

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



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)**

### ANNOUNCEMENT

Reference is made to the announcements of the Company dated 21 March 2013, 26 April 2013 and 30 April 2013, respectively. Capitalised terms used herein shall have the same meanings as those defined in the abovementioned announcements unless the context otherwise requires.

Following the Company commencing its investigation and review procedure in relation to the Unresolved Issue(s) (including the appointment of the independent professional party to review the Unresolved Issue(s)), the Company had on several occasions, contacted EY and provided them with relevant information. However, no substantive response was received from the auditors with regards to the additional audit procedures that might be required to complete the audit work for 2012, and the parties failed to reach consensus on manners proceeding to complete the audit work. To avoid further delay in the proceeding of the overall audit work, and taking into consideration the interests of the Shareholders as a whole, the Board proposes to change the auditors of the Group.

On 13 May 2013, the Company has received a letter (the “**Letter**”) from EY setting out matters which EY considered should be brought to the attention of the Shareholders in relation to the proposed change of auditors of the Company. Set out below is an extract of the relevant paragraphs of the Letter:

*“We are engaged to audit the consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2012 in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the “2012 Audit”). During the course of the 2012 Audit, we noted that Shandong Shengli Pipe Co., Ltd. (“Shandong Shengli”), a subsidiary of the Company, had significant prepayments totaling approximately RMB447 million as at 31 December 2012. As part of our audit procedures, we arranged audit confirmations to verify the significant prepayment balances as at 31 December 2012 including the balance of RMB86,082,531.40 with a third party supplier (the “Supplier”). According to the confirmation received, the Supplier was asked by Shandong Shengli to pay an amount of RMB86,125,170.60 to Shandong Fifth Season Commercial Investment Co., Ltd. (“Shandong Fifth Season”) on 15 August 2012 (Shandong Shengli provided an entrusted loan of RMB300 million to Shandong Fifth Season, details of which are set out in the Company’s announcement dated 31 January 2011 and 17 February 2012). Accordingly, the balance confirmed by the*

*Supplier, excluding the amount paid to Shandong Fifth Season, should be a debit balance of RMB46,079.20 as recorded in its accounting records. According to the accounting records of Shandong Shengli, an amount of RMB184,125,170.62, including both principle and investment payments, was received from Shandong Fifth Season on 16 August 2012.*

*After receipt of the abovementioned confirmation, we enquired with the management of Shandong Shengli about the variance in the amount confirmed by the Supplier. The management of Shandong Shengli responded that the amount confirmed by the Supplier was incorrect and then we received a revised confirmation from the Supplier confirming the balance with Shandong Shengli of RMB86,082,531.40 was consistent with its accounting records.*

*We communicated the abovementioned inconsistencies in confirmations to Mr. Leung Ming Shu, the former Audit Committee Chairman of the Company on 11 March 2013 and recommended the Audit Committee to conduct an independent investigation on the inconsistencies. On 13 April 2013, we received an internal investigation report on the inconsistencies from the Company's management and after that we wrote to the Company's management to reiterate the need to conduct an independent investigation. We also requested the Audit Committee to arrange meetings for us with the appointed independent financial advisor to discuss the scope of investigation but we have not been contacted for such meetings since we raised our requests.*

*In addition, we were asked by the Audit Committee to advise what additional audit procedures that we might need to perform to complete the 2012 Audit, time required to complete the additional audit procedures and additional fee required for the additional procedures. We advised the Audit Committee that the extent of our additional audit procedures would depend on the results of the independent investigation and therefore we were unable to comment on the additional audit procedures, time required to complete the procedures and additional fee required for the procedures before completion of the independent investigation.*

*With reference to Section 441 Changes of Auditors of a Listed Issuer of The Stock Exchange of Hong Kong of the Code of Ethics For Professional Accountants, we hereby write to confirm that up to the date of this letter, we consider that the above matters should be brought to the attention of the Company's shareholders in relation to the change of auditors of the Company. Since we have not completed the 2012 Audit, there might be other matters which we would have considered necessary to be brought to the attention of the Company's shareholders had we continued to carry on the 2012 Audit."*

The Board would like to clarify and emphasise the following in relation to the Letter and the Unresolved Issue(s):

- (a) the correct name of Shandong Shengli Pipe Co., Ltd. referred to in the Letter should be Shandong Shengli Steel Pipe Co., Ltd ("**Shandong Shengli**");
- (b) further, EY stated in the Letter that after receipt of the audit confirmation from the Supplier, EY enquired with the management of Shandong Shengli the variance in the amount confirmed by the Supplier. It was noted that such enquiry was raised by EY through an email sent to an account staff of Shandong Shengli and not a member of the management of Shandong Shengli;

- (c) following the Unresolved Issue(s) being brought to the attention of the Board and the Audit Committee on 11 March 2013, an independent committee comprising independent non-executive directors of the Company was set up to take charge of matters in relation to the independent investigation including the appointment of an independent review entity. In addition, an internal special task force was also established to investigate the Unresolved Issue(s);
- (d) The prepayment mentioned in the Letter was made by Shandong Shengli pursuant to a sale and purchase contract entered into in anticipation of forthcoming production under the particular project and is consistent with the usual settlement pattern with the Supplier under like transactions. Due to the lack of certainty in the commencement date of the underlying project, the sale and purchase contract was later terminated on 15 March 2013 after arm's length negotiation between the parties and that the prepayment had been fully refunded;
- (e) EY was informed with the internal investigation result carried out by the internal special task force, and that a copy of the internal investigation report was subsequently handed by the Audit Committee to EY on 13 April 2013. According to the said investigation report, the inconsistency in the replies made by the Supplier was due to an erroneous mistake made by the Supplier in its first audit confirmation. Nevertheless, the Board and the Audit Committee, in the interests of the Company and the Shareholders as a whole, and after taking into consideration request of EY, appointed AlixPartners, an independent professional party, to carry out an independent review regarding the Unresolved Issue(s); and
- (f) The Audit Committee had liaised with EY for several times in connection with the independent review, and had upon EY's request, provided to them the relevant documents and information of AlixPartners. At the same time, the Company had repeatedly requested EY for an estimation and projection on what additional audit procedures they might need to perform to complete the audit work for 2012, time required for completing the additional audit procedures, and additional fee required for such additional procedures, based on information which had been provided by the Audit Committee. However, we had not received any feedback on such estimation and projection from EY. The parties had, in this regard, failed to reach consensus on the manner to proceed with the completion of the audit work. To avoid further delay in the proceeding of the overall audit work, and taking into consideration the interests of the Company and the Shareholders as a whole, the Company proposes the removal of EY as the auditors of the Group, and, subject to the approval by the Shareholders at an extraordinary general meeting of the Company, the appointment of ANDA as the new auditors of the Group in place of EY, which shall hold office until the conclusion of the forthcoming annual general meeting of the Company.

A circular containing the relevant information on the removal of EY and the appointment of ANDA as the new auditors of the Group together with a notice convening the EGM will be despatched to the Shareholders as soon as possible.

At the request of the Company, trading in the Company's shares on the Stock Exchange of Hong Kong Limited has been halted with effect from 9:00 a.m. on 14 March 2013 and will continue to be halted until further notice.

By order of the Board  
**SHENGLI OIL & GAS PIPE HOLDINGS LIMITED**  
**Zhang Bizhuang**  
*Chairman*

Zibo, Shandong, 14 May 2013

*As at the date of this announcement, the directors of the Company are:*

<i>Executive Directors:</i>	<i>Mr. Zhang Bizhuang, Mr. Jiang Yong, Mr. Liu Yaohua, Ms. Han Aizhi and Mr. Song Xichen</i>
<i>Non-executive Director:</i>	<i>Mr. Yan Tangfeng</i>
<i>Independent Non-executive Directors:</i>	<i>Mr. Guo Changyu and Mr. Wang Xueyou</i>