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 2010

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB1,126,923,000, representing a decrease of approximately 62.4% compared to the corresponding period in 2009.
- Gross profit margin was 13.14%, representing an increase of 1.74pps compared to the corresponding period in 2009.
- Profit before taxation was approximately RMB108,116,000, representing a decrease of approximately 67.8% as compared to the corresponding period in 2009.
- Profit for the year amounted to RMB89,164,000, representing a decrease of RMB246,724,000 or 73.5% with the corresponding period in 2009.
- Basic earnings per share was approximately RMB3.59 cents.
- The Board recommends the payment of a final dividend of RMB0.895 cents per share, which will be subject to shareholders' approval at the forthcoming annual general meeting of the Company.

The board (the "Board") of directors (the "Directors") of Shengli Oil & Gas Pipe Holdings Limited (the "Company") is pleased to announce the consolidated results of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2010

	Notes	**2010** **RMB'000**	2009 *RMB'000*
Revenue	*5*	**1,126,923**	2,999,092
Cost of sales		**(978,801)**	(2,657,043)
Gross profit		**148,122**	342,049
Other gains and losses	*6*	**33,384**	51,356
Selling and distribution expenses		**(18,079)**	(16,515)
Administrative expenses		**(55,006)**	(37,951)
Finance costs	*7*	**(305)**	(3,051)
Profit before taxation	*8*	**108,116**	335,888
Income tax expenses	*9*	**(18,952)**	—
Profit and total comprehensive income for the year		**89,164**	335,888
Earnings per share	*11*		
— Basic *(RMB cents per share)*		**3.59**	31.01
— Diluted *(RMB cents per share)*		**3.59**	31.01

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**336,753**	230,701
Prepaid lease payments		**49,520**	17,103
Goodwill		**2,525**	2,525
Interests in an associate		**247,000**	—
Other financial assets		**53,000**	—
		688,798	250,329
CURRENT ASSETS			
Inventories		**176,069**	255,598
Trade and other receivables	*12*	**676,466**	488,997
Amounts due from related parties		**—**	4,389
Loan receivable	*13*	**100,000**	—
Prepaid lease payments		**1,023**	355
Restricted bank balances		**87,300**	—
Bank balances and cash		**356,963**	1,168,293
		1,397,821	1,917,632
CURRENT LIABILITIES			
Trade and other payables	*14*	**116,185**	350,019
Income tax liabilities		**8,310**	—
Bank and other borrowings		**—**	87,058
		124,495	437,077
NET CURRENT ASSETS		**1,273,326**	1,480,555
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,962,124**	1,730,884
CAPITAL AND RESERVES			
Share capital	*15*	**219,572**	211,656
Reserves		**1,742,094**	1,518,753
TOTAL EQUITY		**1,961,666**	1,730,409
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**458**	475
		1,962,124	1,730,884

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company is a limited company incorporated in the Cayman Islands on 3 July 2009. Its parent and ultimate holding company is Aceplus Investments Limited ("Aceplus"), a company incorporated in the British Virgin Islands. Mr. Yan Tangfeng is the ultimate controlling shareholder of the Company who holds the equity interest in the Company through his wholly owned investment in Aceplus.

The address of the registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The headquarters of the Company in the PRC is Zhongbu Town, Zhangdian District, Zibo City, Shandong Province 225082, the PRC.

The consolidated financial statements of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") are presented in Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of the Company operate (the functional currency of the Company and the principal subsidiaries).

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

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 (the "Listing").

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to the group reorganization (the "Group Reorganization") to rationalize the structure of the Group in preparation for the Listing, the Company became the holding company of the Group on 28 October 2009 by interspersing the Company and Shengli (BVI) Ltd. ("Shengli (BVI)") between China Petro Equipment Holdings Pte Ltd. ("CPE") and Aceplus.

The consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the year ended 31 December 2009 have been prepared on the basis as if the Company had always been the holding company of the companies now comprising the Group throughout the year ended 31 December 2009, or since the respective dates of incorporation of the relevant entity, where there is a shorter period.

3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current year, the Group has applied the following new and revised standards, amendments and interpretations issued by the International Accounting Standards Board ("IASB"):

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

The application of the above new and revised Standards and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

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]
IFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[3]
IFRS 9	Financial Instruments[4]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
IAS 24 (Revised)	Related Party Disclosures[6]
IAS 32 (Amendments)	Classification of Rights Issues[7]
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[2]

[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 July 2010
[3] Effective for annual periods beginning on or after 1 July 2011
[4] Effective for annual periods beginning on or after 1 January 2013
[5] Effective for annual periods beginning on or after 1 January 2012
[6] Effective for annual periods beginning on or after 1 January 2011
[7] Effective for annual periods beginning on or after 1 February 2010

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments which are measured at fair value.

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

5. REVENUE AND SEGMENT INFORMATION

(a) Revenue

Revenue represents the net amounts received and receivable during the year for:

(1) sales of goods; and

(2) provision of processing service.

An analysis of the Group's revenue during the year is as follows:

	2010	2009
	RMB'000	*RMB'000*
Revenue from		
— Sales of goods	**1,100,523**	2,930,011
— Provision of processing services	**26,400**	69,081
	1,126,923	2,999,092

(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 makes decision about resource allocation and performance assessment. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

Information about reportable segment revenues, results, assets and liabilities

Segment revenue and results

	SSAW Pipes Business	Cold-formed Section Steel Business	Total	Eliminations	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
For the year ended 31 December 2010:					
Turnover					
External sales	**994,678**	**132,245**	**1,126,923**	**—**	**1,126,923**
Internal sales	**—**	**2,453**	**2,453**	**(2,453)**	**—**
	994,678	**134,698**	**1,129,376**	**(2,453)**	**1,126,923**
Result					
Segment result	**141,788**	**4,179**	**145,967**	**—**	**145,967**
Interest income					**6,210**
Unallocated income					**2**
Unallocated expenses					**(43,758)**
Finance costs					**(305)**
Profit before taxation					**108,116**
For the year ended 31 December 2009:					
Turnover					
External sales	2,918,185	80,907	2,999,092	—	2,999,092
Internal sales	—	1,255	1,255	(1,255)	—
	2,918,185	82,162	3,000,347	(1,255)	2,999,092
Result					
Segment result	366,194	(7,096)	359,098	—	359,098
Interest income					392
Unallocated income					80
Unallocated expenses					(20,631)
Finance costs					(3,051)
Profit before taxation					335,888

The inter-segment sales were charged at cost.

Segment profit represents the profit earned by each segment without allocation of central administration costs including directors' fees, listing expenses, finance costs, 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.

Other information

	SSAW Pipes Business	Cold-formed Section Steel Business	Total	Unallocated items	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Amounts included in the measurement of segment profit or loss or segment assets:					
For the year ended 31 December 2010:					
Additions of property, plant and equipment	**130,614**	**343**	**130,957**	**556**	**131,513**
Additions of prepaid lease payments	**33,404**	**—**	**33,404**	**—**	**33,404**
Depreciation	**20,033**	**4,999**	**25,032**	**218**	**25,250**
Release of prepaid lease payments	**233**	**86**	**319**	**—**	**319**
Reversal of write-down of inventories	**—**	**(1,350)**	**(1,350)**	**—**	**(1,350)**
(Gains)/losses on disposals of property, plant and equipment	**(136)**	**22**	**(114)**	**—**	**(114)**
For the year ended 31 December 2009:					
Additions of property, plant and equipment	30,858	1,240	32,098	—	32,098
Additions of prepaid lease payments	11,622	—	11,622	—	11,622
Depreciation	17,078	4,985	22,063	4	22,067
Release of prepaid lease payments	58	123	181	—	181
Write-down of inventories	—	170	170	—	170
Losses on disposals of property, plant and equipment	423	—	423	—	423

6. OTHER GAINS AND LOSSES

	2010	2009
	RMB'000	*RMB'000*
Other gains and losses comprise:		
Gain on sales of scrap materials	**22,811**	47,152
Gain on sales of raw materials *(note below)*	**11,615**	—
Interest income	**6,210**	392
Gain on sales of surplus materials	**1,133**	42
Quality inspection service income	**406**	743
Gains on disposals of property, plant and equipment	**114**	—
Loading service income	**—**	2,764
Exchange (losses) gains, net	**(9,289)**	66
Others	**384**	197
	33,384	51,356

Note: During the year ended 31 December 2010, the Group traded raw materials with third parties. The total sales amount was of approximately RMB415,000,000 and the gain from these trade transactions was of approximately RMB11,615,000.

7. FINANCE COSTS

	2010	2009
	RMB'000	*RMB'000*
Finance costs comprise:		
Interest on bank and other borrowings wholly repayable within one year	**305**	3,051

8. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2010 RMB'000	2009 RMB'000
Staff costs (including directors' emoluments):		
— Salaries and wages	**46,944**	43,209
— Performance related bonus	**4,700**	—
— Retirement benefit scheme contributions	**6,408**	5,462
— Share-based payments	**13,296**	—
	71,348	48,671
Depreciation on property, plant and equipment	**25,250**	22,067
Release of prepaid lease payments	**319**	181
Cost of inventories recognized as an expense *(note below)*	**978,801**	2,657,043
Auditors' remuneration	**1,595**	1,300
Losses on disposals of property, plant and equipment	**—**	423
Listing expenses relating to the Company's Listing	**—**	10,846

Note: Included in the cost of inventories recognized as an expense is an amount of approximately RMB1,350,000 for the year ended 31 December 2010 related to the reversal of write-down of closing inventories (2009: write-down of inventories of approximately RMB170,000).

9. INCOME TAX EXPENSES

	2010 RMB'000	2009 RMB'000
Income tax expenses comprise:		
Current tax		
— PRC enterprise income tax ("EIT")	**18,969**	—
Deferred tax		
— Current year	**(17)**	—
	18,952	—

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 year.

The statutory tax rate of CPE for the year ended 31 December 2010 was 17% (2009: 17%). No provision for Singapore income tax has been made as the Group did not derive any taxable income in Singapore for the year.

The statutory tax rate of 山東勝利鋼管有限公司 (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 a 50% relief in year 2010.

10. DIVIDENDS

	2010	2009
Final dividend proposed after the end of the reporting period of HKD0.01064 per share (2009: HKD0.02 per share) *(HKD'000)*	**26,494**	49,800
Equivalent to RMB *(RMB'000)*	**22,286**	43,590

The directors proposed a final dividend of RMB0.00895 per share (equivalent to HKD0.01064 per share) for the year ended 31 December 2010 (2009: RMB0.0176 per share (equivalent to HKD0.02 per share)) to all equity shareholders of the Company which will be charged to the share premium account and is subject to the shareholders' approval at the forthcoming annual general meeting.

The above mentioned final dividend proposed after the end of the reporting period has not been recognized as a liability at the end of the reporting period.

11. EARNINGS PER SHARE

The calculation of the basic earnings per share for the two year ended 31 December 2010 were based on the consolidated profit attributable to owners of the Company for the year of approximately RMB89,164,000 (2009: RMB335,888,000) and on the weighted average number of shares of 2,486,794,521 shares (2009: 1,083,287,671 shares), The weighted average number of shares for the year ended 31 December 2009 had been determined on the basis that 100,000 shares issued and outstanding upon the Group Reorganization had been in effective at 1 January 2009, and had taken into account of the 100,000 shares issued and outstanding upon the Capitalization of Shareholder's Loans (as defined in note 15 (e)) 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 defined in note 15 (f) (ii)) as disclosed in note 15.

The calculation of diluted earnings per share for the year ended 31 December 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 year ended 31 December 2010.

12. TRADE AND OTHER RECEIVABLES

	2010	2009
	RMB'000	*RMB'000*
Trade receivables (note below)	**410,391**	424,776
Note receivables (note below)	**55,077**	12,130
	465,468	436,906
Advance to suppliers	**189,421**	38,352
Deposits	**10,588**	1,371
Other receivables	**10,989**	12,368
	676,466	488,997

Note:

Trade and note receivables

The trade receivables as at 31 December 2009 and 31 December 2010 comprise amounts receivable from the sales of goods and provision of processing services during the respective years.

No interest is charged on the trade receivables.

Before accepting any new customer, the Group gathers and assesses the credit information of the potential customer in considering the customers' quality and determining the credit limits for that customer.

The Group generally allows a credit period of 90 days to its trade customers. All of the note receivables are within 180 days.

The aged analysis of the Group's trade receivables presented based on invoice date as at the end of the reporting period is as follows:

	2010	2009
	RMB'000	*RMB'000*
Within 90 days	**297,305**	401,014
Over 90 days but within 1 year	**70,231**	23,708
Over 1 year	**42,855**	54
	410,391	424,776

Aging of trade receivables which are past due but not impaired are as follows:

	2010	2009
	RMB'000	*RMB'000*
Over 90 days but within 1 year	**70,231**	23,708
Over 1 year	**42,855**	54
	113,086	23,762

The Group did not provide any allowance on the past due receivables as there has not been a significant change in credit quality and the amounts are still considered recoverable based on the historical experience. The Group does not hold any collateral over these balances.

13. LOAN RECEIVABLE

	2010	2009
	RMB'000	*RMB'000*
Fixed rate loan receivable, due within one year	**100,000**	—

The Group's loan receivable represented a secured loan granted to a third party through a PRC financial institute. The loan carries interest of 5% per annum and has been fully repaid at the maturity date in February 2011.

14. TRADE AND OTHER PAYABLES

	2010	2009
	RMB'000	*RMB'000*
Trade payables *(see note below)*		
— Related parties	**809**	4,364
— Non-related parties	**67,548**	230,158
	68,357	234,522
Receipt in advances from customers	**13,634**	4,458
Payable on acquisition of property, plant and equipment	**9,868**	9,824
Other tax payables	**—**	75,597
Listing expenses payables	**—**	14,055
Other payables	**24,326**	11,563
	116,185	350,019

Note:

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 presented based on invoice date as at the end of the reporting period is as follows:

	2010	2009
	RMB'000	*RMB'000*
Within 90 days	**29,339**	180,741
Over 90 days but within 1 year	**38,077**	44,651
Over 1 year	**941**	9,130
	68,357	234,522

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	4,996,200,000	499,620
At 31 December 2009 and 31 December 2010	5,000,000,000	500,000

	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	1,799,800,000	179,980	158,724
At 31 December 2009 and 1 January 2010	2,400,000,000	240,000	211,656
Issue of shares on over allotment	90,000,000	9,000	7,916
At 31 December 2010	2,490,000,000	249,000	219,572

The movements in the Company's authorized and issued ordinary share capital during the period from 3 July 2009 (date of incorporation) to 31 December 2010 are as follows:

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 HKD0.1 each. At the date of incorporation, one share of HKD0.1 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) 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 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 (the "Capitalization of Shareholder's Loans").

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 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.

All of the shares issued by the Company during the period subsequent to the date of incorporation of the Company rank pari passu with the then existing shares in all respects.

16. COMMITMENTS

At the end of the reporting period, the Group had the following capital commitments:

	2010	2009
	RMB'000	*RMB'000*
Capital expenditure in respect of acquisition of property, plant and equipment:		
— contracted for but not provided in the consolidated financial statements	**229,347**	23,160

17. SUBSEQUENT EVENT

The Company announced that on 28 January 2011, Shandong Shengli entered into the entrusted loan agreement ("Entrusted Loan Agreement") with a bank in the PRC (the "Lending Agent"). Pursuant to the Entrusted Loan Arrangement, Shandong Shengli, through the Lending Agent, provided the Entrusted Loan of RMB300 million to a third party in the PRC for a term of one year, at the interest rate of 15% per annum.

Further details of the above are set out in the Company's announcement dated 31 January 2011.

CHIEF EXECUTIVE OFFICER'S STATEMENT

To the Shareholders,

Year 2010 marked the first anniversary of the listing of Company on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). On behalf of the management team of the Company, I would like to take this opportunity to express my heartfelt thanks to all Shareholders of the Company, and to report the audited results of the Company for the year ended 31 December 2010.

During the year under review, due to the government's strict control over the pace of the construction of large-scale infrastructure projects, including oil and gas pipelines projects, for the sake of regulating the economic development, the oil and gas pipeline industry faced challenges. As such, orders for the Company's pipelines with large-diameter, high steel grade and high pipe-wall thickness dropped significantly. As products with such specifications were of higher prices and profit margins, the Group's profitability was affected accordingly. However, the Group had taken prompt actions to prepare itself to capture the new business opportunities arising from China's "12th Five-Year Plan" (2011–2015) in the period under review. The Group will make strategic moves to invigorate its products and diversify its business and extend its reach from focusing on major national pipeline network that are vulnerable to the national planning cycle, to the regional and municipal pipeline network that are generally less affected by national planning cycle. This will enable the Group to expand into the downstream business of municipal pipeline network gas transmission and distribution, thereby establishing more stable industrial chains.

Continued heat up of market demand

The PRC government has enforced strict control on oil and gas pipeline construction, however, the PRC economy has rebounded steadily upon the implementation of a series of economic simulative packages in 2009 in the wake of the financial crisis. In 2010, the rapid economic development in China created a robust demand for crude oil in the country. With the continued growth in domestic natural gas consumption, China has become the second largest energy consumer only after the United States. With the significant growth in demand, the enhancement in oil and gas pipeline construction is believed to be one of the PRC's government's future development plans. Currently, the total length of oil and gas pipelines in China has exceeded 77,000 km, with four major overseas oil and gas channels spanning across the northeast, northwest and southwest (both ashore and offshore) parts of China. These pipelines have played important roles in ensuring the energy supplies in China.

Seizing the growing opportunities

The Company believes that temporary slowdowns are unavoidable in the development process of an industry, and business consolidation and quality improvement occurred in the course of such process will benefit the long-term development of the industry. As a new round of oil and gas pipeline projects construction is expected to commence in 2011, we are confident that the pipeline industry will pick up vigorously and experience another round of industry boom. With such anticipation, the Company has sought to further enhance its production capacity, diversify its business and expand its product offering in 2010 to capture the opportunities emerging from this new round of industry growth.

With respect to the expansion of its production capacity, the Company's two spiral submerged arc welded ("SSAW") pipes production lines with a total investment of RMB34,626,000 and total annual production capacity of 100,000 tonnes were successfully completed and commenced operation in May 2010, which brought the Company's total annual production capacity from 540,000 tonnes to 640,000 tonnes. The Company is also building another SSAW production line with an annual production capacity of 360,000 tonnes which will bring Company's annual production capacity to 1,000,000 tonnes. Construction for this production line is currently progressing smoothly and is expected to be completed and commercial production will commence in the second half of 2011.

To enhance the Group's business growth and profitability, the Company will gradually expand its products offering and business to regional pipeline network operations which are generally less affected by national planning cycle, thereby tapping into the downstream business of municipal pipeline network gas transmission and distribution. To facilitate the materialization of its business expansion plan, the Company announced in November 2010 its acquisition of 25% equity interest in Beijing Golden Fortune Investment Co., Ltd. (北京慧基泰展投資有限公司) ("Golden Fortune"), a domestic company engaged in natural gas distribution and natural gas pipeline construction, for a total consideration of RMB300,000,000. Pursuant to the agreement, the Group will be entitled to a guaranteed return rate of no less than 15% on average over the five years ending 31 December 2015.

Outlook: the industry's "golden decade"

Year 2011 is the first year of China's "12th Five-Year Plan", under which energy development remains one of the priorities. In particular, a blueprint for the development of oil and natural gas has been formed, which includes maintaining the crude oil production at around 2,000,000 tonnes, speeding up the construction of three gas fields in Tarim Basin, Southwest China and Changqing, each with an annual output of 20 billion cubic meters, actively exploring offshore natural gas resources and accelerating the development of unconventional natural gas resources such as coalbed methane gas.

In January 2011, we has won a tender for the foreign section of Sino-Myanmar pipeline project and will supply 43,657 tonnes of SSAW pipes with a total length of 148 km for about RMB316 million to the Myanmar side of the project. Despite the relatively small revenue contribution from this project to the Group, the tender has a significant meaning to us as it demonstrated our recognition in the international market. We are optimistic that the postponed construction of a number of oil and gas pipeline network projects will also be re-launched again in 2011.

According to the "12th Five-Year Plan", the total length of the domestic oil and gas pipelines is expected to be increased from approximately 77,000 km at the end of 2010 to approximately 150,000 km by 2015, and further increased to approximately 210,000 km by 2020. With the expansion of the pipeline network coverage, China's national oil and gas transmission pipeline network will gradually become more comprehensive. At the same time, the regional oil and gas pipeline network will also be expanded and extended, the increase of which will be approximately three times of that for the national oil and gas pipelines in terms of pipeline mileage.

Making multi-faceted strategic moves and gain first-mover advantages

Along with the commencement of a number of oil and gas pipeline projects in 2011, the Company will continue to improve its production capacity and technologies, further explore domestic and overseas markets, broaden its product and service offering and actively seeking cooperation and merger and acquisition opportunities to well prepare itself for the future development of oil and gas pipe industry.

The annual production capacity of the Company's SSAW pipes will be significantly increased from 640,000 tonnes in 2010 to 1,000,000 tonnes in the second half of 2011. In addition, in order to further expand and diversity its products and services offering, which will in turn enable the Group to mitigate its operational risks, better meet clients' needs and strengthen its competitiveness, the Company also is planning to build longitudinally submerged are welded pipes ("LSAW") pipes production lines. To better utilize the Group's resources and ensure a smooth completion of the projects under construction or being planned, the Company decided to suspend the plan of converting a production line of cold-formed section steel to a production line of high-quality and small-diameter ERW (resistance pipe) with an annual production capacity of 100,000 tonnes.

The Company will also increase its input in research and development, and will take various measures and implement the strategy of rejuvenation through science and technology. The SSAW production line with the advanced and comprehensive pipe pre-welding and precision-welding technologies introduced from Germany will be put into operation in the second half of 2011. It will be the first oil and gas pipe production line in China with all the technologies involved being introduced from Germany, and will significantly improve the product quality, achieve significant savings on raw materials and enhance welding speed, as compared with traditional technologies. The Company will take this opportunity to enhance research and development capacity and accelerate the deployment of new technologies. With the establishment of Shandong Province Oil and Gas Transmission Steel Pipes Engineering Technology Research Centre, a research institute established under the Group, the Company will partner with research and development and academic institutions to set up a post-doctoral workstation and hire experts to strengthen its research and development capability and production technology.

Meanwhile, the Company will seek cooperation and merger and acquisition opportunities in related upstream and downstream industries, so as to form a more complete industry chain and take full advantage of the government's increasing construction of and improvement in the oil and gas pipe network in the upcoming "Golden Ten Years".

Finally, I would like to take this opportunity to thank the shareholders and our business partners for their patronage and the management and staff of the Company for their diligence. The Company will strive to seize the growth opportunities ahead and continue to maximise the value and returns to shareholders.

Chief Executive Officer
Zhang Bizhuang

29 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

China is the world's second largest energy consumer. Notwithstanding, the total length of China's domestic steel pipeline infrastructure is far below the global average, which, as of 2008, was 58,300 km, amounted to around 7.3% of that in the United States. China's oil and natural gas consumption was about half of that in the United States, while its total length of pipelines is less than one tenth of that in the United States. As such, the Directors believe that the steel infrastructure development is still blessed with huge growth potential.

Pursuant to the "12th Five-year Plan", China will enhance the development of unconventional gas resources, such as offshore natural gas resources and coalbed methane, and accelerate the exploration and exploitation of overseas oil fields in order to meet the strong domestic energy demand. By the end of 2010, the operational section of the Second West to East Gas Pipeline has transmitted 4.3 billion cubic meters of natural gas from the Central-Asia to China.

The favourable national policies together with China's tremendous potential for oil and gas pipelines development invigorated the industry to an encouraging prospect. Moreover, western China is a region embedded with significant oil and natural gas reserves, therefore, it is of particular importance for China to build a comprehensive long-distance pipeline transmission system, which is also in line with China's national policy and the oil and gas pipeline development plan.

Business Review

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

The Group's revenue decreased by 62.4% from RMB2,999.09 million for the year ended 31 December 2009 to RMB1,126.92 million for the year ended 31 December 2010. The decrease was primarily due to the adoption of austerity measures by the PRC government, which lead to delays in the construction of a number of China's major national oil and gas pipelines, a corresponding decline in customer orders for oil and gas pipelines and a significant decrease in revenues from pipeline anti-corrosion treatment services, which together resulted a significant decrease in the income from the SSAW pipes business, the principal business of the Group. Moreover, with effect from 1 January 2010, the Group's profits tax rate increased from zero to 12.5%, which further affected the Group's overall performance in 2010.

During the period under review, the Group's two core business segments, namely, (1) SSAW pipes business (including anti-corrosion business) reported a turnover of RMB994,678,000 (2009: RMB2,918,185,000), representing a year-on-year decrease of approximately 65.9%, and (2) cold-formed section steel business, reported a turnover of RMB132,245,000 (2009: RMB80,907,000), representing an increase of approximately 63.5%.

SSAW pipes business

As one of the largest oil and natural gas line pipe manufacturers in China, the Company is one of the few suppliers in China providing 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. Among the few approved manufacturers to provide services to China's major oil and gas companies ("**Qualified Manufacturers**"), the Group is the only privately owned enterprise. The Group's major customers included large state-owned oil and gas companies such as China National Petroleum Corporation (CNPC) and China Petroleum & Chemical Corporation (Sinopec) and their joint ventures. The Group focuses on the design, manufacture, anti-corrosion processing and servicing of SSAW pipes, that are used to transport crude oil, refined petroleum products and natural gas.

During the period under review, the Group's two SSAW pipes production lines with a total annual production capacity of 100,000 tonnes were successfully completed and put into operation, as a result, the Group's SSAW pipes annual production capacity reached 640,000 tonnes. 70% of China's major domestic oil and gas pipelines were constructed using domestic-made SSAW pipes. The Directors believe that the Group accounted for about one fourth of the total production capacity of all Qualified Manufacturers.

For the year ended 31 December 2010, the Group's SSAW pipes were installed in approximately 18,600 km of the world's major oil and gas pipelines, of which 95% were installed in China and the remaining 5% were installed overseas. During the period under review, the Group has supplied SSAW pipes for a number of national pipeline projects, including 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), the Yulin-Jinan Gas Pipelines (榆濟管線) and the Northeast-Sichuan Pipeline (川東北管線), and a number of regional branch pipeline projects including the Laizhou-Changyi Gas Pipelines (萊州至昌邑管線), the Beijing Gas Pipelines (北京燃氣管線), the Weifang-Huangdao Gas Pipelines (濰坊至黃島管線) and the Beihai-Nanning Gas Pipelines (北海至南寧管線) and Tieshan Harbor-Shankou Pipelines (鉄山港至山口管線). The Group has also provided anti-corrosion services for various projects, such as the Taishan-Qingdao-Weihai Gas Pipelines (泰青威管線), the Rizhao-Dongming (日照至東明管線), the Third Shaanxi-Beijing Gas Pipeline (陝京三線) and the Weihai-Ganghua Project (威海港華項目).

For the year ended 31 December 2010, the turnover derived from the Group's SSAW pipes business amounted to RMB994,678,000 (for the year ended 31 December 2009: RMB2,918,185,000), representing approximately 88.3% of the Group's total turnover of the year (for ended 31 December 2009: 97.3%). The SSAW pipes business mainly comprised of (1) sales of SSAW pipes; (2) processing services of SSAW pipes; and (3) anti-corrosion treatment services.

Turnover derived from sales of SSAW pipes amounted to RMB891,972,000 (for the year ended 31 December 2009: RMB2,600,297,000), representing a year-on-year decrease of approximately 65.7%. Turnover from processing services of SSAW pipes was RMB25,415,000 (for the year ended 31 December 2009: RMB68,594,000), representing a decrease of 62.95% compared to 2009. Due to the negative impacts of the national planning cycle on the national pipeline network in China, during the review period, revenue derived from sales of SSAW pipes and provision of SSAW pipes processing services to the national pipeline projects amounted to approximately RMB577,592,000 and RMB20,703,000, respectively, representing a decrease of 75.7% and 65% as compared to RMB2,378,465,000 and RMB59,077,000 of the same period in 2009.

In light of the decrease in the number of national pipelines projects, along with the fall in the demand for anti-corrosion treatment services from regional pipelines projects, there was a significant drop in revenue from the Group's anti-corrosion treatment services. For the year ended 31 December 2010, turnover from anti-corrosion treatment services was RMB77,291,000 (for the year ended 31 December 2009: RMB249,294,000), representing a decrease of 69.0% compared to 2009.

In 2010, the tightening measures adopted by the PRC government led to a tight control over the new and large-scale infrastructure projects (including pipeline projects), which in turn caused delays in the 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 Asia Gas Pipelines (中亞管道)). As a result of such delays, orders received by the Group for the supplies of pipes of large-diameter, high steel grade and high pipe-wall thickness, dropped substantially. Such products are usually supplied to major national oil and gas pipeline projects and are usually of higher selling prices and profit margins. For the year ended 31 December 2010, the total sales volume of SSAW was 219,580 tonnes (for the year ended 31 December 2009: 486,459 tonnes), dropped by 54.9% compared to 2009. The proportion of national pipeline projects reduced from 89% in 2009 to 65% in 2010.

Sales volume (tonnes)	2010	2009	Change (%)
Sales of SSAW pipes	**176,404**	378,986	-53.5
Processing services of SSAW pipes	**43,176**	107,473	-59.8
Total	**219,580**	486,459	-54.9
Anti-corrosion treatment services (square meters)	**1,174,182**	4,230,591	-72.2

As the overall production volume dropped, the utilisation rate of the production capacity for SSAW pipes also decreased from 83.7% for the year ended 31 December 2009 to 35.3% for the year ended 31 December 2010.

Cold-formed Section Steel

In addition to SSAW pipes, the major business of the Group, the Group also produces cold-formed section steel utilizing welding technology and a variety of equipment. Cold-formed section steel is one of the major materials for modern construction. The Group's cold-formed section steel is mainly used in the construction industry and the manufacture of automobiles and freight 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 cold-formed section steel products with various specifications, such as square and rectangular tubes and round steel pipes.

For the year ended 31 December 2010, turnover from the sales of cold-formed section steel amounted to RMB131,260,000 (for the year ended 31 December 2009: RMB80,421,000), representing an increase of 63.2% compared to 2009. Turnover from processing services of cold-formed section steel amounted to RMB985,000 (for the year ended 31 December 2009: RMB486,000), representing an increase of 102.7% compared to 2009. The overall turnover from cold-formed section steel business amounted to RMB132,245,000 (for the year ended 31 December 2009: RMB80,907,000), representing an increase of 63.5% compared to 2009. The increase in turnover was mainly attributable to the Group's enhanced strength in expanding the cold-formed section steel market, which drove a corresponding growth in both orders and sales volume of cold-formed section steel.

Sales volume (tonnes)	2010	2009	Change (%)
Cold-formed steel	**34,364**	24,213	41.9

Strategic Investment

To enhance the Company's business growth and profitability, the Company plans to gradually extend its business and expand its product offering to regional branch network operations which are generally less affected by the impacts of the national planning cycle, and hence establish a foothold in the downstream business of municipal pipeline network gas transmission and distribution. In line with the Group's business development strategy, the Company announced in November 2010 its acquisition of a 25% equity interest in Golden Fortune, a domestic company engaged in natural gas distribution and natural gas pipeline construction, for a total consideration of RMB300,000,000. The Company is entitled to an average guaranteed return on its investment at a rate of not less than 15% for each year from 2011 to 2015; if Golden Fortune experiences any material adverse change, the Company will have the right to demand other shareholders of Golden Fortune to repurchase the shares of Golden Fortune held by the Company with the same price.

Outlook

According to news from the 2011 National Energy Conference, the natural gas consumption in China is expected to reach 260 billion cubic meters in 2015, which is 2.6 times of that in 2010. Of the 260 billion cubic meters, 170 billion cubic meters will be domestically produced, while the remaining 90 will be imported. As of 2010, the total length of oil and gas pipelines in China was approximately 77,000 km, of which 40,000 km was gas pipelines. The Directors believe that the significant increase in the natural gas consumption in the coming years will provide impetus to the development of the oil and gas pipeline industry. It is expected that during the "12th Five-Year Plan", the Second Phase of Sino-Kazakhstan Oil Pipelines (中哈管道二期), the domestic section of China-Myanmar Pipelines (中緬管道) and the Third and Forth Lines of West-East Gas Pipelines (西氣東輸管道第三、四線) will be constructed. It is estimated that, by the end of 2015, the total length of the domestic oil and gas pipelines will reach about 150,000 km.

To capitalise on the favourable national policies and the development of China's oil and gas pipelines, seize the future business opportunities in the fast-growing industry and ensure the production capacity of the Group's major products, SSAW pipes, is sufficient to meet the growing demand, the Group will continue to expand its production capacity of SSAW pipes by importing a new SSAW pipes production line with an annual production capacity of 360,000 tonnes from Germany. With the introduction of the new SSAW pipes production line, the Group will become the first oil and gas pipeline manufacturer using advanced pipes pre-welding and precision-welding technologies. It will also enable the Group to improve its product quality and raw materials utilization rate and increase welding speed. The Group's SSAW pipes production capacity will increase from the current level of 640,000 tonnes to 1,000,000 tonnes by the second half of 2011, the Directors believe that, by then, the Group will become the largest oil and gas pipe manufacturer in China.

At the same time, to reinforce product diversification and meet different needs of its customers, the Company has commenced the construction of a LSAW pipes production line, however, taken into account of the recent market situation, the Group has decided to suspend the addition of the ERW pipes production lines so that it can focus on developing projects that will bring the most benefit to the Group.

The Group will not only grasp the future opportunities arising from the growth in major national oil and gas transmission pipelines, but will also develop the regional, provincial and municipal oil and gas transmission pipelines business, expand municipal pipeline network gas distribution business and explore the export market to increase its overseas market share. In addition, the Group will actively explore the overseas markets. The Group has participated in large-scale projects such as the Kazakhstan-China Oil Transmission Pipelines (哈薩克斯坦–中國輸油管線) and is currently participating in the China-Myanmar Pipelines (中緬管道). The Group will further explore the international market leveraging its extensive experience in supplying products for long-distance and cross-border oil and gas pipelines.

Financial review

Revenue

The Group's revenue for the year ended 31 December 2010 was RMB1,126,923,000, representing a decrease of approximately 62.4% compared to RMB2,999,092,000 in 2009. The decrease was mainly due to the substantial revenue decline from SSAW pipes business, which was casued by the delays of the commencement of several major domestic national oil and gas pipeline projects due to the stringent measures adopted by the PRC government. For the year ended 31 December 2010, the Group's two core businesses, namely, (1) SSAW pipes business reported an income of RMB994,678,000 (2009: RMB2,918,185,000), representing a year-on-year decrease of approximately 65.9%, and (2) cold-formed section steel business reported a revenue of RMB132,245,000 (2009: RMB80,907,000), representing an increase of approximately 63.5% over the same period last year.

Cost of sales

The Group's cost of sales decreased by 63.2% from RMB2,657,043,000 for the year ended 31 December 2009 to RMB978,801,000 for the year ended 31 December 2010. The decrease was primarily due to a relatively significant reduction in production and sales volume compared to 2009.

Gross profit

As a result of the foregoing, the gross profit of the Group decreased significantly from RMB342,049,000 for the year ended 31 December 2009 to RMB148,122,000 for the year ended 31 December 2010. However, the gross profit margin of the Group increased from 11.4% for the year ended 31 December 2009 to 13.14% for the year ended 31 December 2010. The increase was primarily due to the drop in steel price, while the income of processing fee remained stable.

Under the production arrangements with its customers, revenue from the sales of the Group's products was significantly higher than the revenue from the provision of processing services, however, the profit margins for these two types of business were similar. In 2010, sales of goods accounted for 72.3% of the gross profit of SSAW pipes (2009: 61.4%), followed by anti-corrosion treatment which represented 15.2% (2009: 25.9%). The remaining 12.5% (2009: 12.7%) of the gross profit was derived from the provision of processing services.

Other income

Other income of the Group decreased from RMB51,356,000 for the year ended 31 December 2009 to RMB33,384,000 for the year ended 31 December 2010 as a result of a decrease in gains from the sales of scrap materials, which was caused by the drop in the Group's production volume. Other income includes profit from sales of steel plate of RMB11,615,000.

Selling and distribution expenses

Selling and distribution expenses of the Group increased from RMB16,515,000 for the year ended 31 December 2009 to RMB18,079,000 for the year ended 31 December 2010. The increase in selling and distribution expenses was mainly due to an increase in cost of sales as a result of certain contracts under which the Group was required to bear the transportation costs. Such increase is in line with the increase in the selling prices of the Group's products.

Administrative expenses

The Group's administrative expenses increased by 44.9% from RMB37,951,000 for the year ended 31 December 2009 to RMB55,006,000 for the year ended 31 December 2010. The increase in administrative expenses was relating to the grant of share options of RMB13,296,000, director fee of RMB2,897,000 and year end bonus of RMB4,700,000.

Finance costs

The Group incurred finance costs of RMB305,000 (2009: 3,051,000) for the year ended 31 December 2010, which represented interest on bank and other borrowings, which were payable within one year.

Income tax expenses

The Group incurred nil income tax expenses for 2008 and 2009. As a foreign invested enterprise, the Group is eligible for certain tax holidays and concessions, namely, two-year exemption from PRC enterprise income tax starting from 2009, which was the Group's first profitable year and followed by a 50% deduction on PRC enterprise income tax for three years, which brought the Group's enterprise income tax rate for the year under review to 12.5%.

Profit for the year

As a result of the foregoing factors, the profit of the Group decreased from RMB335,888,000 for the year ended 31 December 2009 to RMB89,164,000 for the year ended 31 December 2010.

Analysis of inventory, trade receivable and trade payable turnover

The following table sets forth the turnover days of inventories, trade receivables and trade payables of the Group for the years indicated:

	2010	2009
	(Days)	*(Days)*
Average turnover days of inventory	**80.45**	72.3
Average turnover days of trade receivables	**146.14**	34.52
Average turnover days of trade payables	**56.5**	20

Inventories

The inventory of the Group generally consists of raw materials, work-in-progress and finished products. The Group's average turnover days of inventory for the each of the years ended 31 December 2010 and 31 December 2009 were 80.45 days and 72.3 days, respectively. The following table sets forth the breakdown of the inventory of the Group as at the dates indicated:

	2010 **(RMB'000)**	2009 (RMB'000)
Raw materials	**62,000**	117,795
Work-in-progress	**4,377**	7,897
Finished goods	**109,692**	129,906
Total	**176,069**	255,598

As at 31 December 2010 and 31 December 2009, the Group had inventories of RMB176.1 million and RMB255.6 million, respectively. For the year ended 31 December 2009, the Group supplied significantly more oil and gas line pipes to the CNPC group and other customers through sales of goods arrangements, as opposed to processing services, which incurred significant amount of inventories, as pursuant to our supply contracts, the ownership of all the raw materials, work-in-progress and any undelivered finished goods in connection with the contracts belonged to the Group. The Group's inventories in 2010 decreased from the balance for the year ended 31 December 2009 following the delivery of SSAW pipes, which substantially reduced the Group's inventory of finished goods.

Trade receivables

Turnover days of the Group's trade receivables were 146.14 days and 34.52 days for each of the years ended 31 December 2010 and 31 December 2009, respectively. The average turnover days of trade receivables increased significantly because one major customer tightened its payment policy and led to long overdue of retention money of certain projects. As there has not been a significant change in credit quality and the amounts are still considered recoverable based on the historical experience. The Group did not hold any collateral over the past due receivables. At the end of Mar 2011, 40% of the trade receivables as at 31 December 2010 were subsequently received.

Other trade receivables mainly represent the credit sales of the Group's products to be paid by customers. The Group generally grants a 90-day credit period to its customers. In addition, the Group have adopted a series of measures to enhance the collection of its trade receivables, such as imposing more stringent credit standards, conducting credit checks and closely monitoring the Group's overdue trade and bills receivables. The following table sets forth an aging analysis of trade receivables of the Group and Shengli Steel Pipe Co., Ltd. (勝利鋼管有限公司) ("Shengli Steel Pipe") as at overdue trade and bills receivables.

	2010 **(RMB'000)**	2009 (RMB'000)
Outstanding balance with ages:		
Within 90 days	**297,305**	401,014
Over 90 days but within 1 year	**70,231**	23,708
Over 1 year	**42,855**	54
Total	**410,391**	424,776

The Group's trade receivables as at 31 December 2010 and 31 December 2009 was RMB410.4 million and RMB424.8 million, respectively. In the fourth quarter of 2010, the Group supplied more oil and gas line pipes to the CNPC group and other customers as sales of goods, as opposed to provision of processing services. As a result, its trade receivables dropped.

Trade payables

The turnover days of the Group's trade payables were 56.5 days and 20 days for each of the years ended 31 December 2010 and 31 December 2009, respectively.

Payment for most of the Group's raw materials and parts and components are due within 90 days of delivery and acceptance. The following table sets forth an aging analysis of the Group's trade payables and notes payables of the Group and Shengli Steel Pipe as at the dates indicated:

	2010	2009
	(RMB'000)	*(RMB'000)*
Outstanding balance with ages:		
Within 90 days	**29,339**	180,741
Over 90 days but within 1 year	**38,077**	44,651
Over 1 year	**941**	9,130
Total	**68,357**	234,522

Trade payables of the Group as at 31 December 2010 and 31 December 2009 were RMB68.4 million and RMB234.5 million, respectively.

Loan receivables

In March 2010, the Group has secured a loan of RMB100 million to a third party through a PRC financial institution, at an interest rate of 5% per annum, for a term of one year. The loans and interest have been repaid in February 2011.

Analysis of net current assets and liabilities

The following table sets forth the current asset and current liability positions of the Group as at the dates indicated:

	2010 **(RMB'000)**	2009 *(RMB'000)*
Current assets		
Inventories	**176,069**	255,598
Trade and other receivables	**676,466**	488,997
Amounts due from related parties	**—**	4,389
Loan receivable	**100,000**	—
Prepaid lease payments	**1,023**	355
Restricted bank balances	**87,300**	—
Bank balances and cash	**356,963**	1,168,293
Total current assets	**1,397,821**	1,917,632
Current liabilities		
Trade and other payables	**116,185**	350,019
Income tax liabilities	**8,310**	—
Bank and other borrowings	**—**	87,058
Total current liabilities	**124,495**	437,077
Net current assets	**1,273,326**	1,480,555

The balance of trade and other receivables of the Group as at 31 December 2010 increased by 38.34% compared to the balance as at 31 December 2009. The significant increase in trade and other receivables was in line with the Group's sales and revenues in 2010. The revenue recorded by the Group during the year 2010 decreased by 62.4% compared to the total revenue recorded in 2009.

As at 31 December 2010, the Group had net current assets of RMB1,273.3 million. The Group's net current asset position was primarily the result of (i) an increase in bank balance and cash of RMB1,087.5 million mainly from net proceeds of its initial public offering on the Stock Exchange on 18 December 2009 (the "IPO"), (ii) the capitalization of a loan of RMB146.5 million from Aceplus for shares of the Company and (iii) the settlement of amounts due to related parties.

Capital expenditures

The Group incurred capital expenditures for the acquisition of property, plant and equipment, the expansion of its production facilities and the purchase of machinery for the manufacture of its steel pipe products. Capital expenditures during the two years ended 31 December 2010 were primarily related to property, plant and equipment.

The following table sets forth the capital expenditures of the Group for each of the two years ended 31 December 2010:

	2010	2009
	(RMB'000)	*(RMB'000)*
Capital expenditures		
Purchase of property, plant and equipment	**131,513**	32,098

Indebtedness

Borrowings

The following table sets forth information of the bank and other borrowings of the Group and Shengli Steel Pipe:

	2010	2009
	(RMB'000)	*(RMB'000)*
Bank borrowings due within one year:		
— Secured	—	15,000
— Unsecured	—	65,000
Unsecured other borrowing due within one year	—	7,058
	—	87,058

All of the Group's bank and other borrowings are at fixed interest rates and repayable within one year. The following table sets forth the annual interest rates of the Group's bank and other borrowings:

	Effective interest rate per annum	
	2010	2009
	%	*%*
Effective interest rates:		
Fixed-rate bank and other borrowings	**5.31% to 5.81%**	4.86% to 5.31%

As at 31 December 2010, the Group had nil bank borrowings (2009: RMB1.5 million).

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

Financial management and fiscal policy

As at 31 December 2010, saved for the net proceeds from the IPO, the Group's turnover, expenses, assets and liabilities were primarily denominated in Renminbi (RMB). The Directors consider that the Group currently has limited foreign currency exposure and has not entered into any hedging arrangement. The Group would closely monitor the foreign currency movement and will assess the need to adopt any measures in relation to foreign currency risks from time to time.

Utilisation of IPO proceeds

The net proceeds obtained by the Group from the IPO was approximately RMB1,098.5 million, all of which remained unutilized as at 31 December 2009. After the exercise of over-allotment option on 13 January 2010, the net proceeds of the IPO increased to RMB1,269.9 million. As at 31 December 2010, RMB153.6 million out of total net proceeds from the IPO has been utilized in the manner specified in the Company's prospectus dated 9 December 2009 ("Prospectus") and the balance of RMB1,115.6 million remain unutilized. The Group intended to continue to apply the proceeds in same manner as disclosed in the Prospectus.

As of 31 December 2010, the accumulated use of proceeds is set out below:

Project	**Expected amount** *RMB'000*	**Up to 31 December 2010 actual expenditure** *RMB'000*
construction of four SSAW production lines with a total annual production capacity of 460,000 tonnes and two anti-corrosion coating lines	440,000	153,630
construction of one LSAW pipe production line with an annual production capacity of 200,000 tonnes and one anti-corrosion coating line	650,000	0
upgrade one cold-formed section steel production facility to an ERW pipe production line with an annual production capacity of 100,000 tonnes	50,000	suspended
working capital and other general corporate purposes	129,900	0
	1,269,900	153,630

The Group will continue to pursue a prudent treasury management policy and is in a strong liquidity position with sufficient cash to cope with daily operations and future development demands for capital. With the strong cash and bank balances, the Group is in a net cash position and has not entered into any hedging arrangement.

Liquidity and financial resources

As at 31 December 2010, cash and bank balances of the Group amounted to approximately RMB357 million (for the year ended 31 December 2009: approximately RMB1,168.3 million). The drop in balance is due to the investment in Golden Fortune of RMB300 million, expenditure in capacity expansion of approximately RMB154 million, increase in receivables of RMB187 million, secured loans granted to a third party of RMB100 million (has been recovered upon its maturity in February 2011), the set up of a joint-venture of RMB30 million and a bank deposit pledged as security of RMB57.3 million for issuing letters of credit.

As at 31 December 2010, the Group had nil bank and other borrowings (for the year ended 31 December 2009: RMB87.1 million).

The gearing ratio is defined as net debt (represented by borrowings net of time deposits and bank balances and cash) divided by shareholders equity. As at 31 December 2010, the Group is in a healthy financial position with a net cash position amounting to RMB357 million (for the year ended 31 December 2009: RMB1,081.2 million). Accordingly, no gearing ratio is presented.

Charges and contingent liabilities

Other than the secured bank borrowings mentioned above, as at 31 December 2010, the Group neither had other charges on its assets nor any material contingent liabilities.

Foreign exchange risk

During the year ended 31 December 2010, none of the Group's sales were denominated in U.S. dollars or other foreign currencies. The Group did not utilize any forward contracts or other means to hedge its foreign currency exposure; however, the management will closely monitor the exchange rate fluctuations to ensure sufficient precautionary measures against any adverse impacts are in place.

Employment and remuneration policy

The Group reviews its human resources and remuneration policies periodically with reference to local legislations, market conditions, industry practice and assessment of the performance of the Group and individual employees.

As at 31 December 2010, the Group employed a work force of 1,030 (including Directors) in China, Hong Kong and Singapore. The total salaries and related costs (including the Directors' fees) for the year ended 31 December 2010 amounted to approximately RMB71.3 million (for the year ended 31 December 2009: RMB48.7 million) including RMB13.3 million from grant of share options.

Dividends

The Directors recommend the payment of dividends of RMB0.00895 per share which will be charged to the share provision account (equivalent to HKD0.01064 per share) for the year ended 31 December 2010 (2009: RMB0.0176 per share), which will be subject to shareholders' approval at the forthcoming annual general meeting of the Company.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the entitlement to, among others, the interest of final dividend for the year ended 31 December 2010, the register of members of the Company will be closed from 22 June 2011 to 28 June 2011 (both dates inclusive) during which period no transfer of shares of the Company will be effected. In order to qualify for the proposed dividends and to attend and vote at the AGM, all transfers of shares 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 no later than 4:30 p.m. on 21 June 2011.

CODE ON CORPORATE GOVERNANCE PRACTICES

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. This report outlines the principles and the code provisions of the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules, which have been adopted by the Group.

In accordance with the requirements of the Listing Rules, the Company has established an audit committee with defined terms of reference to oversee the financial reporting procedures and internal controls of the Group during the year ended 31 December 2010. The Group has also established a nomination committee and a remuneration committee with defined terms of reference. The terms of reference of these Board committees are available upon request.

For the year ended 31 December 2010, all provisions set out in the Code were fulfilled by the Company.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 of all Directors and all Directors confirmed that for the year ended 31 December 2010, they have complied with the required standards set out in the Model Code and its code of conduct regarding directors' securities transactions for the year ended 31 December 2010.

PURCHASE, REDEMPTION OR SALE OF SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any their respective securities during the year ended 31 December 2010.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2010 as set out in this Preliminary Announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect 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 Messrs. Deloitte Touche Tohmatsu on the Preliminary Announcement.

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 two independent non-executive Directors, namely, Mr. Leung Ming Shu and Mr. Huo Chunyong and one non-executive Director, namely, Mr. Teo Yi-Dar. Mr. Leung Ming Shu serves as the chairman of the Audit Committee. The primary duties of the Audit Committee are to review and supervise our financial reporting process.

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2010.

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 (http://www.hkexnews.hk) and the Company (http://www.slogp.com). The annual report for the year ended 31 December 2010 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

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 gas 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 value and returns to shareholders.

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

Zibo, Shandong, 29 March 2011

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

Executive Directors:	*Mr. Zhang Bizhuang, Mr. Wangxu and Ms. Han Aizhi*
Non-executive Directors:	*Mr. Yan Tangfeng, Mr. Teo Yi-Dar, Mr. Ling Yongwah and Mr. Ong Kar Loon (alternate Director to Mr. Ling Yongwah)*
Independent non-executive Directors:	*Mr. Huo Chunyong, Mr. Guo Changyu and Mr. Leung Ming Shu*