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勝利管道
SHENGLI PIPE

SHENGLI OIL & GAS PIPE HOLDINGS LIMITED

勝利油氣管道控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1080)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB617,431,000, representing an increase of approximately 45.0% compared to the corresponding period in 2011.
- Profit and total comprehensive income for the period was approximately RMB9,821,000, representing a decrease of approximately 19.7% compared to the corresponding period in 2011.
- Gross profit margin was 4.8%, representing a decrease of approximately 1.9 percentage points compared to the corresponding period in 2011.
- Basic earnings per share attributable to equity holders of the Company was approximately RMB0.50 cents.
- The Board does not recommend the declaration of interim dividend for the six months ended 30 June 2012.

The board (the “Board”) of directors (the “Directors”) 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”) for the six months ended 30 June 2012 prepared in accordance of the International Financial Reporting Standards as follows:

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)**

		For the six months ended	
		30 June 2012	30 June 2011
	<i>Notes</i>	RMB'000	RMB'000
		(Unaudited)	(Unaudited)
REVENUE	3	617,431	425,724
Cost of sales		(587,975)	(397,335)
Gross profit		29,456	28,389
Other income and gains	4	58,041	34,430
Selling and distribution expenses		(9,587)	(8,088)
Administrative expenses		(34,597)	(24,896)
Other expenses		(4,969)	(5,872)
Operating profit		38,344	23,963
Finance costs	5	(18,443)	(4,314)
Share of loss of a jointly-controlled entity		(69)	—
Share of loss of an associate		(3,810)	(1,450)
PROFIT BEFORE TAX	6	16,022	18,199
Income tax expense	7	(6,201)	(5,969)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		9,821	12,230
Profit and total comprehensive income attributable to:			
Owners of the parent		12,519	12,230
Non-controlling interests		(2,698)	—
		9,821	12,230
Earnings per share attributable to equity holders of the parent			
Basic (<i>RMB cents</i>)	9	0.50	0.49
Diluted (<i>RMB cents</i>)	9	0.50	0.49

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(UNAUDITED)**

30 June 2012

		30 June 2012	31 December 2011
	<i>Notes</i>	<i>RMB'000</i>	<i>RMB'000</i>
		(Unaudited)	(Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	738,828	710,133
Prepaid land lease payments	11	91,754	60,745
Goodwill		9,910	9,910
Interests in an associate	12	239,444	243,254
Available for sale investment	13	15,000	—
Interest in a jointly-controlled entity		17,139	17,208
Derivative financial instrument		93,000	75,000
Deferred tax assets		10,386	9,039
Other assets		39,715	1,322
Total non-current assets		1,255,176	1,126,611
CURRENT ASSETS			
Inventories		350,893	392,741
Trade and bills receivables	14	701,136	685,854
Prepayments, deposits and other receivables	15	184,118	113,280
Loan receivable	16	180,000	300,000
Prepaid land lease payments	11	1,417	1,134
Investment held for sale		—	4,793
Pledged deposits		115,365	36,246
Cash and cash equivalents		376,692	381,832
Total current assets		1,909,621	1,915,880
CURRENT LIABILITIES			
Trade payable	17	71,962	95,020
Other payables and accruals	18	133,669	135,874
Tax payable		7,483	15,812
Dividend payable	8	23,317	—
Interest-bearing bank loans	19	730,510	631,800
Deferred income		854	258
Total current liabilities		967,795	878,764
NET CURRENT ASSETS		941,826	1,037,116
TOTAL ASSETS LESS CURRENT LIABILITIES		2,197,002	2,163,727

	30 June 2012 <i>RMB'000</i> (Unaudited)	31 December 2011 <i>RMB'000</i> (Audited)
NON-CURRENT LIABILITIES		
Deferred income	10,307	11,965
Deferred tax liabilities	10,434	5,943
Total non-current liabilities	20,741	17,908
NET ASSETS	2,176,261	2,145,819
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		
Issued capital	218,786	218,786
Reserves	1,802,294	1,809,154
	2,021,080	2,027,940
Non-controlling interests	155,181	117,879
TOTAL EQUITY	2,176,261	2,145,819

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

Six months ended 30 June 2012

	Attributed to owners of the parent							Non-controlling interest	Total equity
	Issued capital	Share premium	Statutory surplus reserve (note i)	Share option reserve (note ii)	Other reserve	Retained earnings	Treasury shares		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
AS at 1 January 2012 (Audited)	218,786	1,122,562	62,484	18,843	(9)	605,274	—	2,027,940	117,879
Total comprehensive income for the period	—	—	—	—	—	12,519	—	12,519	(2,698)
Capital contribution from non-controlling shareholders	—	—	—	—	—	—	—	—	40,000
Share-based payment	—	—	—	3,938	—	—	—	3,938	—
Final dividend declared	—	(23,317)	—	—	—	—	—	(23,317)	—
AS at 30 June 2012 (Unaudited)	<u>218,786</u>	<u>1,099,245*</u>	<u>62,484*</u>	<u>22,781*</u>	<u>(9)*</u>	<u>617,793*</u>	<u>—</u>	<u>2,021,080</u>	<u>155,181</u>
AS at 1 January 2011 (Audited)	219,572	1,154,829	50,824	13,296	(9)	523,154	—	1,961,666	—
Total comprehensive income for the period	—	—	—	—	—	12,230	—	12,230	—
Repurchase of shares	(540)	(7,489)	—	—	—	—	—	(8,029)	—
Treasury shares	—	—	—	—	—	—	(3,205)	(3,205)	—
Share-based payment	—	—	—	5,568	—	—	—	5,568	—
AS at 30 June 2011 (Unaudited)	<u>219,032</u>	<u>1,147,340</u>	<u>50,824</u>	<u>18,864</u>	<u>(9)</u>	<u>535,384</u>	<u>(3,205)</u>	<u>1,968,230</u>	<u>—</u>

* The aggregate of these reserves represents the consolidated reserves of RMB1,802,294,000 (31 December 2011: RMB1,809,154,000) on the interim condensed consolidated statement of financial position.

Notes:

(i) 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 subsidiaries are required to maintain a statutory surplus reserve which is non-distributable. Appropriation to such reserve is made out of net profit after tax expenses of the statutory financial statements of the relevant PRC subsidiaries. The amounts and allocation basis are decided by the Board of Directors of the respective subsidiaries annually. The statutory surplus reserve can be used to make up prior year's cumulative losses, if any, and can be converted into share capital.

(ii) SHARE OPTION RESERVE

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)*Six months ended 30 June 2012*

	For the six months ended	
	30 June 2012	30 June 2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Net cash from/(used) in operating activities	32,436	(253,262)
Net cash used in investing activities	(182,875)	(401,004)
Net cash from financing activities	120,303	621,570
NET DECREASE IN CASH AND CASH EQUIVALENTS	(30,136)	(32,696)
Cash and cash equivalents at beginning of period	406,828	356,963
CASH AND CASH EQUIVALENTS AT END OF PERIOD	376,692	324,267

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

30 June 2012

1. CORPORATE INFORMATION

The Company is a limited company incorporated in the Cayman Islands on 3 July 2009. On 21 May 2012, the original ultimate holding company Aceplus Investments Limited (“Aceplus”) signed an Equity Transfer Agreement with Valuable Tactics Development Limited (“Valuable Tactics”), pursuant to which Valuable Tactics agreed to subscribe for a 24.99% shares of the Company with a consideration of HK\$589 million. The transaction was completed on 26 June 2012. Upon completion of the transaction, Aceplus and Valuable Tactics, both registered in British Virgin Islands, hold 15.87% and 24.99% of shares of the Company, respectively.

The Company acts as an investment holding company. The principal activities of the Group are the 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.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2012 have been prepared in accordance with IAS 34 and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

The interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements, and therefore should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2011.

The interim condensed consolidated financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand, except when otherwise indicated.

Impact of new and revised IFRSs

The principal accounting policies adopted in the preparation of the interim condensed consolidated financial statements of the Group are consistent with those followed in the preparation of the audited annual financial statements of the Group for the year ended 31 December 2011, except for the adoption of the following new and revised International Financial Reporting Standards (“IFRSs”):

IAS 12 — Deferred Tax: Recovery of Underlying Assets (Amendment)

This amendment to IAS 12 includes a rebuttable presumption that the carrying amount of investment property measured using the fair value model in IAS 40 will be recovered through sale and, accordingly, that any related deferred tax should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale. Specifically, IAS 12 will require that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale. Effective implementation date is for annual periods beginning on or after 1 January 2012.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impact of new and revised IFRSs (Continued)

IFRS 7 — Disclosures — Transfers of financial assets (Amendment)

The IASB issued an amendment to IFRS 7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. Effective implementation date is for annual periods beginning on or after 1 July 2011 with no comparative requirements.

IFRS 1 — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment)

When an entity's date of transition to IFRS is on or after the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date, at fair value on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position. However, this exemption may only be applied to assets and liabilities that were subject to severe hyperinflation. Effective implementation date is for annual periods beginning on or after 1 July 2011 with early adoption permitted.

The above amendments to IFRSs standards did not have any impact on the accounting policies, financial position or performance of the Group.

3. REVENUE AND OPERATING SEGMENT INFORMATION

a. Revenue

Revenue represents the net invoiced value of goods sold, after allowance for returns and trade discounts and the value of services rendered during the period.

	For the six months ended	
	30 June 2012	30 June 2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sale of goods	616,239	420,988
Rendering of services	1,192	4,736
	617,431	425,724

b. Operating segment information

For management purposes, 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 produces spiral submerged arc welded pipes which are mainly used for the oil industry and the Cold-formed Section Steel Business produces cold-formed section steel which is mainly used for the infrastructure industry.

Management monitors the result of the Group's operating segments separately for the purpose of making decision about resource allocation and performance assessment.

3. REVENUE AND OPERATING SEGMENT INFORMATION (CONTINUED)

b. Operating segment information (Continued)

Segment revenue and results

For the six months ended 30 June 2012 (Unaudited)

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue				
Sales to external customers	552,396	65,035	—	617,431
Intersegment sales	—	—	—	—
Total revenue	<u>552,396</u>	<u>65,035</u>	<u>—</u>	<u>617,431</u>
Segment results	27,994	(627)	—	27,367
Interest income				27,846
Unallocated expenses				(20,748)
Finance costs				(18,443)
Profit before tax				<u>16,022</u>

For the six months ended 30 June 2011 (Unaudited)

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue				
Sales to external customers	324,703	101,021	—	425,724
Intersegment sales	—	37	(37)	—
Total revenue	<u>324,703</u>	<u>101,058</u>	<u>(37)</u>	<u>425,724</u>
Segment results	17,350	3,740	—	21,090
Interest income				22,586
Unallocated expenses				(21,163)
Finance costs				(4,314)
Profit before tax				<u>18,199</u>

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

Segment results represent the profit earned by each segment without allocation of central administration costs including Directors' fees, finance costs, share-based payments, foreign currency exchange gains/losses and items not directly related to the core business of segments.

3. REVENUE AND OPERATING SEGMENT INFORMATION (CONTINUED)

b. Operating segment information (Continued)

Segment assets

As at 30 June 2012 (Unaudited)

	SSAW Pipes Business RMB'000	Cold-formed Steel Section Business RMB'000	Eliminations RMB'000	Total RMB'000
Segment assets	2,553,914	115,160	(640,482)	2,028,592
Unallocated assets				1,136,205
Total consolidated assets				<u>3,164,797</u>

As at 31 December 2011 (Audited)

	SSAW Pipes Business RMB'000	Cold-formed Steel Section Business RMB'000	Eliminations RMB'000	Total RMB'000
Segment assets	2,513,658	134,103	(660,892)	1,968,869
Unallocated assets				1,055,622
Total consolidated assets				<u>3,042,491</u>

Geographical information

Revenue from external customers

	For the six months ended	
	30 June 2012 RMB'000 (Unaudited)	30 June 2011 RMB'000 (Unaudited)
Mainland China	617,431	264,698
Another country	—	161,026
	<u>617,431</u>	<u>425,724</u>

The revenue information above is based on the location of the customers.

Information about major customers

For the six months ended 30 June 2012, revenue of approximately RMB434,586,000 was derived from sales to two customers. For the six months ended 30 June 2011, revenue of approximately RMB161,026,000 was derived from sales to a single customer.

4. OTHER INCOME AND GAINS

	For the six months ended	
	30 June 2012	30 June 2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest income	27,846	22,586
Fair value gains of derivative financial instrument	18,000	1,298
Gain on sales of materials	7,835	9,977
Government grants	1,862	133
Others	2,498	436
	<u>58,041</u>	<u>34,430</u>

5. FINANCE COSTS

	For the six months ended	
	30 June 2012	30 June 2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Interest on interest-bearing bank loans	<u>18,443</u>	<u>4,314</u>

6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	For the six months ended	
	30 June 2012	30 June 2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Cost of inventories sold	584,850	392,460
Write-down of inventories to net realizable value	2,488	(92)
Cost of services provided	<u>637</u>	<u>4,967</u>
	<u>587,975</u>	<u>397,335</u>
Staff costs (including Directors' remuneration):		
Wages, salaries and bonuses	28,127	21,046
Retirement benefit scheme contributions	2,604	2,216
Welfare and other expenses	4,206	2,327
Expense of share-based payments	<u>3,938</u>	<u>5,568</u>
	<u>38,875</u>	<u>31,157</u>
Depreciation of property, plant and equipment	22,901	14,917
Amortization of prepaid land lease payments	708	159
Gains/(losses) on disposal of property, plant and equipment	112	(102)
Gains on disposal of an associate	107	—
Exchange losses, net	347	2,575
Auditors' remuneration	<u>579</u>	<u>500</u>

7. INCOME TAX EXPENSE

The major components of income tax expenses are as follows:

	For the six months ended	
	30 June 2012	30 June 2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax:		
Mainland China	3,057	7,046
Deferred income tax	3,144	(1,077)
	6,201	5,969

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 2012 and 30 June 2011.

The statutory tax rate of China Petro Equipment Holdings Pte Ltd. ("CPE"), a subsidiary of the Company incorporated in the Republic of Singapore ("Singapore"), was 17% for the six months ended 30 June 2012 and 30 June 2011. 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 was exempted from income tax in 2008 and 2009 and enjoyed a 50% relief in 2010, 2011 and 2012.

8. DIVIDEND

During the annual general meeting of the Company held on 15 June 2012, the Company's shareholders approved the payment of a final dividend of RMB0.0094 per share (2010: RMB0.00895 per share) for the year ended 31 December 2011.

The Directors do not recommend the declaration of any interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share for the six months ended 30 June 2012 were based on the consolidated profit attributable to equity holders of the parent of approximately RMB12,519,000 (for the six months ended 30 June 2011: RMB12,230,000) and the weighted average number of shares of 2,480,580,000 (for the six months ended 30 June 2011: 2,488,432,044).

Adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 June 2012 in respect of a dilution as the Group had potentially dilutive ordinary shares from key management personnel's equity-settled share option during the period.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group acquired property, plant and equipment at a total cost of RMB56,804,000 (for six months ended 30 June 2011: RMB240,676,000).

Property, plant and equipment with a net book value of RMB4,034,000 (six months ended 30 June 2011: RMB542,000) were disposed of by the Group during the six months ended 30 June 2012.

11. PREPAID LAND LEASE PAYMENTS

As at 30 June 2012, the Group was in the process of applying for the title certificates of certain land acquired by the Group with an aggregate net book value of approximately RMB69 million (31 December 2011: RMB38 million). The Directors are of the view that the Group is entitled to legally and validly occupy and use the above-mentioned land in due course, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 30 June 2012.

12. INTERESTS IN AN ASSOCIATE

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Share of net assets	118,376	122,186
Goodwill on acquisition	121,068	121,068
	<u>239,444</u>	<u>243,254</u>

Particulars of the associate are as follows:

Company name	Place and date of establishment/operations	Registered capital	Percentage of equity interest held by the Group	Principal activities
Beijing Golden Fortune Investment Co., Ltd. ("Golden Fortune") (北京慧基泰展投资有限公司)	The PRC/Mainland China 23 May 2006	RMB222,910,000	25%	Natural gas distribution and gas pipeline construction

The following table illustrates the summarized financial information of Golden Fortune:

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Total assets	1,288,520*	1,314,647
Total liabilities	(780,753)	(796,609)
Revenue	377,492	487,926
Net losses	(16,271)	(18,461)
Goodwill arising on the acquisition of Golden Fortune	<u>121,068</u>	<u>121,068</u>

* The total assets included intangible assets of RMB294,401,000 arising from revaluation at the date of acquisition. These intangible assets, being rights of gas distribution and contract backlog, are amortized over the respective period of validity.

13. AVAILABLE FOR SALE INVESTMENT

30 June	31 December
2012	2011
<i>RMB'000</i>	<i>RMB'000</i>
(Unaudited)	(Audited)

Unlisted equity investment, at cost	15,000	—
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On 31 May 2012, Shandong Muxin Investment Co., Ltd. (“Muxin Investment”), a wholly-owned subsidiary of the Company, signed an agreement with Zibo Minan Plastics Co., Ltd. (“Minan”), pursuant to which Muxin Investment agreed to acquire 10% equity interest in Minfu Microfinance Co., Ltd. (“Minfu”) from Minan for a consideration of RMB15 million.

As at 30 June 2012, the equity investment in Minfu which was held on behalf by Minan had a carrying amount of RMB15 million and was stated at cost less impairment because the Directors are of the opinion that its fair value cannot be measured reliably. The Group does not intend to dispose the equity investment in the near future.

14. TRADE AND BILLS RECEIVABLES

30 June	31 December
2012	2011
<i>RMB'000</i>	<i>RMB'000</i>
(Unaudited)	(Audited)

Trade receivable	659,228	643,915
Bills receivable	41,908	41,939
	701,136	685,854

The Group generally allows a credit period of 90 days to trade customers. All of the bills receivable are due within 180 days.

The aged analysis of the Group’s trade receivable as at the end of the reporting period is as follows:

30 June	31 December
2012	2011
<i>RMB'000</i>	<i>RMB'000</i>
(Unaudited)	(Audited)

Within 90 days	534,861	598,796
Over 90 days but within 1 year	113,102	26,497
Over 1 year	11,265	18,622
	659,228	643,915

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2012 <i>RMB'000</i> (Unaudited)	31 December 2011 <i>RMB'000</i> (Audited)
Advance to suppliers	134,131	64,048
Tender deposits to customers	5,014	1,517
Other tax receivables	19,184	34,341
Others	25,789	13,374
	<u>184,118</u>	<u>113,280</u>

Included in the other receivable as at 30 June 2012 is an amount of RMB14,000 due from a related party.

16. LOAN RECEIVABLE

	30 June 2012 <i>RMB'000</i> (Unaudited)	31 December 2011 <i>RMB'000</i> (Audited)
Loan receivable, within one year	<u>180,000</u>	<u>300,000</u>

The Group's loan receivable represents the entrusted loan granted to a third party (the "Borrower") through a financial institution in the PRC. The entrusted loan carried interest at the rate of approximately 15% per annum which is subject to adjustments to the extent of any changes of interest rates as announced by People's Bank of China for similar loans during the term of the entrusted loan. The loan receivable was fully repaid by the borrower on 16 August 2012.

17. TRADE PAYABLE

The aged analysis of the Group's trade payable as at the end of the reporting period is as follows:

	30 June 2012 <i>RMB'000</i> (Unaudited)	31 December 2011 <i>RMB'000</i> (Audited)
Within 90 days	57,164	87,803
Over 90 days but within 1 year	14,337	6,576
Over 1 year	461	641
	<u>71,962</u>	<u>95,020</u>

The trade payable balances are non-interest-bearing. The payment terms with suppliers are mainly on credit of 90 to 120 days from the time when goods are received from suppliers.

18. OTHER PAYABLES AND ACCRUALS

	30 June 2012 <i>RMB'000</i> (Unaudited)	31 December 2011 <i>RMB'000</i> (Audited)
Advances from customers	41,733	73,401
Payable on acquisition of property, plant and equipment	70,784	34,442
Other tax payable	2,834	4,901
Others	18,318	23,130
	<u>133,669</u>	<u>135,874</u>

19. INTEREST-BEARING BANK LOANS

	30 June 2012 <i>RMB'000</i> (Unaudited)	31 December 2011 <i>RMB'000</i> (Audited)
Current bank loans:		
Unsecured	180,000	50,000
Secured	200,139	194,090
Current portion of a long term bank loan — unsecured	350,371	387,710
	<u>730,510</u>	<u>631,800</u>

The interest rates of the bank loans during the six months ended 30 June 2012 ranged from 2.90% to 6.88% per annum (year ended 31 December 2011: from 3.20% to 8.53%).

The above secured bank loans were secured by the following assets of the Group and their respective carrying values are as follows:

	30 June 2012 <i>RMB'000</i> (Unaudited)	31 December 2011 <i>RMB'000</i> (Audited)
Time deposits	100,000	—
Trade receivable	—	103,024
	<u>100,000</u>	<u>103,024</u>

The maturity profile of the interest-bearing bank loans as at the end of the reporting period is as follows:

	30 June 2012 <i>RMB'000</i> (Unaudited)	31 December 2011 <i>RMB'000</i> (Audited)
With maturities:		
Within one year	730,510	631,800

19. INTEREST-BEARING BANK LOANS (CONTINUED)

As at 30 June 2012, a long term bank loan with a carrying amount of approximately RMB275 million was classified under current liabilities as several general undertakings of the relevant bank facility agreement was breached. The Company is in the process of negotiating with the bank to get waivers for the breach and the Directors are of the opinion that the breach will not result in any significant negative impact on the cashflow of the Group.

20. SHARE-BASED PAYMENTS

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. Details of the share options outstanding as at the end of the reporting period are as follows:

		30 June 2012	31 December 2011
Granted on 10 February 2010	(a)	22,500,000	22,500,000
Granted on 3 January 2012	(b)	24,000,000	—
		<u>46,500,000</u>	<u>22,500,000</u>

- (a) Pursuant to the Company's announcement on 10 February 2010, the Company granted to eligible participants a total of 24,000,000 share options to subscribe for ordinary shares of HK\$0.10 each in the share capital of the Company at an exercise price of HK\$2.03 per share.

The share options granted has a 10-year exercisable period and are vesting as follows:

Vesting date	Percentage of share options to vest
First anniversary of the date of grant	One-third of the total number of share options granted
Second anniversary of the date of grant	One-third of the total number of share options granted
Third anniversary of the date of grant	One-third of the total number of share options granted

The closing price of the Company's shares immediately before 10 February 2010, being the date of grant, was HK\$1.98 per share.

The aggregate fair values of the options determined at the date of grant based on the Binomial model, was HK\$29,100,000.

The following assumptions were used to calculate the fair values of share options granted on 10 February 2010:

Grant date share price (per share)	HK\$1.98
Exercise price (per share)	HK\$2.03
Contractual life	10 years
Expected volatility	67%
Dividend yield	0%
Risk-free interest rate	2.87%

1,500,000 share options out of the total 24,000,000 share options granted on 10 February forfeited already during 2011.

20. SHARE-BASED PAYMENTS (CONTINUED)

- (b) Pursuant to the Company's announcement on 3 January 2012, the Company granted to eligible participants a total of 24,000,000 share options to subscribe for ordinary shares of HK\$0.10 each in the share capital of the Company at an exercise price of HK\$0.80 per share.

The share options granted has a 10-year exercisable period and are vesting as follows:

Vesting date	Percentage of share options to vest
First anniversary of the date of grant	One-third of the total number of share options granted
Second anniversary of the date of grant	One-third of the total number of share options granted
Third anniversary of the date of grant	One-third of the total number of share options granted

The closing price of the Company's shares immediately before 3 January 2012, being the date of grant, was HK\$0.80 per share.

The aggregate fair values of the options determined at the date of grant based on the Binomial model, was HK\$8,207,638.

The following assumptions were used to calculate the fair values of share options granted on 3 January 2012:

Grant date share price (per share)	HK\$0.80
Exercise price (per share)	HK\$0.80
Contractual life	10 years
Expected volatility	57.5%
Dividend yield	1.33%
Risk-free interest rate	1.45%

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

For the six months ended 30 June 2012, the Group recognized share-based payments of RMB3,938,000 (for the six months ended 30 June 2011: RMB5,568,000), which has been charged to the condensed consolidated statement of comprehensive income.

21. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its factory properties under an operating lease arrangement for one year.

As at the end of the reporting period, the Group had future minimum leases with its tenant falling due as follows:

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Within one year	<u>267</u>	<u>212</u>

21. OPERATING LEASE ARRANGEMENTS (CONTINUED)

(b) As lessee

As at the end of the reporting period, the Group had the following future minimum lease payments under non-cancellable operating leases:

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Within one year	405	24,850
In the second to fifth years, inclusive	130	214
	535	25,064

Operating lease payments represent rentals payable by the Group for factory premises. Leases are negotiated for lease terms of three years.

22. COMMITMENTS

(i) Capital commitments

The Group had the following amounts of contractual commitments for the acquisition and construction of property, plant and equipment as at the end of the reporting period:

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Contracted, but not provided for	200,551	60,945
Authorized, but not contracted for	—	26,000
	200,551	86,945

(ii) Investment commitments

The Group had the following amounts of investment commitments as at the end of the reporting period:

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Contracted, but not provided for: Subsidiary	153,000	204,000
Authorized, but not contracted for: Subsidiary	235,476	—

23. 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")	Jointly-controlled by a Director of the Company
Aceplus	Controlled by a Director of the Company
Valuable Tactics	Shareholder of the Company
Golden Fortune	Associate of the Company
Shenzhen Taihe	Jointly-controlled entity of the Company

(b) Significant related party transactions

The Group had the following transactions with related parties for the reporting period:

	For the six months ended	
	30 June 2012	30 June 2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Rental expense paid to — Shengli Steel Pipe	4,055	3,425

(c) Trade and other payable balances with related parties

The Group has significant other receivable and other payable balances with the following related parties as at the end of the reporting periods:

	30 June 2012	31 December 2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Audited)
Other receivable: — Aceplus	14	14

23. RELATED PARTY TRANSACTIONS (CONTINUED)

(d) Compensation of key management personnel

The remuneration of Directors and other members of key management for the reporting period is as follows:

	For the six months ended	
	30 June 2012	30 June 2011
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Compensation of key management personnel of the Group:		
Fees	671	832
Salaries, allowances and benefits in kind	3,073	2,686
Social security contributions	75	57
Equity-settled share option expense	1,982	4,380
	<u>5,801</u>	<u>7,955</u>

24. EVENTS AFTER THE REPORTING PERIOD

On 2 July 2012, a resolution was passed by the Board of Shandong Shengli, a subsidiary of the Company, to set up a wholly-owned subsidiary known as Guangdong Shengli Trading Co., Ltd. ("Guangdong Shengli"). The business registration of Guangdong Shengli was completed on 18 July 2012 and the registered capital of RMB100 million was fully paid.

On 13 August 2012, Hunan Shengli Xianggang Steel Pipe Co., Ltd. ("Hunan Shengli"), a non-wholly owned subsidiary of the Company, entered into an agreement with Hunan Xianggang Hongsheng Municipal Engineering Co., Ltd. ("Hongsheng Engineering", a connected person of the Company), pursuant to which Hongsheng Engineering agreed to conduct certain road engineering work for Hunan Shengli for the production plant being built by Hunan Shengli for a total consideration of approximately RMB13 million.

On 13 April 2012, Siu Thai Holdings Limited ("Siu Thai"), a wholly-owned subsidiary of the Company, entered into an agreement (the "Joint Venture Agreement") with IRI De Colombia S.A. ("IRI") in relation to the establishment of a joint venture company in Panama (the "JV Company"). Pursuant to the Joint Venture Agreement, (1) Siu Thai and IRI will incorporate the JV Company within commercially practicable time after the signing of and no later than 90 days from the date of the Joint Venture Agreement; and (2) if the JV Company is not incorporated within the above-mentioned time frame, the Joint Venture Agreement will be terminated. As more than 90 days have lapsed since the date of the Joint Venture Agreement and at the date of this report Siu Thai and IRI have not been able to agree on the extension of the time frame for incorporation of the JV Company, the Joint Venture Agreement has lapsed. On 18 August 2012, the Board resolved not to proceed further under the Joint Venture Agreement and accordingly the JV Company will not be set up.

25. APPROVAL OF THE UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These unaudited interim condensed consolidated financial statements were approved and authorized for issue by the Board of Directors on 18 August 2012.

CHAIRMAN'S STATEMENT

To the Shareholders,

I would like to present the unaudited results of the Company for the interim period ended 30 June 2012 to the Shareholders on behalf of the Board.

Although we recorded a growth in revenue in the first half of the year when compared to the same period last year, there was a fall in our profit as compared to the same period in 2011 as a result of increased expenditure. However, with the commencement and construction of a number of projects, including the Third West to East Natural Gas Pipeline (西氣東輸三綫), China-Myanmar Natural Gas Backbone Pipeline (中緬天然氣幹綫) and China-Asia Line C (中亞C綫), and the launch of construction of oil and gas pipeline network according to the “12th Five-Year Plan”, along with the gradual commencement of production for the pipeline projects won by the Group in the second half of the year, we believe the business development in the second half of the year will resume to a desirable level.

Meanwhile, the wide use of natural gas, being high-quality clean energy, will help raise the quality of people's lives while reducing pollution emissions. Currently, the proportion of natural gas consumption in China's energy consumption structure is far below the world level. We believe natural gas will secure a higher proportion in the future energy consumption.

Benefiting from the “12th Five-Year Plan” and blessed with promising outlook

By the end of the first half of 2012, the total length of oil and gas pipelines in China has reached over 93,000 km, contrasting to less than 30,000 km in 2004, which reflected the rapid development of oil and gas pipelines in China. During the “12th Five-Year Plan” period, the construction of four major strategic channels for oil and gas import in China will further accelerate. The Sino-Kazakhstan Crude Oil Pipeline Phase II (中哈原油管道二期) and China-Asia Natural Gas Pipeline Phase II (中亞天然氣管道二期) will soon commence construction. The Sino-Russian Natural Gas Pipeline (中俄天然氣管道) is currently under planning. In respect of the construction of national oil and gas backbone pipeline networks in China, the Third and Fourth West to East Natural Gas Pipelines (西氣東輸三綫、四綫) will be constructed, and other backbone gas pipelines including the West to East Natural Gas Pipeline (西氣東輸綫), Shaanxi-Beijing Line (陝京綫) and Sichuan-to-East China Gas Project (川氣東送項目) will be further extended and improved. The total length of oil and gas pipelines in China is expected to reach about 150,000 km by 2015. As such, it is anticipated that the demand for pipelines will remain very robust. Capitalizing on the past experience in participating in a number of large national pipeline projects, the Group believes it is well-positioned to secure more pipeline projects and is well prepared to grasp future opportunities in the industry.

Benefiting from the commencement of the construction of large-scale pipeline projects, in March 2012, the Group won an open tender for the supply of 17,240 tonnes of spiral submerged arc welded (“SSAW”) pipes and the provision of related anti-corrosion services to China Petroleum Materials Corporation for the Horgos-Changji Branch Line (霍爾果斯 — 昌吉支綫) of the Third West to East Natural Gas Pipeline (西氣東輸三綫). The total contract price amounts to approximately RMB160 million. In July, the Group entered into contracts for the supply of 10,300 tonnes and 85,000 tonnes of SSAW pipes for the China section of the China-Myanmar Natural Gas Pipeline (中緬天然氣管道中國段) and the Uzbekistan section of the China-Asia Line C (中亞C綫烏茲別克斯坦段), respectively, for a contract price of approximately RMB100 million and RMB630 million respectively. Production for these contracts will commence successively in the next six months.

Capturing opportunities with well-designed business planning

In April 2012, the headquarters for the Sinopec Coal-based Natural Gas External Transmission Pipeline Project (中石化煤制天然氣外輸管道項目) was set up in Urumqi, Xinjiang province. The establishment of the project marks Sinopec's efforts in building the world's largest coal-based natural gas production base with the highest conversion efficiency in Xinjiang. Meanwhile, in order to meet the demand for external transmission of coal-based natural gas, two transmission pipelines originating from Xinjiang to coastal areas will be built. One of which is the Xinjiang-Guangdong-Zhejiang Pipeline (新粵浙管道) which connects Xinjiang and Guangdong and Zhejiang, and the other is the Xinjiang-Shandong Pipeline (新魯管道) which connects Xinjiang and Shandong. The Xinjiang-Guangdong-Zhejiang Pipeline (新粵浙管道) covers a total length of approximately 8,200 km, with a total investment of approximately RMB159.0 billion and is planned to be put into operation within the "12th Five-Year" period. The Xinjiang-Shandong Pipeline (新魯管道) covers a total length of approximately 4,400 km, with a total investment of approximately RMB86 billion. As one of the two pipe manufacturing contractors of Sinopec, the Company accounted for 85% of the SSAW pipes it purchased. With our excellent track record in product delivery, the Company believes that more sizeable contracts will be secured from Sinopec in future.

Furthermore, the Group acquired 56.428% of the equity interests of Xinjiang Shengli Steel Pipe Co., Ltd.* 新疆勝利鋼管有限公司) ("Xinjiang Shengli") in August 2011, which is now well equipped for the production of high standards oil and gas transmission pipes, with an annual production capacity of 150,000 tonnes of SSAW pipes. The Company has assigned key technicians to assist the adjustment of the production line to get fully prepared for the production of major pipelines. Riding on its exceptional advantage in terms of geographical location, Xinjiang Shengli is well-positioned to undertake the pipeline production undertakings as mentioned above.

The construction of Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) ("Hunan Shengli"), a non-wholly owned subsidiary of the Group, is progressing well. Following the completion of the pre-land formation work and the execution of major equipment procurement contracts, construction of the plant has already commenced. Upon completion of the construction, Hunan Shengli will have an annual production capacity of 200,000 tonnes of longitudinal submerged arc welded ("LSAW") pipes and 300,000 tonnes of SSAW pipes, which will bring the total annual production capacity of SSAW pipes of the Group to 1.45 million tonnes. The commencement of LSAW production will further optimize the Group's products offering portfolio. The production capacity growth of SSAW pipes will further solidate the Company's foundation to explore the markets and undertake large-scale pipeline construction projects.

With the development of the natural gas industry, the requirement for transportation equipment of oil and gas pipelines also becomes higher. The Group was the first in China to import a pre-welding and precision-welding SSAW pipes production line that represents the highest technical level of its kind in China. The annual production capacity of this production line is 360,000 tonnes. In March 2012, using the pre-welding and precision-welding production line, the Group successfully produced steel pipes with specification of X80 steel grade and $\phi 1422 \times 21.4$ mm during its trial production, which are pipes with the highest quality materials, the maximum wall thickness and the largest pipe diameter that can be produced in China at present. At the same time, steel pipes with specification of X100 steel grade and $\phi 1422 \times 16$ mm are also under smooth and successful trial production. The pre-welding and precision-welding production line has produced 1.5 million tonnes of SSAW pipes

* For identification purpose only

in six specifications during the first half of the year, some of which have been delivered to the Third West to East Natural Gas Pipeline (西氣東輸三綫) in batches. Meanwhile, most of the work for the construction of the ancillary production line for anti-corrosion service has been completed. The expansion of the pre-welding and precision-welding production line is a testimony of both our capability to produce high-quality products, and our distinct edges in the future market competition.

At present, the Group's overall business planning in the east, the central and south and the northwest of China, has greatly broadened the Group's product reach, and put us in geographical advantages for undertaking new projects for the Xinjiang-Guangdong-Zhejiang Pipeline (新粵浙管道) and the Xinjiang-Shandong Pipeline (新魯管道) in the future, thereby laying a solid foundation for our rapid development during the "12th Five-Year Plan" period.

Reinforcing the implementation of technology-driven strategy by stepping up scientific research efforts

The Group always values the importance of training and recruiting technology talents, with a view to improving its independent innovation capability as well as technological innovation level. Relying on the formation of Shandong Province Technology Research Center for Oil and Natural Gas Transmission Steel Pipes, we have speeded up the adoption and research of new pipe technologies. During the first half of the year, the Group has applied for five utility model patents and one invention patent, all of which are being processed by the national patent offices.

In May 2012, the Group successfully passed the annual inspection recognized by the national laboratories. Our application for the recognition of the Company as a provincial high-tech enterprise are now at the review stage by the Science and Technology Department of Shandong Province (山東省科技廳). Meanwhile, the preliminary preparation has also been carried out for the Company's application for academician workstations (院士站).

In the future, it is our vision to foster the development of China's gas industry through our diligence and dedication as well as quality products, thereby contributing to the adjustment of the energy structure in China. We will also endeavour to create value for the society as well as the Shareholders and employees by making continuous progress and pursuing excellence.

Zhang Bizhuang

Chairman, Executive Director and Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

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

During the interim period, the Group's two core business segments, namely, (1) SSAW pipes business (including anti-corrosion service business) reported a turnover of RMB552,396,000 (for the six months ended 30 June 2011: RMB324,703,000), representing an increase of approximately 70.1%, and (2) cold-formed section steel business reported a turnover of RMB65,035,000 (for the six months ended 30 June 2011: RMB101,021,000), representing a decrease of approximately 35.6%.

SSAW pipes business

The Group is one of the few suppliers of SSAW pipes in China 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 ("Qualified Manufacturers") to provide services to China's major oil and gas companies, the Group is the only privately owned enterprise. The Group's annual SSAW pipes production capacity has reached 1,150,000 tonnes. The Directors believe that the Group accounted for about one-third of the total production capacity of all Qualified Manufacturers of SSAW pipes.

As at 30 June 2012, a total length of approximately 21,297 km of the Group's SSAW pipes were installed in the world's major oil and gas pipelines, of which 94.4% were installed in China and the remaining 5.6% were installed abroad. During the interim period, the Group participated in production of SSAW pipes for a number of national pipeline projects, including the Third West to East Natural Gas Pipeline (西氣東輸三綫), the domestic section of Sino-Myanmar Oil and Gas Pipeline (中緬油氣管綫國內段) and Changqing-Huhot Pipeline (長慶至呼和浩特管綫); as well as a number of regional branch pipeline projects, including Yantai Port-Zibo Pipeline (烟台港至淄博管綫) and Beijing Gas Pipeline (北京燃氣管綫). The Group has also provided anti-corrosion services for various projects, such as the Third West to East Natural Gas Pipeline (西氣東輸三綫), the domestic section of Sino-Myanmar Oil and Gas Pipeline (中緬油氣管綫國內段), Changqing-Huhot Pipeline (長慶至呼和浩特管綫), Yantai Port-Zibo Pipeline (烟台港至淄博管綫), Shanghai Judeyuan Pipeline (上海聚德源管綫), Liaoning-Datang Pipeline (遼寧大唐管綫) and Shanxi Gas (山西燃氣).

For the six months ended 30 June 2012, the total turnover derived from the Group's SSAW pipes business amounted to RMB552,396,000 (for the six months ended 30 June 2011: RMB324,703,000), representing approximately 89.5% of the Group's total turnover (for the six months ended 30 June 2011: 76.3%). 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 RMB512,060,000 (for the six months ended 30 June 2011: RMB288,997,000), representing an increase of approximately 77.2%. Turnover from processing services of SSAW pipes was RMB1,191,000 (for the six months ended 30 June 2011: RMB4,736,000), representing a decrease of 74.8% when compared to the same period last year.

For the six months ended 30 June 2012, the turnover of anti-corrosion treatment services was RMB39,144,000 (for the six months ended 30 June 2011: RMB30,985,000), representing an increase of 26.3% when compared to the same period last year. The growth is relatively low compared to the growth rate of 70.1% for the overall revenue for SSAW pipes, which was due to the drop in the number of national pipeline projects and in the demand for anti-corrosion services from regional branch pipeline projects.

For the six months ended 30 June 2012, the total sales volume of SSAW pipes was 82,132 tonnes (for the six months ended 30 June 2011: 65,066 tonnes), representing an increase of 24.9%. Among all the sales of SSAW pipes, sales to national pipeline projects decreased to 47.4% from 55.6% last year.

Sales volume (tonnes)	First half of 2012	First half of 2011	Change (%)
Sales of SSAW pipes	79,891	56,094	+40.9%
Processing services of SSAW pipes	2,241	8,972	-75.0%
Total	82,132	65,066	+24.9%
Anti-corrosion services (square meters)	712,555	542,430	+31.4%

The annual production capacity for SSAW pipes of the Group increased to 1,150,000 tonnes during the interim period from 640,000 tonnes in 2011, therefore, the utilization rate of the production facilities for SSAW pipes decreased to 25.5% from 28.3% of the same period last year, despite the increased sales volume.

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 produce cold-formed section steel products with various specifications, such as square and rectangular tubes and round steel pipes.

For the six months ended 30 June 2012, the revenue from cold-formed section steel business amounted to RMB65,035,000 (for the six months ended 30 June 2011: RMB101,221,000) (which was all generated from sales business), representing a decrease of 35.6% when compared to the same period last year. The decrease in turnover was mainly due to depression in automobile industry and housing property industry in the PRC.

Sales volume (tonnes)	The first half of 2012	The first half of 2011	Change (%)
Cold-formed section steel	15,101	21,098	-28.4%

Other business

In order to procure growth both in business and earnings, the Company has been gradually extending its business to and expanding its product offerings for regional branch network operations, which are generally less vulnerable to the national planning cycle, and hence establishes a foothold in the downstream business of municipal pipeline network gas transmission and distribution. In line with the Group's development strategy for business expansion, in November 2010, the Group acquired 25% of the equity interests in Beijing Golden Fortune Investment Co., Ltd. (北京慧基泰展投資有限公司 ("Beijing Golden Fortune")), a domestic company engaged in natural gas distribution and natural gas pipeline construction. During the period under review, the business of Beijing Golden Fortune recorded a loss mainly due to the delay in the Wujiang project in Jiangsu (江蘇吳江項目) and decrease in natural gas transmission volume of its subsidiary in Henan, and the Group's share of loss amounted to RMB3,810,000.

FUTURE PROSPECTS

According to the "12th Five-Year Plan", the proportion of China's natural gas consumption in its primary energy is expected to jump from 3.4% in 2010 to 8% in 2015. In addition, the total length of national oil and gas pipelines in China is expected to increase from 77,000 km (of which, natural gas pipelines amounted to 40,000 km) in 2010 to 150,000 km at the end of 2015. In particular, pipeline projects that are under construction and to be constructed include the Sino-Kazakhstan Crude Oil Pipeline Phase II (中哈原油管道二期), the China-Myanmar Oil and Gas Pipeline (中緬油氣管道), the Zhongwei-Guiyang Pipeline (中衛貴陽管綫), the Third and Fourth West to East Natural Gas Pipelines (西氣東輸管道第三綫和四綫) and the Sino-Russian Natural Gas Pipeline Project (中俄天然氣管道工程). The government's support on the oil and gas pipeline industry conveyed in the "12th Five-Year Plan" indicates that the industry will embrace another round of robust growth, which will present promising opportunities for the Company.

Pivoting on edges in aspects ranging from capacity advantage, geographical advantage and new pre-welding and precision-welding technology, the Company will actively seize the business opportunities emerging from the rapid growth of the industry to ensure a sustainable growth of its earnings in the future.

By thoroughly digesting, absorbing and mastering the pre-welding and precision-welding production technology, the Company will put unwavering efforts to enhance its technological level, carving out a leading niche in the pre-welding and precision-welding technology in China, and complete its application for recognition as a state-level high-tech enterprise in 2012. The Company will take full advantage of the superb product quality, excellent production efficiency and high degree of automation that the pre-welding and precision-welding technology brings to it and seek further opportunities to participate in more significant pipeline projects.

With the implementation of the development strategy for the western region of China, together with the completion and operation of the Second West to East Natural Gas Pipeline Project (西氣東輸二綫工程), a new round of large-scale oil and gas exploration in Xinjiang are under smooth progress in full swing. CNPC and Sinopec, being the two giants in oil and gas industry, will build seven natural gas transmission pipelines in Xinjiang in the next few years. Among which, CNPC plans to build five pipelines initiating from Xinjiang, including the Third, Fourth, Fifth, Sixth and Seventh West to East Transmission Pipelines, with an annual gas transmission capacity of 210 billion cubic metres. The total length of natural gas pipelines within Xinjiang will be about 6,350 km. In addition, Sinopec's two important pipelines under the "Xinjiang-East Gas Transmission Project" will cover a total length of 11,836 km, including the Xinjiang-Guangdong-Zhejiang Pipeline (新粵浙管道) of approximately 8,200 km, and the Xinjiang-Shandong Pipeline (新魯管道) of approximately 4,400 km,

both of which have a designed annual gas transmission capacity of 30 billion cubic metres. The Company will take advantage of the favourable geographical location of Xinjiang Shengli, put it into full operation as soon as possible, and further enhance and expand the Company's complementary anti-corrosion capability and pipe capacity, thus establishing a solid base for the Company to undertake production tasks for major pipeline projects. At the same time, armed with the Company's prominent brand presence, the Company is well-positioned to enhance the overall competitiveness in the construction of pipelines extending beyond Xinjiang, thereby actively stepping into the regional markets in Xinjiang.

The Company will dedicate great efforts to facilitate the construction undertaken by the joint venture, Hunan Shengli, relating to the LSAW pipe production line with a capacity of 200,000 tonnes, the SSAW pipe production line with a capacity of 300,000 tonnes and the supporting anti-corrosion production line, thereby diversifying its product offering, and meeting various needs of its existing customers. The LSAW production line is expected to be established by 2013, whereas the SSAW production line is expected to be completed by the end of 2012.

While tapping into the future growth opportunities arising from the national oil and gas transmission backbone pipelines, the Company will also vigorously enlarge its market share in the regional branch pipeline segment and urban pipeline network. Moreover, leveraging on its rich experience in supplying products for a number of long distance and cross-border oil and gas pipelines, the Company will be well-positioned to further explore the international market.

Furthermore, with a focus on the existing oil and gas pipeline products and cold-formed steel products, the Company will be actively seeking for mergers and acquisitions as well as investment opportunities, in order to make a move to expand into the upstream and downstream segments of the oil industry such as oil equipment. Such a move will enable the Company to grow into an enterprise that is based on oil and gas transmission pipe products, supported by the related industry, and blessed with immense growth potential, which will ensure the steady growth of the Company's overall earnings.

Financial review

Revenue

The Group's unaudited turnover for the six months ended 30 June 2012 was RMB617,431,000, representing an increase of approximately 45.0% when compared to RMB425,724,000 in the same period of last year. The increase was mainly attributable to a growth in revenue from SSAW pipes business. Such growth was fuelled by the commencement of certain delayed national oil and gas pipeline projects in the second half of last year after the development goals for the industry were confirmed in the "12th Five-Year Plan". For the six months ended 30 June 2012, the Group's two core businesses, namely, (1) SSAW pipes business reported a revenue of RMB552,396,000 (for the six months ended 30 June 2011: RMB324,703,000), representing an increase of approximately 70.1% when compared to the same period of last year, and (2) cold-formed section steel business recorded a revenue of RMB65,035,000 (for the six months ended 30 June 2011: RMB101,021,000), representing a decrease of approximately 35.6% when compared to the same period of last year.

Cost of sales

The Group's cost of sales increased by 48.0% from RMB397,335,000 for the six months ended 30 June 2011 to RMB587,975,000 for the six months ended 30 June 2012. The increase was primarily due to the growth in both production and sales volume when compared to 2011.

Gross profit

During the interim period, the gross profit of the Group increased from RMB28,389,000 for the six months ended 30 June 2011 to RMB29,456,000 for the six months ended 30 June 2012. However, the gross profit margin of the Group decreased from 6.7% for the six months ended 30 June 2011 to 4.8% for the six months ended 30 June 2012. The decrease in gross profit margin was primarily due to the loss incurred by an 11,200 tonnes pipeline project brought forward from 2011 which held back the overall gross margin of the Group, as well as the substantial contraction in processing business.

Other income and gains

Other income of the Group was RMB58,041,000 for the six months ended 30 June 2012, representing an increase of 68.6% as compared to the same period last year, which was mainly due to the fair value gain of RMB18,000,000 from the derivative financial instrument related to Beijing Golden Fortune. The largest contribution was from the interest income of entrusted loans which amounted to approximately RMB27,846,000 (for the six month ended 30 June 2011: RMB34,430,000).

Selling and distribution expenses

Selling and distribution expenses of the Group increased from RMB8,088,000 for the six months ended 30 June 2011 to RMB9,587,000 for the six months ended 30 June 2012. The increase in selling and distribution expenses was mainly due to (i) the increase in the sales volume, and (ii) the growth in the number of regional pipeline projects and some of the contracts required the Group to undertake the transportation costs which had increased the cost of sales.

Administrative expenses

The Group's administrative expenses increased by 39.0% from RMB24,896,000 for the six months ended 30 June 2011 to RMB34,597,000 for the six months ended 30 June 2012. The increase in administrative expenses was attributable to the additions of Xinjiang Shengli and Hunan Shengli into the Group's financial statements.

Finance costs

The finance costs of the Group increased by 327.5% from RMB4,314,000 for the six months ended 30 June 2011 to RMB18,443,000 for the six months ended 30 June 2012, which primarily represented interest on bank loans that were payable within the period. The increase was mainly due to the increase of the bank loans of the Group since the second quarter of 2011, which increased to RMB730,510,000 as at 30 June 2012 from nil as at 1 January 2011.

Income tax expenses

As a foreign invested enterprise, Shandong Shengli Steel Pipe Co., Ltd. (being the major operating entity and a wholly-owned subsidiary of the Group) is eligible for certain tax holidays and concessions, namely, two-year exemption from PRC enterprise income tax starting from 2008, which was the Group's first profitable year and followed by a 50% deduction on PRC enterprise income tax for three years from 2010 to 2012, which brought the Group's enterprise income tax rate for the period under review to 12.5%.

Profit for the year

The profit of the Group decreased from RMB12,230,000 for the six months ended 30 June 2011 to RMB9,821,000 for the six months ended 30 June 2012. The decrease was primarily due to (i) the increase in depreciation expenses of new production lines; (ii) the increase in operating expenses incurred by new subsidiary companies, Xinjiang Shengli and Hunan Shengli, (iii) the increase in finance costs and (iv) the loss recorded by Beijing Golden Fortune.

Assets and liabilities

As of 30 June 2012, the total assets of the Group were approximately RMB3,164,797,000 (as of 31 December 2011: RMB3,042,491,000) and the net assets of the Group were approximately RMB2,176,261,000 (as of 31 December 2011: RMB2,145,819,000). Net assets per share amounted to RMB0.877, representing an increase of RMB0.012 when compared to that of 31 December 2011. The total liabilities of the Group were RMB988,536,000 as of 30 June 2012 (as of 31 December 2011: RMB896,672,000). The increase in total liabilities was due to the new bank loans of RMB635,722,000 and increase in trade payable and advances from customers.

The increase in inventory, advances to suppliers and advances from customers as of 30 June 2012 was driven by the increase in sales orders towards the end of the reporting period. There is no inventory risk since all inventories were made based on actual sales orders.

As of 30 June 2012, the Group had cash and cash equivalents of RMB376,692,000.

INTERIM DIVIDEND

The Board does not recommend the declaration of interim dividend for the six months ended 30 June 2012 (period for the six months ended 30 June 2011: nil).

CODE ON CORPORATE GOVERNANCE PRACTICES

The Stock Exchange has made various amendments to the Code on Corporate Governance Practices (the “Former Code”) set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (“Listing Rules”), and the revised code, namely Corporate Governance Code (the “Revised Code”), became effective on 1 April 2012. The Company has complied with all the applicable code provisions of the Former Code from 1 January 2012 to 31 March 2012 and the Revised Code from 1 April 2012 to 30 June 2012,

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 six months ended 30 June 2012, they have complied with the required standards set out in the Model Code and its code of conduct regarding directors’ securities transactions.

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 were 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. Yan Tangfeng. Mr. Leung Ming Shu serves as the chairman of the Audit Committee. The primary duties of the Audit Committee are to review and monitor the financial reporting procedures of the Group.

The Audit Committee has reviewed the Group's unaudited financial statements for the six months ended 30 June 2012, and reviewed the internal control system and its executive procedures.

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 period under review. The external auditor has reviewed the interim financial information for the six months ended 30 June 2012 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, REDEMPTION OR SALE OF SECURITIES

Neither the Company nor any of its subsidiaries sold or redeemed any listed securities of the Company during for the period under review.

APPRECIATION AND COMMITMENT TOWARDS OUR 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 Company to overcome difficulties and achieve a success. The Company is positioned in the oil and gas and related equipment and pipeline industry, and has a close connection with the economic and strategic development of the country. With the highest quality and technical standards, unwavering efforts and unswerving dedication to corporate philosophy, we are committed to capturing each and every opportunity, with a view to becoming the leader in the global pipeline industry, thereby creating maximum values and returns for our shareholders.

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

Zibo, Shandong, 18 August 2012

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

Executive Directors: *Mr. Zhang Bizhuang, Mr. Jiang Yong, Mr. Liu Yaohua,
Ms. Han Aizhi and Mr. Song Xichen*

Non-executive Director: *Mr. Yan Tangfeng*

Independent non-executive Directors: *Mr. Huo Chunyong, Mr. Guo Changyu and Mr. Leung
Ming Shu*