Shandong CGU and the fair value less cost of disposal calculation for Xinjiang CGU in determining the respective recoverable amounts; • Evaluating the reasonableness of key assumptions based on our knowledge of the industry and market of Shandong CGU and Xinjiang CGU; • Checking, on a sample basis, the accuracy and relevance of the input data provided by the Group's management to the independent professional valuers; and • Checking arithmetical accuracy of the valuation calculation and recognition and disclosure of impairment loss (if any) of Shandong CGU and Xinjiang CGU.

Key audit matter	How our audit addressed the key audit matter
Expected credit losses ("ECL") assessment of trade receivables	
At 31 December 2023, the gross carrying amount of trade receivables and the related allowance for ECL amounted to approximately RMB57,460,000 and RMB1,360,000, respectively. At each reporting date, the management of the Group estimates the amount of ECL on trade receivables based on provision matrix that is based on historical data and is adjusted for forward-looking information of respective trade receivables. The management of the Group believes that they have considered reasonable and supportable information that is relevant and available without undue cost and effort for this purpose. Such assessment has taken the quantitative and qualitative historical information and also, the forward-looking analysis. We have identified ECL assessment of trade receivables as a key audit matter because the carrying amount of trade receivables was significant to the consolidated financial statements and the ECL assessment of these balances required significant judgement and involved high level of uncertainty. Related disclosures are included in Notes 4(iii), 6 and 23(a) to the consolidated financial statements.	Our procedures, among others, included: • Understanding the Group's credit risk management and practices and assessing the Group's ECL policy in accordance with the requirements of applicable accounting standards; • Evaluating the methodologies, inputs and assumptions used by the Group in calculating the ECL; • Checking the aging profile of the trade receivables at the end of reporting period and the post period-end subsequent settlement from customers, on a sample basis, to underlying accounting records and supporting documents; • Understanding and evaluating the management's process in identifying the relevant forward-looking information for the ECL assessment; and • Checking the calculation of ECL based on the methodology adopted by the Group and adequacy of the Group's disclosures in relation to credit risk of the Group in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
Valuation of equity interests in Xinfeng Energy Enterprise Group Co., Ltd. ("Xinfeng Energy")	
The Group completed the disposal of 2% equity interests in Xinfeng Energy which resulted in a loss of significant influence over Xinfeng Energy at 27 December 2023 (the "Disposal Date"). Accordingly, the Group ceased to account for its retained equity interests of 19.95% in Xinfeng Energy as investment in associate and reclassified to investment in an unlisted equity at fair value through other comprehensive income ("Designated FVOCI"), which is measured at fair value at the Disposal Date and 31 December 2023. In addition, the Group determined gain or loss on the disposal based on the difference between (i) the cash consideration plus the fair value of Designated FVOCI at the Disposal Date and (ii) the Group's share of 21.95% of net assets of Xinfeng Energy net of accumulated impairment at the Disposal Date. The Group's management engaged an independent professional valuer to assess the fair values of equity interests in Xinfeng Energy at the Disposal Date and 31 December 2023. Based on the assessment, the recoverable amount of 21.95% equity interests in Xinfeng Energy at the Disposal Date using the fair value less cost of disposal calculation was approximately RMB107,015,000 which resulted in recognition of an impairment loss of approximately RMB39,044,000 for the year ended 31 December 2023 and the fair value of Designated FOVCI at the Disposal Date and 31 December 2023 was approximately RMB97,264,000. We have identified the valuation of equity interests in Xinfeng Energy as a key audit matter because it required significant judgement and involved high level of uncertainty. Related disclosures are included in Notes 4(iv), 4(vi), 18 and 19 to the consolidated financial statements.	Our procedures, among others, included: • Evaluating the competence, capabilities and objectivity of the independent professional valuer; • Assessing the appropriateness of the methodologies used by the independent professional valuer; • Assessing the appropriateness of using the fair value less cost of disposal calculation in determining the recoverable amount of 21.95% equity interests in Xinfeng Energy at the Disposal Date; • Evaluating the reasonableness of key assumptions based on our knowledge of the industry and market of Xinfeng Energy; • Checking, on a sample basis, the accuracy and relevance of the input data provided by management to independent professional valuer; • Checking arithmetical accuracy of the valuation calculation at the Disposal Date and 31 December 2023; • Checking the disclosure of impairment loss of investment in 21.95% equity interests in Xinfeng Energy according to the applicable accounting standards; and • Checking the disclosure in relation to the fair value measurement of Designated FVOCI according to the applicable accounting standards.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the 2023 Annual Report of the Company but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS Accounting Standards issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

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

Mazars CPA Limited
Certified Public Accountants
Hong Kong, 27 March 2024

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2023

	Notes	2023 RMB'000	2022 RMB'000
Revenue	8	591,885	1,046,891
Cost of sales and services		(558,422)	(944,910)
Gross profit		33,463	101,981
Other income and gains	9	17,838	14,384
Selling and distribution expenses		(27,730)	(53,651)
Administrative expenses		(94,281)	(111,973)
Other expenses		(1,658)	(2,323)
Share of results of associates	18	11,773	26,738
Gain on disposal of equity interests in a subsidiary		–	64,939
Gain (Loss) on disposal of equity interests in an associate	18	1,029	(44,294)
Provision for impairment loss on investment in an associate	18	(39,044)	(8,570)
(Provision for) Reversal of impairment loss on trade receivables, net	23(a)	(1,242)	1,276
Finance costs	10	(14,503)	(17,579)
Loss before tax	11	(114,355)	(29,072)
Income tax credit (expense)	13	15,122	(186)
Loss for the year		(99,233)	(29,258)
Other comprehensive loss:			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference on translation of financial statements of foreign operations		–	(137)
Total comprehensive loss for the year		(99,233)	(29,395)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

YEAR ENDED 31 DECEMBER 2023

	Notes	2023 RMB'000	2022 RMB'000
(Loss) Profit for the year attributable to:			
Owners of the Company		**(98,414)**	(33,004)
Non-controlling interests	17	**(819)**	3,746
		(99,233)	(29,258)
Total comprehensive (loss) income for the year attributable to:			
Owners of the Company		**(98,414)**	(33,141)
Non-controlling interests	17	**(819)**	3,746
		(99,233)	(29,395)
Loss per share	14		
Basic (RMB cents)		**(2.54)**	(0.85)
Diluted (RMB cents)		**(2.54)**	(0.85)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2023

	Notes	2023 RMB'000	2022 RMB'000
Non-current assets			
Property, plant and equipment	16	215,951	220,823
Right-of-use assets	20	172,715	177,938
Investments in associates	18	92,778	227,064
Designated FVOCI	19	97,264	–
Deposits paid for acquisition of property, plant and equipment		289	2,703
Deferred tax assets	21	358	560
		579,355	629,088
Current assets			
Inventories	22	122,395	111,265
Trade and bills receivables	23	61,926	95,530
Contract assets	24	42,159	52,910
Prepayments, deposits and other receivables	25	129,243	88,986
Restricted deposits	26	11,183	19,843
Cash and cash equivalents	26	137,318	158,776
		504,224	527,310
Current liabilities			
Trade payables	27	44,497	52,260
Other payables and accruals	28	20,956	29,976
Contract liabilities	24	181,490	129,691
Lease liabilities	20	954	831
Borrowings	29	237,167	321,310
Deferred income	30	292	854
Tax payable		–	15,308
		485,356	550,230
Net current assets (liabilities)		18,868	(22,920)
Total assets less current liabilities		598,223	606,168
Non-current liabilities			
Lease liabilities	20	1,007	1,933
Borrowings	29	92,400	–
Deferred income	30	1,140	1,385
Deferred tax liabilities	21	244	260
		94,791	3,578
NET ASSETS		503,432	602,590

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2023

	Notes	2023 RMB'000	2022 RMB'000
Capital and reserves			
Issued capital	31	**334,409**	334,409
Reserves	32	**160,790**	259,129
Equity attributable to owners of the Company		**495,199**	593,538
Non-controlling interests	17	**8,233**	9,052
TOTAL EQUITY		**503,432**	602,590

The consolidated financial statements on pages 114 to 203 were approved and authorised for issue by the Board of Directors on 27 March 2024 and signed on its behalf by

Zhang Bizhuang
Director

Han Aizhi
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2023

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

YEAR ENDED 31 DECEMBER 2023

	Attributable to owners of the Company									
	Issued capital RMB'000 (Note 31)	Share premium RMB'000 (Note 32(a))	Statutory surplus reserve RMB'000 (Note 32(b))	Share option reserve RMB'000 (Note 32(c))	Other reserve RMB'000 (Note 32(d))	Foreign currency translation reserve RMB'000	Accumulated losses RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2023	334,409	1,230,106	62,484	1,031	(9)	-	(1,034,483)	593,538	9,052	602,590
Loss for the year and total comprehensive loss for the year	-	-	-	-	-	-	(98,414)	(98,414)	(819)	(99,233)
Transactions with owners										
Contributions and distributions										
Equity-settled share-based payments expenses (Note 33)	-	-	-	75	-	-	-	75	-	75
Forfeited share options (Note 33)	-	-	-	(6)	-	-	6	-	-	-
Total transactions with owners	-	-	-	69	-	-	6	75	-	75
At 31 December 2023	334,409	1,230,106	62,484	1,100	(9)	-	(1,132,891)	495,199	8,233	503,432

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2023

	2023 RMB'000	2022 RMB'000
OPERATING ACTIVITIES		
Loss before tax	**(114,355)**	(29,072)
Adjustments for:		
Finance costs	**14,503**	17,579
Interest income	**(558)**	(623)
Share of results of associates	**(11,773)**	(26,738)
Depreciation of property, plant and equipment	**18,185**	38,064
Depreciation of right-of-use assets	**5,223**	5,613
(Gain) Loss on disposal of property, plant and equipment, net	**(3)**	1,051
Gain on disposal of equity interests in a subsidiary	**–**	(64,939)
Provision for (Reversal of) impairment loss on trade receivables, net	**1,242**	(1,276)
Provision for impairment loss on investment in an associate	**39,044**	8,570
(Gain) Loss on disposal of equity interests in an associate	**(1,029)**	44,294
(Reversal of) Provision for write-down of inventories	**(1,976)**	1,682
Equity-settled share-based payments expenses	**75**	246
Recognition of deferred income	**(807)**	(929)
Operating cash flows before changes in working capital	**(52,229)**	(6,478)
Changes in working capital:		
Inventories	**(9,154)**	49,844
Trade and bills receivables	**32,362**	(48,589)
Contract assets	**10,751**	(25,946)
Prepayments, deposits and other receivables	**(44,560)**	(9,600)
Trade payables	**(7,763)**	(24,007)
Other payables and accruals	**(7,903)**	20,055
Contract liabilities	**51,799**	99,656
Cash (used in) generated from operations and net cash (used in) from operating activities	**(26,697)**	54,935

CONSOLIDATED STATEMENT OF CASH FLOWS

YEAR ENDED 31 DECEMBER 2023

	Notes	2023 RMB'000	2022 RMB'000
INVESTING ACTIVITIES			
Payment for purchase of property, plant and equipment		**(8,011)**	(15,038)
Proceeds from disposal of property, plant and equipment		**45**	68
Net cash outflow from disposal of a subsidiary		**–**	(20,781)
Proceeds from assignment of deposits previously paid for acquisition of investments		**–**	4,067
Proceeds from disposal of an associate		**10,780**	–
Changes in restricted deposits		**8,660**	(120,359)
Interest received		**558**	623
Net cash from (used in) investing activities		**12,032**	(151,420)
FINANCING ACTIVITIES	34(b)		
Inception of borrowings		**401,177**	452,310
Repayment of borrowings		**(392,920)**	(314,000)
Repayment of lease liabilities		**(934)**	(1,198)
Interest paid		**(14,116)**	(16,025)
Net cash (used in) from financing activities		**(6,793)**	121,087
Net (decrease) increase in cash and cash equivalents		**(21,458)**	24,602
Cash and cash equivalents at the beginning of the reporting period		**158,776**	134,311
Effect of foreign exchange rate, net		**–**	(137)
Cash and cash equivalents at the end of the reporting period	26	**137,318**	158,776

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2023

1. GENERAL INFORMATION

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

The Company is an investment holding company. The principal activities of its subsidiaries and associates are set out in Notes 17 and 18 to the consolidated financial statements, respectively.

2. MATERIAL ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with IFRS Accounting Standards issued by the International Accounting Standards Board (the "IASB"), which collective term includes all applicable individual IFRS Accounting Standards, IAS Standards and IFRIC 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 consolidated financial statements have been prepared on a basis consistent with the accounting policies adopted in the 2022 consolidated financial statements except for the adoption of the new/revised IFRS Accounting Standards and effective from the current year as set out below.

2. MATERIAL ACCOUNTING POLICIES (Continued)

Changes in accounting policies

The Group has applied, for the first time, the following new/revised IFRS Accounting Standards:

Amendments to IAS 1	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction
Amendments to IAS 12	International Tax Reform – Pillar Two Model Rules
IFRS 17	Insurance Contracts
Amendment to IFRS 17	Initial Application of IFRS 17 and IFRS 9 – Comparative Information

Amendments to IAS 1: Disclosure of Accounting Policies

The amendments require companies to disclose their material accounting policy information rather than their significant accounting policies.

Amendments to IAS 8: Definition of Accounting Estimates

The amendments clarify how companies should distinguish changes in accounting policies from changes in accounting estimates.

Amendments to IAS 12: Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The amendments narrow the scope of the recognition exemption in paragraphs 15 and 24 of IAS 12 so that it no longer applies to transactions that, on recognition, give rise to equal taxable and deductible temporary differences.

Amendments to IAS 12: International Tax Reform – Pillar Two Model Rules

The amendments provide entities with temporary relief from accounting for deferred taxes arising from the Organisation for Economic Co-operation and Development's Pillar Two model rules. The Amendments also introduce targeted disclosure requirements to help investors understand an entity's exposure to income taxes arising from the rules.

2. MATERIAL ACCOUNTING POLICIES (Continued)

Changes in accounting policies (Continued)

IFRS 17: Insurance Contracts

IFRS 17 establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts issued. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued.

The core of IFRS 17 is the general measurement model where estimates are re-measured each reporting period. Under the model, contracts are measured based on discounted probability-weighted cash flows, an explicit risk adjustment for non-financial risk, and a contractual service margin representing the unearned profit of the contract which is recognised as revenue over the coverage period.

An optional, simplified premium allocation approach is permitted for certain types of contracts, such as short duration contracts.

There is a modification of the general measurement model called the 'variable fee approach' for certain contracts such as those with direct participation features. When applying the variable fee approach, the entity's share of the fair value changes of the underlying items is included in the contractual service margin.

Amendment to IFRS 17: Initial Application of IFRS 17 and IFRS 9 – Comparative Information

The amendment is a transition option relating to comparative information about financial assets presented on initial application of IFRS 17. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements.

The adoption of IFRS 17 and the above amendments does not have any significant impact on the consolidated financial statements.

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

Basis of measurement

The measurement basis used in the preparation of the consolidated financial statements is historical costs, except for equity investment at fair value through other comprehensive income ("Designated FVOCI") which are measured at fair value as explained in the material accounting policies set out below.

2. MATERIAL ACCOUNTING POLICIES (Continued)

Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December 2023. Subsidiaries are entities over which the Group has control. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

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

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

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

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

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

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

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

2. MATERIAL ACCOUNTING POLICIES (Continued)

Consolidation (Continued)

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

Associates

An associate is entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Investments in associates are accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated foreign currency translation reserve. If an investment in an associate becomes an investment in a joint venture, the Group continues to apply the equity method and does not remeasure the retained interest.

Unrealised profits on transactions between the Group and its associate are eliminated to the extent of the Group's interests in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

2. MATERIAL ACCOUNTING POLICIES (Continued)

Foreign currency translation

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi, which is also the functional currency of the Group and principal operating subsidiaries.

Transactions and balances in each entity's financial statements

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

Translation on consolidation

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

(iii) all resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

2. MATERIAL ACCOUNTING POLICIES (Continued)

Foreign currency translation (Continued)

Translation on consolidation (Continued)

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Property, plant and equipment

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

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

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

Buildings	20 – 60 years or over the terms of the leases
Plant and machinery	10 years
Motor vehicles	6 years
Electronic equipment and others	4 – 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Construction in progress represents plant and machinery, and is stated at cost less any impairment losses. Depreciation begins when the relevant assets are available for use.

2. MATERIAL ACCOUNTING POLICIES (Continued)

Leases

The Group as lessee

Leases are recognised as right-of-use assets and corresponding lease liabilities when the leased assets are available for use by the Group. Right-of-use assets are stated at cost less accumulated depreciation and impairment losses. Depreciation of right-of-use assets is calculated at rates to write off their cost over the shorter of the asset's useful life and the lease term on a straight-line basis. The principal annual rates are as follows:

Land use rights	2%
Office premises	33% – 50%

Right-of-use assets are measured at cost comprising the amount of the initial measurement of the lease liabilities, lease payments prepaid, initial direct costs and the restoration costs. Lease liabilities include the net present value of the lease payments discounted using the interest rate implicit in the lease if that rate can be determined, or otherwise the Group's incremental borrowing rate. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the lease liability.

Payments associated with short-term leases and leases of low-value assets are recognised as expenses in profit or loss on a straight-line basis over the lease terms. Short-term leases are leases with an initial lease term of 12 months or less. Low-value assets are assets of value below equivalent to approximately RMB30,000.

The Group as lessor

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

2. MATERIAL ACCOUNTING POLICIES (Continued)

Financial instruments

Recognition and derecognition

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

Financial assets

Financial assets are recognised and derecognised on a trade date basis where the purchase or sale of an asset is under a contract whose terms require delivery of the asset within the time frame established by the market concerned, and are initially recognised at fair value, plus directly attributable transaction costs except in the case of investments at fair value through profit or loss. Transaction costs directly attributable to the acquisition of investments at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets of the Group are classified under the following categories:

(i) Financial assets at amortised cost

Financial assets are classified under this category if they satisfy both of the following conditions:

(a) the assets are held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

(b) the contractual terms of the assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

2. MATERIAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

(ii) Designated FVOCI

Upon initial recognition, the Group may make an irrevocable election to present subsequent changes in the fair value of an investment in an equity instrument that is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which IFRS 3 applies in other comprehensive income. The classification is determined on an instrument-by-instrument basis.

These equity investments are subsequently measured at fair value and are not subject to impairment. Dividends are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other gains or losses are recognised in other comprehensive income and shall not be subsequently reclassified to profit or loss.

The Group's financial assets at Designated FVOCI include unlisted equity investment in a private entity incorporated in the PRC.

Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost and contract assets. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument ("life time expected credit losses") for trade receivables and contract assets or if the credit risk on that financial instrument has increased significantly since initial recognition.

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables and contract assets) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of life time expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

2. MATERIAL ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRS Accounting Standards. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

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

Cash and cash equivalents

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

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

2. MATERIAL ACCOUNTING POLICIES (Continued)

Government grants

A government grant is recognised when there is reasonable assurance that the Group will comply with the conditions attaching to it and that the grant will be received.

Government grants relating to income are deferred and recognised in profit or loss over the period to match them with the costs they are intended to compensate.

Government grants relating to the purchase of assets are recorded as deferred income and recognised in profit or loss on a straight-line basis over the useful lives of the related assets.

Revenue recognition

Revenue from contracts with customers within IFRS 15

Nature of goods or services

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

(a) Sale of pipe;

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

(c) Trading of commodities.

Identification of performance obligations

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

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

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

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

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

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

2. MATERIAL ACCOUNTING POLICIES (Continued)

Revenue recognition (Continued)

Revenue from contracts with customers within IFRS 15 (Continued)

Timing of revenue recognition

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

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

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

(b) the Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced; or

(c) the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, the Group satisfies the performance obligation at a point in time when the customer obtains control of the promised asset. In determining when the transfer of control occurs, the Group considers the concept of control and such indicators as legal title, physical possession, right to payment, significant risks and rewards of ownership of the asset, and customer acceptance.

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

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

Contract assets and contract liabilities

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

2. MATERIAL ACCOUNTING POLICIES (Continued)

Contract assets and contract liabilities (Continued)

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

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

Revenue from other sources

Rental income

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

Interest income

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

Dividend income

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

Employee benefits

Short term employee benefits

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

Employee leave entitlement

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2. MATERIAL ACCOUNTING POLICIES (Continued)

Employee benefits (Continued)

Defined contribution plans

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme ("MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme in Hong Kong. Contributions are made based on 5% of the employees' relevant income, subject to a ceiling of monthly relevant income of Hong Kong dollars ("HK$") 30,000 and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group also participates in a defined contribution retirement scheme organised by the government in the PRC. The Group is required to contribute a specific percentage of the payroll of its employees to the retirement scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the retirement scheme.

No forfeited contributions of the Group may be used by the employers to reduce the existing level of contributions.

Termination benefits

Termination benefits are recognised at the earlier of the dates when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs and involves the payment of termination benefits.

Share-based payments

Equity-settled transactions

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

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

2. MATERIAL ACCOUNTING POLICIES (Continued)

Share-based payments (Continued)

Equity-settled transactions (Continued)

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

Taxation

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

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

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

2. MATERIAL ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Segment reporting

Operating segments and the amounts of each segment item reported in the financial statements are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources and assessing the performance of the Group's various lines of business.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of productions processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2. MATERIAL ACCOUNTING POLICIES (Continued)

Related parties

A related party is a person or entity that is related to the Group:

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of the holding company of the Group.

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

(i) The entity and the Group are members of the same group (which means that each holding company, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

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

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

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

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the holding company of the Group.

2. MATERIAL ACCOUNTING POLICIES (Continued)

Related parties (Continued)

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

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

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

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

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

Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets (except investments, deferred tax assets, inventories and receivables) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

2. MATERIAL ACCOUNTING POLICIES (Continued)

Provisions and contingent liabilities

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

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

3. FUTURE CHANGES IN IFRS ACCOUNTING STANDARDS

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

Amendments to IAS 1	Classification of Liabilities as Current or Non-current (1)
Amendments to IAS 1	Non-current Liabilities with Covenants (1)
Amendments to IAS 7 and IFRS 7	Supplier Finance Arrangements (1)
Amendments to IFRS 16	Lease Liability in a Sale and Leaseback (1)
Amendments to IAS 21	Lack of Exchangeability (2)
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (3)

(1) Effective for annual periods beginning on or after 1 January 2024

(2) Effective for annual periods beginning on or after 1 January 2025

(3) The effective date to be determined

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

4. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND KEY ESTIMATES

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

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial reporting period.

(i) Impairment loss on non-financial assets

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

(ii) Useful lives of property, plant and equipment

The Group determines the estimated useful lives, residual values and related depreciation charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

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

Key sources of estimation uncertainty (Continued)

(iii) Loss allowance for bad and doubtful debts

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade and bills receivables and prepayments, deposits and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

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

Investments in associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Value-in-use calculation are used for assessing the recoverable amounts of these interests. These calculations require use of judgments and estimates.

Management judgment is required for assessing impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related carrying amount of interests may not be recoverable; and (ii) whether the carrying amounts of the investments in associates can be supported by the recoverable amounts. Changing the estimations used by management in assessing impairment could materially affect the recoverable amounts used in the impairment test and as a result affect the Group's consolidated financial position and consolidated results of operations. In addition, the Group appointed independent professional valuers to assess the impairment of investments in associates on an individual basis.

(v) Write-down of inventories

The Group determines the write-down for obsolescence of inventories with reference to aged inventory analyses and projections of expected future sale ability of goods. Based on this review, write-down of inventories will be made when the carrying amounts of inventories are lower than their estimated net realisable values. Due to changes in market conditions, actual sale ability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

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

Key sources of estimation uncertainty (Continued)

(vi) Fair value of Designated FVOCI

The fair value of Designated FVOCI that is not traded in active market is determined by valuation techniques. Fair values of Designated FVOCI at the initial recognition date and reporting date are estimated by the management of the Group based on assets approach with reference to the valuation report prepared by an independent professional valuer. Valuation techniques that include inputs that are not based on observable market data and require the management of the Group to make judgement on the assumptions made in the valuation assessment which is detailed in Note 19 to the consolidated financial statements.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

During the reporting period, the capital structure of the Group consist of debt which includes borrowings and equity attributable to owners of the Company, comprising issued share capital and reserves. The directors of the Company review the capital structure on a regular basis. As part of this review, the directors of the Company consider the cost of capital and the associated risks, and take appropriate actions to adjust the Group's capital structure. The Group's overall strategy remains unchanged during the years ended 31 December 2023 and 2022.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprises restricted deposits, cash and cash equivalents and borrowings. The main purpose of these financial instruments is to raise funding for the Group's operations. The Group has various other financial assets and liabilities, such as Designated FVOCI, trade and bills receivables, trade payables, contract assets, contract liabilities, other receivables and deposits, other payables and accruals and lease liabilities, which arise directly from its operations.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

Interest rate risk

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

If interest rates at that date had been 1% lower with all other variables held constant, consolidated loss before tax for the year ended 31 December 2023 would have decreased by approximately RMB2,808,000 *(2022: approximately RMB2,815,000)*, arising mainly as a result of lower interest expense on interest-bearing borrowings. If interest rates had been 1% higher, with all other variables held constant, consolidated loss before tax for the year ended 31 December 2023 would have increased by approximately RMB2,808,000 *(2022: approximately RMB2,815,000)*, arising mainly as a result of higher interest expense on interest-bearing borrowings.

The above sensitivity analysis has been determined assuming that the reasonably possible changes in the interest rate has occurred at the beginning of the reporting period and has been applied to the exposure to interest rate risk in existence at the end of the reporting period.

Price risk

At 31 December 2023, the Group is exposed to price risk arising from Designated FVOCI amounted to approximately RMB97,264,000. The equity investment is held for strategic rather than trading purposes. The Group does not actively trade the equity investment. The sensitivity analysis has been determined based on the exposure to price risk.

At 31 December 2023, if the fair value of Designated FVOCI had been 5% higher/lower while all other variables were held constant, the Group's total other comprehensive loss would decrease/increase by approximately RMB4,863,000 as a result of changes in fair value of Designated FVOCI.

The above sensitivity analysis has been determined assuming that the reasonably possible changes in the fair value of Designated FVOCI had occurred at 31 December 2023 and had been applied to the exposure to equity price risk in existence at that date. The stated changes represent the management's assessment of reasonably possible changes in the fair value of the unlisted investments over the next 12 months after the year ended 31 December 2023.

In the opinion of the management of the Group, the sensitivity analysis is unrepresentative of the price risk because the exposure at 31 December 2023 does not reflect the exposure during the year ended 31 December 2023.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

Credit risk means the risk of loss in respect of a financial instrument when the counterparty to the financial instrument cannot execute its obligations.

The Group only transacts with those third parties who are recognised as creditworthy. The Group's policy is to perform credit verification for all customers who have transactions with the Group. Further, credit limits, credit terms and sales methods are determined based on the credit ratings of customers.

For sales under credit terms, a sales contract shall stipulate the payment term and credit amounts. The payment date should not exceed the credit term, and the credit amount in aggregate should not exceed the credit limit.

In addition, the Group continuously monitors its trade receivable balance and insists that salespersons are responsible for cash collection, and the persons who approve sales contracts are accountable for the collection of receivables.

The Group's other financial assets include restricted deposits, cash and cash equivalents and other receivables and deposits. Substantial amounts of the Group's cash and cash equivalents are held in major reputable financial institutions located in the PRC and Hong Kong, which management believes are of high credit quality. The credit risk of the Group's restricted deposits and other receivables and deposits arise from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group has no other financial assets which carry significant exposure to credit risk.

At the end of the reporting period, the Group had certain concentration of credit risk as approximately 22% *(2022: approximately 50%)* and approximately 78% *(2022: approximately 90%)* of the Group's trade receivables were due from the Group's largest trade debtor and the five largest trade debtors, respectively.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

The Group considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following information is used:

– internal credit rating;

– external credit rating (if available);

– actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;

– significant changes in the value of the collateral or in the quality of guarantees or credit enhancements; and

– significant changes in the expected performance and behaviour of the debtors, including changes in the payment status of debtors.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 60 days of when they fall due.

Financial assets are written-off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group normally categorises a loan or receivable for write-off when a debtor fails to make contractual payments greater than 360 days past due. Where loans or receivables have been written-off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk (Continued)

The Group uses two categories for non-trade receivables which reflect their credit risk and how the loan loss provision is determined for each of the categories. In calculating the expected credit loss rates, the Group considers historical loss rates for each category and adjusts for forward looking data.

Category	Definition	Loss provision
Performing	Low risk of default and strong capacity to pay	12 month expected losses
Non-performing	Significant increase in credit risk	Lifetime expected losses

Liquidity risk

The Group monitors its exposure to a shortage of funds by considering the maturity of both its financial liabilities and financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing borrowings and its own funding sources.

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

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

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

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

	Within 1 year or on demand RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Total RMB'000	Carrying amount in the consolidated statement of financial position RMB'000
At 31 December 2023					
Trade payables	**44,497**	**–**	**–**	**44,497**	**44,497**
Financial liabilities included in other payables and accruals	**20,320**	**–**	**–**	**20,320**	**20,320**
Lease liabilities	**1,035**	**1,036**	**–**	**2,071**	**1,961**
Borrowings	**245,873**	**426**	**101,075**	**347,374**	**329,567**
	311,725	**1,462**	**101,075**	**414,262**	**396,345**

	Within 1 year or on demand RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Total RMB'000	Carrying amount in the consolidated statement of financial position RMB'000
At 31 December 2022					
Trade payables	52,260	–	–	52,260	52,260
Financial liabilities included in other payables and accruals	28,533	–	–	28,533	28,533
Lease liabilities	961	1,022	1,022	3,005	2,764
Borrowings	331,935	–	–	331,935	321,310
	413,689	1,022	1,022	415,733	404,867

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Categories of financial instruments

	2023 RMB'000	2022 RMB'000
Financial assets:		
Financial assets at amortised cost		
Trade and bills receivables	61,926	95,530
Financial assets included in prepayments, deposits and other receivables	111,566	66,713
Restricted deposits	11,183	19,843
Cash and cash equivalents	137,318	158,776
	321,993	340,862
Designated FVOCI		
Unlisted equity investment	97,264	–
	419,257	340,862

	2023 RMB'000	2022 RMB'000
Financial liabilities:		
Financial liabilities at amortised cost		
Trade payables	44,497	52,260
Financial liabilities included in other payables and accruals	20,320	28,533
Borrowings	329,567	321,310
Lease liabilities	1,961	2,764
	396,345	404,867

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value measurement

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

- Level 1 (highest level): quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 (lowest level): unobservable inputs for the asset or liability.

a) Financial instruments that are measured at fair value

Financial assets	Fair value at initial recognition date and 31 December 2023 RMB'000	Fair value hierarchy	Valuation techniques	Significant unobservable inputs	Relationship of unobservable inputs to fair value	Sensitivity of unobservable inputs
Designated FVOCI						
Unlisted equity investment	97,264	Level 3	Adjusted asset approach	Marketability discount	The higher the discount rate, the lower the fair value.	If the discount rate increased/ decreased by 1%, the fair value of the unlisted equity investment would be decreased/ increased by approximately RMB5,783,000.

6. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Fair value measurement (Continued)

a) *Financial instruments that are measured at fair value (Continued)*

Movements in Level 3 fair value measurements is as follow:

	Unlisted equity investment RMB'000
At 1 January 2022, 31 December 2022 and 1 January 2023	–
Additions (Note 19)	97,264
At 31 December 2023	97,264

Except for the addition of the Designated FVOCI, during the years ended 31 December 2023 and 2022, there were no transfers between Level 1 and Level 2, and no transfers into and out of Level 3.

b) *Financial instruments not measured at fair value*

The management of the Group estimates the fair value of its financial assets and financial liabilities measured at amortised cost using the discounted cash flows analysis. The management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate their fair values.

7. OPERATING SEGMENT INFORMATION

During the years ended 31 December 2023 and 2022, 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 "Pipe 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, Designated FVOCI, investment in an associate, restricted 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, gain on disposal of equity interests in a subsidiary, gain (loss) on disposal of equity interests in an associate, provision for impairment loss on investment in an associate, equity-settled share-based payments expenses, share of result of an associate and items not directly related to the core business of the segments.

7. OPERATING SEGMENT INFORMATION (Continued)

Segment revenue and results

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

For the year ended 31 December 2023

	Pipe Business RMB'000	Trading Business RMB'000	Total RMB'000
Segment revenue			
Sales to external customers	547,827	44,058	591,885
Segment results	(42,971)	(5,926)	(48,897)
Interest income			558
Rental income			1,247
Share of result of an associate			1,559
Gain on disposal of equity interests in an associate			1,029
Provision for impairment loss on investment in an associate			(39,044)
Equity-settled share-based payments expenses			(75)
Unallocated other corporate expenses			(16,229)
Finance costs			(14,503)
Loss before tax			(114,355)
Income tax credit			15,122
Loss for the year			(99,233)

7. OPERATING SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the year ended 31 December 2022

	Pipe 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 disposal of equity interests in an associate			(44,294)
Equity-settled share-based payments expenses			(246)
Unallocated other corporate expenses			(13,420)
Finance costs			(17,579)
Loss before tax			(29,072)
Income tax expense			(186)
Loss for the year			(29,258)

7. OPERATING SEGMENT INFORMATION (Continued)

Segment assets and liabilities

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

2023

	Pipe Business RMB'000	Trading Business RMB'000	Unallocated RMB'000	Total RMB'000
Segment assets	964,376	4,559	114,644	1,083,579
Segment liabilities	(245,917)	(17)	(334,213)	(580,147)
Other segment information:				
Rental income	–	–	1,247	1,247
Reversal of write-down of inventories	1,976	–	–	1,976
Provision for impairment loss on trade receivables, net	1,242	–	–	1,242
Share of results of associates	10,214	–	1,559	11,773
Provision for impairment loss on investment in an associate	–	–	39,044	39,044
Gain on disposal of equity interests in an associate	–	–	1,029	1,029
Gain on disposal of property, plant and equipment, net	3	–	–	3
Depreciation	22,311	104	993	23,408
Finance costs	–	–	14,503	14,503
Investment in an associate	92,778	–	–	92,778
Designated FVOCI	–	–	97,264	97,264
Addition of property, plant and equipment	9,052	–	4,303	13,355

7. OPERATING SEGMENT INFORMATION (Continued)

Segment assets and liabilities (Continued)

2022

	Pipe 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 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
Finance costs	–	–	17,579	17,579
Investments in associates	82,564	–	144,500	227,064
Addition of property, plant and equipment	25,411	–	–	25,411

7. OPERATING SEGMENT INFORMATION (Continued)

Geographical Information

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

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

Non-current assets

	2023 **RMB'000**	2022 RMB'000
The PRC	**387,097**	398,717
Hong Kong	**1,858**	2,747
	388,955	401,464

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	**2023** **RMB'000**	2022 RMB'000
Customer A	Pipe Business	**200,100**	326,967

8. REVENUE

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

	2023 RMB'000	2022 RMB'000
Types of goods or service		
Pipe business		
Sales of pipe	510,914	952,702
Rendering of services related to the Pipe Business	36,913	85,254
	547,827	1,037,956
Trading business		
Trading of commodities	44,058	8,935
	591,885	1,046,891

For the year ended 31 December 2023

	Pipe Business RMB'000	Trading Business RMB'000	Total RMB'000
Geographical markets			
The PRC	547,827	44,058	591,885
Timing of revenue recognition			
At a point in time	547,827	44,058	591,885

For the year ended 31 December 2022

	Pipe 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

8. REVENUE (Continued)

(ii) Performance obligations for contracts with customers

Sales of pipe 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. Warranty provision is recognised based on the management's best estimates on the Group's liabilities under the standard warranty terms granted with reference to the prior experience for the defective products. In the opinion of the directors of the Company, no warranty provision is recognised for the years ended 31 December 2023 and 2022.

Sales to customers are normally made with credit terms of 1 to 180 days *(2022: 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 both years. For new customers, deposits or cash on delivery may be required. Deposits received are recognised as a contract liability.

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

9. OTHER INCOME AND GAINS

	2023 RMB'000	2022 RMB'000
Other income		
Interest income	558	623
Government grants (Note)	807	929
Rental income	1,247	1,668
Exchange gain, net	–	662
Others	688	1,175
	3,300	5,057
Other gains		
Gain on sales of materials	14,535	9,327
Gain on disposal of property, plant and equipment, net	3	–
	14,538	9,327
	17,838	14,384

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

10. FINANCE COSTS

	2023 RMB'000	2022 RMB'000
Interest on bank loans	12,284	16,025
Interest on other loans	2,088	1,519
Interest on lease liabilities	131	35
	14,503	17,579

11. LOSS BEFORE TAX

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

	2023 RMB'000	2022 RMB'000
Employees benefits expenses (including directors' remuneration in Note 12):		
Wages and salaries	52,646	60,039
Performance related bonus	498	493
Pension scheme contributions	13,681	12,858
Welfare and other expenses	1,622	2,368
Equity-settled share-based payments expenses (included in administrative expenses)	75	246
	68,522	76,004
Other items		
Auditor's remuneration		
– Audit services	1,630	1,713
– Non-audit services	372	473
Cost of inventories sold (Notes (i) and (ii))	533,468	894,768
Cost of services	24,954	50,142
Depreciation of property, plant and equipment	18,185	38,064
Depreciation of right-of-use assets	5,223	5,613
Exchange losses (gain), net	134	(662)
(Gain) Loss on disposal of property, plant and equipment, net	(3)	1,051
Short-term lease payments	632	271

Notes:

(i) Included in the cost of inventories sold are amounts of approximately RMB1,976,000 related to the reversal of write-down of inventories for the year ended 31 December 2023 *(2022: approximately RMB1,682,000 and RMB7,246,000 related to write-down of inventories and research and development expenses, respectively)*.

(ii) As a result of utilisation of inventories which have been written-down in prior years, a reversal of write-down of inventories of approximately RMB1,976,000 are made during the year ended 31 December 2023 *(2022: write-down of inventories of approximately RMB1,682,000)*.

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

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

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

For the year ended 31 December 2023

	Directors' fees RMB'000	Salaries, wages, allowances and benefits-in-kind RMB'000	Performance related bonus RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
Executive directors:					
Zhang Bizhuang	180	666	48	113	1,007
Han Aizhi	180	518	40	16	754
Wang Kunxian	180	550	40	130	900
Zhang Bangcheng	180	632	–	73	885
Zhang Danyu (Note (i))	175	611	–	–	786
Co-chief executive officer:					
Zhang Liucheng (Note (ii))	–	1,252	288	140	1,680
Non-executive director:					
Wei Jun	270	–	–	–	270
Independent non-executive directors:					
Chen Junzhu	270	–	–	–	270
Wu Geng	270	–	–	–	270
Qiao Jianmin	270	–	–	–	270
	1,975	4,229	416	472	7,092

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

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

For the year ended 31 December 2022

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

Notes:

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

(ii) On 24 March 2024, Mr. Zhang Liucheng resigned as a co-chief executive officer of the Company.

(iii) On 17 June 2022, Mr. Huang Guang resigned as a non-executive director of the Company.

For the years ended 31 December 2023 and 2022, no emoluments were paid by the Group to the directors or chief executive of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or agreed to waive any emoluments in respect of the years ended 31 December 2023 and 2022.

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

12(b) Five highest paid individuals' emoluments

The five highest paid individuals of the Group for the years ended 31 December 2023 and 2022 were the four directors and one co-chief executive officer whose emoluments are reflected in the analysis presented above.

For the years ended 31 December 2023 and 2022, no emoluments were paid by the Group to the highest paid individuals as a payment for loss of office or as an inducement to join or upon joining the Group.

For the years ended 31 December 2023 and 2022, no highest paid individuals as set out above waived or agreed to waive any emoluments.

13. INCOME TAX (CREDIT) EXPENSE

	2023 **RMB'000**	2022 RMB'000
Current tax		
PRC Enterprise Income Tax ("EIT")		
Current year	**–**	–
Reversal of income tax provided in prior years (Note (i))	**(15,308)**	–
	(15,308)	–
Deferred tax		
Changes in temporary differences (Note 21)	**186**	186
Income tax (credit) expense	**(15,122)**	186

For the years ended 31 December 2023 and 2022, the assessable profits of Hong Kong incorporated subsidiaries of the Group are entitled to the two-tiered profits tax rates regime that the first HK$2,000,000 of assessable profits of qualifying corporations will be taxed at 8.25%, and assessable profits above HK$2,000,000 will be taxed at 16.5%. The assessable profits of corporations in the Group not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. Hong Kong Profits Tax has not been provided as the Group had no assessable profits in Hong Kong for the years ended 31 December 2023 and 2022.

Singapore Corporate Income Tax ("CIT") is calculated at 17% of the assessable profits for the years ended 31 December 2023 and 2022. Singapore CIT has not been provided as the Group had no assessable profits in Singapore for the years ended 31 December 2023 and 2022.

13. INCOME TAX (CREDIT) EXPENSE (Continued)

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 2023 and 2022. PRC EIT has not been provided for the years ended 31 December 2023 and 2022 as the Group's entities in the PRC incurred a loss for taxation purposes.

Reconciliation of income tax (credit) expense

	2023 RMB'000	2022 RMB'000
Loss before tax	**(114,355)**	(29,072)
Tax at the applicable tax rate of companies within the Group of 25% *(2022: 25%)*	**(28,589)**	(7,268)
Expenses not deductible for tax	**14,681**	13,513
Income not taxable for tax	**(265)**	(16,673)
Tax losses not recognised	**16,639**	16,364
Effect of different tax rates of subsidiaries	**663**	935
Tax effect of results attributable to associates	**(2,943)**	(6,685)
Reversal of income tax provided in prior years	**(15,308)**	–
Income tax (credit) expense	**(15,122)**	186

Notes:

(i) After confirming the treatment of certain previously unresolved tax matters with the PRC tax authority during the year ended 31 December 2023, the Group has reversed income tax provision of approximately RMB15,308,000 provided in the previous years. The impact from change in this accounting estimate is accounted for prospectively during the year ended 31 December 2023.

(ii) At 31 December 2023, the Group has unused tax losses of approximately RMB389,809,000 *(2022: approximately RMB383,809,000)* available for offset against future profits. No deferred tax asset has been recognised of such losses for the years ended 31 December 2023 and 2022 due to the unpredictability of future profit streams. The unused tax loss will be expired from 2024 to 2028.

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

14. LOSS PER SHARE

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

	2023 RMB'000	2022 RMB'000
Loss:		
Loss attributable to the owners of the Company, used in basic loss per share calculation	(98,414)	(33,004)

	2023	2022
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic loss per share	3,874,365,600	3,874,365,600

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 2023 and 2022.

The diluted loss per share is the same as the basic loss per share for the years ended 31 December 2023 and 2022.

15. DIVIDENDS

The Board of Directors has resolved not to declare a final dividend and an interim dividend for the years ended 31 December 2023 and 2022.

16. PROPERTY, PLANT AND EQUIPMENT

Year ended 31 December 2023

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Electronic equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
Costs						
At 1 January 2023	311,686	581,988	8,639	6,020	8,132	916,465
Additions	4,303	8,035	–	30	987	13,355
Transfers	–	2,302	–	–	(2,302)	–
Disposals	–	(1,466)	–	(20)	–	(1,486)
At 31 December 2023	315,989	590,859	8,639	6,030	6,817	928,334
Accumulated depreciation and impairment losses						
At 1 January 2023	119,364	560,171	5,773	5,258	5,076	695,642
Disposals	–	(1,424)	–	(20)	–	(1,444)
Depreciation	11,266	6,173	645	101	–	18,185
At 31 December 2023	130,630	564,920	6,418	5,339	5,076	712,383
Carrying amounts						
At 31 December 2023	185,359	25,939	2,221	691	1,741	215,951

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

Year ended 31 December 2022

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Electronic equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
Costs						
At 1 January 2022	450,405	993,709	9,992	15,778	17,955	1,487,839
Additions	769	4,966	1,532	72	18,072	25,411
Transfers	1,169	25,009	–	–	(26,178)	–
Disposals	–	(5,407)	(1,836)	(334)	–	(7,577)
Disposal of a subsidiary	(140,657)	(436,289)	(1,049)	(9,496)	(1,717)	(589,208)
At 31 December 2022	311,686	581,988	8,639	6,020	8,132	916,465
Accumulated depreciation and impairment losses						
At 1 January 2022	146,720	843,485	7,862	13,366	5,076	1,016,509
Disposals	–	(4,353)	(1,781)	(324)	–	(6,458)
Depreciation	12,953	24,026	559	526	–	38,064
Disposal of a subsidiary	(40,309)	(302,987)	(867)	(8,310)	–	(352,473)
At 31 December 2022	119,364	560,171	5,773	5,258	5,076	695,642
Carrying amounts						
At 31 December 2022	192,322	21,817	2,866	762	3,056	220,823

Notes:

(a) At 31 December 2023 and 2022, the Group was in the process of applying for the title certificates of buildings with an aggregate net carrying amount of approximately RMB6,734,000 *(2022: approximately RMB6,155,000)*. The directors of the Company are of the view that the Group is entitled to lawful and valid occupy and use the abovementioned buildings in due course, and therefore the aforesaid matter did not have any significant impact on the Group's financial position at 31 December 2023 and 2022. The title certificates of buildings with a net carrying amount of approximately RMB748,000 are subsequently obtained in March 2024.

16. PROPERTY, PLANT AND EQUIPMENT (Continued)

Notes: (Continued)

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

At 31 December 2023 and 2022, the Group identified two cash generating units in relation to the Pipe Business, namely "Shandong CGU" and "Xinjiang CGU".

Shandong CGU

In respect of Shandong CGU, the Group estimated its recoverable amounts at 31 December 2023 and 2022 with reference to the value-in-use calculation using cash flow projections based on the valuation report prepared by ValQuest Advisory (Hong Kong) Limited *(2022: Roma Appraisal Limited)*, an independent professional valuer. The financial budgets of Shandong CGU adopted in cash flow projections were approved by the Group's management covering a 5-year period to be derived from Shandong CGU. The significant inputs into this valuation approach are (i) the budgeted gross margin of 7.5% *(2022: 9.2%)*; (ii) pre-tax discount rate of 9.2% *(2022: 10.9%)* to derive the present value of future cash flows; and (iii) long-term growth rate of 3.0% *(2022: 2.0%)*.

At 31 December 2023, the net carrying amounts of property, plant and equipment and right-of-use assets relating to Shandong CGU were approximately RMB179,807,000 *(2022: approximately RMB188,126,000)* and RMB161,862,000 *(2022: approximately RMB165,923,000)*, respectively, totalling approximately RMB341,669,000 *(2022: approximately RMB354,049,000)*. Based on the assessment, the recoverable amounts of Shandong CGU at 31 December 2023 and 2022 based on the value-in-use calculation exceeds its net carrying amounts by approximately RMB44,060,000 and RMB9,426,000, respectively, and therefore no impairment loss was recognised in respect of Shandong CGU for the years ended 31 December 2023 and 2022.

Xinjiang CGU

In respect of Xinjiang CGU, the Group estimated its recoverable amounts at 31 December 2023 and 2022 with reference to the fair value less cost of disposal calculation by reference to recent market transactions of similar plant and machinery and depreciated replacement cost for land and buildings based on the valuation report prepared by 新疆華光萬象資產評估有限公司 (Xinjiang Huaguang Wanxiang Assets Evaluation Co., Ltd.#), an independent professional valuer. The significant inputs into this valuation approach are (i) the relevant price indices and (ii) expected useful life of the relevant assets.

At 31 December 2023, the net carrying amounts of property, plant and equipment and right-of-use assets relating to Xinjiang CGU were approximately RMB30,366,000 *(2022: approximately RMB31,033,000)* and RMB9,000,000 *(2022: approximately RMB9,254,000)*, respectively, totalling approximately RMB39,366,000 *(2022: approximately RMB40,287,000)*. Based on the assessment, the recoverable amounts of Xinjiang CGU at 31 December 2023 and 2022 based on the fair value less cost of disposal exceeds its net carrying amounts by approximately RMB10,145,000 and RMB11,604,000, respectively, and therefore no impairment loss was recognised in respect of Xinjiang CGU for the years ended 31 December 2023 and 2022.

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

\# *The English name is for identification only.*

17. SUBSIDIARIES

Particulars of the Company's principal subsidiaries at the end of the reporting period are set out below:

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued and paid-up share/ registered paid-up capital	% of ownership interests/voting rights held by the Group	Principal activities
Indirectly held:				
Shandong Shengli Steel Pipe Co., Ltd.# ("Shandong Shengli Steel Pipe") (山東勝利鋼管有限公司) (Note)	The PRC	RMB1,153,790,300 *(2022: RMB1,153,790,300)*	100% *(2022: 100%)*	Manufacturing, processing and sale of SAWH pipelines and provision of anti-corrosion service for oil and gas pipelines and other construction and manufacturing applications and trading of commodities
Xinjiang Shengli Steel Pipe Co., Ltd.# ("Xinjiang Shengli Steel Pipe") (新疆勝利鋼管有限公司)	The PRC	RMB180,000,000 *(2022: RMB180,000,000)*	56.43% *(2022: 56.43%)*	Manufacturing and selling of SAWH pipelines and provision of anti-corrosion service for oil and gas pipelines and other construction and manufacturing applications
Shanghai Shengguan New Energy Technology Co., Ltd.# (上海勝管新能源科技有限公司) (Note)	The PRC	RMB50,000,000 *(2022: RMB50,000,000)*	100% *(2022: 100%)*	New energy technical development and trading of environmental energy equipment, fuel oil and chemical products commodities

The English names are for identification only.

17. SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation/ registration and operation	Nominal value of issued and paid-up share/ registered paid-up capital	% of ownership interests/voting rights held by the Group	Principal activities
Shengli Steel Pipe Co., Ltd# (勝利鋼管有限公司) (Note)	The PRC	RMB79,898,000 *(2022: RMB79,898,000)*	100% *(2022: 100%)*	Anti-corrosion technical service and rental service
Zhejiang Shengguan Industrial Co., Ltd.# ("Zhejiang Shengguan") (浙江勝管實業有限公司)	The PRC	RMB406,000,000 *(2022: RMB406,000,000)*	100% *(2022: 100%)*	Trading of commodities

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

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

Note: These entities are wholly owned foreign enterprises.

The English names are for identification only.

17. SUBSIDIARIES (Continued)

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

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

	Xinjiang Shengli Steel Pipe		Hunan Shengli Steel Pipe
	2023	2022	2022
Principal place of business/country of incorporation	The PRC/The PRC		The PRC/The PRC
% of ownership interests/voting rights held by NCI during the year/until the date of disposal	**43.57%**	43.57%	43.10%
	RMB'000	RMB'000	RMB'000
At 31 December/Date of disposal:			
Summarised statement of financial position			
Non-current assets	**39,725**	40,847	282,522
Current assets	**1,138**	1,142	682,287
Non-current liabilities	**(1,140)**	(1,385)	(477)
Current liabilities	**(20,828)**	(19,829)	(974,249)
Net assets (liabilities)	**18,895**	20,775	(9,917)
Accumulated NCI	**8,233**	9,052	(4,274)
For the year ended 31 December (or until the date of disposal):			
Summarised statement of profit or loss and other comprehensive income			
Revenue	**–**	–	191,433
(Loss) Profit for the year/period	**(1,880)**	(2,607)	11,327
Total comprehensive (loss) income	**(1,880)**	(2,607)	11,327
(Loss) Profit allocated to NCI	**(819)**	(1,136)	4,882
Dividends paid to NCI	**–**	–	–

17. SUBSIDIARIES (Continued)

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

	Xinjiang Shengli Steel Pipe		Hunan Shengli Steel Pipe
	2023	2022	2022
	RMB'000	RMB'000	RMB'000
Summarised statement of cash flows			
Net cash (used in) from operating activities	**(3)**	(8)	2,037
Net cash used in investing activities	**–**	–	(99,812)
Net cash from financing activities	**–**	–	96,520
Net decrease in cash and cash equivalents	**(3)**	(8)	(1,255)

At 31 December 2023, the bank and cash balances of Xinjiang Shengli Steel Pipe denominated in RMB amounted to approximately RMB2,000 *(2022: approximately RMB5,000)*. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

Hunan Shengli Xianggang Steel Pipe Co., Ltd.# ("Hunan Shengli Steel Pipe") (湖南勝利湘鋼鋼管有限公司) was a former subsidiary in which 56.9% of equity interests was previously held by the Group. After the Group disposed of its 8.9% of equity interests in Hunan Shengli Steel Pipe at total consideration of approximately RMB17,296,000 on 21 February 2022 ("Hunan Disposal"), the remaining 48% of equity interests in Hunan Shengli Steel Pipe held by the Group has been accounted for as an associate under equity method.

\# *The English names are for identification only.*

18. INVESTMENTS IN ASSOCIATES

	2023 RMB'000	2022 RMB'000
Unlisted investments in the PRC:		
Share of net assets	92,778	235,634
Less: Impairment losses	–	(8,570)
	92,778	227,064

Particulars of the associates of the Group are as follows:

Name of associates	Place of incorporation/ registration and operation	Registered paid-up capital	% of ownership interests/ voting rights held by the Group at 31 December		Principal activities
			2023	2022	
Xinfeng Energy# (新鋒能源集團有限公司)	The PRC	RMB800,000,000 *(2022: RMB800,000,000)*	(Note (ii))	21.95% (Note(i))	Designing and construction of wind farms, sale of the whole machine and components of wind turbine sets and mechanical equipment and software development of digital wind farm system
Hunan Shengli Steel Pipe	The PRC	RMB500,000,000 *(2022: RMB500,000,000)*	48.00%	48.00%	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.*

18. INVESTMENTS IN ASSOCIATES (Continued)

Notes:

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

(ii) On 24 November 2023, Zhejiang Shengguan has entered into a second equity transfer agreement with the Buyer in respect of the disposal of 2% of equity interests in Xinfeng Energy at a cash consideration of approximately RMB10,780,000 (the "2023 Xinfeng Disposal"). The 2023 Xinfeng Disposal was completed on 27 December 2023 (the "Disposal Date") and resulted in a loss of significant influence over Xinfeng Energy. Accordingly, the Group ceased to account for its retained equity interests of 19.95% in Xinfeng Energy as investment in an associate and re-designated it as Designated FVOCI. The 2023 Xinfeng Disposal has resulted in the recognition of a gain in the profit or loss, calculated as follows:

	2023 RMB'000
Proceeds of the 2023 Xinfeng Disposal	10,780
Plus: fair value of equity interests retained (19.95%)	97,264
Less: carrying amount of investment net of impairment loss on the Disposal Date	(107,015)
Gain on disposal of equity interests in an associate	1,029

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 Pipe Business.

18. INVESTMENTS IN ASSOCIATES (Continued)

Impairment assessment

Xinfeng Energy

At the Disposal Date, the management of the Group has assessed the recoverable amount of Xinfeng Energy with reference to the fair value less cost of disposal calculation using assets approach based on the valuation report prepared by ValQuest Advisory (Hong Kong) Limited *(31 December 2022: Roma Appraisal Limited)*, an independent professional valuer. The significant input into this valuation approach is marketability discount of 16.0% *(31 December 2022: 15.7%)*.

Based on the assessment, the recoverable amount of investment in Xinfeng Energy at the Disposal Date based on the fair value less cost of disposal of approximately RMB107,015,000 *(31 December 2022: approximately RMB144,500,000)* which is lower than its net carrying amount of approximately RMB146,059,000 *(31 December 2022: approximately RMB153,070,000)* and therefore an impairment loss of approximately RMB39,044,000 *(2022: approximately RMB8,570,000)* was recognised in respect of investment in Xinfeng Energy for the year ended 31 December 2023.

The fair value of the investment in Xinfeng Energy at the Disposal Date and 31 December 2022 was categorised into the level 3 fair value hierarchy as defined in IFRS 13, "*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 2023 and 2022 with reference to the value-in-use calculation using cash flow projections based on the valuation report prepared by ValQuest Advisory (Hong Kong) Limited *(2022: 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 of 12.9% *(2022: 12.4%)*; (ii) pre-tax discount rate of 9.4% *(2022: 10.9%)* to derive the present value of future cash flows; and (iii) long-term growth rate of 3.0% *(2022: 2.0%)*.

Based on the assessment, the recoverable amount of investment in Hunan Shengli Steel Pipe at 31 December 2023 and 2022 based on the value-in-use calculation exceeds its net carrying amount by approximately RMB8,700,000 and RMB52,708,000, respectively, and therefore no impairment loss was recognised in respect of investment in Hunan Shengli Steel Pipe for the years ended 31 December 2023 and 2022.

The fair value of the investment in Hunan Shengli Steel Pipe was categorised into the level 3 fair value hierarchy as defined in IFRS 13, "*Fair Value Measurement*".

18. INVESTMENTS IN ASSOCIATES (Continued)

Financial information of individually material associates

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

Xinfeng Energy

	2023 RMB'000	2022 RMB'000
At date of derecognition as an associate/31 December:		
Summarised statement of financial position		
Non-current assets	304,478	324,866
Current assets	1,358,460	1,219,159
Current liabilities	(791,608)	(679,797)
Non-current liabilities	(166,870)	(166,870)
Net assets	704,460	697,358
Reconciliation:		
% of ownership interests/voting rights held by the Group	21.95%	21.95%
Group's share of net assets	154,629	153,070
Less: Impairment losses	(47,614)	(8,570)
Carrying amount of investment	107,015	144,500
For the period ended on the date of derecognition as an associate/the year ended 31 December:		
Summarised statement of profit or loss and other comprehensive income		
Revenue	59,567	266,455
Other income	4,521	2
Share of results of associates	3,047	7,977
Profit for the period/year	7,102	7,688
Total comprehensive income	7,102	7,688
Group's share of profit and total comprehensive income	1,559	3,454

18. INVESTMENTS IN ASSOCIATES (Continued)

Financial information of individually material associates (Continued)

Xinfeng Energy (Continued)

The movements of the impairment losses are as follows:

	2023 RMB'000	2022 RMB'000
At the beginning of the reporting period	8,570	–
Addition	39,044	8,570
At the date of derecognition as an associate/ 31 December	47,614	8,570

18. INVESTMENTS IN ASSOCIATES (Continued)

Financial information of individually material associates (Continued)

Hunan Shengli Steel Pipe

	2023 RMB'000	2022 RMB'000
At 31 December:		
Summarised statement of financial position		
Non-current assets	439,466	476,626
Current assets	542,483	811,479
Current liabilities	(716,663)	(128,460)
Non-current liabilities	(71,998)	(987,637)
Net assets	193,288	172,008
Reconciliation:		
% of ownership interests/voting rights held by the Group	48%	48%
Carrying amount of the investment	92,778	82,564
For the period ended on the date of derecognition as an associate/the year ended 31 December:		
Summarised statement of profit or loss and other comprehensive income		
Revenue	975,465	1,300,557
Profit for the year/period	21,280	48,508
Total comprehensive income	21,280	48,508
Group's share of profit and total comprehensive income	10,214	23,284

At 31 December 2023, the bank and cash balances of these associates that denominated in RMB amounted to approximately RMB70,575,000 *(2022: approximately RMB40,793,000)*. Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

19. DESIGNATED FVOCI

	2023 RMB'000	2022 RMB'000
Unlisted equity investment	97,264	–

The unlisted equity investment represented the 19.95% of equity interests in Xinfeng Energy, a private entity incorporated in the PRC and the information of Xinfeng Energy is detailed in Note 18 to the consolidated financial statements. No dividends were received on this investment during the year ended 31 December 2023.

Upon the completion of the 2023 Xinfeng Disposal on 27 December 2023 as disclosed in Note 18 to the consolidated financial statements, the Group irrevocably designated the investment in Xinfeng Energy as Designated FVOCI since the Group intends to hold the investment for long-term strategic purposes and considers the accounting treatment applied provide more relevant information for the investment.

On initial recognition date and 31 December 2023, the fair values of Designated FOVCI have approximately RMB97,264,000 with reference to the valuation reports prepared by ValQuest Advisory (Hong Kong) Limited, an independent professional valuer.

The fair value of the investment in Xinfeng Energy was categorised into the level 3 fair value hierarchy as defined in IFRS 13, "*Fair Value Measurement*" and detailed in Note 6 to the consolidated financial statements.

20. LEASE AND RIGHT-OF-USE ASSETS

The Group as lessee

	2023 RMB'000	2022 RMB'000
Right-of-use assets		
Land use rights	170,862	175,177
Office premises	1,853	2,761
	172,715	177,938
Lease liabilities		
Current	954	831
Non-current	1,007	1,933
	1,961	2,764

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

The Group as lessee (Continued)

The Group leases various land use rights and office premises. Lease agreements for land use rights and office premises are typically made for fixed periods of 50 years and 2 to 3 years, respectively. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants and the leased assets may not be used as security for borrowing purposes.

At 31 December 2023 and 2022, the Group was in the process of applying for the title certificates of certain land acquired by the Group with an aggregate carrying amount of approximately RMB2,218,000 *(2022: approximately RMB2,278,000)*. The directors of the Company are of the view that the Group is entitled to lawful and valid occupy and use the above-mentioned land in due course, and therefore the aforesaid matter did not have any significant impact on the Group's financial position at 31 December 2023 and 2022.

Right-of-use assets

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

	Land use rights RMB'000	Office premises RMB'000	Total RMB'000
Year ended 31 December 2023			
Depreciation	**(4,315)**	**(908)**	**(5,223)**
At 31 December 2023			
Net carrying amounts	**170,862**	**1,853**	**172,715**

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

Right-of-use assets (Continued)

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

Lease liabilities

The present value of lease liabilities is summarised as below:

	Lease payments		Present value of lease payments	
	2023 RMB'000	2022 RMB'000	**2023 RMB'000**	2022 RMB'000
Amounts payable:				
Within one year	**1,035**	961	**954**	831
More than one year, but not exceeding three years	**1,036**	2,044	**1,007**	1,933
	2,071	3,005	**1,961**	2,764
Less: future finance charges	**(110)**	(241)		
Total lease liabilities	**1,961**	2,764		

During the year ended 31 December 2023, the average effective borrowing rate was 5.67% *(2022: 5.41%)*.

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

Lease liabilities (Continued)

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

	2023 **RMB'000**	2022 RMB'000
Depreciation of right-of-use assets	**5,223**	5,613
Interest on lease liabilities	**131**	35
Short-term lease payments	**632**	271
Expenses recognised in profit or loss	**5,986**	5,919

The total cash outflow for leases (excluding short-term lease) for the year ended 31 December 2023 was approximately RMB934,000 *(2022: approximately RMB1,198,000)*.

21. DEFERRED TAX

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

	2023 **RMB'000**	2022 RMB'000
Deferred tax assets		
At the beginning of the reporting period	**560**	762
Deferred tax charged to the profit or loss during the year (Note 13)	**(202)**	(202)
At the end of the reporting period	**358**	560
Deferred tax liabilities		
At the beginning of the reporting period	**(260)**	(276)
Deferred tax credited to the profit or loss during the year (Note 13)	**16**	16
At the end of the reporting period	**(244)**	(260)
Net deferred tax assets	**114**	300

21. DEFERRED TAX (Continued)

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

	2023 RMB'000	2022 RMB'000
Deferred tax assets		
Government grants received but not yet recognised as income	358	560
Deferred tax liabilities		
Excess of fair value of identifiable assets and liabilities over carrying value in acquisition of subsidiaries	(244)	(260)
Net deferred tax assets	114	300

22. INVENTORIES

	2023 RMB'000	2022 RMB'000
Raw materials	29,987	57,628
Work in progress	5,704	4,851
Finished and semi-finished goods	86,704	48,786
	122,395	111,265

23. TRADE AND BILLS RECEIVABLES

	Notes	2023 RMB'000	2022 RMB'000
Trade receivables from third parties		57,460	95,648
Less: Loss allowance		(1,360)	(118)
	23(a)	56,100	95,530
Bills receivables	23(b)	5,826	–
		61,926	95,530

23. TRADE AND BILLS RECEIVABLES (Continued)

23(a) Trade receivables

Included in the balances are the trade receivables (before loss allowance) from contracts with customers within IFRS 15:

	2023 RMB'000	2022 RMB'000
At the beginning of the reporting period	95,648	286,542
At the end of the reporting period	57,460	95,648

The Group's trading terms with its customers are mainly on credit generally ranging from 1 to 180 days *(2022: 90 to 180 days)*. All bills receivables are due within 90 to 180 days *(2022: 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:

	2023 RMB'000	2022 RMB'000
Within 3 months	39,894	79,610
3 to 6 months	5,152	15,251
6 months to 1 year	10,673	–
1 to 2 years	381	–
Over 2 years	–	669
	56,100	95,530

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

	2023 RMB'000	2022 RMB'000
At the beginning of the reporting period	118	3,425
Increase (Decrease) in loss allowance, net	1,242	(1,276)
Disposal of a subsidiary	–	(2,031)
At the end of the reporting period	1,360	118

23. TRADE AND BILLS RECEIVABLES (Continued)

23(a) Trade receivables (Continued)

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

	Current RMB'000	**Within 1 year past due** RMB'000	**1 to 2 years past due** RMB'000	**Over 2 years past due** RMB'000	**Total** RMB'000
At 31 December 2023					
Weighted average expected loss rate (%)	**0.0%**	**5.0%**	**10.0%**	**N/A**	**2.0%**
Gross Amount	**30,692**	**26,344**	**424**	**–**	**57,460**
Loss allowance	**–**	**(1,318)**	**(42)**	**–**	**(1,360)**
Net amount	**30,692**	**25,026**	**382**	**–**	**56,100**
At 31 December 2022					
Weighted average expected loss rate (%)	0.0%	N/A	N/A	15.0%	0.1%
Gross Amount	94,861	–	–	787	95,648
Loss allowance	–	–	–	(118)	(118)
Net amount	94,861	–	–	669	95,530

The Group does not hold any collateral over trade receivables at 31 December 2023 and 2022.

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

23(b) Bills receivables

At 31 December 2023, all bills receivables are interest-free and guaranteed by banks in the PRC and have maturities of less than six months. The bills receivables of approximately RMB3,000,000 have been subsequently recovered.

24. CONTRACT ASSETS AND CONTRACT LIABILITIES

	At 31 December 2023 RMB'000	At 31 December 2022 RMB'000	At 1 January 2022 RMB'000
Pipe Business			
Total contract assets	**42,159**	52,910	92,960
Total contract liabilities	**181,490**	129,691	32,847

Contract assets

The contract assets are primarily related to the Group's rights to consideration for sales of goods or services completed and not billed because the rights to bill are conditional until the end of the quality guarantee periods, which is typically ranging from one to three years upon the delivery of goods or services. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically reclassifies contract assets to trade receivables on the date of acceptance certificates issued by the customers when such right of collections becomes unconditional other than the passage of time.

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

At 31 December 2023, the Group's contracts assets amounted to approximately RMB5,833,000 *(2022: approximately RMB25,152,000)* were expected to be recovered more than twelve months after the end of the reporting period. The Group classifies these contract assets as current because it expects to realise them in its normal operating cycle.

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

	2023 RMB'000	2022 RMB'000
At the beginning of the reporting period	**52,910**	92,960
Transfer of contract assets to trade receivables	**(32,137)**	(12,028)
Increase in contract assets	**21,386**	37,974
Disposal of a subsidiary	**–**	(65,996)
At the end of the reporting period	**42,159**	52,910

24. CONTRACT ASSETS AND CONTRACT LIABILITIES (Continued)

Contract assets (Continued)

During the year ended 31 December 2023, the significant changes in contract assets were mainly due to decrease in sales.

During the year ended 31 December 2022, the significant changes in contract assets were mainly due to the de-recognition of contract assets as a result of the the disposal of Hunan Shengli Steel Pipe on 21 February 2022 as detailed in Note 17 to the consolidated financial statements.

Contract liabilities

The contract liabilities represent the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customers.

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

	2023 **RMB'000**	2022 RMB'000
At the beginning of the reporting period	**129,691**	32,847
Recognised as revenue	**(67,456)**	(24,268)
Increase in contract liabilities or recognition of trade receivables	**119,255**	123,924
Disposal of a subsidiary	**–**	(2,812)
At the end of the reporting period	**181,490**	129,691

At 31 December 2023, the Group's contracts liabilities amounted to approximately RMB554,000 *(2022: approximately RMB1,528,000)* were expected to be settled more than twelve months after the end of the reporting period. The Group classifies these contract liabilities as current because it expects to realise them in its normal operating cycle.

During the years ended 31 December 2023, the significant changes in contract liabilities were mainly due to delay in production schedule leading to delay in revenue recognition for certain contract liabilities at 31 December 2022.

During the year ended 31 December 2022, the significant changes in contract liabilities were mainly due to the increase in receipt in advance from customers.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2023 RMB'000	2022 RMB'000
Advances to suppliers (Note)	**85,638**	47,138
Value-added tax recoverables	**779**	1,388
Prepayments	**803**	1,048
Deposits	**13,193**	17,496
Tender deposits to customers	**2,902**	2,341
Security deposits in respect of sales contract with customers	**22,274**	16,516
Others	**3,654**	3,059
	129,243	88,986

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

26. CASH AND CASH EQUIVALENTS AND RESTRICTED DEPOSITS

	2023 RMB'000	2022 RMB'000
Cash and bank balances	**137,318**	140,776
Non-pledged time deposits with original of 3 months or less when acquired	**–**	18,000
Cash and cash equivalents	**137,318**	158,776
Restricted deposits	**11,183**	19,843
Cash and cash equivalents and restricted deposits denominated in RMB	**146,418**	175,917

RMB is not freely convertible into other currencies, however, under the PRC's Foreign Exchange Control Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between seven days and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates.

27. TRADE PAYABLES

	2023 RMB'000	2022 RMB'000
Trade payables to third parties	**44,497**	52,260

The trade payables are non-interest bearing. The payment terms with suppliers are normally on credit ranging from 90 to 180 days *(2022: 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:

	2023 RMB'000	2022 RMB'000
Within 3 months	**29,250**	42,520
3 to 6 months	**3,608**	1,737
6 months to 1 year	**222**	6,511
1 to 2 years	**10,376**	5
Over 2 years	**1,041**	1,487
	44,497	52,260

28. OTHER PAYABLES AND ACCRUALS

	2023 RMB'000	2022 RMB'000
Accruals	**4,981**	8,202
Tender deposits to suppliers	**3,629**	4,010
Payables in acquisition of property, plant and equipment	**4,949**	6,322
Other tax payables	**636**	1,443
Interest payables in respect of other loans	**1,775**	1,519
Others	**4,986**	8,480
	20,956	29,976

29. BORROWINGS

	2023			2022		
	Effective interest rate(%)	Maturity (year)	RMB'000	Effective interest rate(%)	Maturity (year)	RMB'000
Bank loans						
Secured (Note (i))	3.97% – 4.38%	2024 – 2026	280,800	4.00% – 4.44%	2023	281,500
Other loans						
Unsecured (Note (ii))	5.00%	2024	48,767	5.00%	2023	39,810
			329,567			321,310

	2023	2022
Borrowings are repayable as follows:	RMB'000	RMB'000
On demand or within one year	237,167	321,310
One to two years	400	–
Two to three years	92,000	–
Analysed for reporting purpose:		
Current	237,167	321,310
Non-current	92,400	–
	329,567	321,310

Notes:

(i) The bank loans were secured by pledge of certain of the Group's property, plant and equipment amounting to approximately RMB101,501,000 *(2022: approximately RMB110,855,000)* and right-of-use assets amounting to approximately RMB70,046,000 *(2022: approximately RMB71,981,000)*.

(ii) At 31 December 2023, the other loans represented the advance from directors, chief executive and other members of key management of the Company and employees amounting approximately RMB1,065,000 *(2022: approximately RMB2,100,000)* and approximately RMB47,702,000 *(2022: approximately RMB37,710,000)*, respectively, which are unsecured, bear a fixed interest rate of 5% per annum and repayable within one year. Certain advance from directors, chief executive and other members of key management of the Company of approximately RMB600,000 at 31 December 2022 were extended and being repayable within one year at 31 December 2023.

30. DEFERRED INCOME

	2023 RMB'000	2022 RMB'000
Government grants		
At the beginning of the reporting period	2,239	4,374
Recognised as other income during the year	(807)	(929)
Disposal of a subsidiary	–	(1,206)
At the end of the reporting period	1,432	2,239
Less: Current portion	(292)	(854)
Non-current portion	1,140	1,385

In August 2011, Xinjiang Shengli received a government grant of approximately RMB12,330,000 in relation to a land use right. Such government grant is recognised as income in equal amounts over the expected useful life of the land use right.

In 2017, Hunan Shengli Steel Pipe received a government grant of approximately RMB4,673,000 in relation to mechanical testing laboratory for steel pipe.

31. SHARE CAPITAL

	2023		2022	
	No. of shares	HK$'000	No. of shares	HK$'000
Ordinary share of HK$0.1 each				
Authorised:				
At the beginning of the reporting period and at the end of the reporting period	5,000,000,000	500,000	5,000,000,000	500,000

	No. of shares	Issued Capital HK$'000	Issued Capital equivalent to RMB'000
Issued and fully paid:			
At 1 January 2022, 31 December 2022 and 31 December 2023	3,874,365,600	387,437	334,409

32. RESERVES

(a) Share premium

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

(b) Statutory surplus reserve

As stipulated by the relevant law and regulations for foreign investment enterprises in the PRC, the Company's PRC subsidiaries are required to maintain a statutory surplus reserve which is non-distributable. Appropriation to such reserve is made out of net profit after tax expenses as shown in the statutory financial statements of the relevant PRC subsidiaries and after making up prior year cumulative losses. The amounts and allocation basis are decided by the Board of Directors of the respective subsidiaries annually. The statutory surplus reserve can be applied in conversion into issued capital by means of capitalisation issue.

(c) Share option reserve

Share option reserve represents the reserve arising from the share option scheme for eligible participants. Details of which are disclosed in note 33 to the consolidated financial statements

(d) Other reserve

Other reserve represents the reserve arising from Group reorganisation.

The Group

The amounts of the Group's reserves and the movements therein for the years ended 31 December 2023 and 2022 are presented in the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of changes in equity.

32. RESERVES (Continued)

The Company

The amounts of the Company's reserves and the movements therein for the years ended 31 December 2023 and 2022 are as follows:

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

	Share premium RMB'000 (Note 32(a))	**Share option reserve RMB'000 (Note 32(c))**	**Accumulated losses RMB'000**	**Total RMB'000**
At 1 January 2023	**1,230,445**	**1,031**	**(986,019)**	**245,457**
Loss and total comprehensive loss for the year	**–**	**–**	**(99,694)**	**(99,694)**
Transactions with owners				
Contributions and distributions				
Equity-settled share-based payments expenses	**–**	**75**	**–**	**75**
Forfeit of share options (Note 33)	**–**	**(6)**	**6**	**–**
Total transactions with owners	**–**	**69**	**6**	**75**
At 31 December 2023	**1,230,445**	**1,100**	**(1,085,707)**	**145,838**

33. SHARE-BASED PAYMENTS

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. Details of the share options outstanding at the end of the reporting period are as follows:

	2023 No. of share options	2022 No. of share options
Granted on 22 June 2020 (Note (ii))	**73,950,000**	74,400,000

Number of outstanding share options are set out as following:

	2023		2022	
	No. of share options	**Weighted average exercise price HK$'000**	No. of share options	Weighted average exercise price HK$'000
At the beginning of the reporting period	**74,400,000**	**0.17**	91,170,000	0.23
Forfeit of share options	**(450,000)**	**0.17**	(16,770,000)	0.37
At the end of the reporting period	**73,950,000**	**0.17**	74,400,000	0.17

At the end of each reporting period, the Group revised its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in the profit or loss with a corresponding adjustment to the share option reserve.

During the year ended 31 December 2023, the Group recognised share-based payments expenses of approximately RMB75,000 (*2022: approximately RMB246,000*), which has been charged to the profit or loss with a corresponding adjustment to the share option reserve.

33. SHARE-BASED PAYMENTS (Continued)

Notes:

(i) Pursuant to the Company's announcement on 3 January 2012, the Company granted to eligible participants a total of 24,000,000 share options to subscribe for ordinary shares of HK$0.10 each in the share capital of the Company at an exercise price of HK$0.80 per share (the "2012 Share Options").

The share options granted has a 10-year exercisable period and are vesting as follows:

Vesting date	Percentage of share options to vest
First anniversary of the date of grant	One-third of the total number of share options granted
Second anniversary of the date of grant	One-third of the total number of share options granted
Third anniversary of the date of grant	One-third of the total number of share options granted

The closing price of the Company's shares immediately before 3 January 2012, being the date of grant, was HK$0.80 per share.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

The aggregate fair values of the options determined at the date of grant based on the Binomial model, was HK$8,208,000.

The following assumptions were used to calculate the fair values of share options granted on 3 January 2012:

Grant date share price (per share)	HK$0.80
Exercise price (per share)	HK$0.80
Contractual life	10 years
Expected volatility (%)	57.5%
Dividend yield (%)	1.33%
Risk-free interest rate (%)	1.45%

During the year ended 31 December 2022, 16,770,000 share options were forfeited.

The share option reserve of approximately RMB4,488,000 has been transferred to accumulated losses within equity during the year ended 31 December 2022. There was no outstanding share options for the 2012 Share Options at 31 December 2023 and 2022.

(ii) Pursuant to the Company's announcement on 22 June 2020, the Company granted to eligible participants a total of 77,100,000 share options to subscribe for ordinary shares of HK$0.10 each in the share capital of the Company at an exercise price of HK$0.10 per share (the "2020 Share Options").

The share options granted has a 5-year exercisable period and are vesting as follows:

Vesting date	Percentage of share options to vest
First anniversary of the date of grant	One-third of the total number of share options granted
Second anniversary of the date of grant	One-third of the total number of share options granted
Third anniversary of the date of grant	One-third of the total number of share options granted

The closing price of the Company's shares immediately before 22 June 2020, being the date of grant, was HK$0.059 per share.

33. SHARE-BASED PAYMENTS (Continued)

Notes: (Continued)

(ii) (Continued)

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

The aggregate fair values of the options determined at the date of grant based on the Binomial model, was HK$1,309,000.

The following assumptions were used to calculate the fair values of share options granted on 22 June 2020:

Grant date share price (per share)	HK$0.059
Exercise price (per share)	HK$0.100
Contractual life	5 years
Expected volatility (%)	53.8%
Dividend yield (%)	0.00%
Risk-free interest rate (%)	0.36%

During the year ended 31 December 2023, 450,000 share options were forfeited. No share options were lapsed/forfeited during the year ended 31 December 2022.

The share option reserve of approximately RMB6,000 *(2022: Nil)* has been transferred to accumulated losses within equity during the year ended 31 December 2023. There were outstanding share options of 73,950,000 *(2022: 74,400,000)* for the 2020 Share Options at 31 December 2023.

34. OTHER CASH FLOW INFORMATION

(a) Major non-cash transactions

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

(i) During the year ended 31 December 2023, deposits of approximately RMB4,303,000 paid in previous years (included in "prepayments, deposits and other receivables") were recovered with equivalent values of buildings from the counterparty.

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

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

34. OTHER CASH FLOW INFORMATION (Continued)

(b) Reconciliation of liabilities arising from financing activities

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

For the year ended 31 December 2023

	Lease liabilities RMB'000	Interest payables RMB'000	Borrowings RMB'000	Total RMB'000
At 1 January 2023	2,764	1,519	321,310	325,593
Non-cash changes				
Finance costs	131	14,372	–	14,503
Cash (outflow) inflow in financing activities:				
Inception of borrowings	–	–	401,177	401,177
Repayment of borrowings	–	–	(392,920)	(392,920)
Repayment of lease liabilities	(934)	–	–	(934)
Interest paid	–	(14,116)	–	(14,116)
At 31 December 2023	1,961	1,775	329,567	333,303

For the year ended 31 December 2022

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

35. CAPITAL COMMITMENTS

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

	2023 RMB'000	2022 RMB'000
Contracted, but not provided for, net of deposits paid (if any)	**242**	2,735

36. RELATED/CONNECTED PARTY TRANSACTIONS

(a) Significant related/connected party transactions

During the years ended 31 December 2023 and 2022 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.

	2023 RMB'000	2022 RMB'000
Disposal of a subsidiary to a non-controlling shareholder of that subsidiary	**–**	17,296
Other loans from directors, chief executive and other members of key management	**465**	8,280
Repayment of other loans from directors, chief executive and other members of key management	**1,500**	–
Interest on other loans paid to directors, chief executive and other members of key management	**30**	69
Repayment of interest on other loans paid to directors, chief executive and other members of key management	**59**	–

36. RELATED/CONNECTED PARTY TRANSACTIONS (Continued)

(b) Significant related party balances

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

	At 31 December	
	2023	2022
	RMB'000	RMB'000
Other loans from directors, chief executive and other members of key management	**1,065**	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:

	2023	2022
	RMB'000	RMB'000
Directors' fees	**1,975**	1,843
Salaries, wages, allowances and other benefits in kind	**5,901**	5,543
Performance related bonus	**498**	493
Retirement benefit scheme contributions	**649**	359
	9,023	8,238

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

36. RELATED/CONNECTED PARTY TRANSACTIONS (Continued)

(d) Connected party transactions

During the years ended 31 December 2023 and 2022 the Group had the following transactions with connected parties.

	2023 RMB'000	2022 RMB'000
Purchase of raw materials from 上海華菱湘鋼國際貿易有限公司 Shanghai Valin Xianggang International Trading Co., Ltd.# ("Valin International")	–	64,906
Purchase of raw materials from 湖南華菱湘潭鋼鐵有限公司 Hunan Valin Xiangtan Iron & Steel Co., Ltd.# ("Hunan Xiangtan")	–	7,783
Purchase of raw materials from 湖南華菱電子商務有限公司 Hunan Valin E-Commerce Co., Ltd.# ("Valin E-Commerce")	–	7,302

Hunan Xiangtan and Valin E-Commerce are associates of Xiangtan Steel, a shareholder of the Group's former subsidiary, Hunan Shengli Steel Pipe. Valin International is a subsidiary of Hunan Xiangtan. Therefore, they were connected parties of the Company at the subsidiary level under the Listing Rules. Upon completion of the Hunan Disposal, Valin International, Hunan Xiangtan and Valin E-Commerce ceased to be connected parties of the Company.

The English names are for identification only.

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2023 RMB'000	2022 RMB'000
Non-current assets			
Property, plant and equipment		5	7
Right-of-use assets		1,853	2,740
Investments in subsidiaries		474,395	577,526
		476,253	580,273
Current assets			
Prepayments, deposits and other receivables		714	978
Cash and cash equivalents		7,682	4,190
		8,396	5,168
Current liabilities			
Other payables and accruals		2,441	2,835
Lease liabilities		954	807
		3,395	3,642
Net current assets		5,001	1,526
Total assets less current liabilities		481,254	581,799
Non-current liabilities			
Lease liabilities		1,007	1,933
NET ASSETS		480,247	579,866
Capital and reserves			
Share capital		334,409	334,409
Reserves	32	145,838	245,457
TOTAL EQUITY		480,247	579,866

The statement of financial position was approved and authorised for issue by the Board of Directors on 27 March 2024 and signed on its behalf by

Zhang Bizhuang
Director

Han Aizhi
Director

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

RESULTS

	Year ended 31 December				
	2023	2022	2021	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**591,885**	1,046,891	1,526,684	856,427	862,966
Loss before tax	**(114,355)**	(29,072)	(272,266)	(370,364)	(161,591)
Income tax credit (expense)	**15,122**	(186)	(3,583)	(1,956)	(10,344)
Loss for the year	**(99,233)**	(29,258)	(275,849)	(372,320)	(171,935)
Attributable to:					
Owners of the Company	**(98,414)**	(33,004)	(260,719)	(325,392)	(138,573)
Non-controlling interests	**(819)**	3,746	(15,130)	(46,928)	(33,362)
	(99,233)	(29,258)	(275,849)	(372,320)	(171,935)

ASSETS AND LIABILITIES

	As at 31 December				
	2023	2022	2021	2020	2019
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**1,083,579**	1,156,398	1,919,687	2,240,167	2,411,619
Total liabilities	**(580,147)**	(553,808)	(1,292,222)	(1,382,403)	(1,168,369)
Net assets	**503,432**	602,590	627,465	857,764	1,243,250
Attributable to:					
Owners of the Company	**495,199**	593,538	626,433	841,602	1,180,160
Non-controlling interests	**8,233**	9,052	1,032	16,162	63,090
	503,432	602,590	627,465	857,764	1,243,250