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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 OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

FINANCIAL HIGHLIGHTS

- Turnover was approximately RMB649,694,000, representing a decrease of approximately 64.2% as compared with the same period in 2009.
- Profit before taxation was approximately RMB81,341,000, representing a decrease of approximately 43.9% as compared with the same period in 2009.
- Gross profit margin was 15.4%, representing an increase of 7.4% as compared with the same period in 2009.
- Basic earnings per share was approximately RMB2.79 cents
- The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2010.

The board of Directors (the “Board”) of Shengli Oil & Gas Pipe Holdings Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the “Group”) prepared according to the International Financial Reporting Standards (“IFRSs”) for the six months ended 30 June 2010 (“the Interim Period”) are as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

		Six months ended	
		30/6/2010	30/6/2009
	<i>NOTES</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(unaudited)	(audited)
Turnover	3	649,694	1,813,199
Cost of sales		<u>(549,478)</u>	<u>(1,667,739)</u>
Gross profit		100,216	145,460
Other income	4	15,595	19,130
Selling and distribution expenses		(8,415)	(5,849)
Administrative expenses		(25,750)	(12,586)
Finance costs	5	<u>(305)</u>	<u>(1,275)</u>
Profit before taxation	6	81,341	144,880
Income tax expenses	7	<u>(12,008)</u>	<u>—</u>
Profit and total comprehensive income for the period		<u>69,333</u>	<u>144,880</u>
Earnings per share			
— basic (<i>RMB cents</i>)	9	<u>2.79</u>	<u>16.10</u>
— diluted (<i>RMB cents</i>)	9	<u>2.79</u>	<u>N/A</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	NOTES	30/6/2010 RMB'000 (unaudited)	31/12/2009 RMB'000 (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	313,160	230,701
Prepaid lease payments		17,012	17,103
Goodwill		<u>2,525</u>	<u>2,525</u>
		<u>332,697</u>	<u>250,329</u>
CURRENT ASSETS			
Inventories		328,568	255,598
Loan receivable	11	100,000	—
Trade and other receivables	12	1,042,368	488,997
Amounts due from related parties	17 (d)	4,403	4,389
Prepaid lease payments		355	355
Bank balances and cash		<u>538,054</u>	<u>1,168,293</u>
		<u>2,013,748</u>	<u>1,917,632</u>
CURRENT LIABILITIES			
Trade and other payables	13	404,530	350,019
Tax payable		11,452	—
Bank and other borrowings	14	<u>—</u>	<u>87,058</u>
		<u>415,982</u>	<u>437,077</u>
NET CURRENT ASSETS		<u>1,597,766</u>	<u>1,480,555</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,930,463</u>	<u>1,730,884</u>
CAPITAL AND RESERVES			
Share capital	15	219,572	211,656
Reserves		<u>1,710,416</u>	<u>1,518,753</u>
TOTAL EQUITY		<u>1,929,988</u>	<u>1,730,409</u>
NON-CURRENT LIABILITY			
Deferred tax liabilities		<u>475</u>	<u>475</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Paid-in capital/ share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note (a) below)	Statutory surplus reserve RMB'000 (Note (b) below)	Share options reserve RMB'000 (Note (c) below)	Retained earnings RMB'000	Total RMB'000
At 1 January 2009 (audited)	—	—	—	—	—	148,926	148,926
Profit for the period and total comprehensive income for the period	—	—	—	—	—	144,880	144,880
Transfer	—	—	—	9,685	—	(9,685)	—
At 30 June 2009 (audited)	—	—	—	9,685	—	284,121	293,806
At 1 January 2010 (audited)	211,656	1,033,948	(9)	9,685	—	475,129	1,730,409
Profit and total comprehensive income for the period	—	—	—	—	—	69,333	69,333
Transfer	—	—	—	41,139	—	(41,139)	—
Issue of new shares upon the overallotment of the Company's shares (see note 15 (h))	7,916	166,231	—	—	—	—	174,147
Transaction costs attributable to overallotment of shares	—	(6,213)	—	—	—	—	(6,213)
Issue of share options	—	—	—	—	5,902	—	5,902
Dividend recognized as distribution	—	(43,590)	—	—	—	—	(43,590)
At 30 June 2010 (unaudited)	219,572	1,150,376	(9)	50,824	5,902	503,323	1,929,988

Notes:

a. Other reserve

Other reserve represents the reserve arising from Group Reorganization.

b. Statutory surplus reserve

As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China (the "PRC"), the Company's PRC subsidiary is required to maintain a statutory surplus reserve fund which is non-distributable. Appropriations to such reserve is made out of net profit after taxation of the statutory financial statements of the PRC subsidiary while the amounts and allocation basis are decided by its board of Directors annually. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalization issue.

c. Share options reserve

Share options reserve represents the reserve arising from the share option scheme for eligible employees of the Group.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2010

	30/6/2010 RMB'000 (unaudited)	30/6/2009 RMB'000 (audited)
OPERATING ACTIVITIES		
Profit before taxation	81,341	144,880
Adjustments for:		
Finance costs	305	1,275
Interest income	(1,798)	(101)
(Reverse) write-down of inventories	(1,132)	6,186
Depreciation of property, plant and equipment	12,411	11,058
Share-based payments expense	5,902	—
Release of prepaid lease payments	159	61
Gain on disposals of property, plant and equipment	(143)	—
Operating cash flows before movements in working capital	97,045	163,359
(Increase) decrease in inventories	(71,838)	426,492
Increase in trade and other receivables	(553,372)	(186,493)
Increase (decrease) in trade and other payables	54,706	(328,095)
Cash generated (used in) from operations	(473,459)	75,263
Income taxes paid	(556)	—
Interest paid	(305)	(1,275)
NET CASH (USED IN) FROM OPERATING ACTIVITIES	(474,320)	73,988
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(95,180)	(14,540)
Increase in prepaid lease payments	(68)	—
Repayment from related parties	—	2,840
Advances to related parties	(14)	—
Interest received	1,798	101
Loan granted to a third party	(100,000)	—
Proceeds from disposals of property, plant and equipment	259	—
NET CASH USED IN INVESTING ACTIVITIES	(193,205)	(11,599)
FINANCING ACTIVITIES		
Proceeds from issue of shares	174,147	—
Dividend paid	(43,590)	—
Expenses on issue of shares	(6,213)	—
Repayments to related parties	—	(73,097)
Repayments of borrowings	(87,058)	—
Advances from related parties	—	8,290
NET CASH FROM (USED IN) FINANCING ACTIVITIES	37,286	(64,807)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(630,239)	(2,418)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	1,168,293	80,796
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash	538,054	78,378

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

1. GENERAL

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with the International Accounting Standard 34 (“IAS 34”) “Interim Financial Reporting” issued by the International Accounting Standards Board (“IASB”).

2. SIGNIFICANT ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared under the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2009, except as described below:

Share-based payment transactions

The fair value of service received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to other reserve. 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 other reserve.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (the “New or Revised IFRSs”) issued by the IASB, which are effective for the Group’s financial year beginning on 1 January 2010:

IFRSs (Amendments)	Amendments to IFRS 5 as part of Improvements to IFRSs issued in 2008
IFRSs (Amendments)	Improvements to IFRSs issued in 2009
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 39 (Amendment)	Eligible hedged Items
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
IFRS 3 (Revised)	Business Combinations
IFRIC — INT 17	Distributions of Non-cash Assets to Owners

IFRS 3 (2008) “Business Combinations”

IFRS 3 (2008) “Business Combinations” has been applied prospectively to business combinations for which the acquisition date is on or after 1 January 2010. However, as there is no transaction during the current interim period in which IFRS 3 (2008) is applicable, the application of IFRS 3 (2008) “Business Combinations” had no impact on the reported results or financial position of the Group for the current or prior accounting periods.

IAS 27 (2008) “Consolidated and Separate Financial Statements”

IAS 27 (2008) “*Consolidated and Separate Financial Statements*” has been applied prospectively from 1 January 2010:

- (i) total comprehensive income is attributed to the owners of the Company and non-controlling interests even if this results in the non-controlling interests having a deficit balance; and
- (ii) changes of the Group’s ownership interest in a subsidiary are accounted for as equity transactions.

However, as there is no transaction during the current interim period in which IAS 27 (2008) is applicable, the application of the IAS 27 (2008) “Consolidated and Separate Financial Statements” had no impact on the reported results or financial position of the Group for the current or prior accounting periods.

The Group has not early adopted the following new and revised standards, amendments or interpretations that have been issued but are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs 2010 ¹
IAS 24 (Revised)	Related Party Disclosures ³
IAS 32 (Amendment)	Classification of Right Issues ²
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters ⁴
IFRS 9	Financial Instruments ⁵
IFRIC — INT 14 (Amendments)	Prepayments of a Minimum Funding Requirement ³
IFRIC — INT 19	Extinguishing Financial Liabilities with Equity Instruments ⁴

¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

² Effective for annual periods beginning on or after 1 February 2010

³ Effective for annual periods beginning on or after 1 January 2011

⁴ Effective for annual periods beginning on or after 1 July 2010

⁵ Effective for annual periods beginning on or after 1 January 2013

The Directors of the Company anticipate that the application of these new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

3. TURNOVER AND SEGMENT INFORMATION

(a) Turnover

Turnover represents the net amounts received and receivable during the relevant periods for:

- (1) sales of goods; and
- (2) provision of processing service.

An analysis of the Group's turnover during the relevant periods is as follows:

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(unaudited)	
Revenue from		
— Sales of goods	627,936	1,777,813
— Provision of processing services	21,758	35,386
	<u>649,694</u>	<u>1,813,199</u>

(b) Segment information

For management purpose, the Group has two reportable segments: spiral submerged arc welded pipe operation ("SSAW Pipes Business") and cold-formed section steel operation ("Cold-formed Section Steel Business"). The SSAW Pipes Business segment produce spiral submerged arc welded pipes which are mainly used for the oil industry and the Cold-formed Section Steel Business produce the cold-formed section steel which are mainly used for infrastructure industry.

These reportable segments form the basis on which the Group's chief operating decision maker, Chief Executive Officer, makes decision about resource allocation and performance assessment.

For the six months ended 30 June 2010, (unaudited):

Segment revenue and results

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Total RMB'000	Eliminations RMB'000	Consolidated RMB'000
Turnover					
External sales	591,017	58,677	649,694	—	649,694
Internal sales	—	2,610	2,610	(2,610)	—
	<u>591,017</u>	<u>61,287</u>	<u>652,304</u>	<u>(2,610)</u>	<u>649,694</u>
Result					
Segment result	<u>92,039</u>	<u>3,076</u>	<u>95,115</u>	<u>—</u>	95,115
Interest income					1,798
Unallocated expenses					(15,267)
Finance costs					<u>(305)</u>
Profit before taxation					<u>81,341</u>

For the six months ended 30 June 2009:

Segment revenue and results

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Total RMB'000	Eliminations RMB'000	Consolidated RMB'000
Turnover					
External sales	1,777,649	35,550	1,813,199	—	1,813,199
Internal sales	—	96	96	(96)	—
	<u>1,777,649</u>	<u>35,646</u>	<u>1,813,295</u>	<u>(96)</u>	<u>1,813,199</u>
Result					
Segment result	<u>159,028</u>	<u>(8,089)</u>	<u>150,939</u>	<u>—</u>	150,939
Interest income					101
Unallocated income					67
Unallocated expenses					(4,952)
Finance costs					<u>(1,275)</u>
Profit before taxation					<u>144,880</u>

The inter-segment sales were based on agreed selling price between two parties.

Segment profit represents the profit earned by each segment without allocation of central administration costs including Directors' fees, listing expenses, finance costs, share-based compensation expense, foreign currency exchange gains/losses and items not directly related to the core business of segments. This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

Geographical information

All of the Group's revenue was derived from customers in the PRC.

4. OTHER INCOME

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(unaudited)	
Other income comprises:		
Gain on sales of scrap materials	13,203	15,834
Interest income	1,798	101
Quality inspection and testing service income	399	539
Exchange gains, net	—	59
Gain on disposals of fixed assets	143	—
Gain on sales of surplus materials	52	42
Loading service income	—	2,555
	<u>15,595</u>	<u>19,130</u>

5. FINANCE COSTS

Six months ended 30 June	
2010	2009
RMB'000	RMB'000
(unaudited)	

Finance costs comprise:

Interest on bank and other borrowings

<u>305</u>	<u>1,275</u>
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6. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

Six months ended 30 June	
2010	2009
RMB'000	RMB'000
(unaudited)	

Staff cost (including Directors):

— Salaries and wages

24,050	22,527
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— Retirement benefit scheme contributions

1,836	1,474
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— Share-based payments

<u>5,902</u>	<u>—</u>
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<u>31,788</u>	<u>24,001</u>
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Depreciation and amortization on property, plant and equipment

12,411	11,058
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Release of prepaid lease payments

159	61
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Cost of inventories recognized as an expense (note below)

549,478	1,667,739
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Exchange losses, net

4,961	—
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Auditors' remuneration

<u>512</u>	<u>569</u>
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Note: Included in the cost of inventories is a reverse of expense is an amount of RMB 1,132,000 for the six months ended 30 June 2010 (six months ended 30 June 2009: RMB6,186,000 relating to the write-down of closing inventories), relating to the reversal of write-down of closing inventories.

7. INCOME TAX EXPENSES

Six months ended 30 June	
2010	2009
RMB'000	RMB'000
(unaudited)	

Income tax expenses comprise:

Current tax:

PRC enterprise income tax ("EIT")

<u>12,008</u>	<u>—</u>
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No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profit arising in Hong Kong for the six months ended 30 June 2010 and 30 June 2009.

The statutory tax rates of China Petro Equipment Holdings Pte Ltd. (“CPE”), a subsidiary of the Company incorporated in the Republic of Singapore (“Singapore”), were 17% for the six months ended 30 June 2010 and 30 June 2009. No provision for Singapore Income Tax has been made as the income of the Group neither arising in nor derived from Singapore.

The statutory tax rate of Shandong Shengli Steel Pipe Co., Ltd. (“Shandong Shengli”), a subsidiary of the Company established in the PRC was 25%. Shandong Shengli is entitled to an exemption from income tax for the two years commencing from its first profit-making year of operations and thereafter, entitled to a 50% relief for the subsequent three years. Shandong Shengli has been entitled to and enjoyed the second exemption year in year 2009 and 50% relief in year 2010.

The tax charge for the six months ended 30 June 2010 and 30 June 2009 can be reconciled to the profit before tax in the condensed consolidated statement of comprehensive income as follows:

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
	(unaudited)	
Profit before taxation	81,341	144,880
Tax at the PRC EIT rate <i>(note (a) below)</i>	20,335	36,220
Effect of expenses that are not deductible for tax purpose	3,388	463
Tax effect of tax loss not recognized	293	1,221
Effect of tax exemption	(12,008)	(37,904)
	12,008	—

Notes:

- The PRC EIT rate represents the income tax rate applicable to Shandong Shengli, the Group’s principal operating subsidiary throughout the six months ended 30 June 2010 and 30 June 2009.
- In accordance to PRC tax circular (Guoshuihan [2008] 112) effective from 1 January 2008, PRC withholding income tax at the rate of 10% is applicable to dividends to be payable by the Company’s PRC operating subsidiaries based on their profits generated from 2008 onwards to “non-resident” investors who do not have an establishment or place of business in the PRC. According to the “Agreement between the Government of the People’s Republic of China and the Government of the Republic of Singapore for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income”, where the Singapore resident company directly owns at least 25% of the capital of the PRC company, 5% dividend withholding tax rate is applicable.

At 31 December 2009 and 30 June 2010, the aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognized was RMB457 million and RMB521 million, respectively. No liability has been recognized in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and the Company, the shareholder of Shandong Shengli, the Group’s principal operating subsidiary, has resolved that the profit from its operations for the relevant period will be retained and not be distributed. Therefore, it is probable that such differences will not reverse nor subject to withholding tax in the foreseeable future.

- No deferred tax assets have been recognized for tax loss of RMB 1,172,000 (six months ended 30 June 2009: RMB4,884,000) derived from a subsidiary of the Group as the management of the Group is of the view that it is not probable that taxable profits of that subsidiary will be available against which tax loss can be utilized.

8. DIVIDENDS

On 28 June, 2010, a dividend of RMB0.0175 per share (equivalent to HKD0.02 per share) (2009: nil) was paid to shareholders as the final dividend for 2009 which has been charged to the share premium accounts for the six months ended 30 June 2010.

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2010.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share for the six months ended 30 June 2010 and 30 June 2009 were based on the consolidated profit attributable to owners of the Company for the respective period and the weighted average number of shares of 2,483,535,912 (for the six months ended 30 June 2009: 900,000,000), which has been adjusted for the 100,000 shares issued and outstanding upon the Group Reorganization had been in effective at 1 January 2008, and had taken into account of the 100,000 shares issued and outstanding upon the capitalization of shareholder's loans on 28 October 2009 and also has been adjusted for the effect of 1,799,800,000 shares issued pursuant to the capitalization issue as disclosed in note 15.

The calculation of diluted earnings per share for the six months ended 30 June 2010 does not assume the exercise of the Company's share options as the exercise prices of the share options were higher than the average market price of the Company's shares for the six months ended 30 June 2010.

10. PROPERTY, PLANT AND EQUIPMENT

During the period, the Group spent approximately RMB94,986,000 (six months ended 30 June 2009: RMB10,354,000) on the acquisition of property, plant and equipment to upgrade its manufacturing capabilities.

11. LOAN RECEIVABLE

	30/6/2010 RMB'000 (unaudited)	31/12/2009 RMB'000
Fixed rate loan receivable, due within one year	<u>100,000</u>	<u>—</u>

The Group's loan receivable represents an secured loan granted to a third party through a PRC financial institute. The loan bears interest of 5% per annum and will be wholly repayable within one year.

12. TRADE AND OTHER RECEIVABLES

	<i>Notes</i>	30/6/2010 RMB'000 (unaudited)	31/12/2009 <i>RMB'000</i>
Trade receivables	a	457,647	424,776
Notes receivable		<u>18,816</u>	<u>12,130</u>
		476,463	436,906
Advance to suppliers	b	521,485	38,352
Tender deposit to customer		7,033	1,371
Other tax receivables	c	24,332	—
Others		<u>13,055</u>	<u>12,368</u>
		<u>1,042,368</u>	<u>488,997</u>

Notes:

a. Trade receivables

The Group generally allows a credit period of 90 days to its trade customers. All of the notes receivable are within 90 days.

The aged analysis of the Group's trade receivables as at the end of both periods are as follows:

	30/6/2010 RMB'000 (unaudited)	31/12/2009 <i>RMB'000</i>
Within 90 days	296,835	401,014
Over 90 days but within 1 year	160,812	23,708
Over 1 year	<u>—</u>	<u>54</u>
	<u>457,647</u>	<u>424,776</u>

b. Advance to suppliers

The Group's advance to suppliers mainly comprise deposits for purchase of raw materials.

c. Other tax receivables

The Group's other tax receivables mainly represents value added tax ("VAT") receivable.

13. TRADE AND OTHER PAYABLES

	Notes	30/6/2010 RMB'000 (unaudited)	31/12/2009 RMB'000
Trade payables	a		
— Related parties (<i>see note 17 (c)</i>)		—	4,364
— Non-related parties		<u>226,727</u>	<u>230,158</u>
		226,727	234,522
Notes payable		<u>30,000</u>	<u>—</u>
		256,727	234,522
Receipt in advances from customers	b	125,073	4,458
Payable on acquisition of property, plant and equipment		9,629	9,824
Other tax payables	c	596	75,597
Listing expenses payables		—	14,055
Others		<u>12,505</u>	<u>11,563</u>
		404,530	350,019

Notes:

a. Trade payables

The Group's trade payables principally comprise amounts outstanding for trade purchases. Payment terms with suppliers are mainly on credit of 90 days from the time when the goods are received from suppliers.

The aged analysis of the Group's trade payables and notes payable as at the end of both of the reporting periods are as follows:

	30/6/2010 RMB'000 (unaudited)	31/12/2009 RMB'000
Within 3 months	202,594	180,741
Over 3 months but within 1 year	47,063	44,651
Over 1 year	<u>7,070</u>	<u>9,130</u>
	256,727	234,522

b. Receipt in advances from customers

The Group's receipt in advances from customers mainly comprise deposits for supply of goods to customers.

c. Other tax payables

Included in the Group's other tax payable is amount of nil (31 December 2009: RMB74,567,000) as at the end of the reporting period, related to VAT tax payable.

14. BANK AND OTHERS BORROWINGS

	30/6/2010 RMB'000 (unaudited)	31/12/2009 RMB'000
Bank borrowings due within one year:		
— Secured	—	15,000
— Unsecured	—	65,000
Unsecured other borrowing due within one year	<u> </u>	<u>7,058</u>
	<u> </u>	<u>87,058</u>

The Group's bank and other borrowings carry effective interest rate as follows:

	Effective interest rate per annum	
	2010	2009
	%	%
	(unaudited)	
Effective interest rates:		
Fixed-rate bank and other borrowings	<u> </u>	<u>4.86% to 5.31%</u>

The entire bank and other borrowings of the Group have been repaid during the six months ended 30 June 2010.

15. SHARE CAPITAL

	Number of shares	Share capital HKD'000
Share of HK0.1 each		
Authorized:		
— On date of incorporation	3,800,000	380
— Increase on 21 November 2009	<u>4,996,200,000</u>	<u>499,620</u>
At 31 December 2009 and 30 June 2010	<u>5,000,000,000</u>	<u>500,000</u>

	Number of shares	Share capital HKD'000	RMB'000
Issued:			
— One share allotted and issued at nil paid on date of incorporation	1	—	—
— One share allotted and issued at nil paid on 23 September 2009	1	—	—
— Issue of shares on group reorganization	99,998	10	9
— Issue of shares on capitalization of shareholder's loans	100,000	10	9
— Issue of shares on Listing	600,000,000	60,000	52,914
— Issue by capitalization of the share premium account relating to Capitalization Issue	<u>1,799,800,000</u>	<u>179,980</u>	<u>158,724</u>
At 31 December 2009	<u>2,400,000,000</u>	<u>240,000</u>	<u>211,656</u>
— Issue of shares on over allotment	<u>90,000,000</u>	<u>9,000</u>	<u>7,916</u>
At 30 June 2010 (unaudited)	<u>2,490,000,000</u>	<u>249,000</u>	<u>219,572</u>

Notes:

- a. The Company was incorporated in the Cayman Islands on 3 July 2009 with an authorized share capital of HKD380,000, divided into 3,800,000 shares of HKD 0.1 each. At the date of incorporation, one share of HKD 0.1 was issued at par to Codan Trust Company (Cayman) Limited, at nil paid, which was subsequently transferred to Mr. Yan Tangfeng, a director of the Company.
- b. On 23 September 2009, Mr. Yan Tangfeng transferred his 100% shareholding in Shengli (BVI) Ltd. (“Shengli (BVI)”) to the Company in consideration of the Company crediting as fully paid the one nil paid share held by him and issuing one share, credited as fully paid, to him.
- c. On 24 September 2009, Mr. Yan Tangfeng transferred two shares in the Company to Aceplus Investments Limited (“Aceplus”) in consideration of Aceplus issuing two shares in its share capital to him.
- d. On 28 October 2009, Aceplus transferred two shares in the share capital of CPE to Shengli (BVI) in consideration of the Company issuing 99,998 shares, credited as fully paid, to Aceplus.
- e. On 28 October 2009, 100,000 shares were issued, credited as fully paid, to Aceplus in respect of Capitalization of Shareholder’s Loans of RMB146.45 million owed by the Company to Aceplus.
- f. Pursuant to the written resolutions of all shareholders on 21 November 2009:
 - i. the authorized share capital of the Company was increased from HKD380,000 to HKD500,000,000 by the creation of 4,996,200,000 shares of HKD0.1 each which rank pari passu in all respects with the existing shares.
 - ii. conditional on the share premium account of the Company being credited as a result of listing of the Company’s shares on the Stock Exchange (the “Listing”), the sum of HKD179,980,000 be capitalized and be applied in paying up in full at par 1,799,800,000 shares for allotment and issue to the shareholders whose names were on the register of members of the Company as at the close of business on 12 December 2009 (the “Capitalization Issue”) and the shares have been allotted and issued pursuant to this resolution which rank pari passu in all respects with the existing shares.
- g. On 18 December 2009, the Company issued 600,000,000 new shares of HKD0.1 each at issue price of HKD2.2 per share pursuant to the Listing of the Company’s shares.
- h. Pursuant to the Company’s announcement on 14 January 2010, an overallotment option of 90,000,000 new shares of HKD0.1 each at issue price of HKD2.2 per share was exercised by Macquarie Capital Securities Limited, the sole global coordinator and sole bookrunner of the Listing and accordingly, the Company issued an additional of 90,000,000 new shares of HKD0.1 each at issue price of HKD2.2 per share.

16. SHARE-BASED PAYMENTS

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current period are as follows:

	Number of Share options
Granted during the six months ended 30 June 2010 and outstanding as at 30 June 2010	<u>24,000,000</u>

Pursuant to the Company’s announcement on 10 February 2010, the Company granted to eligible participants (“Grantees”) 24,000,000 share options to subscribe for ordinary shares of HK\$0.1 each in the share capital of the Company, at an exercise price of HK\$2.03 per Share.

The Share Options granted has a 10-year exercisable period and shall vest 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 10 February 2010, the date of grant, was HKD1.98.

The total fair values of the options determined at the dates of grant using the Binomial model were HKD29,100,000.

The following assumptions were used to calculate the fair values of share options:

	10 February, 2010
Grant date share price	HKD 1.98
Exercise price	HKD 2.03
Contractual life	10 years
Expected volatility	67 %
Dividend yield	0 %
Risk-free interest rate	2.87 %

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.

At each reporting date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognized in profit or loss, with a corresponding adjustment to the share option reserve.

During the six months ended 30 June 2010, the Group recognized share-based payments of RMB5,902,000 which has been charged to the condensed statement of comprehensive income.

17. RELATED PARTY TRANSACTIONS

(a) Related parties of the Group

The Directors of the Company consider that the following entities are related parties of the Group:

Name of related party	Relationships with the Company
Shengli Steel Pipe Co., Ltd. ("Shengli Steel Pipe")	Common Directors
Zibo Shengli Coating Engineering Co., Ltd. ("Shengli Coating")	Common Directors and associate of Shengli Steel Pipe
Aceplus	Ultimate holding company
SEAVI Advent Equity V(A) Ltd, ("SEAVI")	Shareholder of the Company and with representative in the Company's board of Directors
Apollo Asia Opportunity Master Fund, L.P, ("Apollo")	Shareholder of the Company

(b) Significant related party transactions

The Group has the following transactions with related parties during both reporting periods:

	Six months ended 30 June	
	30 June 2010	30 June 2009
	RMB'000	RMB'000
	(unaudited)	
Sales of goods and raw materials to:		
— Shengli Steel Pipe	<u>—</u>	<u>2,679</u>
Utilities income received from:		
— Shengli Coating	<u>199</u>	<u>798</u>
Rental expense paid to:		
— Shengli Steel Pipe	<u>3,200</u>	<u>3,198</u>
Purchase of materials from:		
— Shengli Coating	<u>—</u>	<u>804</u>

(c) Trade balances with related parties

The Group has significant trade and other payables with the following related parties as at the end of both reporting periods:

	30/6/2010	31/12/2009
	RMB'000	RMB'000
	(unaudited)	
Trade payable:		
— Shengli Coating	<u>—</u>	<u>4,364</u>
Other payable:		
— Shengli Steel Pipe	<u>884</u>	<u>1,262</u>
	<u>884</u>	<u>5,626</u>

(d) Non-trade balances with related parties

Saved as disclosed in note 13 relating to a payable to Shengli Steel Pipe, the Group has significant non-trade balances with the following related parties as at the end of both reporting periods:

	30/6/2010	31/12/2009
	RMB'000	RMB'000
	(unaudited)	
Amounts due from:		
— Aceplus	<u>3,078</u>	<u>3,067</u>
— SEAVI	<u>796</u>	<u>793</u>
— Apollo	<u>529</u>	<u>529</u>
	<u>4,403</u>	<u>4,389</u>

Note: The above non-trade balances as at the end of each reporting period were receivables regarding to the share of Listing expense upon the Listing.

(e) Compensation of key management personnel

The remuneration of Directors and other members of key management during the six months period ended 30 June 2010 and 30 June 2009 were as follows:

	Six months ended 30 June	
	2010	2009
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	
Salaries and allowances	1,056	966
Retirement benefits scheme contributions	66	59
Share-based payments	<u>4,721</u>	<u>—</u>
	<u>5,843</u>	<u>1,025</u>

The remuneration of key management is determined with reference to the performance of individuals and market trends.

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Review

Turnover

For the six months ended 30 June 2010, the Group recorded an unaudited turnover of RMB649,694,000, representing a decrease of 64.2% compared to RMB1,813,199,000 in the corresponding period last year. The substantial decrease was mainly due to reduction in the revenue of SSAW pipeline business as a result of tightening measures adopted by the PRC Government which in turn led to delays in commencement of construction of a number of major national oil and gas pipelines in the PRC.

During the six months ended 30 June 2010, among the two core businesses of the Group, turnover of SSAW pipes business was RMB591,017,000 (for the six months ended 30 June 2009: RMB1,777,649,000), representing a year-on-year decrease of approximately 66.8% whereas turnover of cold-formed section steel was RMB58,677,000 (for the six months ended 30 June 2009: RMB35,550,000), representing an increase of approximately 65.1% from the previous corresponding period.

Gross profit

During the period under review, gross profit amounted to RMB100,216,000 (for the six months ended 30 June 2009: RMB145,460,000), representing a year-on-year decrease of 31.1% as compared to the same period last year. The overall gross profit margin was 15.4% (for the six months ended 30 June 2009: 8.0%), representing an increase of 7.4% as compared to the same period last year. The rise in overall gross profit margin was largely due to the decline in steel coil price which is one of the elements the Group uses in formulating selling prices. Profit before taxation was RMB81,341,000 (for the six months ended 30 June 2009: RMB144,880,000), representing a decrease of approximately 43.9% from the previous corresponding period. The decrease was mainly due to the reduction in turnover.

Other income

During the six months ended 30 June 2010, other income was RMB15,595,000, representing a drop of RMB3,535,000 compared with the same period last year. The decrease was mainly due to the corresponding decrease in revenue from sales of scrap materials as a result of the drop in total production volume of SSAW. In addition, other income of the corresponding period last year consisted of an income from a one-off loading service (RMB2,555,000). However, the decline was partially offset by an increase in interest income of RMB1,697,000 during the period under review.

Selling and distribution expenses

During the six months ended 30 June 2010, selling and distribution expenses amounted to RMB8,415,000, representing an increase of 43.9% as compared with the same period last year. The increase was primarily due to the rise in transportation fee of RMB2,130,000 in the first-half of this year because of the change in transportation arrangement. Despite the decrease in sales volume as compared with the same period last year, the transportation fee for line pipes supplied to the national pipelines in the same period last year, such as the Second West-East Gas Pipeline (西氣東輸二線), the Central-Asian Gas Pipelines (中亞管線), the Yulin-Jinan Gas Pipelines (榆濟管線) and the Sebei-Xi'ning-Lanzhou Gas Pipelines (澗甯蘭線), was borne by the customers, while the transportation fee for pipelines in the first-half of this year, such as the Beijing Gas Pipelines (北京燃氣管線), the Laizhou-Changyi Gas Pipelines (萊州至昌邑管

線) and other regional pipelines was borne by the Group. Therefore, transportation fees increased compared to the previous corresponding period. However, the Group had factored such costs in the selling prices.

Administrative expenses

During the six months ended 30 June 2010, administrative expenses were RMB25,750,000, representing an increase of 104.6% as compared to the same period last year. One of the main reasons of the increase in such expenses was that the Group granted to certain employees and Directors share options for the first time on 10 February 2010, and was required to account for a share-based payments of approximately RMB5,902,000 under relevant accounting principles. Besides, the capital in Hong Kong dollar raised by the Group from its global offering and listing on 18 December 2009 recorded an exchange loss of approximately RMB4,961,000 after translated into Renminbi.

Finance costs

During the six months ended 30 June 2010, finance costs were approximately RMB305,000, representing a decrease of approximately 76.1% as compared to the same period last year. The decrease was mainly due to the fact that the Group settled all bank loans in the first quarter of 2010 and therefore related finance costs were reduced.

Income tax expenses and net profits

The two-year exemption from payment of the PRC corporate income tax enjoyed by the major operating subsidiary of the Group ended since the end of 2009. However, that subsidiary is still entitled to a 50% relief for the subsequent three years starting from 2010 and therefore the applicable tax rate becomes 12.5%. After deducting a tax of RMB12,008,000 (2009: Nil), the Group recorded an unaudited net profit of RMB69,333,000 (during the six months ended 30 June 2009: RMB144,880,000).

Assets and liabilities

As of 30 June 2010, total assets of the Group were approximately RMB2,346,445,000 (as of 31 December 2009: RMB2,167,961,000) and the net assets of the Group were approximately RMB1,929,988,000 (as of 31 December 2009: RMB1,730,409,000). Net assets per share amounted to RMB0.78, representing an increase of RMB0.06 as compared with that of 31 December 2009.

As of 30 June 2010, the total liabilities of the Group reduced from RMB437,552,000 as of 31 December 2009 to RMB416,457,000, representing a decrease of RMB21,095,000.

As of 30 June 2010, the Group had cash of RMB538,054,000 with no debt.

Use of proceeds raised from the global offering

In December 2009, the Group offered 600 million shares under its global offering, and in January 2010, the Group issued an additional 90 million shares after the exercise of an over-allotment option (for details, please refer to the Company's prospectus dated 9 December 2009 and the Company's announcement dated 14 January 2010). As a result of the aforesaid issue of shares, the Group raised a net amount of approximately RMB1,229,702,000 in total. As of 30 June 2010, the Group had utilized approximately RMB85,320,000 among the proceeds. ***The balance of the fund raised remains as deposit with licenced financial institution.***

At present, the utilization of proceeds from the global offering is basically the same with the intended use of proceeds as disclosed in the prospectus of the Company dated 9 December 2009. As of 30 June 2010, proceeds used on projects are generally analyzed as follows:

Projects	Accumulated use of proceeds	
	Estimated amount RMB (million)	Accumulated expenses RMB (million)
(1) Construct one LSAW pipe production line with a total annual production capacity of 200,000 tonnes and one anti-corrosion coating line	650	—
(2) Construct four SSAW pipe production lines with a total annual production capacity of 460,000 tonnes and anti-corrosion facilities	440	85.32
(3) Upgrade one existing cold-formed section steel production line to an ERW pipe production line with a total annual production capacity of 100,000 tonnes	<u>50</u>	<u>—</u>
Total	<u>1,140</u>	<u>85.32</u>

Interim dividends

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2010 (during the six months period ended 30 June 2009: Nil).

Business Review

The Group is one of the largest oil and natural gas line pipe manufacturers in China, principally engaged in two business segments: SSAW pipes and cold-formed section steel.

SSAW Pipes

As one of the largest oil and natural gas line pipe manufacturers in China, the Company is one of the few suppliers in China with SSAW pipes that meet the high pressure and large diameter requirements for the transportation of (among other things) crude oil, refined petroleum products and natural gas over long distances, and the Company is also the only privately-owned enterprise among the few approved and qualified manufacturers in China to provide services to domestic major oil and natural gas companies (“qualified manufacturers”). The Group focuses on the design, manufacture, anti-corrosion processing and services of SSAW pipes that are used to transport crude oil, refined petroleum products and natural gas.

On 30 May 2010, two SSAW pipe production lines with a total annual production capacity of 100,000 tonnes — being the first project invested and built under the Company’s future development plan with proceeds from the Company’s global offering — were successfully constructed and commenced operation. As a result, the total annual production capacity of the Group’s production lines of SSAW pipes reached 640,000 tonnes, which the Directors believe accounts for about one fourth of the present total production capacity of all qualified manufacturers. As of 30 June 2010, SSAW pipes of the Group comprised approximately 18,000 km of the total length of the world’s major oil and gas pipelines, of which 94.5% have been installed domestically in China and the remaining 5.5% have been installed overseas.

For the six months ended 30 June 2010, the total turnover of the SSAW pipes business was RMB591,017,000 (for the six months ended 30 June 2009: RMB1,777,649,000), accounting for approximately 91.0% of the Group's total turnover (during the six months ended 30 June 2009: 98.0%). The SSAW pipes business is mainly divided into (1) sales of SSAW pipes; (2) processing services of SSAW pipes; and (3) anti-corrosion services.

Turnover from sales of SSAW pipes amounted to RMB523,268,000 (during the six months ended 30 June 2009: RMB1,601,982,000), representing a year-on-year decrease of 67.3% as compared to the same period last year. Approximately 73.8% of such sales come from national pipelines projects (for the six months ended 30 June 2009: 95.6%). Turnover from processing services of SSAW pipes amounted to RMB20,781,000 (for the six months ended 30 June 2009: RMB34,936,000), representing a decrease of 40.5% as compared to the same period last year. Approximately 90.5% of such turnover was turnover of national pipelines projects (for the six months ended 30 June 2009: 100%). The demand for anti-corrosion services from regional pipelines projects was relatively small due to the reduction in the number of national pipelines projects during the Interim Period, resulting in a substantial drop in income from anti-corrosion services in the same period. For the six months ended 30 June 2010, turnover from anti-corrosion services was RMB46,968,000 (for the six months ended 30 June 2009: RMB140,731,000), representing a decrease of 66.6% as compared to the same period last year.

In the first half of 2010, due to tightening measures adopted by the PRC Government which led to a tight control over the new and major infrastructure projects (including pipeline projects) and therefore delays in commencement of construction of a number of major national oil and gas pipelines in the PRC (including the China-Myanmar Oil And Gas Pipelines (中緬油氣管道) and the Central-Asian Gas Pipelines (中亞管道)), the orders received by the Group during the Interim Period for supply of line pipes of large-diameter, high steel grade and high pipe-wall thickness, which were usually supplied for major national oil and gas pipelines, at a higher selling price and margin, dropped substantially. For the six months ended 30 June 2010, total sales volume of SSAW was 127,846 tonnes (for the six months ended 30 June 2009: 251,579 tonnes), representing a 49.2% decrease as compared with the same period last year. The proportion of national pipeline projects reduced from 94% last year to 80%.

	The first half year of 2010	The first half year of 2009	Change (%)
Sales volume (tonnes)			
Sales of SSAW pipes	95,352	200,225	-52.4%
Processing services of SSAW pipes	32,494	51,355	-36.7%
Total	129,846	251,579	-49.2%
Anti-corrosion services (<i>square meter</i>)	756,313	2,312,735	-67.3%

In the first half of 2010, SSAW national pipeline projects completed by the Group included the Taishan-Qingdao-Weihai Gas Pipelines (泰青威管線), the Rizhao-Dongming Gas Pipelines (日照至東明管線), the Third Shaanxi-Beijing Gas Pipeline (陝京三線), the Rizhao-Yizheng Gas Pipelines (日照至儀征管線) and the Yulin-Jinan Gas Pipelines (榆濟管線), whereas regional pipeline projects completed by the Group included the Laizhou-Changyi Gas Pipelines (萊州至昌邑管線), the Beijing Gas Pipelines (北京燃氣), the Weifang-Huangdao Gas Pipelines (濰坊至黃島管線), the Beihai-Nanning Gas Pipelines (北海至南寧管線). Anti-corrosion service

projects completed by the Group included the Taishan-Qingdao-Weihai Gas Pipelines (泰青威管線), the Rizhao-Dongming (日照至東明), the Third Shaanxi-Beijing Gas Pipelines (陝京三線) and the Weihai-Ganghua Project (威海港華項目).

As the overall production volume dropped, for the six months period ended 30 June 2010, the utilisation rate for SSAW pipes was 54.1% (during the six months period ended 30 June 2009: 78.4%), representing a decrease of 24.3% as compared to the same period last year.

Cold-formed Section Steel

In addition to the major business of SSAW pipes, the Group also utilizes welding technologies and different equipment to produce cold-formed section steel. Cold-formed section steel is one of the major materials applied in modern construction. Our cold-formed section steel is mainly used in the construction industry and the manufacture of trucks and containers. At present, the Group has three cold-formed section steel production lines with an annual production capacity of 60,000 tonnes, which can be reconfigured to produce square and rectangular tubes, round steel pipes as well as other cold-formed section steel.

For the six months ended 30 June 2010, turnover from the sales of cold-formed section steel amounted to RMB57,699,000 (during the six months period ended 30 June 2009: RMB35,101,000), representing an increase of 64.4% as compared with the same period last year while turnover from processing services of cold-formed section steel during the same period amounted to RMB978,000 (during the six months period ended 30 June 2009: RMB449,000), representing an increase of 117.8% as compared with the same period last year. Overall turnover from cold-formed section steel business amounted to RMB58,677,000 (during the six months period ended 30 June 2009: RMB35,550,000), representing an increase of 65.1% as compared with the same period last year. The increase in turnover was mainly due to the enhanced expansion strength of the cold-formed section steel market, which led to a corresponding growth in orders and sales volume of cold-formed section steel.

	The first half year of 2010	The first half year of 2009	Change (%)
Sales volume (tonnes)			
Cold-formed section steel	<u>18,025</u>	<u>11,664</u>	54.5%

Prospect

With a view to enhancing the diversity of the products of the Group, the Company will be committed to expanding the design and production capacity of LSAW pipes and ERW pipes. The Company plans to construct a LSAW pipe production line with an annual production capacity of 200,000 tonnes and will upgrade the annual production capacity of an existing production line of cold-formed section steel to 100,000 tonnes into a production line of ERW pipes which are generally installed in oil and gas pipelines with a small diameter.

In the second half of 2010, the demand for oil and gas line pipes in China will still depend on the effects of tightening measures adopted by the PRC government and the impacts of the control policies over new and major construction projects. However, construction of oil and gas pipelines in China is closely related to the strong domestic energy demand. The Directors believe that construction of major national oil and gas pipelines in China will not delay for a long period of time. In the coming half-year, the Company plans to accelerate the existing plan of expanding the production capacity and upgrade the research and development quality of its

products, commence studies of the demand in different markets, proactively and carefully seek and screen, during the short-term industry slow-down, potential targets for acquisition and collaboration to create synergies with the Group's major businesses, so as to enhance the scale of the Group's operation and its competitiveness in the long-run. In 2011, the Company believes that the general development of the oil and gas pipeline industry will be back on track with a higher growth rate.

The Company strongly believes that only by expanding its production capacity and strengthening the quality of its products will the Group be able to meet the requirements of the overall development of the country and capture a larger market share. Two new SSAW production lines equipment with an annual production capacity of 360,000 tonnes will be imported from Germany. Please refer to the announcement of the Company dated 21 April 2010 for background on the new technology to be adopted for the new SSAW production lines and the expected completion date of the construction of such production lines. There was a delay in the land acquisition procedures of the local government and the construction work relating to the new production line commenced in the beginning of August 2010. It is expected that the new production line will be completed in second half of 2011. After completion, production capacity of the Group's SSAW line pipes will increase from 640,000 tonnes to 1,000,000 tonnes, and as a result, the Directors believe that the Group will become the largest line pipe manufacturing enterprise in China.

China is undergoing fast economic growth. The rapid urbanization has brought tremendous opportunities to the domestic oil and pipeline related industries. In order to enhance transportation efficiency, domestic oil and gas pipelines have switched line pipes with a larger diameter, bringing greater revenues to line pipe manufacturers and laying a stable foundation for the future business development of the Company. Moreover, as the PRC government has been encouraging the use of natural gas instead of other sources of energy, the use of natural gas in the medium-to-small cities and rural areas is growing. It is expected that the use of natural gas will increase and account for 8% of the overall energy utilization of the PRC in the next decade. As a result, the Company believes that the pipeline related industry is still at a high growth rate stage. The Company is confident on both the prospects and development of its business in the long run.

CORPORATE GOVERNANCE

Overview

The Directors recognize 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. The Board has strived to uphold good corporate governance and adopt sound corporate governance practices. The Group has adopted the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules. None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not for any time of this period in compliance with the requirement of the Code.

Compliance with the Model Code for Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules as the required standard for securities transactions by Directors. The Company has made specific enquiries to all Directors

and all Directors confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding Directors' securities transactions during the six months ended 30 June 2010.

AUDIT COMMITTEE

The primary duties of the Audit Committee are to review the financial reporting process and internal control procedures of the Group. All members of the Audit Committee are appointed by the Board. The Audit Committee currently consists of three Directors of the Company, namely, Ms. Wong Wing Yee Jessie, Mr. Huo Chunyong and Mr. Teo Yi-Dar. Ms. Wong Wing Yee Jessie currently serves as the chairlady of the Audit Committee. During the period under review, the Audit Committee has convened one meeting with an attendance of 100%.

The Audit Committee has reviewed the Group's unaudited financial statements for the six months period ended 30 June 2010, reviewed the internal control system and its execution.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed with management and the external auditor the accounting principles and practices adopted by the Group and discussed auditing, internal controls, and financial reporting matters including the review of the unaudited interim financial statements for the Interim Period. The external auditor has reviewed the interim financial information for the six months ended 30 June 2010 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June 2010.

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

This results announcement is published on the websites of the Stock Exchange (<http://www.hkex.com.hk>) and the Company (<http://www.slogp.com>).

The interim report for the year 2010 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and available on the same websites in due course.

APPRECIATE YOUR SUPPORT AND COMMITTED TO ACHIEVING THE GOAL

Finally, on behalf of the Board, I would like to take this opportunity to express my gratitude to all shareholders, customers and employees of the Company for their continuous support and encouragement for the success and improvement of the Company. The Company is positioned in the oil and related equipment and line pipe industry, and is closely related to national economic and strategic development. We are committed to using the highest quality and technical standards and fully utilizing every opportunity to become the pioneer in the global line pipe industry, maximizing the investment value and returns to shareholders.

By order of the Board

Shengli Oil & Gas Pipe Holdings Limited

Zhang Bizhuang

Executive Director and the Chief Executive Officer

Zibo, Shandong, 20 August 2010

As at the date of this announcement, the executive Directors of the Company are Mr. Zhang Bizhuang, Mr. Wangxu and Ms. Han Aizhi; the non-executive Directors of the Company are Mr. Yan Tangfeng, Mr. Teo Yi-Dar, Mr. Ling Yongwah and Mr. Ong Kar Loon (alternate Director to Mr. Ling Yongwah); and the independent non-executive Directors of the Company are Mr. Huo Chunyong, Mr. Guo Changyu and Ms. Wong Wing Yee Jessie.