勝利管道
SHENGLI PIPE

SHENGLI OIL & GAS PIPE HOLDINGS LIMITED

勝利油氣管道控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1080)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

- For the Year under Review, revenue was approximately RMB856,427,000, representing a decrease of approximately RMB6,539,000 as compared to that in 2019.

- For the Year under Review, gross profit margin was approximately 5.2%, representing a decrease of approximately 9.9 percentage points as compared to that in 2019.

- For the Year under Review, the loss for the year attributable to owners of the Company amounted to approximately RMB325,392,000, representing an increase of approximately RMB186,819,000 as compared to that in 2019.

- For the Year under Review, basic loss per share attributable to owners of the Company was approximately RMB9.94 cents, representing an increase of approximately RMB5.71 cents as compared to that in 2019.

- The Board did not recommend the declaration of any final dividend for the year ended 31 December 2020.

The board (the "**Board**") of directors (the "**Directors**") of Shengli Oil & Gas Pipe Holdings Limited (the "**Company**") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2020 (the "**Year under Review**") prepared in accordance with the International Financial Reporting Standards together with the comparative figures for the year ended 31 December 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	**2020** **RMB'000**	2019 RMB'000
REVENUE	*5*	**856,427**	862,966
Cost of sales and services		**(812,192)**	(732,229)
Gross profit		**44,235**	130,737
Other income and gains	*5*	**24,094**	14,210
Selling and distribution costs		**(63,804)**	(44,745)
Administrative expenses		**(152,343)**	(191,813)
Other expenses		**(2,612)**	(1,198)
Share of profit/(losses) of associates		**4,936**	(4,516)
Reversal of impairment loss on other receivables		**9,994**	1,678
Gain on disposal of subsidiaries		**–**	10,333
Loss on deregistration of subsidiaries		**–**	(1,999)
Impairment loss on non-current assets held for sale	*14*	**(195,672)**	(24,468)
Finance costs	*6*	**(39,192)**	(49,810)
LOSS BEFORE TAX	*7*	**(370,364)**	(161,591)
Income tax expense	*8*	**(1,956)**	(10,344)
LOSS FOR THE YEAR		**(372,320)**	(171,935)
Other comprehensive income/(loss) that may be subsequently reclassified to profit or loss:			
Exchange differences reclassified to profit or loss on disposal of subsidiaries		**–**	(10,582)
Exchange differences on translation of financial statements of foreign operations		**(13,509)**	3,166
		(13,509)	(7,416)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(385,829)**	(179,351)

	Notes	**2020** *RMB'000*	2019 *RMB'000*
LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(325,392)**	(138,573)
Non-controlling interests		**(46,928)**	(33,362)
		(372,320)	(171,935)
TOTAL COMPREHENSIVE LOSS FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(338,901)**	(145,989)
Non-controlling interests		**(46,928)**	(33,362)
		(385,829)	(179,351)
LOSS PER SHARE *(RMB cents)*			
– Basic		**(9.94)**	(4.23)
– Diluted		**(9.94)**	(4.23)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**568,876**	648,820
Deposits paid for acquisition of investments		**203,040**	216,549
Investment in an associate	*11*	**192,089**	187,153
Right-of-use assets		**234,221**	239,097
Deferred tax assets		**4,361**	6,192
		1,202,587	1,297,811
CURRENT ASSETS			
Inventories		**290,778**	182,931
Trade and bills receivables	*12*	**283,596**	326,194
Contract assets		**27,499**	48,426
Prepayments, deposits and other receivables	*13*	**251,267**	229,410
Pledged deposits		**66,953**	27,312
Cash and cash equivalents		**113,159**	99,535
		1,033,252	913,808
Non-current assets held for sale	*14*	**4,328**	200,000
		1,037,580	1,113,808
CURRENT LIABILITIES			
Trade and bills payables	*15*	**360,366**	246,768
Other payables and accruals	*16*	**67,575**	64,214
Contract liabilities		**150,151**	53,553
Lease liabilities		**1,052**	1,184
Borrowings	*17*	**780,600**	777,205
Tax payable		**15,308**	15,308
Deferred income		**1,583**	1,583
		1,376,635	1,159,815
NET CURRENT LIABILITIES		**(339,055)**	(46,007)
TOTAL ASSETS LESS CURRENT LIABILITIES		**863,532**	1,251,804

	Notes	**2020**	2019
		RMB'000	*RMB'000*
NON-CURRENT LIABILITIES			
Deferred income		**4,375**	5,958
Lease liabilities		**1,101**	2,287
Deferred tax liabilities		**292**	309
		5,768	8,554
NET ASSETS		**857,764**	1,243,250
EQUITY			
Equity attributable to owners of the Company			
Issued capital		**283,911**	283,911
Reserves		**557,691**	896,249
		841,602	1,180,160
Non-controlling interests		**16,162**	63,090
Total equity		**857,764**	1,243,250

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. GENERAL INFORMATION

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

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

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

2. BASIS OF PREPARATION

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

The Group incurred loss attributable to owners of the Company of approximately RMB325,392,000 for the year ended 31 December 2020, the Group had net current liabilities of approximately RMB339,055,000 as at 31 December 2020. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. Therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

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

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised IFRSs that are relevant to its operations and effective for its accounting year beginning on 1 January 2020. IFRSs comprise International Financial Reporting Standards; International Accounting Standards and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years.

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

4. OPERATING SEGMENT INFORMATION

During the year ended 31 December 2020, the Group has two (2019: two) reportable segments which comprise of pipes business and trading business. The pipes business segment mainly involves the production of submerged-arc helical welded pipes (the "**SAWH pipes**") and submerged-arc longitudinal welded pipe (the "**SAWL pipes**") which are mainly used for the oil and infrastructure industry (the "**Pipes Business**"). The trading business mainly involves trading of rolled coils (the "**Trading Business**"). Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

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

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

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

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

Segment revenue and results

For the year ended 31 December 2020

	Pipes Business *RMB'000*	**Trading Business** *RMB'000*	**Eliminations** *RMB'000*	**Consolidated** *RMB'000*
Segment revenue:				
Sales to external customers	**855,219**	**1,208**	**–**	**856,427**
Intersegment sales	**–**	**20,844**	**(20,844)**	**–**
Total revenue	**855,219**	**22,052**	**(20,844)**	**856,427**
Segment results	**(125,939)**	**(12,908)**		**(138,847)**
Interest income				**1,261**
Impairment loss on non-current assets held for sale				**(195,672)**
Reversal of impairment loss on other receivables				**9,994**
Unallocated expenses				**(7,908)**
Finance costs				**(39,192)**
Loss before tax				**(370,364)**

For the year ended 31 December 2019

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

Segment assets

As at 31 December 2020

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

As at 31 December 2019

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

Segment liabilities

As at 31 December 2020

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

As at 31 December 2019

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

Other segment information

2020

	Pipes Business *RMB'000*	Trading Business *RMB'000*	Unallocated *RMB'000*	Consolidated *RMB'000*
Share of profit of an associate	**–**	**–**	**(4,936)**	**(4,936)**
Write down of inventories	**3,053**	**–**	**–**	**3,053**
Reversal of allowance for trade receivables	**(1,620)**	**–**	**–**	**(1,620)**
Impairment loss on non-current assets held for sale	**–**	**–**	**195,672**	**195,672**
Loss on disposal of property, plant and equipment, net	**508**	**–**	**–**	**508**
Depreciation and amortisation	**98,767**	**–**	**2**	**98,769**
Investment in an associate	**–**	**–**	**192,089**	**192,089**
Capital expenditure	**14,733**	**–**	**–**	**14,733**

2019

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

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

	For the year ended 31 December	
	2020	2019
	RMB'000	*RMB'000*
Mainland China	**856,427**	853,420
Hong Kong	**–**	9,546
	856,427	862,966

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

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

	As at 31 December	
	2020	2019
	RMB'000	*RMB'000*
Mainland China	**956,596**	1,035,421
Hong Kong	**241,630**	256,198
	1,198,226	1,291,619

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

Information about major customers

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

		2020	2019
	Segment	***RMB'000***	*RMB'000*
Customer A	Pipes business	**288,535**	–
Customer B	Pipes business	***27,693**	262,403

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

5. REVENUE, OTHER INCOME AND GAINS

	2020 *RMB'000*	2019 *RMB'000*
Revenue		
Pipes business		
Sales of pipes	**777,045**	758,825
Rendering of services related to pipe business	**78,174**	104,141
Trading business	**1,208**	–
	856,427	862,966

Disaggregation of revenue from contracts with customers

2020

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

2019

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

Sales of pipes and rendering of related services

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

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

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

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

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

Trading business

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

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

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

	2020 ***RMB'000***	2019 *RMB'000*
Other income		
Interest income	**1,261**	2,491
Rental income	**1,245**	984
Others	**5,507**	3,418
	8,013	6,893
Other gains		
Gain on sales of materials	**4,150**	6,068
(Loss)/Gain on disposal of property, plant and equipment, net	**(508)**	339
Default income for breach of contract	**10,100**	–
Others	**2,339**	910
	16,081	7,317
	24,094	14,210

6. FINANCE COSTS

	2020	2019
	RMB'000	*RMB'000*
Interest on borrowings	**39,073**	49,769
Interest on lease liabilities	**119**	41
	39,192	49,810

7. LOSS BEFORE TAX

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

	2020	2019
	RMB'000	RMB'000
Cost of inventories sold*	**753,291**	648,165
Cost of services	**58,901**	84,064
Employees benefits expenses (including directors' remuneration):		
Wages, salaries and bonus	**68,001**	69,333
Performance related bonus	**60**	55
Pension scheme contributions	**6,271**	17,702
Welfare and other expenses	**2,696**	2,594
Equity-settled share option expense	**343**	1,680
	77,371	91,364
Depreciation of property, plant and equipment	**93,893**	108,602
Amortization of right-of-use assets	**4,876**	6,497
(Reversal of allowance)/Allowance for trade receivables	**(1,620)**	17,283
Reversal of impairment loss recognised on other receivables	**(9,994)**	(1,678)
Loss/(Gain) on disposal of property, plant and equipment, net	**508**	(339)
Gain on disposal of subsidiaries	**–**	(10,333)
Loss on deregistration of subsidiaries	**–**	1,999
Exchange gain, net	**(121)**	(711)
Auditors' remuneration	**1,852**	1,939

* *Included in the cost of inventories sold is an amount of approximately RMB3,053,000 (2019: Write down of inventories of approximately RMB1,395,000) related to the write down of inventories for the year ended 31 December 2020.*

8. INCOME TAX EXPENSE

	2020	2019
	RMB'000	*RMB'000*
Current – PRC Enterprise Income Tax ("**EIT**")		
– Charge for the year	**142**	357
Deferred tax	**1,814**	9,987
Income tax expense	**1,956**	10,344

Hong Kong profits tax is calculated at 16.5% (2019: 16.5%) of the estimated assessable profits for the year.

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

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

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

	2020	2019
	RMB'000	*RMB'000*
Loss before tax	**(370,364)**	(161,591)
Tax at the applicable tax rate of companies within the Group of 25% (2019: 25%)	**(92,591)**	(40,398)
Expenses not deductible for tax	**51,134**	20,727
Income not taxable for tax	**(3,261)**	(3,727)
Tax loss not recognised	**47,853**	24,783
Effect of different tax rates of subsidiaries	**55**	188
Tax effect of (gain)/losses attributable to associates	**(1,234)**	1,129
Tax losses previously recognised and reversed	**–**	7,642
Tax at the Group's effective rate	**1,956**	10,344

Notes:

At the end of the reporting period the Group has unused tax losses of approximately RMB869,941,000 (2019: approximately RMB723,649,000) available for offset against future profits. No deferred tax assets has been recognised of such losses (2019: no tax loss was recognised as deferred tax assets) due to the unpredictability of future profit streams. Remaining unused tax loss will be expired from 2021 to 2025.

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

9. LOSS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

(a) Basic loss per share

The calculation of basic loss per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately RMB325,392,000 (2019: approximately RMB138,573,000) and the weighted average number of 3,274,365,600 (2019: 3,274,365,600) ordinary shares in issue during the year.

(b) Diluted loss per share

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 December 2020 and 2019 in respect of a dilution as there was no dilutive potential ordinary shares for the Company's outstanding options.

10. DIVIDEND

The Board of Directors has resolved not to declare a final dividend for the year ended 31 December 2020 (2019: Nil).

11. INVESTMENT IN AN ASSOCIATE

	2020 ***RMB'000***	2019 *RMB'000*
Unlisted investments in the PRC:		
Share of net assets	**192,089**	187,153

Particulars of the associate of the Group are as follows:

Company name	**Place of incorporation/ operations**	**Registered paid-up capital**	**Percentage of equity interests attributable to the Group as at 31 December**		**Principal activities**
			2020	2019	
Xinfeng Energy Enterprise Group Co., Ltd.# (“**Xinfeng Energy**”) (新鋒能源集團有限公司) (formerly known as Shanghai Xinfeng Enterprise Group Co., Ltd.# (上海新鋒企業集團有限公司))	The PRC/ The PRC	RMB820,000,000	**31.88%**	31.88%	Designing and construction of wind farms

\# *The English name is for identification only*

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

	Xinfeng Energy 2020	Xinfeng Energy 2019
Principal place of business/country of incorporation	**PRC/PRC**	PRC/PRC
Principal activities	**Designing and construction of wind farms**	Designing and construction of wind farms
% of ownership interests/voting rights held by the Group as at 31 December	**31.88%/31.88%**	31.88%/31.88%
	RMB'000	*RMB'000*
As at 31 December:		
Non-current assets	**268,909**	341,028
Current assets	**997,497**	1,172,174
Current liabilities	**(491,744)**	(622,695)
Non-current liabilities	**(172,124)**	(303,451)
Net assets	**602,538**	587,056
Group's share of net assets	**192,089**	187,153
For the year ended 31 December:		
Revenue	**61,790**	248,097
Profit/(Loss) for the year	**15,482**	(9,289)
Other comprehensive income	**–**	–
Total comprehensive income/(loss) for the year	**15,482**	(9,289)
Dividends received from the associate	**–**	–

As at 31 December 2020, the bank and cash balances of the Group' associates in the PRC denominated in RMB amounted to approximately RMB14,224,000 (2019: amounted to approximately RMB3,233,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

12. TRADE AND BILLS RECEIVABLES

	2020	2019
	RMB'000	*RMB'000*
Trade receivables	**265,344**	341,365
Less: allowance for impairment of trade receivables	**(2,647)**	(20,061)
	262,697	321,304
Bills receivables	**20,899**	4,890
	283,596	326,194

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

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

	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**170,274**	148,569
3 to 6 months	**43,657**	28,706
6 months to 1 year	**14,303**	48,045
1 to 2 years	**28,445**	72,700
Over 2 years	**6,018**	23,284
	262,697	321,304

Reconciliation of allowance for trade receivables:

	2020	2019
	RMB'000	*RMB'000*
Balance at beginning of the year	**20,061**	122,979
(Reversal of allowance)/Allowance for trade receivables	**(1,620)**	17,283
Written off	**(15,794)**	–
Disposal of subsidiaries	**–**	(120,216)
Exchange differences	**–**	15
Balance at end of year	**2,647**	20,061

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 2020					
Weighted average expected loss rate	**0%**	**1%**	**4%**	**32%**	**1%**
Receivable amount *(RMB'000)*	**205,457**	**47,309**	**10,122**	**2,456**	**265,344**
Loss allowance *(RMB'000)*	**(802)**	**(674)**	**(388)**	**(783)**	**(2,647)**
At 31 December 2019					
Weighted average expected loss rate	0%	0%	18%	27%	6%
Receivable amount *(RMB'000)*	178,429	51,593	107,623	3,720	341,365
Loss allowance *(RMB'000)*	–	(183)	(18,879)	(999)	(20,061)

13. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

	2020 ***RMB'000***	2019 *RMB'000*
Advances to entities *(note a)*	**18,700**	18,700
Advances to suppliers *(note b)*	**82,410**	83,828
Advances to shareholders of an entity *(note c)*	**–**	6,400
Loan to employees *(note d)*	**–**	231
Other tax receivables *(note e)*	**40,233**	29,527
Prepayment	**1,872**	1,094
Tender deposits to customers	**6,755**	11,777
Deposit for legal proceeding *(note f)*	**51,700**	51,700
Others	**49,597**	26,153
	251,267	229,410

Notes:

(a) As at 31 December 2020, included in the advances to entities is a loan of approximately RMB18,700,000 (2019: approximately RMB18,700,000) which was unsecured.

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

(c) The advances is a loan of RMB30,000,000 which is secured by 20% of the equity interests in an entity, bears an interest rate of 4.35% per annum and repayable on demand. An impairment loss recognised on advances to shareholders of an entity of approximately RMB5,600,000 has been recognised during the year ended 31 December 2018. The entity settled RMB18,000,000 and RMB12,000,000 seperately during the year ended 31 December 2019 and 31 December 2020.

(d) Loan to employees are unsecured, bear interest rate of 6% (2019: 6%) per annum and have no fixed repayment term.

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

(f) As at 31 December 2020, it is a deposit of approximately RMB51,700,000 for the legal proceeding with an independent third party. According to the court result, the deposit will be repaid during the year 2021. No provision for impairment is necessary in respect of this balance at this stage.

14. NON-CURRENT ASSETS HELD FOR SALE

	2020	2019
	RMB'000	*RMB'000*
The major classes of assets classified as held for sale at 31 December 2020 and 2019 are as follows:		
Investment in an associate – Shanghai Guoxin Industrial Co., Ltd.	**4,328**	200,000

Pursuant to an agreement (the "**Sale and Purchase Agreement**") dated 15 August 2019 entered into between a subsidiary of the Company and an independent third party (the "**Purchaser**"), the Group will dispose of 45% equity interests in an associate, Shanghai Guoxin Industrial Co., Ltd.* (上海國心實業有限公司) for a total cash consideration of RMB200,000,000 (the "**Disposal**"). The associate has been reclassified as a non-current assets held for sale during the year ended 31 December 2019. Due to the adverse effects of the outbreak of COVID-19 on the economy and the corresponding impact on the Purchaser's business during the year ended 31 December 2020, the Purchaser cannot proceed with the transaction with the Group. The Sale and Purchase Agreement was terminated and the sum of RMB10.1 million deposits received was forfeited by the Group and recognized as other income during the year ended 31 December 2020. After the Disposal is terminated, considering the deteriorating operating results and the outlook for the business of the associate under the influence of COVID-19 pandemic and the US-China trade dispute, the Group intended to dispose of the 45% equity interests in the associate by way of a public tender process to be carried out via Southern United Assets and Equity Exchange* (南方聯合產權交易中心). As at the date of this announcement, no successful bidder has been identified and a review on the net carrying amount of the net assets of the associate has since been conducted at the request of the Company. An impairment loss has been recognised based on the result of such review. The Company is currently taking steps to explore avenues to divest its investment in the associate, and is seeking advice from professional advisors for possible options.

* *The English name is for identification only*

15. TRADE AND BILLS PAYABLES

	2020	2019
	RMB'000	*RMB'000*
Trade payables	**237,153**	246,568
Bills payables	**123,213**	200
	360,366	246,768

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

	2020	2019
	RMB'000	*RMB'000*
Within 3 months	**228,296**	206,763
3 to 6 months	**1,711**	12,896
6 months to 1 year	**2,572**	17,993
1 to 2 years	**3,110**	7,192
Over 2 years	**1,464**	1,724
	237,153	246,568

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

16. OTHER PAYABLES AND ACCRUALS

	2020	2019
	RMB'000	*RMB'000*
Payable on acquisition of property, plant and equipment	**20,904**	34,125
Security deposits received from employees	**670**	670
Interest payable on other borrowings	**–**	3,212
Other tax payables	**769**	4,835
Others	**45,232**	21,372
	67,575	64,214

17. BORROWINGS

		2020			2019		
	Notes	**Effective interest rate** ***(%)***	**Maturity** ***(year)***	***RMB'000***	Effective interest rate *(%)*	Maturity *(year)*	*RMB'000*
Bank loans – Secured	*(a)*	**4.57%-4.79%**	**2021**	**124,000**	4.56%-5.49%	2020	127,000
Bank loans – Secured and guaranteed	*(b)*	**4.35%-5.22%**	**2021**	**558,600**	4.79%-5.22%	2020	558,600
Bank loans – Guaranteed	*(c)*	**4.35%-5.22%**	**2021**	**98,000**	5.65%	2020	30,000
Other loans – Unsecured	*(d)*			**–**	10.00%	2020	61,605
				780,600			777,205

The borrowings are repayable as follows:

	2020 ***RMB'000***	2019 *RMB'000*
On demand or within one year	**780,600**	777,205

Notes:

(a) The Group's bank loans were secured by pledge of certain of the Group's properties, plant and equipment amounting to approximately RMB84,023,000 (2019: approximately RMB88,512,000) and right-of-use assets amounting to approximately RMB72,518,000 (2019: approximately RMB76,900,000).

(b) The Group's bank loans were secured by pledge of certain of the Group's properties, plant and equipment amounting to approximately RMB322,935,000 (2019: approximately RMB374,343,000), right-of-use assets amounting to approximately RMB41,789,000 (2019: approximately RMB42,634,000) and an amount of approximately RMB155,160,000 (2019: approximately RMB155,160,000) out of bank loans of approximately RMB558,600,000 (2019: approximately RMB558,600,000) were guaranteed by a non-controlling shareholder of a subsidiary.

(c) The Group's bank loans of approximately RMB42,238,000 (2019: approximately RMB12,930,000) out of bank loans of approximately RMB98,000,000 (2019: approximately RMB30,000,000) were guaranteed by a non-controlling shareholder of a subsidiary.

(d) The loan refers to advance from Directors and employees of approximately RMB61,605,000 in 2019 which is unsecured, bears an interest rate of 10% per annum and repayable within one year.

CHIEF EXECUTIVE OFFICER'S STATEMENT

Dear shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of the Company, I hereby present to you the audited results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2020 (the "**Year under Review**").

In 2020, the COVID-19 pandemic wreaked havoc to global economy. Lock-down measures adopted by nations across the globe resulted in economic stagnation, surging unemployment rate and volatilities in the international financial market. According to the United Nations, global economy shrank by 4.3% in 2020. China has achieved satisfactory results in pandemic prevention and control with its annual GDP recording a year-on-year increase of 2.3%, but at a slower growth pace. In general, China's national economy gradually picked up and witnessed a significant recovery in the second half of the year thanks to the remarkable achievements of the employment stabilisation and livelihood safeguarding policies. With respect to the industry, global oil and gas market demonstrated a fragmented landscape and suffered sharp fluctuation in oil prices, while in China, crude oil output of upstream players grew at a slower pace and there was a rapid growth in natural gas production volume. There remains great demand in future, which shall call upon a further expansion of pipeline construction.

On 1 October 2020, China Oil & Gas Pipeline Network Corporation* (國家石油天然氣管網集團有限公司) ("**China Pipeline Network Corporation**"* (國家管網集團)) took over the relevant oil and gas pipeline infrastructure assets, business, and personnel from the three oil giants, i.e., China National Petroleum Corporation ("**CNPC**"), China Petroleum & Chemical Corporation ("**SINOPEC**") and China National Offshore Oil Corporation ("**CNOOC**") (the "**Three Barrels**"*（三桶油）), which were officially integrated and commenced commercial operation. Subsequently, China Pipeline Network Corporation entered into strategic cooperation agreements with Guangdong provincial government to promote integration of "provincial pipeline network" with "national pipeline network", and the "X+1+X" market system was duly launched. Such effort marked the significant achievements of the market-oriented reform of China's oil and gas pipeline network operation mechanism and all market players will be offered fair and open services. On 20 October 2020, the fair and open information reporting system and information disclosure system of oil and gas pipeline network facilities of the National Energy Administration was officially put into operation, which further strengthens the supervision over reform and furnishes a channel for information disclosure. On 21 December 2020, the White Paper on Energy in China's New Era* (《新時代的中國能源發展》) of the State Council Information Office of PRC explicitly mentioned the target to break away from monopoly; lower entry thresholds; encourage competition; establish a unified, open and competitive energy market system; eliminate market barriers; innovate the operation mechanism of oil and gas pipeline network; and achieve separation of pipeline transportation and sales. Continuous progress made in multiple reform measures of the oil and gas fields will allow more opportunities for private enterprises and the Group will also tap on its sound results, profound experience and advanced equipment and technical advantages to grasp the opportunity and to deliver remarkable results.

ACTIVELY COPING WITH IMPACTS FROM COVID-19 PANDEMIC AND EXPLORING SOCIAL MARKET

Amid the shocks of the COVID-19 pandemic, global economy experienced a downward trend with drastic market turbulences. Global oil and gas market was also subject to headwinds from multiple sources, where several oil and gas giants in the United States filed for bankruptcy protection. Likewise, China's economy had been under pressure. National pipeline projects generally operated under capacity; as a result of the establishment of China Pipeline Network Corporation which involved asset settlement, certain proposed projects of SINOPEC, CNPC and CNOOC were postponed and national key pipeline projects generally came to a standstill or being postponed during the year. Moreover, given the severe pandemic infestation overseas, we hardly achieved breakthroughs in the international market, and suffered a delay in delivery of awarded projects.

In view of the above, Shandong Shengli Steel Pipe Co., Ltd.* (山東勝利鋼管有限公司) ("**Shandong Shengli Steel Pipe**") proactively arranged for work resumption and changed the marketing strategy in a timely manner to adjust its focus, from "prioritising sales for national key pipeline projects over the social market" in previous years, to "prioritising sales for the social market". During the Year under Review, orders secured by Shandong Shengli Steel Pipe from the social market witnessed a historical new high. Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) ("**Hunan Shengli Steel Pipe**") also proactively adjusted its marketing approach and vigorously expanded sales channels. While pressing ahead with projects from the Three Barrels, it actively stabilised local market and reached out to agencies such as Hunan Valin Resource Trading Co., Ltd.* (湖南華菱資源貿易有限公司) for the purpose of resource co-sharing, in a bid to strive for breakthroughs in the international market.

STREAMLINING INDICATORS FOR DEFINED POSTS AND PRICING MECHANISM TO ACHIEVE COST REDUCTION AND EFFICIENCY ENHANCEMENT

During the Year under Review, aiming at reducing costs and enhancing efficiency, as well as exploring new revenue streams and cutting cost, Shandong Shengli Steel Pipe set up four designated working groups to recalculate post workload, reasonably allocate personnel and minimise temporary employment. It reformulated various assessment indicators to eliminate redundant items and reduce costs, and at the same time adopted all the feasible measures to enhance the efficiency of machine units and personnel. Besides, it identified sales approaches and established different sales policies and pricing mechanism for various customer groups, and formulated and refined the Customer Credit Management System* (《客戶信用管理制度》) to strengthen control over risks arising from customer credit and mitigate operating risk.

REVITALISING STOCK, STRENGTHENING PROCESS CONTROL AND INCREASING CASH FLOWS

During the Year under Review, Shandong Shengli Steel Pipe thoroughly streamlined the stock piled for years, and disposed of an array of coiled plates, overstocked steel pipes and idle or scrapped equipment by classification, thereby revitalised capital; enhanced the effective utilisation rate of assets; and promoted the healthy development of the Group. Meanwhile, in order to avoid further inventory pile-up, Shandong Shengli Steel Pipe optimised the Management Approach of Inventory Coil and Steel Pipe* (《庫存卷板和鋼管管理辦法》) to standardise the disposal process of coil and steel pipe, and dispose of the stockpiled coil and steel pipe in a timely and reasonable manner to avoid direct or indirect losses caused by lagging management. It revised the Regulations on Material Procurement Management* (《物資採購管理規定》) and Regulations on Warehouse Management* (《倉庫管理規定》) to strengthen management over material procurement without compromising production, sparing no effort in reducing inventory.

ENHANCING DUTY PERFORMANCE APPRAISAL AND REFORM OF REMUNERATION SYSTEM TO IMPROVE INTERNAL MANAGEMENT

To motivate the consciousness of execution and initiatives of functional departments, management personnel at all levels and technicians, the Group promoted Measures for Supervision and Assessment of Duty Performance* (《職責履行監督考核辦法》) in Shandong Shengli Steel Pipe, and established and refined specific appraisal system, detailing the post responsibilities and promoting fairer and more reasonable appraisal. Besides, it linked satisfaction of job duties with personal remuneration adjustment to better safeguard the realisation of goals set for staff at different levels.

Hunan Shengli Steel Pipe also formulated a new remuneration system based on the principle of linking remuneration with the performance of departments and employees, performance-based allocation, workload-driven payment, and reasonable rewards and punishments, to encourage employees to engage more tasks and take the initiative to undertake tasks. Meanwhile, it prioritised the performance of production fields and key posts, which mobilised the enthusiasm of all employees to a maximum extent.

INCREASING TECHNOLOGICAL INVESTMENT TO NURTURE NEW GROWTH DRIVERS

The Group upholds the belief that technology is the key for maintaining competitiveness and has been constantly increasing its technological investment.

During the Year under Review, Shandong Shengli Steel Pipe proactively expanded into pipes products with more added value, and upon repeated research and demonstration, invested approximately RMB10 million to establish the "1,600mm rigid polyurethane sprayed polyethylene wound prefabricated longitudinal insulation pipes"* (1,600mm型硬質聚氨酯噴塗聚乙烯纏繞預制直埋保溫管) production line, which has commenced pilot production in March 2021, and is expected to be put into operation as soon as possible during the year. The newly established production line not only expanded the market coverage of the pipes products of the Company, but also will contribute positively to the economic benefits of the Company.

As the first pre-welding set imported from Germany and also one of the only two sets in China at present, in order to give full play to the advantages of the pre-welding process and forging the pre-welding set into a remarkable namecard in the domestic oil and gas transmission steel pipe industry, Shandong Shengli Steel Pipe set up a special research group to conduct a comprehensive comparison between the two-step pre-welding process and the traditional one-step process during the Year under Review. Pursuant to the preliminary results from comparison of test data, the pre-welding process performed better in terms of welding seam performance, size and residual stress, which strongly supported the Company's strengthening competitive advantage.

Meanwhile, Shandong Shengli Steel Pipe concentrated its technical efforts to tackle key problems and implement technical improvement projects. At present, the R&D on the Main Engine Centralised Control System of the Pre-welding Factory* (《預精焊分廠主機集中控制系統研發》), the Research on Arc-extinguishing Plate Removal Process of Pre-welding Steel Pipes* (《預精焊鋼管引熄弧板去除工藝研究》), the Research on Ultrasonic Testing Technology of Steel Pipes of 2nd Branch* (《二分廠鋼管超聲波檢測技術研究》) and the Research on Identification Process of Anti-corrosion Steel Pipes* (《防腐鋼管標識工藝研究》) have been implemented. The R&D of Information Management System of 2nd, 3rd and Pre-welding Plants and the Steel Pipes of Anti-corrosion 1# Line* (《二、三、預精焊分廠、防腐1#線鋼管信息管理系統研發》) is also in pilot operation. Completion of such technical improvement projects will further improve the automation, informationisation and intelligence level of steel pipe production, thus effectively ensuring product quality, enhancing corporate image and boosting market competitiveness.

In addition, Hunan Shengli Steel Pipe proactively expanded its business scope. In order to meet the production requirements of water transmission pipelines, it enlarged the maximum pipe production diametre of one set of main engine from Φ1,422mm to Φ2,620mm, thereby broadening the market coverage of SAWH pipes.

FUTURE PROSPECTS

Looking into 2021, we are well positioned to grasp sound market opportunities. An institutional system for the reform of oil and gas system and mechanism has initially taken shape during the "13th Five-Year Plan" period, which specified the establishment of an oil and gas institutional system with rational competition, directive regulations and effective supervision, the continuous promotion of the reform featuring "regulating transmission and dispatch with market liberalisation at both ends", and vigorously propelling infrastructure construction, allowing fair access to third parties and formulating and improving pricing mechanism for pipeline transmission and gas distribution at the middle stream.

During the "14th Five-Year Plan" period, China's oil and gas industry will embrace accelerated transformation; the foundation of safe oil and gas supply will be further consolidated; and the importance of natural gas in the clean and low-carbon energy system will be further enhanced. Meanwhile, the demand for pipeline construction will also be boosted.

According to the goal put forward in the Medium and Long-term Oil and Gas Pipeline Network Planning* (《中長期油氣管網規劃》) of the National Development and Reform Commission, the scale of oil and gas pipeline network is set to reach 240,000 kilometres in 2025, and 145,000 kilometres have been constructed by 2020, leaving another 95,000 kilometres to be built.

During the "14th Five-Year Plan" period, China Pipeline Network Corporation initially proposed to build more than 25,000 kilometres of oil and gas pipelines, which implies that China Pipeline Network Corporation is required to build 5,000 to 6,000 kilometres of oil and gas pipelines each year in the next five years, including pipelines used for natural gas, crude oil and refined oil. It is estimated that mileage of oil and gas pipelines of China Pipeline Network Corporation will account for approximately 60% of that of the whole nation.

In this regard, there is huge demand for pipe construction in the next five years. At present, due to the impact of the COVID-19 pandemic, China Pipeline Network Corporation progressed at a slower pace. In order to keep up with schedule and achieve such goal, pipeline network construction is in urgency for acceleration. The Group believes that it will gain more construction opportunities in future.

Currently, China also has a rising demand for water and heat supply. The insulation pipeline industry demonstrates a diversified landscape where private enterprises take the lead and state-owned enterprises, joint ventures and private enterprises compete with each other. Based on a thorough study of the insulation pipeline industry, we believe that there remains great development potential and, with the completion and commencement of operation of the insulation pipeline project of Shandong Shengli Steel Pipe, we are confident in securing our footing in the market competition.

The Group will continue to keep a close eye on the progress of pipeline construction, take the initiative to get involved in large-scale pipeline projects and join in national pipeline construction, thereby creating value to social construction and boosting revenue of the Group.

The Company will also actively evaluate the performance of its various business units, assets and investments with a view to streamlining our operation and to focus further on our core businesses, which will in turn strengthen our core profitability and business sustainability in the long run.

Besides, new financing capital inflows relieved the fund pressure of the Company and created momentum to business development. In addition to reinforcing our existing pipes business, we also hope to explore and develop new business and create greater value for the shareholders.

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

Zhang Bizhuang
Executive Director & Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

In 2020, the COVID-19 pandemic resulted in negative growth of global economy, which is expected to operate under pressure in the long run. China's economic performance varied by quarters, with a year-on-year decrease of 6.8% in the first quarter, and a year-on-year increase of 3.2%, 4.9% and 6.5% in the second, third and fourth quarter, respectively. Thanks to the keynote of advancing with stability and the policy of "Six Stabilities (stabilising employment, finance, foreign trade, foreign capital, investment and expectation)" and "Six Safeguards (safeguarding employment, basic livelihood, market players, food and energy security, stability of industrial and supply chain, and grassroots-level operation)" of the government, China's economy recorded a positive growth during the year, paving the way for the "14th Five-Year Plan".

In terms of the oil and gas industry, in the international market, the COVID-19 pandemic and rivalry among major oil-producing countries led to dramatic decline and surge in international oil prices and even recorded an unprecedented negative price, presenting a "V"-shaped curve throughout the year. Several shale oil and gas giants in the United States were eliminated in the adversities of the industry. In the domestic market, lock-down measures in response to the pandemic adopted in the first half of 2020 resulted in a drop in demand for oil, and the growth in natural gas consumption slowed down, recording a year-on-year increase of only 1.6 billion cubic metres. Following work and production resumption, demand in the second half of 2020 gradually increased, especially with the arrival of the winter heating season, domestic natural gas demand recorded a significant increase and the increase in consumption exceeded expectation, with the daily gas consumption reaching a record high in December 2020. In addition, China's oil companies continued to enhance oil exploitation to ensure steady growth of domestic oil production throughout the year. From the perspective of policies in the oil and gas industry, in September 2020, General Secretary Xi Jinping delivered a speech, to the effect that China will adopt potent policies to strive for peak carbon discharges in 2030 and carbon neutrality in 2060; oil and gas enterprises will gradually turn to clean energy; natural gas remains at the rapid development cycle, resulting in an increase in demand for oil and gas pipelines.

Looking into 2021, despite the challenges posed by COVID-19 variance, leveraging the successful development and inoculation of COVID-19 vaccine and favorable policies issued by the government, China's macro environment is expected to remain stable. It is expected that, after the asset consolidation of China Pipeline Network Corporation is completed, the relevant pipeline construction will accelerate, and China's oil and gas pipeline construction is expected to achieve the goal scheduled for 2025. The market capacity of China's oil and gas pipeline construction industry may reach RMB1,683.5 billion during the "14th Five-Year Plan" period. In the upcoming year, while carrying out pandemic prevention, the Group will seize opportunities to actively develop pipeline sales and improve pipeline production efficiency.

BUSINESS REVIEW

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

The Group's major customers are large-scale national petroleum and natural gas enterprises such as CNPC, SINOPEC and CNOOC and their subsidiaries as well as the newly established China Pipeline Network Corporation. The Group focuses on the design, manufacturing, anti-corrosion processing and servicing of pipes (including submerged-arc helical welded pipes ("**SAWH pipes**") and submerged-arc longitudinal welded pipes ("**SAWL pipes**")) used for the transport of crude oil, refined petroleum products and natural gas.

For the year ended 31 December 2020, annual production capacity of the Group's SAWH pipes, SAWL pipes and ancillary anti-corrosion production line reached 1.00 million tonnes, 300,000 tonnes and 9.60 million square metres, respectively.

For the year ended 31 December 2020, pipes manufactured by the Group were used in the world's oil and gas pipelines with a cumulative total length of approximately 32,299 kilometres, of which approximately 95% were installed in China while the remaining approximately 5% were installed outside China.

During the Year under Review, large-scale pipe projects using SAWH pipes manufactured by the Group included: CNOOC Shenmu-Anping Coal-bed Methane Pipeline Project* (中海油神木－安平煤層氣管道工程) ("**CNOOC Shenmu Pipeline Project**"), Yinchuan Intelligent Central Heating Project* (銀川市智能化集中供熱項目), Phase I of Heating Pipeline Network Construction Project of Weihai Thermal Power Group* (威海熱電集團供熱管網建設項目一期工程), Heating Pipeline Network Project of Introducing Heat from Yuzhong Power Plant to Airport Area* (裕中電廠引熱入航空港區供熱管網工程), Shouguang High Temperature Water Heating Pipeline Network Interconnection Project* (壽光市高溫水供熱管網互聯互通工程), Yantai Port Crude Oil Pipeline Multiple Tracks Project* (煙台港原油管道復線工程), Niger-Benin Pipeline Project* (尼貝管道項目) of China Petroleum Technology Development Company ("**CPTDC**") (the "**CPTDC Niger-Benin Pipeline Project**"), Henan LNG Emergency Reserve Center Interconnection Pipeline Project* (河南LNG應急儲備中心互聯互通管道工程), Daxiangxi Natural Gas Pipeline Branch Project* (大湘西天然氣管道支幹線項目) and Kaiyuan-Mengzi Natural Gas Pipeline Project* (開遠–蒙自天然氣管道工程).

Large-scale pipe projects using SAWL pipes manufactured by the Group included: CNOOC Shenmu Pipeline Project, Haixi Natural Gas Pipeline Network Dehua Line Project* (海西天然氣管網德化支線工程), Changsha Huangqiao Avenue High Pressure Gas Pipeline Project* (長沙黃橋大道高壓燃氣管道項目), Shaoguan – Guangzhou Line of the North Guangdong Natural Gas Trunk Pipeline Network* (粵北天然氣主幹管網韶關－廣州幹線項目) and Zhejiang Lishui Longyou Natural Gas Transmission Pipeline Project* (浙江麗水龍游天然氣輸氣管道工程).

Large-scale pipeline projects using anti-corrosion pipes manufactured by the Group included: CNOOC Shenmu Pipeline Project, Dongjiakou to Dongying Crude Oil Pipeline Project* (董家口至東營原油管道工程), CPTDC Niger-Benin Pipeline Project, Haixi Natural Gas Pipeline Network Dehua Line Project, Yantai Port Crude Oil Pipeline Multiple Tracks Project, Henan LNG Emergency Reserve Center Interconnection Pipeline Project, Kaiyuan-Mengzi Natural Gas Pipeline Project, Shaoguan – Guangzhou Line of the North Guangdong Natural Gas Trunk Pipeline Network, Zhejiang Lishui Longyou Natural Gas Transmission Pipeline Project and Qiandongnan Prefecture County-to-county Project* (黔東南通縣縣通項目).

FINANCIAL REVIEW

Revenue

The Group's sales revenue decreased slightly from approximately RMB862,966,000 for the year ended 31 December 2019 to approximately RMB856,427,000 for the year ended 31 December 2020, primarily representing revenue from the pipes business, which is the principal business of the Group. In particular, (1) revenue from the sale of SAWH pipes reached approximately RMB474,336,000 (2019: approximately RMB354,520,000), representing a year-on-year increase of approximately 33.8%; (2) revenue from the sale of SAWL pipes reached approximately RMB302,709,000 (2019: approximately RMB404,305,000), representing a year-on-year decrease of approximately 25.1%; (3) revenue from the anti-corrosion processing business reached approximately RMB78,174,000 (2019: approximately RMB104,141,000), representing a year-on-year decrease of approximately 24.9%; and (4) revenue from the trading business reached approximately RMB1,208,000 (2019: Nil). Revenue remained flat primarily attributable to certain increase in sales revenue from the SAWH pipes business and certain decrease in sales revenue from the SAWL pipes and anti-corrosion processing business during the Year under Reivew; which was due to (i) limited number of large-scale national pipeline projects during the Year under Review as China Pipeline Network Corporation was established in December 2019 and officially commenced integration and operation in October 2020; and (ii) a delay in delivery of pipes products for certain projects of the Group during the Year under Review due to the quarantine, lock-down, travelling restriction and business suspension measures adopted by the PRC government to contain the COVID-19 pandemic. However, as a result of a significant year-on-year decrease in pipes processing business and a surge in pipes sales business, revenue during the Year under Review only recorded a slight decrease from the previous year.

Cost of sales and services

The Group's cost of sales and services increased by approximately 10.9% from approximately RMB732,229,000 for the year ended 31 December 2019 to approximately RMB812,192,000 for the year ended 31 December 2020, primarily attributable to a significant increase in pipes sales business, the business segment which involves considerable cost of sales despite the decrease in pipes business and anti-corrosion processing business during the Year under Review. Such increase outweighs the decrease in the cost of sales in association with the decrease in (i) pipes processing business and (ii) anti-corrosion processing business during the Year under Review, the business segments which involve less cost of sales by its nature.

Gross profit

The gross profit of the Group decreased from approximately RMB130,737,000 for the year ended 31 December 2019 to approximately RMB44,235,000 for the year ended 31 December 2020, mainly due to certain decline in the sales volume of the SAWL pipes and anti-corrosion processing business of the Group as compared to the corresponding period last year. Meanwhile, the gross profit margin of the Group decreased to approximately 5.2% for the year ended 31 December 2020 from approximately 15.1% for the year ended 31 December 2019, mainly due to certain decrease in sales volume of the pipes business of the Group, a significant decline in proportion of pipes processing business with higher gross profit margin and certain decline in anti-corrosion processing business with higher profit margin during the Year under Review from the corresponding period last year.

Other income and gains

Other income and gains of the Group increased from approximately RMB14,210,000 for the year ended 31 December 2019 to approximately RMB24,094,000 for the year ended 31 December 2020, which was mainly due to income from the deposit in the sum of RMB10.1 million forfeited by the Group as a result of the termination of the Sale and Purchase Agreement (as defined below) during the Year under Review.

Selling and distribution costs

Selling and distribution costs of the Group increased from approximately RMB44,745,000 for the year ended 31 December 2019 to approximately RMB63,804,000 for the year ended 31 December 2020, principally due to an increase in transportation expenses born by the Group due to changes in transportation conditions during the Year under Review.

Administrative expenses

The Group's administrative expenses decreased by approximately 20.6% from approximately RMB191,813,000 for the year ended 31 December 2019 to approximately RMB152,343,000 for the year ended 31 December 2020, primarily due to exemption of staff insurance contributions by the State for micro, small, and medium-sized enterprises as a result of the COVID-19 pandemic during the Year under Review, and a significant decrease in impairment allowances of trade receivables pursuant to relevant accounting policies from the corresponding period last year, which was due to the subsequent settlement of a significant amount of trade receivables during the Year under Review which was recorded as impaired previously.

Reversal of impairment loss recognised on other receivables

Reversal of impairment loss recognised on other receivables of the Group for the year ended 31 December 2020 was approximately RMB9,994,000 (2019: reversal of impairment loss recognised of approximately RMB1,678,000), primarily attributable to reversal of impairment allowances on other receivables provided pursuant to relevant accounting policies.

Gain on disposal of subsidiaries

During the Year under Review, the Group did not generate gains from disposal of subsidiaries, as compared to gains on disposal of subsidiaries of approximately RMB10,333,000 for the year ended 31 December 2019, which was primarily attributable to disposal of the entire equity interests in Shengli Enterprise Holdings Limited (勝利實業控股有限公司) and two of its domestic wholly-owned subsidiaries by the Group to independent third parties during the year ended 31 December 2019.

Impairment loss on non-current assets held for sale

Pursuant to the sale and purchase agreement (the "**Sale and Purchase Agreement**") dated 15 August 2019 entered into between a wholly-owned subsidiary of the Group and an independent third party (the "**Purchaser**") in relation to the conditional disposal of 45% equity interests in Shanghai Guoxin Industrial Co., Ltd.* (上海國心實業有限公司) ("**Shanghai Guoxin**") by the Group at a total consideration of RMB200,000,000, investment in Shanghai Guoxin had been reclassified as a non-current asset held for sale.

Due to the adverse effects of the outbreak of COVID-19 on the Purchaser's business, the Purchaser cannot proceed with the transaction with the Group. On 5 October 2020, the Group entered into a termination agreement with the Purchaser to terminate the Sale and Purchase Agreement with immediate effect. Upon termination of the Disposal under the Sale and Purchase Agreement, considering the deteriorating operating results and the outlook for the business of Shanghai Guoxin under the influence of current economic condition, COVID-19 pandemic and the Sino-US trade dispute, the Group intends to dispose of the 45% equity interests in the Shanghai Guoxin by way of a public tender process to be carried out via Southern United Assets and Equity Exchange* (南方聯合產權交易中心). As at the date of this announcement, no successful bidder has been identified and a review on the net carrying amount of the net assets of Shanghai Guoxin has since been conducted. An impairment loss has been recognised based on the result of such review. The Company is currently taking steps to explore avenues to divest its investment in Shanghai Guoxin, and is seeking advice from professional advisors for possible options. For details of the conditional disposal of equity interests in Shanghai Guoxin, please refer to the announcements of the Company dated 15 August 2019, 16 October 2019, 5 October 2020, 6 November 2020, 9 December 2020 and 5 March 2021 as well as the circular dated 20 September 2019.

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

Finance costs

The Group incurred finance costs of approximately RMB39,192,000 for the year ended 31 December 2020 (2019: approximately RMB49,810,000), which were primarily derived from interest on bank loans.

Income tax expenses

Hong Kong profits tax is calculated at the rate of 16.5% (2019: 16.5%) on the estimated assessable profit for the year. The profits tax rate of China Petro Equipment Holdings Pte. Ltd., a subsidiary of the Company incorporated in the Republic of Singapore, is 17% (2019: 17%) for the year. Under the EIT Law and Implementation Regulation of the EIT Law, the profits tax rate of the Company's subsidiaries in the PRC for the year is 25% (2019: 25%). Income tax for the year ended 31 December 2020 was approximately RMB1,956,000 (2019: income tax of approximately RMB10,344,000), primarily due to the impact of deferred tax.

Total comprehensive loss for the year

Due to the combined effect of the above factors, the audited total comprehensive loss of the Group for the year ended 31 December 2020 was approximately RMB385,829,000, compared to the audited total comprehensive loss of the Group of approximately RMB179,351,000 for the year ended 31 December 2019.

Net current liabilities

For the year ended 31 December 2020, the Group had net current liabilities of approximately RMB339,055,000 as compared to approximately RMB46,007,000 for the year ended 31 December 2019. The main reason for the increase in net current liabilities for the year was due to an increase in impairment loss recognised for non-current assets held for sale and contract liabilities as further set out in the paragraph titled "Impairment loss on non-current assets held for sale".

China Pipeline Network Corporation undertook the relevant oil and gas pipeline assets of the Three Barrels and commenced commercial operation in October 2020. Meanwhile, during the "14th Five-year Plan" period, pursuant to the planning of the state, China expects to newly establish over 10,000 kilometres of oil and gas pipeline network each year. As such, the Group will grasp sound development opportunities in the pipes industry and proactively secure more pipes orders. Through reasonable allocation of funds and meticulous operation, the Group is confident to ensure on-going stability of its production and operations and to gradually minimise its net current liabilities.

Capital expenditure

The Group incurred capital expenditure for the acquisition of property, plant and equipment, expansion of production facilities and purchase of machinery for the manufacture of steel pipe products. Capital expenditure during each of the two years ended 31 December 2019 and 2020 were primarily related to the purchase of property, plant and equipment.

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

	2020	2019
	RMB'000	*RMB'000*
Purchase of property, plant and equipment	**14,733**	9,524
	14,733	9,524

Indebtedness

Borrowings

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

	2020	2019
	RMB'000	*RMB'000*
Borrowings:		
Bank loans – Secured	**124,000**	127,000
Bank loans – Secured and guaranteed	**558,600**	558,600
Bank loans – Guaranteed	**98,000**	30,000
Other loans – Unsecured	**–**	61,605
	780,600	777,205

For the year ended 31 December 2020, the borrowings of the Group amounted to approximately RMB780,600,000 (2019: approximately RMB777,205,000).

Included in the borrowings is approximately RMB780,600,000 repayable within one year. The following table sets forth the annual interest rates of the Group's bank loans:

	2020	2019
	%	*%*
Effective interest rate per annum	**4.35 to 5.22**	4.56 to 10.00

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

Financial management and fiscal policy

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

Liquidity and financial resources

For the year ended 31 December 2020, cash and cash equivalents of the Group amounted to approximately RMB113,159,000 (2019: approximately RMB99,535,000). For the year ended 31 December 2020, the Group had borrowings of approximately RMB780,600,000 (2019: approximately RMB777,205,000).

The gearing ratio is defined as net debt (represented by borrowings, trade payables, contract liabilities and other payables and accruals, net of cash and cash equivalents and pledged deposits) divided by total equity plus net debt. For the year ended 31 December 2020, the gearing ratio of the Group was 55.2% (2019: 44.9%).

Contingent liabilities

For the year ended 31 December 2020, the Group did not have any material contingent liabilities (2019: Nil).

Foreign exchange risk

In 2020, the Group's businesses have been mainly transacted and settled in functional currency of subsidiaries, so the Group has had minimal exposure to foreign currency risk. The Group did not utilise any forward contracts or other means to hedge its foreign exchange exposure. However, the management will closely monitor the exchange rate fluctuations to ensure sufficient precautionary measures against any adverse impacts are in place.

Human resources and remuneration policies

The Group reviews its human resources and remuneration policies periodically with reference to local legislations, market conditions, industry practice and assessment of the performance of the Group and individual employees. For the year ended 31 December 2020, the Group's workforce comprised of 928 employees (including the Directors) (1,009 employees for the year ended 31 December 2019). The total salaries and related costs (including the Directors' fees) amounted to approximately RMB77,371,000 (2019: approximately RMB91,364,000). Such decrease in the total salaries and related costs was primarily due to (i) the decrease in the total number of the Group's employees and (ii) the exemption of staff insurance contributions by the State for micro, small and medium-sized enterprises as a result of the COVID-19 pandemic during the Year under Review.

DIVIDENDS

The Board does not recommend the payment of final dividend for the year ended 31 December 2020.

EVENTS AFTER THE YEAR UNDER REVIEW

Save as those subsequent events as disclosed in this announcement, no other significant events that had an impact on the Group occurred subsequent to the Year under Review.

CLOSURE OF REGISTER OF MEMBERS

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

The register of members of the Company will be closed from Tuesday, 15 June 2021 to Friday, 18 June 2021, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the annual general meeting. In order to be eligible to attend and vote at the annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Shop 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Friday, 11 June 2021. During the period mentioned above, no transfers of shares will be registered.

CORPORATE GOVERNANCE CODE

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

For the year ended 31 December 2020, the Company has complied with all the code provisions set out in the Code.

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

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the required standard for securities transactions by the Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that during the year ended 31 December 2020, they have complied with the required standards set out in the Model Code and the code of conduct regarding directors' securities transactions.

PURCHASE, REDEMPTION OR SALE OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of their respective securities during the year ended 31 December 2020.

SCOPE OF WORK OF ZHONGHUI ANDA CPA LIMITED

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2020 as set out in this preliminary announcement have been agreed by the Group's auditor, ZHONGHUI ANDA CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the current year. The work performed by ZHONGHUI ANDA CPA Limited in this announcement did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by ZHONGHUI ANDA CPA Limited on the preliminary announcement.

AUDIT OPINION FROM ZHONGHUI ANDA CPA LIMITED

ZHONGHUI ANDA CPA Limited has expressed an unqualified opinion on the audited consolidated financial statements of the Group for the financial year ended 31 December 2020.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") was established on 21 November 2009 with written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process. All members of the Audit Committee are appointed by the Board. The Audit Committee currently consists of three independent non-executive Directors, namely, Mr. Chen Junzhu, Mr. Wu Geng and Mr. Qiao Jianmin and Mr. Chen Junzhu serves as the chairman of the Audit Committee.

The Audit Committee has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2020.

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

This annual results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.slogp.com). The annual report for the year ended 31 December 2020 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and available on the above websites in due course.

APPRECIATION AND STRIVING FOR THE GOALS

Finally, on behalf of all Directors, I would like to take this opportunity to express my gratitude to all shareholders, customers and employees of the Company for their continuous support and encouragement for the Company to overcome difficulties and achieve success. The Company is positioned in the oil and gas and related equipment and pipeline industry, and has a close connection with the economic and strategic development of the PRC. With the highest quality and technical standards, unwavering efforts and unswerving dedication to corporate philosophy, we are committed to capturing each and every opportunity, with a view to strengthening and sharpening up our oil and gas pipeline transportation products while at the same time proactively exploring into new business sectors, thereby creating maximum values and returns for our shareholders.

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

Zibo, Shandong, 31 March 2021

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

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

* *For identification purpose only*