勝利管道
SHENGLI PIPE

SHENGLI OIL & GAS PIPE HOLDINGS LIMITED
勝利油氣管道控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1080)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2012 (THE "ANNOUNCEMENT")

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB1,920,855,000, representing an increase of approximately 5.4% when compared to 2011.
- Profit attributable to owners of the parent amounted to approximately RMB62,775,000, representing a decrease of approximately 33.1% when compared to 2011.
- Gross profit margin was 3.7%, representing a decrease of approximately 4.2 percentage points when compared to 2011.
- Basic earnings per share attributable to equity holders of the parent was approximately RMB2.53 cents, representing a decrease of approximately 32.9% when compared to 2011.
- The Board recommends the payment of a dividend of RMB0.672 cent per share, representing a decrease of approximately 28.5% when compared to 2011, which will be subject to shareholders' approval at the forthcoming annual general meeting of the Company.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	5	**1,920,855**	1,821,836
Cost of sales		**(1,850,284)**	(1,678,436)
Gross profit		**70,571**	143,400
Other income and gains	5	**155,609**	96,247
Selling and distribution costs		**(22,946)**	(42,146)
Administrative expenses		**(84,380)**	(54,207)
Other expenses		**(3,893)**	(3,077)
Share of profit and losses of:			
Jointly controlled entities		**(751)**	(792)
Associate		**(6,198)**	(3,746)
Finance costs	6	**(36,053)**	(20,183)
PROFIT BEFORE TAX	7	**71,959**	115,496
Income tax expense	8	**(16,371)**	(23,579)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		**55,588**	91,917
ATTRIBUTABLE TO:			
Owners of the Company	9	**62,775**	93,780
Non-controlling interests		**(7,187)**	(1,863)
		55,588	91,917
EARNINGS PER SHARE *(RMB cents)*	10		
— Basic		**2.53**	3.77
— Diluted		**2.53**	3.77

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2012

	Notes	*2012* **RMB'000**	*2011* RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**984,322**	710,133
Prepaid land lease payments		**164,457**	60,745
Goodwill		**9,910**	9,910
Deposits paid for acquisition of investments		**41,483**	—
Investment in jointly controlled entities	12	**45,400**	17,208
Investment in an associate	13	**237,056**	243,254
Available-for-sale investment		**15,000**	—
Derivate financial instrument	13	**94,000**	75,000
Other assets		**8,797**	1,322
Deferred tax assets		**13,495**	9,039
		1,613,920	1,126,611
CURRENT ASSETS			
Inventories		**276,084**	392,741
Trade and bills receivables	14	**749,158**	685,854
Prepayments, deposits and other receivables	15	**405,358**	113,280
Loan receivable		**—**	300,000
Investment held for sale		**—**	4,793
Prepaid land lease payments		**3,406**	1,134
Pledged deposits		**373,502**	36,246
Cash and cash equivalents		**166,056**	381,832
		1,973,564	1,915,880
CURRENT LIABILITIES			
Trade payables	16	**128,312**	95,020
Other payables and accruals	17	**169,489**	135,874
Interest-bearing bank loans	18	**988,461**	631,800
Tax payable		**14,752**	15,812
Deferred income		**854**	258
		1,301,868	878,764
NET CURRENT ASSETS		**671,696**	1,037,116
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,285,616**	2,163,727
NON-CURRENT LIABILITIES			
Deferred income		**9,880**	11,965
Deferred tax liabilities		**10,675**	5,943
		20,555	17,908
NET ASSETS		**2,265,061**	2,145,819

	2012	*2011*
	RMB'000	RMB'000
EQUITY		
Equity attributable to owners of the Company		
Issued capital	**218,786**	218,786
Reserves	**1,855,583**	1,809,154
	2,074,369	2,027,940
Non-controlling interests	**190,692**	117,879
Total equity	**2,265,061**	2,145,819

NOTES

For the year ended 31 December 2012

1. GENERAL INFORMATION

The Company is a limited company incorporated in the Cayman Islands on 3 July 2009. The address of its registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal places of business of the Company in Hong Kong and PRC are located at Unit 2310, 23rd Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong and Zhongbu Town, Zhangdian District, Zibo City, Shandong province 255082, PRC; respectively.

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

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 and the trading in the shares of the Company has been suspensed since 14 March 2013.

2. BASIS OF PREPARATION

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

Basic of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised IFRSs that are relevant to its operations and effective for its accounting year beginning on 1 January 2012. IFRSs comprise International Financial Reporting Standards; International Accounting Standards and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

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

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group has three (2011: two) reportable segments: spiral submerged arc welded pipe operation ("SSAW Pipes Business"), cold-formed section steel operation ("Cold-formed Section Steel Business") and trading of metal commodity. The trading of metal commodity segment commenced during the year and mainly involved trading of commodity electrolytic copper, aluminium ingot and aluminum oxide. 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 results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

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

Segment liabilities exclude interest-bearing bank loans, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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

Segment results represent the profit earned by each segment without 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 the segments.

Segment revenue and results
For the year ended 31 December 2012

	SSAW Pipes Business *RMB'000*	Cold-formed Section Steel Business *RMB'000*	Trading of metal commodity *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
Segment revenue:					
Sales to external customers	**1,433,322**	**88,148**	**399,385**	**—**	**1,920,855**
Intersegment sales	**—**	**—**	**—**	**—**	**—**
Total revenue	**1,433,322**	**88,148**	**399,385**	**—**	**1,920,855**
Segment results	**135,206**	**(5,280)**	**4,389**		**134,315**
Interest income					**38,047**
Unallocated expenses *(note)*					**(64,350)**
Finance costs					**(36,053)**
Profit before tax					**71,959**

For the year ended 31 December 2011

	SSAW Pipes Business *RMB'000*	Cold-formed Section Steel Business *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
Segment revenue:				
Sales to external customers	1,655,764	166,072	—	1,821,836
Intersegment sales	—	37	(37)	—
Total revenue	1,655,764	166,109	(37)	1,821,836
Segment results	101,659	2,900	—	104,559
Interest income				47,324
Unallocated expenses				(16,204)
Finance costs				(20,183)
Profit before tax				115,496

Note:

Included in unallocated expenses of approximately to RMB5,570,000 (2011: nil) which were related to LSAW pipes business and the related operation has not yet commenced during the reporting period.

Segment assets

For the year ended 31 December 2012

	SSAW Pipes Business ***RMB'000***	**Cold-formed Section Steel Business** ***RMB'000***	**Trading of metal commodity** ***RMB'000***	**Eliminations** ***RMB'000***	**Consolidated** ***RMB'000***
Segment assets	**1,794,879**	**79,396**	**477,689**	**—**	**2,351,964**
Unallocated assets *(note)*					**1,235,520**
Total consolidated assets					**3,587,484**

For the year ended 31 December 2011

	SSAW Pipes Business *RMB'000*	Cold-formed Section Steel Business *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
Segment assets	2,276,577	134,103	(660,892)	1,749,788
Unallocated assets				1,292,703
Total consolidated assets				3,042,491

Segment liabilities

For the year ended 31 December 2012

	SSAW Pipes Business *RMB'000*	Cold-formed Section Steel Business *RMB'000*	Trading of metal commodity *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
Segment liabilities	**197,956**	**4,502**	**62,221**	**—**	**264,679**
Unallocated liabilities *(note)*					**1,057,744**
Total consolidated liabilities					**1,322,423**

For the year ended 31 December 2011

	SSAW Pipes Business *RMB'000*	Cold-formed Section Steel Business *RMB'000*	Eliminations *RMB'000*	Consolidated *RMB'000*
Segment liabilities	731,812	152,070	(660,892)	222,990
Unallocated liabilities				673,682
Total consolidated liabilities				896,672

Note:

Included in unallocated assets and liabilities were assets amounted approximately to RMB237,081,000 and liabilities amounted approximately to RMB29,871,000 which were related to LSAW pipes business and the related operation has not yet commenced as at the end of the reporting period.

Other segment information

As at 31 December 2012

	SSAW Pipes Business *RMB'000*	Cold-formed Section Steel Business *RMB'000*	Trading of metal commodity *RMB'000*	Unallocated *RMB'000*	Consolidated *RMB'000*
Share of profits and losses of:					
Jointly controlled entities	**—**	**—**	**—**	**(751)**	**(751)**
Associate	**(6,198)**	**—**	**—**	**—**	**(6,198)**
Write down of inventories	**1,238**	**1,099**	**—**	**—**	**2,337**
Depreciation and amortisation	**58,314**	**5,092**	**37**	**108**	**63,551**
Investment in jointly controlled entities	**—**	**—**	**—**	**45,400**	**45,400**
Investment in an associate	**237,056**	**—**	**—**	**—**	**237,056**
Capital expenditure*	**204,333**	**1,064**	**1,343**	**237,142**	**443,882**

As at 31 December 2011

	SSAW Pipes Business *RMB'000*	Cold-formed Section Steel Business *RMB'000*	Unallocated *RMB'000*	Consolidated *RMB'000*
Share of profits and losses of:				
Jointly controlled entity	—	—	(792)	(792)
Associate	(3,746)	—	—	(3,746)
Write down of inventories	—	196	—	196
Depreciation and amortisation	29,602	5,027	143	34,772
Investment in a jointly controlled entity	—	—	17,208	17,208
Investment in an associate	243,254	—	—	243,254
Investment held for sale	—	—	4,793	4,793
Capital expenditure*	419,773	313	2	420,088

* Capital expenditure consists of additions of property, plant and equipment and prepaid land lease payments. During the year, the Group incurred capital expenditure approximately of RMB237,142,000 for the LSAW pipes business which operation has not yet commenced at the end of the reporting period. Such amount was included in unallocated capital expenditure.

Geographical information

(a) Revenue from external customers

	2012 ***RMB'000***	2011 *RMB'000*
Mainland China	**1,307,185**	1,338,638
Other countries	**613,670**	483,198
	1,920,855	1,821,836

(b) Non-current assets

	2012 ***RMB'000***	2011 *RMB'000*
Mainland China	**1,491,209**	1,042,246
Hong Kong	**216**	326
	1,491,425	1,042,572

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

Information about major customers

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

	Segment	**2012** *RMB'000*	2011 *RMB'000*
Customer A *(note)*	SSAW Pipes Business	**759,089**	1,062,204
Customer B	Trading of metal commodity	**265,215**	—
Customer C	SSAW Pipes Business	**222,733**	*

Note: Revenue of approximately RMB759,089,000 (2011: RMB1,062,204,000) was derived from sales to a single customer, including sales to a group of entities which are known to be under common control with that customer.

* Less than 10% of total revenue of the Group

5. REVENUE, OTHER INCOME AND GAINS

	2012 *RMB'000*	2011 *RMB'000*
Revenue		
Sales of steel pipes	**1,520,363**	1,816,231
Trading of metal commodity	**399,385**	—
Rendering of services related to pipe business	**1,107**	5,605
	1,920,855	1,821,836
Other income		
Interest income	**38,047**	47,324
Rental income	**2,878**	457
Government grant for achieved energy saving standard	**72,230**	219
Quality inspection and testing service income	**—**	94
Others	**424**	447
	113,579	48,541
Gains		
Gain on sales of materials	**18,406**	25,643
Fair value gains of derivative financial instrument	**19,000**	22,000
Exchange gains, net	**393**	—
Gain on disposal of property, plant and equipment, net	**248**	—
Others	**3,983**	63
	42,030	47,706
	155,609	96,247

6. FINANCE COSTS

	2012 *RMB'000*	2011 *RMB'000*
Interest on bank loans wholly repayable within five years	**36,053**	21,469
Less: interests capitalised	**—**	(1,286)
	36,053	20,183

7. PROFIT BEFORE TAX

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

	2012 *RMB'000*	2011 *RMB'000*
Cost of inventories sold*	**1,849,689**	1,672,953
Cost of services rendered	**595**	5,483
Employees benefits expenses:		
Wages, salaries and bonus	**66,273**	57,005
Performance related bonus	**3,784**	4,936
Pension scheme contributions	**5,601**	4,520
Welfare and other expenses	**6,751**	6,194
Equity-settled share option expense	**6,971**	5,547
	89,380	78,202
Depreciation of items of property, plant and equipment	**61,446**	33,780
Amortisation of prepaid land lease payments	**2,105**	992
(Gain)/loss on disposal of property, plant and equipment	**(248)**	102
Operating lease payments	**10,638**	7,224
Exchange (gains)/losses, net	**(393)**	805
Auditors' remuneration	**1,302**	1,530

* Included in the cost of inventories sold is an amount of RMB2,337,000 (2011: RMB196,000) related to the write down of inventories in year 2012.

8. INCOME TAX EXPENSE

	2012 *RMB'000*	2011 *RMB'000*
Current — the PRC		
— Charge for the year	**16,067**	22,138
— Under-provision in prior years	**—**	—
Current — Hong Kong	**28**	—
Deferred tax	**276**	1,441
	16,371	23,579

Hong Kong profits tax is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the year.

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 years ended 31 December 2012 and 2011.

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.

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

	2012	2011
	RMB'000	*RMB'000*
Profit before tax	**71,959**	115,496
Tax at the applicable tax rate of companies within the Group	**17,990**	28,874
Expenses not deductible for tax	**1,023**	503
Tax loss not recognised	**1,073**	6,417
Profits and losses attributable to jointly controlled entities and an associate	**1,737**	1,135
Others	**6,259**	3,118
Effect of tax relief	**(11,711)**	(16,468)
Tax at the Group's effective rate	**16,371**	23,579

Notes:

No deferred tax assets have been recognised for tax losses of RMB4,292,000 (2011: RMB25,668,000) derived from overseas subsidiaries of the Group as the management of the Group is of the view that it is not probable that taxable profits of these subsidiaries will be available against which tax losses can be utilised.

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

As at 31 December 2011 and 31 December 2012, the aggregate amounts of temporary differences associated with undistributed earnings of the subsidiaries in the Mainland China for which deferred tax liabilities have not been recognised were RMB738,000,000 and RMB840,000,000, respectively. In the opinion of the directors of the Company, it is not probable that its principal operating subsidiary, Shandong Shengli will distribute such earnings in the foreseeable future.

9. TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated total comprehensive income attributable to owners of the Company for the year ended 31 December 2012 includes a loss of approximately RMB14,724,000 (2011: RMB22,842,000), which has been dealt with in the financial statements of the Company.

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

(a) Basic earnings per share

The calculation of basic earnings per share attributable to equity holders of the Company is based on the profits for the year attributable to equity holders of the Company of approximately RMB62,775,000 (2011: RMB93,780,000) and the weighted average number of 2,480,580,000 (2011: 2,484,726,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2012 and 2011 in respect of a dilution as there were no dilutive potential ordinary share.

11. DIVIDEND

The dividends for the years ended 31 December 2012 and 2011 are set out below:

	2012	2011
	RMB'000	*RMB'000*
Proposed final 2012: RMB0.672 cent (2011: RMB0.94 cent) per ordinary share	**16,676**	23,317

On 7 July 2013, the directors proposed a final dividend of RMB0.672 cent per share (equivalent to HK0.843 cent) for the year ended 31 December 2012 (2011: approximately RMB0.94 cent per share (equivalent to approximately HK1.16 cents 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.

12. INVESTMENT IN JOINTLY CONTROLLED ENTITIES

	2012			2011
	Shenzhen Taihe	**Dome**	**Total**	Shenzhen Taihe
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*
Share of net assets	**16,766**	**28,634**	**45,400**	17,208

Particulars of the jointly controlled entities are as follows:

Company name	**Place of establishment/ operations**	**Registered paid-up capital**	**Percentage of equity interests attributable to the Group**	**Principal activities**
Shenzhen Taihe Tiandi Investment Partnership ("Shenzhen Taihe") (深圳市泰和天地投資合夥企業)	the PRC	RMB20,000,000	90%	Equity investment, investment management, and investment consultation
Dome Integration Housing Industrial Holding Co. Ltd. ("Dome") (哆咪集成房屋工業控股有限公司)	the BVI	USD200	40%	Processing, manufacturing and distribution of dome integration houses

(a) Shenzhen Taihe Tiandi Investment Partnership

On 27 January 2011, Shandong Muxin Investment Co., Ltd. ("Shangdong Muxin") entered into an agreement with an individual, pursuant to which Shandong Muxin and the individual contributed RMB18,000,000 and RMB2,000,000, respectively, to set up Shenzhen Taihe, a partnership in the PRC.

Pursuant to the partnership agreement, Shandong Muxin acts as a partner with limited liability and the individual acts as an executive partner with unlimited liability. Each of Shandong Muxin and the individual are entitled to one vote in the partnership meeting. Therefore, Shenzhen Taihe is accounted for as a jointly controlled entity of the Group. The audited return on investment of Shenzhen Taihe will be distributed to the partners in the following order:

(i) Appropriation of 10% of the annual profit to all partners according to the percentage of capital contribution and the time of contribution.

(ii) provision of any short-term management fee.

(iii) appropriation of 80% of the residual profit to all partners based on their shares of the equity interests after appropriation of 20% of the residual profit to the executive partner.

The operating loss of Shenzhen Taihe will be shared by all partners based on their shares of the equity interests.

For the year ended 31 December 2012 and 2011, the Group's share of loss of Shenzhen Taihe amounted to RMB442,000 and RMB792,000, respectively.

(b) Dome Integration Housing Industrial Holding Co. Ltd.

On 17 September 2012, Siu Thai Holdings Limited ("Siu Thai"), a direct wholly-owned subsidiary of the Company, entered into a shareholders' agreement with Dome and four other parties, according to which Siu Thai and each of the four other parties (collectively referred to as the "JV Shareholders") will subscribe for, and Dome will allot and issue shares to the JV Shareholders, such that Dome has become a joint venture company between the JV Shareholders.

Pursuant to the shareholders' agreement, Siu Thai will subscribe for 40% and the other four other parties will subscribe for 35%, 7.75%, 4.75% and 12.5% of the share capital of Dome for a consideration of RMB100,000,000, RMB87,500,000, RMB19,375,000, RMB11,875,000 and RMB31,250,000, respectively, payable by way of cash within one year from the date of the shareholders' agreement. Upon completion of the issuance of shares by Dome to the JV Shareholders, Siu Thai will have 40% interest in Dome and Dome will become a joint venture company of the Group.

According to the shareholders' agreement, Dome will further establish a limited liability company to be incorporated under the laws of Hong Kong (the "HK Holdco") and the HK Holdco will in turn establish a limited liability company under the laws of the PRC (the "Project Company"). The Project Company will primarily be engaged in the business of the processing, manufacturing and distribution of dome integration houses. Dome, the HK Holdco and the Project Company are collectively referred to as the "JV Group").

The return on investment of the JV Group will be distributed to the JV Shareholders by way of dividends. The JV Shareholders will take all steps to ensure that each company of the JV Group will distribute by way of dividends in each of its financial year its profit available for distribution, provided that its cash requirements for its daily operation are well satisfied. The amount of the dividend to be distributed shall be determined by the JV Shareholders by written resolutions from time to time, which shall be no less than 30% of the profits available for distribution of each company of the JV Group for the financial year.

Up to the end of the reporting period, the Group has invested RMB28,943,000 to the JV Group and the JV Group has not yet commenced its operation. For the year ended 31 December 2012, the Group's share of loss of Done amounted RMB309,000.

The following table illustrates the summarised financial information of the Group's jointly controlled entities:

	2012			2011
	Shenzhen Taihe	**Dome**	**Total**	Shenzhen Taihe
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*
Share of the jointly controlled entities' assets and liabilities:				
Current assets	**12,949**	**11,518**	**24,467**	15,069
Non-current assets	**3,833**	**17,215**	**21,048**	2,139
Current liabilities	**(16)**	**(99)**	**(115)**	—
Net assets	**16,766**	**28,634**	**45,400**	17,208
Share of the jointly controlled entities' results:				
Total expenses and loss for the year	**442**	**309**	**751**	792

13. INVESTMENT IN AN ASSOCIATE AND DERIVATIVE FINANCIAL INSTRUMENT

(a) Investment in an associate

	2012	2011
	RMB'000	*RMB'000*
Share of net assets	**115,988**	122,186
Goodwill on acquisition	**121,068**	121,068
	237,056	243,254

Particulars of the associate of the Group are as follows:

Company name	**Place of establishment/ operations**	**Registered paid-up capital**	**Percentage of equity interests attributable to the Group**	**Principal activities**
Beijing Golden Fortune Investment Co., Ltd. ("Golden Fortune") (北京慧基泰展投資有限公司)	the PRC	RMB222,910,000	25%	Natural gas distribution and gas pipeline construction

The following table illustrates the summarised financial information of the Group's associate extracted from its management accounts or financial statements:

	2012	2011
	RMB'000	*RMB'000*
Total assets	**1,270,834**	1,314,647
Total liabilities	**(755,366)**	(796,609)
Revenues	**800,703**	487,926
Net losses	**(24,794)**	(18,461)

(b) Derivative financial instrument

	2012	2011
	RMB'000	*RMB'000*
Guaranteed return and right to sell of Golden Fortune	**94,000**	75,000

Pursuant to the investment agreement in relation to Golden Fortune, Shandong Shengli Steel Pipe Co., Ltd. ("Shandong Shengli"), the wholly-owned subsidiary of the Company, is entitled to a guaranteed return on its initial investment of RMB300,000,000 at a rate of not less than 5%, 10%, 15%, 20% and 25% for the years ended/ending 31 December 2011, 2012, 2013, 2014 and 2015, respectively, and an average return of not less than 15% over the five years ending 31 December 2015 (the "Guarantee Return"). The return on Shandong Shengli's investment for a given year is equal to Shandong Shengli's pro rata share of Golden Fortune's net profit as shown in its consolidated income statement for that year divided by the amount of the Investment. If the average return on investment to Shandong Shengli falls short of the Guaranteed Return of 15% over the five years ending 31 December 2015 (the "Shortfall"), or if Golden Fortune experiences any material adverse change after 2015, Shandong Shengli will be compensated by certain shareholders of Golden Fortune Shareholders. Shandong Shengli may choose to be compensated for the Shortfall in the Guaranteed Return in one of the following ways:

(i) transfer of cash dividend from certain shareholders of Golden Fortune; or

(ii) to require certain shareholders of Golden Fortune to purchase Shandong Shengli equity interest in Golden Fortune (the "Right to Sell"), i.e. in the event that: (1) average return on Shandong Shengli's investment over the years 2011 to 2015 falls below the Guaranteed Return of 15%; or (2) Golden Fortune experiences any material adverse change after 2015, at the request of Shandong Shengli, certain shareholders of Golden Fortune will be required to purchase all or part of the equity interest in Golden Fortune held by Shandong Shengli at a price equal to the sum of the cumulative amount of investment made by Shandong Shengli, any undistributed profit of Golden Fortune and interest on the relevant amount of cumulative investment calculated based on the prevailing bank lending rate.

Subsequent to the end of the reporting period, the controlling shareholder of Golden Fortune further issued a letter of undertaking to Shandong Shengli, in which the controlling shareholder guaranteed that if the transfer of cash dividend from certain shareholders of Golden Fortune is insufficient to make up the Shortfall, the controlling shareholder will compensate the remaining portion by cash.

The fair value of Guaranteed Return and Right to Sell of Golden Fortune was determined by the directors of the Company with reference to the valuation performed by Roma Appraisals Limited, an independent professional valuer. The valuation was performed based on a 3 years' financial projection provided by the management, using the Monte Carlo simulation method, under which the possible outcomes of the value of Guaranteed Return and the Right to Sell were simulated based on an assumed volatility of future revenues.

The following assumptions were used to calculate the fair value of the Guaranteed Return and Right to Sell:

Discount rate	15%
Expected volatility	8%

The changes in fair value of the derivative financial instrument were recognised in the consolidated profit or loss for the year ended 31 December 2012.

The derivative financial instrument is measured at fair value based on valuation techniques, under which all the inputs which have been generally adopted in the valuation techniques and have a significant effect on the recorded fair value are observable, either directly or indirectly (level 2).

14. TRADE AND BILLS RECEIVABLES

	2012	2011
	RMB'000	*RMB'000*
Trade receivables	**736,854**	643,915
Bills receivable	**12,304**	41,939
	749,158	685,854

The Group's trading terms with its customers are mainly on credit.

The Group generally allows a credit period of 90 to 120 days to trade customers. All of the bills receivable are due within 90 to 180 days.

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

	2012	2011
	RMB'000	*RMB'000*
Within 3 months	**475,694**	598,796
3 to 6 months	**148,563**	23,535
6 months to 1 year	**102,181**	2,962
1 to 2 years	**10,416**	15,109
2 to 3 years	**—**	3,513
	736,854	643,915

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	2012	2011
	RMB'000	*RMB'000*
Neither past due nor impaired	**649,824**	618,572
1 to 3 months past due	**33,928**	—
3 to 6 months past due	**48,432**	22,728
6 months to 1 year and past due	**4,670**	2,615
	736,854	643,915

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The details of the above trade receivables pledged to secure general banking facilities granted to the Group are set out in note 18 of this Announcement below.

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

	2012	2011
	RMB'000	*RMB'000*
Advance to suppliers	**267,610**	64,048
Advance to a jointly controlled entity *(note a)*	**6,751**	—
Loans to employee *(note b)*	**4,880**	—
Deposits paid for development of sales network	**74,960**	—
Tender deposits to customers	**1,990**	1,517
Other tax receivables*	**19,650**	34,341
Rent prepaid to a related company	**8,110**	—
Others	**21,407**	13,374
	405,358	113,280

Notes

(a) The advance is unsecured, non-interest bearing and has no fixed repayment term.

(b) Loans to employee are secured by cash deposits of RMB930,000, bearing interests at 6% per annum and have no fixed repayment term.

* The Group's other tax receivables mainly represent value-added tax receivable.

16. TRADE PAYABLES

	2012	2011
	RMB'000	*RMB'000*
Trade payables	**128,312**	95,020

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

	2012	2011
	RMB'000	*RMB'000*
Outstanding balances with ages:		
Within 3 months	**116,808**	87,803
3 to 6 months	**5,030**	6,138
6 months to 1 year	**5,178**	438
1 to 2 years	**833**	641
2 to 3 years	**48**	—
3 to 4 years	**415**	—
	128,312	95,020

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

17. OTHER PAYABLES AND ACCRUALS

	2012	2011
	RMB'000	*RMB'000*
Receipt in advances from customers	**39,882**	73,401
Payable on acquisition of property, plant and equipment	**96,808**	34,442
Security deposits received from employees	**930**	—
Other tax payables	**5,109**	4,901
Others	**26,760**	23,130
	169,489	135,874

18. INTEREST-BEARING BANK LOANS

	2012			2011		
	Effective interest rate *(%)*	**Maturity**	***RMB'000***	Effective interest rate *(%)*	Maturity	*RMB'000*
Current						
Bank loans — Unsecured	**6.00%**	**2013**	**423,800**	5.08%–8.53%	2012	50,000
Bank loans — Secured	**2.76%–6.00%**	**2013**	**210,333**	6.06%–6.88%	2012	194,090
Current portion of long-term bank loans — Unsecured	**3.20%–3.70%**	**2013**	**354,328**	3.20%	2012	387,710
			988,461			631,800

The Group's bank loans of RMB93,800,000 as at 31 December 2012 (2011: RMB180,090,000) were pledged by certain of the Group 's trade receivables amounting to RMB137,119,000 (2011: RMB103,024,000).

The Group's bank loans of RMB22,000,000 as at 31 December 2012 (2011: RMB14,000,000) were guaranteed by independent third parties (2011: Shengli Steel Pipe Co., Ltd, a related party and independent third parties).

Subsequent to the end of the reporting period, the Group has breached certain financial covenants in respect of unsecured loans with an outstanding balance of RMB354,328,000. Before issuance of this Announcement, the Group has received a waiver of the Event of Default from this bank, and fullfilled the requirements by providing a pledged bank deposit and letter of credits.

In addition, subsequent to the end of the reporting period, the Group obtained a loan of USD16,500,000 from a bank and has breached certain financial covenants in respect of this loan. The Group is in the process of negotiation with the bank for a relief of penalty form such breach of covenants.

CHAIRMAN'S STATEMENT

To all shareholders,

On behalf of the board of directors (the "Board") of Shengli Oil & Gas Pipe Holdings Limited (the "Company", Shengli Oil & Gas Pipe Holdings Limited together with its subsidiaries, the "Group"), I would like to present the audited results of the Group for the year ended 31 December 2012 to the shareholders.

2012 marked a year of solid foundation and vigorous development for the Group. Although there was a fall in our profit in the first half of 2012 as compared to the same period in 2011 as a result of increased expenditure, with the commencement and construction of a number of projects including the Third West to East Natural Gas Pipeline (西氣東輸三線), China-Myanmar Natural Gas Backbone Pipeline (中緬天然氣幹線) and China-Asia Line C (中亞C線), and the launch of the 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, there was an improvement in the performance of the main business operations in the second half of the year when compared to the first half of the year. Although the audited consolidated net profit of 2012 was affected by, amongst others, the audit adjustments of non-core investments/operations, our business development throughout the year had basically resumed to a steady level.

Continuously stepping up construction of oil and gas pipeline network in a well-designed layout

According to the "12th Five-Year Plan", the People's Republic of China (the "PRC") central government plans to "speed up the strategic channel construction for oil and gas imports in the northwest, northeast and southwest of China as well as offshore areas, and enhance the domestic oil and gas backbone pipeline network". During the "12th Five-Year Plan" period, the total length of oil and gas pipelines is expected to increase from 77,000 km at the end of 2010 to 150,000 km in 2015 and further increase to 210,000 km in 2020.

China National Petroleum Corporation ("CNPC") and China Petroleum Chemical Corporation ("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 them, CNPC plans to build five pipelines initiating from Xinjiang, including the Third, Fourth, Fifth, Sixth and Seventh West to East Transmission Pipelines. The total length of natural gas pipelines within Xinjiang will be approximately 6,350 km. Sinopec plans to build two important pipelines under the "Xinjiang-East Gas Transmission Project", including the Xinjiang-Guangdong-Zhejiang Pipeline (新粵浙管道) of approximately 8,200 km which is scheduled to be constructed and put into operation during the "12th Five-Year Plan" period, and the Xinjiang-Shandong Pipeline (新魯管道) of approximately 4,400 km. As one of the two pipe manufacturing contractors of Sinopec, the Group has been a major participant in the construction of national oil and gas pipelines, and a major supplier of CNPC and Sinopec for their oil and gas transmission pipeline projects. We have an excellent track record in product delivery. While the construction schedules of several large-scale national pipeline projects are yet to be confirmed, the Group is confident that our promising track record will enable us to continue to benefit from the increasing demand for energy and the continuing development of pipeline construction in China. We are well-poised to seize the opportunities emerging from the industry growth to further expand our business and strengthen our presence.

Stepping up effort on sales and attaining improved performance of main business operations

Benefiting from the commencement of the construction of large-scale pipeline projects, the Group performed better in its main business operations in the second half of 2012 when compared to the first half of the year.

In 2012, the Group won a total of 140 tenders, including tenders for Third West to East Natural Gas Pipeline (西氣東輸三線) in March and December 2012, whereby, we are responsible for the supply of a total of 25,795 tonnes of spiral submerged arc welded ("SSAW") pipes and the provision of related anti-corrosion services to China Petroleum Materials Corporation. The total contract price amounts to approximately RMB230 million. In July 2012, 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線烏茲別克斯坦段), respectively, for a contract price of approximately RMB100 million and RMB630 million respectively. In December 2012, the Group signed a contract with Sinopec for provision of 21,000 tonnes of pipelines to the Guangxi LNG Pipeline project for a contract price of RMB 18 million (processing of customers' materials).

In 2012, the Group won 129 tenders for regional pipeline projects. Leveraging on the proven track record of its participation in large-scale pipeline projects, the Group is confident that it will continue to benefit from the immense growth potential embedded in the regional pipeline market, which will help the Group achieve a continuing growth in profit as a whole.

In addition, we had been stepping up our marketing effort on the international front in terms of expanding our sales team and competing for tenders of overseas pipeline projects. With progress that has been made, we look forward to our first contract for international pipeline to be awarded solely to the Group in 2013.

To be well-prepared for meeting demand through acquisition and expansion of new capacity

At present, Xinjiang Shengli Steel Pipe Co., Ltd.* (新疆勝利鋼管有限公司) ("Xinjiang Shengli"), of which the Group is the holding company, is well equipped for the production of high standards oil and gas transmission pipes. Xinjiang Shengli successfully arranged the production of the φ508×9.5mm L360MB and φ529×8mm Q235B standards steel pipes in July and August 2012, and the trial production of the φ1219×18.4mm X80 standard steel pipes in September 2012. This clearly indicates that Xinjiang Shengli is fully capable of producing the high steel grade great-wall thick steel pipe, which is regarded by the PRC government as a strategic pipeline class. Besides, Xinjiang Shengli has installed φ219–φ1420 anti-corrosion equipment for future production. Riding on its exceptional advantage in terms of geographical location, Xinjiang Shengli is well-positioned to undertake the production of the above pipelines of which development have been heavily invested by the PRC government.

The construction work in Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) ("Hunan Shengli") , of which the Group is the holding company, has been progressing well. In respect of two existing SSAW pipes production lines, the trial manufacturing of φ1219×18.4mm X80 and φ820×10mm Q235B standard steel pipes has now been completed. As for the longitudinal submerged arc welded ("LSAW") pipe production lines, the plant construction and installation of equipment will be completed in the third quarter of 2013. With the construction of SSAW pipes production line at Hunan Shengli, the total annual production capacity of SSAW pipes of the Group will reach 1.45 million tonnes. The commencement of LSAW production will further optimize the Group's products offering portfolio and solidify the Company's foundation for market exploration and undertaking of large-scale pipeline construction projects.

Emphasizing on R&D and innovation to stay ahead as the industry evolves

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 2012, our pre-welding and precision-welding production line successfully completed trial production of 5 new products, namely the steel pipe of 0.8 design factor for Third West to East Natural Gas Pipeline(西氣東輸三線) Project, the φ1219×14.8mm X100 steel grade pipe, the φ1219×16.3mm X90 steel grade pipe, the φ1219×16.3mm X80 steel grade pipe, and the φ1422×21.4mm X80 steel grade pipe. In the first half of 2013, small batch production of φ1219×16.3mm X90 steel grade pipes was completed. This further testified our standard in technological research and development (R&D). In particular, the successful trial production of X100 and X90 steel pipes has asserted our leadership in pre-welding and precision-welding technology in the PRC and vindicated our leading position in the pipeline industry. 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.

Technology plays a key part in the life development of a corporation. The Group has been fully committed to R&D and innovation and investing heavily in technology over the years. We are proud to have achieved various milestones that serve to exemplify our strength as well as fill up the gaps left in technological field in our past. In September 2012, the application by Shandong Shengli Steel Pipe Co., Ltd. for academician workstations (院士站) has been approved by the 5 competent authorities including the Party Organisation Department of the Shandong Provincial Committee of China Communist Party (中共山東省委組織部) and the Science and Technology Department of Shandong Province (山東省科學技術廳). In December 2012, the application for the High-tech Enterprise status has been passed for public notice by the Science and Technology Department of Shandong Province (山東省科學技術廳), Finance Department of Shandong Province (山東省財政廳), State Tax Bureau, Shandong Province Branch(山東省國家稅務局) and Tax Bureau of Shandong Province (山東省地方稅務局). Also in 2012, the Group made applications for 5 utility model patents including one on Welding Equipment for Tab Precision Welding, and a technique invention patent on high shearing force three-layer polyethylene anti-corrosion thermal insulation steel pipe and manufacturing technique thereof. The 5 utility model patents have been granted by the State Intellectual Property Office.

Finally, I would like to take this opportunity to express thanks to shareholders and customers, and to extend heartfelt gratitude to the management and staff for their hard work. The Group will vigorously capture future growth opportunities and continue to create greater value for shareholders.

Zhang Bizhuang
Chairman of the Board & Chief Executive Officer

* *For identification purpose only*

MANAGEMENT DISCUSSION AND ANALYSIS

Market Overview

China will become one of the countries in the world that undergo the most oil and gas pipeline construction in this century. At present, the total length of oil and gas pipelines in China is far behind many developed countries in the world. China's pipeline construction has developed rapidly since 1996, and at the end of 2012, the total length of its constructed oil and gas pipelines reached 100,000 km. However, there is still a considerable gap between China and many developed countries, in terms of pipe network size and coverage. Take the U.S. as an example, which has over 150,000 km of refined oil pipelines, transported approximately 58.2% of its refined oil as of the end of 2010, whereas, in China, the total length of refined oil pipelines is only approximately 20,000 km, which transported approximately 20% of its refined oil. The U.S. has built an integrated transmission and distribution system for its natural gas pipeline network, with approximately 490,000 km of backbone pipelines, compared to only approximately 40,000 km of natural gas backbone pipelines in China.

Invigorated by China's growing industrialization, accelerated pace of urbanization and rapid economic growth, China has blossomed into the world's second largest economy, with huge demand for oil and gas pipeline construction. In the next five to ten years, oil and gas pipeline construction in China is expected to hit a new height, and oil and gas pipeline network will be enhanced gradually. According to the "12th Five-Year Plan", China plans to build 50,000 km of oil and gas pipelines in total during the period from 2013 to 2015.

As Western China is most richly endowed with oil and natural gas reserves, it is important for China to establish a sound long-distance pipeline transmission system. Benefiting from the state policies, and the enormous development potential in the oil and gas pipeline industry, oil and gas pipeline infrastructure in China is embedded with immense growth potential.

Business Review

The Group is one of the largest oil and natural gas pipe manufacturers in China. During the year, the Group endeavoured to enhance its production capacity and expand the diversity of products and services. Xinjiang Shengli has now acquired the required technical prowess and capacity for major projects of the PRC government, while Hunan Shengli has completed the installation of equipment of its SSAW pipe production line. Our LSAW pipe production line will undergo equipment fine-tuning and testing process in the third quarter of 2013, so as to meet the opportunities arising from rapidly growing demand and to further consolidate our market leadership.

As at the end of 2012, the Group's annual production capacity of SSAW pipes reached 1.15 million tonnes, and the Group retained its position as one of the largest oil and gas pipeline producers in China in terms of production capacity.

The Group's revenue increased by 5.4% from RMB1,821,836,000 for the year ended 31 December 2011 to RMB1,920,855,000 for the year ended 31 December 2012. During the period under review, the Group's two core business segments, namely, (1) SSAW pipes business (including anti-corrosion service business and processing service business) reported a turnover of RMB1,433,322,000 (2011: RMB1,655,764,000), representing a year-on-year decrease of approximately 13.4%; and (2) cold-formed section steel business (including processing service business) reported a turnover of RMB88,148,000 (2011: RMB166,072,000), representing a year-on-year decrease of approximately 46.9%. In order to fully utilize the business chain capacity of our existing customers and other storage resources available, the Group has commenced metal commodity trading business. For the year ended 31 December 2012, the turnover amounted to RMB399,385,000 (for the year ended 31 December 2011: Nil).

SSAW pipes business

As one of the largest oil and natural gas pipeline manufacturers in China, the Group is also 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. During the year, the Group successfully produced steel pipes, which are of the highest material quality, maximum wall thickness and greatest diameter across the country, in a trial production with pre-welding and precision welding technology. The Group is the only privately owned enterprise among a handful of qualified domestic oil and gas pipeline manufacturers in the PRC ("Qualified Manufacturers").

The Group's major customers included large state-owned oil and gas companies such as CNPC and Sinopec and their joint ventures. The Group focuses on the design, manufacture, anti-corrosion processing and servicing of SSAW pipes, which are used to transport crude oil, refined petroleum products and natural gas.

For the year ended 31 December 2012, an accumulative length of approximately 22,000 km of the Group's SSAW pipes were installed in the world's major oil and gas pipelines, of which 94.5% were installed in China and the remaining 5.5% were installed abroad. During the period under review, the Group has supplied SSAW pipes for a number of national pipeline projects, including the Third West to East Natural Gas Pipeline (西氣東輸三線), China-Myanmar Natural Gas Backbone Pipeline (中緬天然氣管線), China-Asia Line C (中亞C線), Zhongwei-Guiyang Pipeline (中衛貴陽管線) and Changqing-Huhhot Pipeline (長慶至呼和浩特管線), amongst others. The Group has also supplied SSAW pipes for a number of regional branch pipeline projects, including Beijing Gas (北京燃氣), Hebei Natural Gas Pipeline (河北天然氣管線) and Yantai Port-Zibo Pipeline (烟台港至淄博管線), amongst others. The Group has also provided anti-corrosion services for various projects, such as the Third West to East Natural Gas Pipeline (西氣東輸三線), China-Myanmar Natural Gas Backbone Pipeline (中緬天然氣管線), China-Asia Line C (中亞C線), Zhongwei-Guiyang Pipeline (中衛貴陽管線) and Yantai Port-Zibo Pipeline (烟台港至淄博管線).

The SSAW pipes business mainly comprised of (1) sales of SSAW pipes; (2) processing services of SSAW pipes; and (3) anti-corrosion treatment services. Due to the delay of the commencement of some pipeline projects, for the year ended 31 December 2012, the total revenue derived from the SSAW pipelines business amounted to RMB1,433,322,000, which was slightly less than that of 2011 (2011: RMB1,655,764,000), representing approximately 74.6% of the Group's total revenue (2011: 90.9%).

For the year ended 31 December 2012, turnover derived from sales of SSAW pipes amounted to RMB1,346,927,000 (2011: RMB1,514,706,000), representing a year-on-year decrease of approximately 11.1%. Turnover from processing services of SSAW pipes was RMB1,191,000 (2011: RMB5,605,000), representing a decrease of 78.8% when compared to the corresponding period of 2011. Turnover from anti-corrosion services was RMB85,204,000 (2011: RMB135,453,000), representing a decrease of 37.1% when compared to the corresponding period of 2011.

For the year ended 31 December 2012, the total sales volume of SSAW was 226,104 tonnes (2011: 270,197 tonnes), representing a year-on-year decrease of 16.3%. Percentage of the Group's SSAW pipes sold to national pipeline projects increased 13.7 percentage points to 60.7% in 2012 from 47.0% in 2011.

Sales volume *(tonnes)*	**2012**	2011	**Change** *(%)*
Sales of SSAW pipes	**223,863**	259,341	-13.7%
Processing services of SSAW pipes	**2,241**	10,856	-79.4%
Total	**226,104**	270,197	-16.3%
Anti-corrosion services *(square meters)*	**1,398,211**	2,251,621	-37.9%

Cold-formed Section Steel

In addition to SSAW pipes, being 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 2012, turnover from the sales of cold-formed section steel amounted to RMB88,148,000 (2011: RMB166,072,000), representing a decrease of 46.9% when compared to 2011. The decrease in turnover was due to the expansion into new business by the Group. Following the technological improvement in both construction sector and automobile manufacturing industry, the Board believes that cold-formed steel could be gradually replaced by other new products in the future. As such, for better and more flexible resource allocation, and the Group's exploration into wider business horizons, the Group will convert part of the cold-formed steel warehouse into a dome integration house manufacturing plant.

Sales volume *(tonnes)*	**2012**	2011	**Change** *(%)*
Cold-formed steel	**21,036**	35,262	-40.34%

Metal commodity trading business

In order to fully utilize the business chain capacity of our existing customers and other storage resources available, the Group set up a wholly-owned subsidiary in the second half of 2012, which engages in metal commodity trading business. For the year ended 31 December 2012, the turnover amounted to RMB399,385,000 (2011: Nil) and the gross profit was RMB11,724,000 (2011: Nil). By virtue of metal commodity trading business, the Group expects to consolidate, expand and deepen its relationship with pipeline business-related customers and domestic and international financial institutions, which in turn will introduce a well-organized sales platform for pipelines export in future, and maximize shareholders' return.

Other business

To stabilize business growth and profitability, the Group has been gradually extending its product offering and business reach to a wide diversity of aspects. In September 2012, the Group established Dome Integration Housing Industrial Holding Co. Ltd. as a joint venture (40% equity interest owned by the Group) with a number of companies including Prodigy International Limited. Warehouse of Rizhao's subsidiary has been converted into a integration house manufacturing plant, and is planned to be used for the design, manufacture, installation and sales of dome integration houses.

FUTURE PROSPECT

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 2011 to 8% in 2015. In addition, the total length of national oil and gas pipelines in China is expected to increase from approximately 100,000 km in 2012 to approximately 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 (中衛貴陽管線), the Third and Fourth West-East Pipelines (西氣東輸管道第三線和四線) and the Sino-Russian Natural Gas Pipeline Project (中俄天然氣管道工程). The government support on the oil and gas pipeline industry conveyed in the "12th Five-Year Plan" indicates that the industry will embrace another boom cycle 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 Group will actively seize the business opportunities emerging from the rapid growth of the industry to ensure the steady growth of the earnings of the Group in the future.

By thoroughly digesting, absorbing and mastering the pre-welding and precision-welding production technology, the Company will deliver unwavering efforts to enhance its technological level, carve out a leading niche in the pre-welding and precision-welding technology in China. 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 brought 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-East Gas Pipeline Project (西氣東輸二線工程), a new round of large-scale oil and gas exploration in Xinjiang is 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 coming few years. Among them, CNPC plans to build five pipelines initiating from Xinjiang, and Sinopec will construct two pipelines under the "Xinjiang-East Gas Transmission Project". The Group will take advantage of the favourable geographical location of Xinjiang Shengli in establishing a solid base for the Group to undertake production tasks for major pipeline projects. At the same time, armed with the 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 Group will dedicate great efforts to facilitate and monitor the construction undertaken by Hunan Shengli relating to the LSAW pipe production line with a capacity of 200,000 tonnes, thereby diversifying its product offering, and meeting various needs of its existing customers. The installation of plants and equipments under LSAW production line is expected to be completed in the third quarter of 2013.

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

Furthermore, with a focus on the existing oil and gas pipeline products, the Group will progressively seek 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 us 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 our overall earnings.

Financial review

Revenue

The Group's revenue for the year ended 31 December 2012 was RMB1,920,855,000, representing an increase of approximately 5.4% when compared to RMB1,821,836,000 in 2011. For the year ended 31 December 2012, the Group's major sales segments, namely, (1) SSAW pipes business reported revenue of RMB1,433,322,000 (2011: RMB1,655,764,000); (2) cold-formed section steel business recorded a revenue of RMB88,148,000 (2011: RMB166,072,000); and (3) the newly setup metal commodity trading business recorded a revenue of approximately RMB399,385,000 (2011: nil).

Cost of sales

The Group's cost of sales increased by 10.2% from RMB1,678,436,000 for the year ended 31 December 2011 to RMB1,850,284,000 for the year ended 31 December 2012. During the year ended 31 December 2012, the Group's sales segment primarily consisted of (1) the sales cost of SSAW pipe business of RMB1,371,246,000 (2011: RMB1,515,816,000); (2) the sales cost of cold-formed section steel of RMB91,377,000 (2011: RMB162,620,000); and (3) the sales cost of metal commodity trading business of approximately RMB387,661,000 (2011: nil).

Gross profit

The gross profit of the Group decreased from RMB143,400,000 for the year ended 31 December 2011 to RMB70,571,000 for the year ended 31 December 2012. Meanwhile, the gross profit margin of the Group decreased from 7.9% for the year ended 31 December 2011 to 3.7% for the year ended 31 December 2012. The decrease was primarily due to the low profit margin of metal commodity trading business and the increase in cost of sales of domestic production of SSAW pipe which resulted in a general lower gross profit margin. In 2012, sales of SSAW pipes accounted for 97.1% of the gross profit of SSAW pipes (2011: 79.2%), followed by anti-corrosion services which represented 2.8% (2011: 20.7%). The remaining 0.1% (2011: 0.1%) of the gross profit was derived from the processing services of SSAW pipes.

Other income

Other income of the Group increased from RMB96,247,000 for the year ended 31 December 2011 to RMB155,609,000 for the year ended 31 December 2012, among which, the largest contribution was from the non-recurring government subsidy amounting to approximately RMB72,230,000, which was attributed to the Group's contribution to the development of Zibo, Shandong Province, followed by the interest income of entrusted loans amounting to approximately RMB30,823,000. As at 31 December 2012, the Board considered that, based on the valuation by an independent valuer, gains from changes in fair value of derivative financial instrument was less than that in the unaudited results of first half of 2012.

Selling and distribution expenses

Selling and distribution expenses of the Group decreased from RMB42,146,000 for the year ended 31 December 2011 to RMB22,946,000 for the year ended 31 December 2012. The decrease in selling and distribution expenses was mainly because the sales in the first half year was generally affected by the delay of the commencement of large-scale domestic pipeline construction projects, which resulted in lower sales of the Group's SSAW pipes and anti-corrosion service business when compared to the corresponding period in 2011.

Administrative expenses

The Group's administrative expenses increased by 55.7% from RMB54,207,000 for the year ended 31 December 2011 to RMB84,380,000 for the year ended 31 December 2012, mainly because the steel pipe project of Hunan Shengli was under construction during the year, while the industrial capacity of Xinjiang Shengli Steel Pipe cannot be fully utilised.

Finance costs

The Group incurred finance costs of RMB36,053,000 (2011: RMB20,183,000) for the year ended 31 December 2012, which was mainly due to the increase of loans to meet the Group's capital requirement for development of the metal commodity trading business.

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 the three years from 2010 to 2012, which brought the Group's enterprise income tax rate for the year 2012 to 12.5%.

Profit for the year

Combining the foregoing factors, the audited consolidated profit of the Group decreased from RMB91,917,000 for the year ended 31 December 2011 to RMB55,588,000 for the year ended 31 December 2012.

Capital expenditure

The Group incurred capital expenditure for the acquisition of property, plant and equipment, expansion of production facilities and purchase of machinery for the manufacture of steel pipe products. Capital expenditure during each of the two years ended 31 December 2011 and 2012 were primarily related to the purchase of property, plant and equipment.

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

	2012	2011
	(RMB'000)	*(RMB'000)*
Purchase of property, plant and equipment	**335,793**	301,215
Prepaid land lease payments	**108,089**	118,873
	443,882	420,088

Indebtedness

Interest-bearing bank loans

The following table sets forth information of the bank loans of the Group as at 31 December:

	2012	2011
	(RMB'000)	*(RMB'000)*
Bank loans due within one year:		
— Unsecured	**423,800**	50,000
— Secured	**210,333**	194,090
— Long-term bank loans due within one year — unsecured	**354,328**	387,710
Total	**988,461**	631,800

All of the Group's bank loans are repayable within one year. The following table sets forth the annual interest rates of the Group's bank loans:

	2012	2011
	%	*%*
Effective interest rate per annum	**2.76 to 6.00**	3.2 to 8.53

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

Financial management and fiscal policy

During the year ended 31 December 2012, the Group's turnover, expenses, assets and liabilities were primarily denominated in Renminbi. The Board considers that the Group currently has limited foreign currency exposure and has not entered into any hedging arrangement for its foreign currency risks. The Group will 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 were approximately RMB1,098,500,000. After the exercise of over-allotment option in 13 January 2011, the net proceeds of the IPO increased to RMB1,269,900,000. As at 31 December 2012, RMB648,356,000 out of total net proceeds from the IPO has been utilised in the manner specified in the Company's prospectus dated 9 December 2009 ("Prospectus") and the balance of RMB621,544,000 remains unutilized. The Group intended to continue to apply the proceeds in same manner as disclosed in the Prospectus except for the upgrading of one cold-formed section steel production facility, which plan has currently been suspended.

As at 31 December 2012, the accumulated use of proceeds is set out below:

	Amount allocated *(RMB'000)*	**Actual expenditure as at 31 December 2012** *(RMB'000)*
Project		
construction of one set of SSAW production lines with a total annual production capacity of 360,000 tonnes and two anti-corrosion coating lines	440,000	482,753
construction of one LSAW pipe production line with an annual production capacity of 200,000 tonnes and one anti-corrosion coating line	650,000	153,000
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	Plan has been suspended
working capital and other general corporate purposes	129,900	12,603
Total	1,269,900	648,356

The Group intended to continue to apply the proceeds in the same manner as disclosed in the Prospectus, except that the timing of upgrading one cold-formed section steel production line had been postponed, as the Group had been closely monitoring the various proposals on the introduction of such production line, including alternative proposals that may help attaining the same strategic goal. In the event that a final decision is made on this matter, a separate announcement will be made by the Group.

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 operation and future development demands for capital. With the strong cash and bank balances, the Group has not entered into any hedging arrangement.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2012, cash and cash equivalents of the Group amounted to approximately RMB166,056,000 (2011: RMB381,832,000). As at 31 December 2012, the Group had interest-bearing bank loans of approximately RMB988,461,000 (2011: RMB631,800,000).

The gearing ratio is defined as net debt (represented by interest-bearing bank loans, trade payables and other payables and accruals net of cash and cash equivalents and pledged bank deposits) divided by total capital plus net debt. As at 31 December 2012, the gearing ratio of the Group was 25.0% (2011: 18.0%).

CHARGES AND CONTINGENT LIABILITIES

Except the aforesaid secured bank borrowings, as at 31 December 2012, the Group did not have other charges on its assets or any material contingent liabilities.

FOREIGN EXCHANGE RISK

For the year of 2012, none of the Group's sales were denominated in U.S. dollars or other foreign currencies. The Group did not utilise 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 2012, the Group employed a work force of 1,314 employees (including Directors). The total salaries and related costs (including the Directors' fees) for the year ended 31 December 2012 amounted to approximately RMB89,380,000 (2011: RMB78,202,000), including RMB6,971,000 (2011: RMB5,547,000) of the share-based expenses due to the grant of share options.

DIVIDENDS

The Directors has resolved to recommend the payment of a dividend of RMB0.672 cent (equivalent to HK0.843 cent per share) (2011: RMB0.94 cent per share (equivalent to HK1.16 cents per share)) for the year ended 31 December 2012, which will be charged to the share premium account and will be subject to shareholders' approval at the forthcoming annual general meeting.

CLOSURE OF REGISTER OF MEMBERS

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

(i) from Wednesday, 7 August 2013 to Friday, 9 August 2013, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Shop 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 6 August 2013.

(ii) On Monday, 30 September 2013, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited at the address as set out in sub-paragraph (i) above not later than 4:30 p.m. on Friday, 27 September 2013.

During the periods mentioned in sub-paragraphs (i) and (ii) above, no transfers of shares will be registered.

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. Save as disclosed below, the Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code ("CG Code") during the period from 1 April 2012 to 31 December 2012 as set out in Appendix 14 to Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). In respect of the code provision A.2.1 of the CG Code, the roles of the chairman and the chief executive are performed by Mr. Zhang Bi Zhuang as the Board considers that this arrangement is beneficial to the Company's daily operations while splitting the two roles will involve a separation of power and authority under the existing structure. The Board will review the existing structure from time to time and make necessary arrangements as and when necessary.

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 2012, they have complied with the required standards set out in the Model Code and the code of conduct of the Company regarding directors' securities transactions.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of their respective listed securities during the year ended 31 December 2012.

SCOPE OF WORK OF ANDA CPA LIMITED

The figures in respect of the Group's audited consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2012 as set out in this preliminary announcement have been agreed by the Group's auditor, ANDA CPA Limited. These figures were the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by ANDA CPA Limited in respect of this announcement did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by ANDA CPA Limited on the preliminary announcement.

AUDIT OPINION FROM ANDA CPA LIMITED

ANDA CPA Limited has expressed an unqualified opinion on the audited consolidated financial statements of the Group for the financial year ended 31 December 2012.

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. Chen Jun Zhu and Mr. Wang Xueyou and one non-executive Director, namely, Mr. Yan Tangfeng. Mr. Chen Jun Zhu serves as the chairman of the Audit Committee.

The Audit Committee has reviewed the Group's audited consolidated financial statements for the year ended 31 December 2012.

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 2012 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.

SUSPENSION AND RESUMPTION OF TRADING IN SHARES

At the request of the Company, trading in the shares of the Company on the Stock Exchange was suspended with effect from 9:00 a.m. on 14 March 2013. Pending the publication of this audited annual result announcement, application will be made by the Company to the Stock Exchange for resumption of trading in its shares.

APPRECIATION

Finally, on behalf of all directors, I would like to take this opportunity to express my gratitude to all shareholders, customers and employees of the Company for their continuous support and encouragement for the Company to overcome difficulties and achieve 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

Zibo, Shandong, 7 July 2013

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 Directors:	*Mr. Yan Tangfeng*
Independent non-executive Directors:	*Mr. Guo Changyu, Mr. Wang Xueyou and Mr. Chen Jun Zhu*