

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



Global Offering

Sole Global Coordinator
Bookrunner
Sponsor and Lead Manager

 **MACQUARIE**

IMPORTANT

If you are in any doubt about any of the contents of this Prospectus, you should obtain independent professional advice.

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)

GLOBAL OFFERING

**Number of Offer Shares : 720,000,000 Offer Shares, comprising
600,000,000 New Shares and
120,000,000 Sale Shares (subject to adjustment
and the Over-allotment Option)**

**Number of Hong Kong Public Offer Shares : 72,000,000 Offer Shares (subject to
adjustment)**

**Number of International Offer Shares : 648,000,000 Offer Shares, comprising
528,000,000 New Shares and
120,000,000 Sale Shares (subject to adjustment
and the Over-allotment Option)**

**Maximum Offer Price : HK\$2.69 per Offer Share payable in full on
application in Hong Kong dollars, plus
brokerage of 1%, SFC transaction levy of
0.004% and Hong Kong Stock Exchange
trading fee of 0.005% (subject to refund)**

Nominal value : HK\$0.1 per Share

Stock code : 1080

Sole Global Coordinator, Bookrunner, Sponsor and Lead Manager



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

A copy of this Prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies and Available for Inspection — Documents Delivered to the Registrar of Companies" in Appendix VIII to this Prospectus, has been registered with the Registrar of Companies in Hong Kong as required by section 342C of the Companies Ordinance. The Securities and Futures Commission of Hong Kong and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this Prospectus or any other documents referred to above.

The Offer Price is expected to be fixed by agreement among the Sole Global Coordinator (on behalf of the Underwriters), the Selling Shareholders and us, on the Price Determination Date. The Price Determination Date is expected to be on or around 14 December 2009 and, in any event not later than 16 December 2009. The Offer Price will not be more than HK\$2.69 and is currently expected to be not less than HK\$1.81. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative office price range stated in this Prospectus.

Applicants for the Hong Kong Public Offer Shares are required to pay, on application, the maximum offer price of HK\$2.69 for each Offer Share, together with 1% brokerage, a Hong Kong Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.004%, subject to refund if the Offer Price should be lower than HK\$2.69.

The Sole Global Coordinator (on behalf of the Underwriters) may reduce the number of Offer Shares (which is 720,000,000 Offer Shares) and/or the indicative Offer Price range below that stated in this Prospectus (which is HK\$1.81 to HK\$2.69 per Offer Share) at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the day which is the last day for lodging applications under the Hong Kong Public Offering. If applications for Hong Kong Public Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, then even if the number of Offer Shares and/or the indicative Offer Price range is so reduced, such applications cannot be subsequently withdrawn. Further details are set out in the sections headed "Structure of the Global Offering" and "How to Apply for Hong Kong Public Offer Shares" in this Prospectus.

If for any reason, the Offer Price is not agreed by 16 December 2009 among us, the Selling Shareholders and the Sole Global Coordinator (on behalf of the Underwriters), the Global Offering will not proceed and will lapse immediately.

Prospective investors of the Hong Kong Public Offer Shares should note that the Hong Kong Underwriters are entitled to terminate their obligations under the Hong Kong Underwriting Agreement by notice in writing to us by the Sole Global Coordinator (on behalf of the Hong Kong Underwriters) upon the occurrence of any of the events set forth in the paragraph headed "Grounds for termination" in the section headed "Underwriting" in this Prospectus at any time prior to 8:00 a.m. (Hong Kong time) on the Listing Date.

The Offer Shares have not been and will not be registered under the United States Securities Act of 1933 (the "U.S. Securities Act") or any state securities laws in the United States and may not be offered, sold, pledged or transferred within the United States, except that the Offer Shares may be offered, sold or delivered to Qualified Institutional Buyers in reliance on Rule 144A or other exemption(s) from registration under the U.S. Securities Act or outside the United States in reliance on Regulation S under the U.S. Securities Act.

9 December 2009

EXPECTED TIMETABLE⁽¹⁾

Application lists open⁽²⁾ 11:45 a.m. on Monday, 14 December 2009

Latest time for lodging **WHITE** and **YELLOW**

Application Forms 12:00 noon on Monday, 14 December 2009

Latest time to complete electronic applications

under the **White Form eIPO** service through

the designated website at **www.eipo.com.hk**⁽³⁾ 11:30 a.m. on Monday, 14 December 2009

Latest time to complete payment of **White Form**

eIPO applications by effecting internet

banking transfer(s) or PPS payment transfer(s) 12:00 noon on Monday, 14 December 2009

Application lists close⁽²⁾ 12:00 noon on Monday, 14 December 2009

Expected Price Determination Date⁽⁴⁾ Monday, 14 December 2009

(1) Announcement of

- the Offer Price;
- the level of applications in the Hong Kong Public Offering;
- the level of indications of interest in the International Offering; and
- the basis of allotment of the Hong Kong Public Offer Shares

to be published in the South China Morning Post

(in English) and the Hong Kong Economic Times

(in Chinese) Thursday, 17 December 2009

(2) Results of allocations in the Hong Kong Public Offering
(with successful applicants' identification document numbers,
where appropriate) to be available through a variety of
channels (see "How to Apply for Hong Kong Public
Offer Shares — I. Applying by Using a White or Yellow
Application Form — Publication of results") from Thursday, 17 December 2009

(3) A full announcement of the Hong Kong Public Offering
containing (1) and (2) above to be published on
the Stock Exchange's website at **www.hkexnews.hk**⁽⁵⁾
and the Company's website at **www.slogp.com**⁽⁶⁾ from Thursday, 17 December 2009

White Form e-Refund payment instructions/refund checks

in respect of wholly or partially unsuccessful applications

to be posted on or before^(7, 8 & 11) Thursday, 17 December 2009

Share certificates to be posted or deposited into CCASS

on or before^(9 to 10) Thursday, 17 December 2009

Dealings in the Shares on the Hong Kong Stock Exchange

to commence on Friday, 18 December 2009

EXPECTED TIMETABLE⁽¹⁾

- (1) All times refer to Hong Kong local time unless otherwise stated.
- (2) If there is a “black” rainstorm warning or a tropical cyclone warning signal number 8 or above in force in Hong Kong at any time between 9:00 a.m. to 12:00 noon on 14 December 2009, the application lists of the Hong Kong Public Offering will not open and close on that day. See “How to Apply for Hong Kong Public Offer Shares — I. Applying by Using a White or Yellow Application Form — Effect of bad weather on the opening of the application lists”.
- (3) You will not be permitted to submit your application through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
- (4) Please note that the Price Determination Date, being the date on which the Offer Price is to be determined, is expected to be on or around 14 December 2009. If for any reason, the Offer Price is not agreed by 5:00 p.m. on 16 December 2009 among us, the Selling Shareholders and the Sole Global Coordinator (on behalf of the Underwriter(s)), the Global Offering will not proceed and will lapse immediately. Notwithstanding that the Offer Price may be fixed at below the maximum Offer Price of HK\$2.69 per Offer Share payable by applicants for Hong Kong Public Offer Shares under the Hong Kong Public Offering, applicants for the Hong Kong Public Offer Shares are required to pay, on application, the maximum Offer Price of HK\$2.69 for each Offer Share, together with 1% brokerage, a Hong Kong Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.004%, subject to refund if the Offer Price should be lower than HK\$2.69 as provided in the section headed “How to Apply for Hong Kong Public Offer Shares” in this Prospectus.
- (5) The announcement will be available for viewing on the “Main Board — Allotment of Results” page on the Hong Kong Stock Exchange’s website at www.hkexnews.hk.
- (6) None of the website or any of the information contained on the website forms part of this Prospectus.
- (7) Applicants who apply on **WHITE** Application Forms for 1,000,000 Hong Kong Public Offer Shares or more and indicate on their Application Forms that they wish to collect their share certificates (if any) and/or refund checks (if any) in person may do so from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong on 17 December 2009, or any other date notified by us in the newspapers as the date of dispatch of share certificates/e-Refund payment instructions/refund checks, from 9:00 a.m. to 1:00 p.m. Applicants being individuals who opt for personal collection must not authorize any other person to make their collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorized representatives bearing letters of authorization from their corporations stamped with the corporation’s chop. Identification documents and (where applicable) authorization documents acceptable to our Hong Kong Share Registrar must be produced at the time of collection of share certificates (if any) and/or refund checks (if any). Further information is set out in the paragraph headed “Dispatch/collection of share certificates/e-Refund payment instructions/refund checks” under the section headed “How to Apply for Hong Kong Public Offer Shares” in this Prospectus. Part of your Hong Kong Identity Card number/passport number, or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund check, if any. Such data would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund check. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund check.
- (8) Applicants who apply on **YELLOW** Application Forms for 1,000,000 Hong Kong Public Offer Shares or more may collect their refund checks (if any) in person but may not elect to collect their share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants’ stock accounts or investor participant stock accounts, as appropriate. The procedures for collection of refund checks (if any) for applicants who apply on **YELLOW** Application Forms are the same as those for applicants who apply on **WHITE** Application Forms.
- (9) Uncollected share certificates (if any) and/or refund checks (if any) will be dispatched by ordinary post at the applicants’ own risk to the addresses specified in the Application Forms promptly after the expiry of the time for their collection. Further information is set out in the paragraph headed “Dispatch/collection of share certificates/e-Refund payment instructions/refund checks” under the section headed “How to Apply for Hong Kong Public Offer Shares” in this Prospectus.

EXPECTED TIMETABLE⁽¹⁾

- (10) Share certificates for the Hong Kong Public Offer Shares to be distributed via CCASS are expected to be deposited into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS participant's stock account as instructed by you in your **YELLOW** Application Form at the close of business on 17 December 2009.
- (11) e-Refund payment instructions/refund checks will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applicants in the event that the Offer Price is less than the price payable on application.

Share certificates will only become valid certificates of title provided that the Underwriting Agreements have become unconditional and have not been terminated in accordance with their respective terms, which is scheduled to be at around 8:00 a.m. on 18 December 2009. No dealings should take place in the Offer Shares prior to the commencement of dealings in the Shares on the Hong Kong Stock Exchange. Investors who trade the Offer Shares on the basis of publicly available allocation details prior to receipt of the share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.

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We have issued this Prospectus solely in connection with the Hong Kong Public Offering and it does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Hong Kong Public Offer Shares offered by this Prospectus pursuant to the Hong Kong Public Offering. No person may use this Prospectus for the purpose of, and it does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong or the distribution of this Prospectus in any jurisdiction other than Hong Kong. The distribution of this Prospectus and the offering and sale of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or any exemption therefrom.

You should rely only on the information contained in this Prospectus and the Application Forms to make your investment decision. We have not authorized anyone to provide you with information that is different from what is contained in this Prospectus. Any information or representation not made in this Prospectus must not be relied on by you as having been authorized by us, the Sole Global Coordinator, any of the Underwriters, any of their respective directors, agents, employees or advisers, or any other person or party involved in the Global Offering.

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SUMMARY

This summary provides you an overview of the information contained in this Prospectus and should be read in conjunction with the full text of this Prospectus. It does not contain all the information that may be important to you. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk Factors" of this Prospectus. You should read the Prospectus in its entirety before you decide whether to invest in the Offer Shares.

OVERVIEW

We are one of the largest oil and gas line pipe manufacturers in China. We focus on the design, manufacture, value-added processing and servicing of spiral submerged arc welded pipes, or SSAW pipes, that are used to transport crude oil, refined petroleum products and natural gas, among others. Following our recent expansion, we led the PRC industry in terms of production capacity and the number of production lines for SSAW pipes as of 31 December 2008. With seven SSAW pipe production lines that have a collective annual production capacity of 540,000 tonnes, we increased our market share of oil and gas SSAW pipes in China from 17% in 2008 to 22% in the first half of 2009 according to the National OCTG Quality Supervision and Inspection Center. As the only privately owned manufacturer among the few approved SSAW pipe suppliers to China's major oil and gas companies, we are positioned to benefit from our rapidly growing industry and the planned pipeline projects of our major customers.

We have long-standing customer relationships with China's largest oil and gas companies, which we have established as a result of our solid track record. We were established as Shengli Factory in 1972, and, in 1996, we supplied approximately one-third of the SSAW pipes installed in China's first long-distance gas pipeline, the Shaanxi-Beijing Gas Pipeline. Since that time, our SSAW pipes have been installed in pipeline projects within China's domestic and transnational pipeline projects, as well as pipeline projects in Central Asia and Africa. Major pipeline projects using our line pipes include the First West-East Gas Pipeline, the West Oil Pipeline, the Central Asia-China Natural Gas Pipeline and the Sichuan Gas Pipeline, each of which is over 1,000 km in length. With limited exceptions, we have supplied SSAW pipes to substantially all of China's major long-distance oil and gas pipeline projects, including China's first transnational crude oil pipeline and China's first transnational natural gas pipeline. Since 1975, we have provided approximately 4,000 km of line pipes to Shengli Oilfield (勝利油田), the second largest oil production field in China. As of the Latest Practicable Date, we had supplied approximately 15,000 km of SSAW pipes, of which approximately 93.5% have been installed in major oil and gas pipelines located in China and approximately 6.5% have been installed overseas.

We believe that we are one of the few suppliers in China with SSAW pipes that meet the high pressure and large diameter requirements for the transportation of crude oil, refined petroleum products and natural gas over long distances. We differentiate ourselves from our major competitors by offering comprehensive quality services encompassing pre-sale, processing, transportation and maintenance services for our steel pipes. We believe that our customer-oriented service model and ongoing support services provide us with a platform to establish long-standing customer relationships and generate recurring business.

SUMMARY

In addition to our SSAW pipes, we produce a wide variety of cold-formed section steel using our steel piping and welding technologies and facilities. Cold-formed section steel is an important construction and industrial material for steel structure buildings, freight containers and heavy-duty trucks.

Our production facilities are strategically located in Zibo, Rizhao and Dezhou in Shandong Province, in proximity to major highways and railway lines for low-cost and timely delivery of our products across China as well as to major shipping ports for convenient exportation. The location of each of our manufacturing facilities also ensures the stable supply of energy and ready access to the skilled labor required for our operations.

During the Track Record Period, we underwent the Corporate Reorganization, pursuant to which CPE, the Company's subsidiary, acquired Shandong Shengli from Shengli Steel Pipe and Victory Trading. Shandong Shengli in turn acquired certain assets and liabilities related to the SSAW pipe operations of Shengli Steel Pipe to rationalize our corporate structure and operations in preparation for the Global Offering. As a result of the reorganization, we assumed the key business operations of both Shandong Shengli and Shengli Steel Pipe. The major operating entities and the management of the Group, Shandong Shengli and Shengli Steel Pipe remained substantially the same throughout the Track Record Period.

We experienced significant revenue and profit growth during the Track Record Period. For the year ended 31 December 2008 and the six months ended 30 June 2009, the Group generated revenue of RMB1,070.7 million and RMB1,813.2 million, respectively. For the year ended 31 December 2006 and the period from 1 January to 28 December 2007, Shengli Steel Pipe's Core Business generated revenue of RMB91.1 million and RMB237.5 million, respectively. The Group's net profit for the year ended 31 December 2008 and the six months ended 30 June 2009 was RMB148.8 million and RMB144.9 million, respectively. The net profit of Shengli Steel Pipe's Core Business for the year ended 31 December 2006 and the period from 1 January to 28 December 2007 was RMB10.0 million and RMB34.1 million, respectively.

COMPETITIVE STRENGTHS

We believe the following strengths distinguish us from our competitors and enable us to capture opportunities in the oil and gas pipeline industry and compete effectively in the PRC and international markets:

- A leading oil and gas line pipe manufacturer in China
- Solid track record of providing reliable and industry-leading products
- Long-standing customer relationships with PRC oil and gas industry leaders
- Advantages from distinct history enhanced by flexibility from operating as a private enterprise
- Strategically located production facilities offering delivery advantages
- Experienced management team with extensive industry knowledge and market foresight

SUMMARY

BUSINESS STRATEGIES

Our long-term goal is to become a leader in the global oil and gas line pipe industry through the enhancement of our overall competitiveness by ramping up production capacity for SSAW pipes and diversifying our product offering to include LSAW and ERW pipes to expand our domestic and international footprint. To achieve this goal, we intend to:

- Expand our SSAW pipe production capacity to meet growing demand
- Diversify our product offering to capture growing opportunities in the pipeline market
- Broaden our geographical coverage domestically and internationally
- Seek growth through strategic alliances, joint ventures or acquisitions

SELECTED FINANCIAL INFORMATION

The selected (i) comprehensive income statement information and cash flow information for the two months ended 31 December 2007, the year ended 31 December 2008 and the six months ended 30 June 2008 and 2009 and (ii) statement of financial position information as of 31 December 2007 and 2008 and 30 June 2009 set forth below are derived from the Accountants' Report of the Group included in Appendix IA to this Prospectus. The selected (i) comprehensive income statement information and cash flow information for the year ended 31 December 2006 and the period from 1 January 2007 to 28 December 2007 and (ii) statement of financial position information as of 31 December 2006 and 28 December 2007 set forth below are derived from the Accountants' Report of Shengli Steel Pipe included in Appendix IB to this Prospectus. The selected financial information for each of the Group and Shengli Steel Pipe has been prepared in accordance with IFRS and is qualified in its entirety by reference to such Accountants' Reports, including the notes thereto, and should be read in conjunction with them and with "Financial Information — Management's Discussion and Analysis of Financial Condition and Results of Operations" included herein. Financial information for the foregoing periods may not be comparable to financial information for subsequent periods.

SUMMARY

Selected Comprehensive Income Statement Information

The Group

The table below sets forth the comprehensive income statement information of the Group for the two months ended 31 December 2007, the year ended 31 December 2008 and the six months ended 30 June 2008 and 2009:

	Two months ended 31 December 2007⁽¹⁾	Year ended 31 December 2008⁽¹⁾	Six months ended 30 June 2008	Six months ended 30 June 2009
	(RMB'000)	(RMB'000)	(RMB'000) (unaudited)	(RMB'000)
Revenue	—	1,070,747	493,490	1,813,199
Cost of sales	—	(935,241)	(413,719)	(1,667,739)
Gross profit	—	135,506	79,771	145,460
Other income	141	36,141	18,397	19,130
Selling and distribution expenses	—	(6,020)	(2,416)	(5,849)
Administrative expenses	(12)	(16,830)	(7,611)	(12,586)
Finance costs	—	—	—	(1,275)
Profit before taxation	129	148,797	88,141	144,880
Income tax expenses	—	—	—	—
Profit for the period/year and total comprehensive income for the period/year	<u>129</u>	<u>148,797</u>	<u>88,141</u>	<u>144,880</u>

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- (1) These periods are not consistent in length; therefore, the financial information for each period is not comparable to that of the other. The financial information of the Group was prepared for the periods/year beginning or subsequent to 1 November 2007, being the incorporation date of our indirectly wholly owned subsidiary, CPE.

SUMMARY

Shengli Steel Pipe

The table below sets forth the consolidated comprehensive income statement information of Shengli Steel Pipe and its subsidiaries attributable to the equity holders and minority interests of Shengli Steel Pipe for the year ended 31 December 2006 and for the period from 1 January to 28 December 2007:

	Year ended 31 December 2006			Period from 1 January to 28 December 2007 ⁽¹⁾		
	Core Business	Non-core Business	Total	Core Business	Non-core Business	Total
	(RMB'000)					
Revenue	91,116	1,232	92,348	237,544	—	237,544
Cost of sales	(60,275)	(1,106)	(61,381)	(154,687)	—	(154,687)
Gross profit	30,841	126	30,967	82,857	—	82,857
Other income	3,438	—	3,438	9,678	—	9,678
Other losses	(2)	(351)	(353)	—	—	—
Selling and distribution expenses	(3,084)	(110)	(3,194)	(11,963)	—	(11,963)
Administrative expenses	(21,176)	(65)	(21,241)	(16,164)	(7,232) ⁽²⁾	(23,396)
Finance costs	(34)	—	(34)	(3,985)	—	(3,985)
Share of results of associates	—	(559)	(559)	—	(443)	(443)
Profit (loss) before taxation	9,983	(959)	9,024	60,423	(7,675)	52,748
Income tax expenses	—	(25)	(25)	(26,338)	—	(26,338)
Profit (loss) for the year/period and total comprehensive income for the year/period	<u>9,983</u>	<u>(984)</u>	<u>8,999</u>	<u>34,085</u>	<u>(7,675)</u>	<u>26,410</u>

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- (1) Shengli Steel Pipe sold substantially all assets and liabilities related to its Core Business to the Group in two transactions, the first of which became effective on 29 December 2007. However, the operating results of the Core Business during the last three days of 2007 are included in the period from 1 January to 28 December 2007 because the amounts were deemed not material to the Group's financial results for the period.
- (2) The administrative expenses of Shengli Steel Pipe's Non-core Business for the period from 1 January 2007 to 28 December 2007 mainly consisted of the organization costs of its subsidiary, Shengda Chemical, which did not commence business until after 2007.

SUMMARY

Selected Statement of Financial Position Information

The Group

The table below sets forth statement of financial position information of the Group as of 31 December 2007 and 2008 and as of 30 June 2009:

	As of 31 December		As of 30 June
	2007	2008	2009
	(RMB'000)		
Non-current assets	124,839	229,512	228,747
Current assets	<u>102,987</u>	<u>1,074,739</u>	<u>826,529</u>
Current liabilities	227,222	1,154,850	760,995
Net current assets (liabilities)	<u>(124,235)</u>	<u>(80,111)</u>	<u>65,534</u>
Total assets less current liabilities	<u>604</u>	<u>149,401</u>	<u>294,281</u>
Total equity	129	148,926	293,806
Non-current liabilities	<u>475</u>	<u>475</u>	<u>475</u>
Total equity and non-current liabilities	<u>604</u>	<u>149,401</u>	<u>294,281</u>

Shengli Steel Pipe

The table below sets forth statement of financial position information of the Core Business of Shengli Steel Pipe, on a consolidated basis, as of 31 December 2006 and as of 28 December 2007:

	As of 31 December 2006	As of 28 December 2007
		(RMB'000)
Non-current Assets	117,371	151,304
Current assets	<u>157,781</u>	<u>206,167</u>
Current liabilities	<u>62,535</u>	<u>174,149</u>
Net current assets	<u>95,246</u>	<u>32,018</u>
Total assets less current liabilities	<u>212,617</u>	<u>183,322</u>

SUMMARY

Selected Cash Flow Information

The Group

The table below sets forth cash flow information of the Group for the two months ended 31 December 2007, the year ended 31 December 2008 and the six months ended 30 June 2008 and 2009:

	Two months ended 31 December 2007⁽¹⁾	Year ended 31 December 2008⁽¹⁾	Six months ended 30 June 2008	Six months ended 30 June 2009
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
			(unaudited)	
Cash and cash equivalents at beginning of the period/year	—	926	926	80,796
Net cash from/(used in) operating activities	23	(15,687)	(647)	73,988
Net cash from/(used in) investing activities	903	(222,564)	(49,548)	(11,599)
Net cash from/(used in) financing activities	—	318,121	59,920	(64,807)
Net increase/(decrease) in cash and cash equivalents	926	79,870	9,725	(2,418)
Cash and cash equivalents at end of the period/year	926	80,796	10,651	78,378

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- (1) These periods are not consistent in length; therefore, the financial information for each period is not comparable to that of the other. The financial information of the Group was prepared for the periods/year beginning or subsequent to 1 November 2007, being the incorporation date of our indirectly wholly owned subsidiary, CPE.

SUMMARY

Shengli Steel Pipe

The table below sets forth cash flow information of Shengli Steel Pipe and its subsidiaries, on a consolidated basis, for the year ended 31 December 2006 and for the period from 1 January to 28 December 2007:

	Year ended 31 December 2006	Period from 1 January to 28 December 2007⁽¹⁾
	(RMB'000)	
Cash and cash equivalents at beginning of the year/period	31,784	28,002
Net cash from/(used in) operating activities	30,052	(6,389)
Net cash used in investing activities	(39,534)	(34,338)
Net cash from financing activities	5,700	37,255
Net decrease in cash and cash equivalents	(3,782)	(3,472)
Cash and cash equivalents at end of the year/period	<u>28,002</u>	<u>24,530</u>

(1) The operating results of Shengli Steel Pipe and its subsidiaries during the last three days of 2007 are included in the period from 1 January to 28 December 2007 because the amounts were deemed not material to the financial results of this period.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2009

Forecast consolidated profit after taxation⁽¹⁾⁽²⁾not less than RMB330 million

Unaudited pro forma forecast basic earnings per Share⁽³⁾approximately RMB0.1375
(approximately HK\$0.1561)

(1) The bases on which the above profit forecast for the year ending 31 December 2009 has been prepared are summarized in Appendix III to this Prospectus.

(2) The forecast consolidated profit after taxation for the year ending 31 December 2009 prepared by our Directors is based on the audited combined financial statements of the Group for the six months ended 30 June 2009, the unaudited consolidated management accounts of the Group for the four months ended 31 October 2009 and a forecast of the consolidated results of the Group for the remaining two months ending 31 December 2009. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by the Group as summarized in the Accountants' Report of the Group as set out in Appendix IA to this Prospectus.

(3) The calculation of the unaudited pro forma forecast basic earnings per Share is based on the forecast consolidated results of the Group for the year ending 31 December 2009, assuming the Global Offering had been completed on 1 January 2009 and a total of 2,400,000,000 Shares in issue during the entire period, taking no account of any additional income the Group may have earned from the estimated net proceeds from the Global Offering and any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option.

SUMMARY

THE GLOBAL OFFERING

This Prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering.

The Global Offering consists of (assuming the Over-allotment Option is not exercised):

- the Hong Kong Public Offering of an initial 72,000,000 New Shares (subject to adjustment as mentioned below) in Hong Kong as described below under “Structure of the Global Offering — The Hong Kong Public Offering”; and
- the International Offering of an initial 648,000,000 Shares (subject to adjustment as mentioned below), being 528,000,000 New Shares offered by the Company for subscription and 120,000,000 Sale Shares offered by the Selling Shareholders for sale, (a) in the United States to QIBs in reliance on Rule 144A or another exemption under the U.S. Securities Act; and (b) outside the United States in reliance on Regulation S.

Macquarie is the Sponsor of the Hong Kong Public Offering. Macquarie is the Sole Global Coordinator, Bookrunner and Lead Manager of the Global Offering.

Investors may apply for the Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. The International Offering will involve selective marketing of the Offer Shares to QIBs in the United States in reliance on Rule 144A, as well as to institutional and professional investors and other investors expected to have a sizeable demand for the Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the Offer Shares in the International Offering. Prospective investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or before 14 December 2009.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to reallocation as described in “Structure of the Global Offering — Pricing and Allocation”.

SUMMARY

OFFER STATISTICS⁽¹⁾

	<u>Based on an Offer Price of HK\$1.81</u>	<u>Based on an Offer Price of HK\$2.69</u>
Market capitalization of the Shares ⁽²⁾	HK\$4,344 million	HK\$6,456 million
Pro forma price/earnings multiple ⁽³⁾	11.6 times	17.2 times
Unaudited pro forma adjusted consolidated net tangible asset value per Share ⁽⁴⁾	HK\$0.5591	HK\$0.7725

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- (1) All statistics in this table are based on the assumption that the Over-allotment Option is not exercised.
- (2) The calculation of market capitalization is based on 2,400,000,000 Shares expected to be issued and outstanding immediately following the Global Offering.
- (3) The calculation of the pro forma price/earnings multiple is based on the pro forma forecast earnings per share for the year ending 31 December 2009 at the respective Offer Prices of HK\$1.81 and HK\$2.69.
- (4) The unaudited pro forma adjusted consolidated net tangible asset value per share is calculated after making the adjustments referred to in Appendix II and based on 2,400,000,000 Shares expected to be issued and outstanding immediately following the Global Offering.

If the Over-allotment Option is exercised in full, the unaudited pro forma adjusted consolidated net tangible asset value per Share will be approximately HK\$0.6024 per Share (based on an Offer Price of HK\$1.81) or approximately HK\$0.8389 (based on an Offer Price of HK\$2.69), while the pro forma earnings per Share will be diluted to approximately HK\$0.1504.

DIVIDEND POLICY

After the completion of the Global Offering, our Shareholders will be entitled to receive dividends declared by the Company, if any are declared and payable. To date, the Company has not declared any dividends. There is no guarantee that dividends will be paid in the future. The declaration and payment of dividends will be subject to the discretion of our Directors in accordance with our Articles of Association and the amounts of dividends actually declared and paid will depend on, among other things, our future operations and earnings, financial condition, capital requirements and surplus, contractual restrictions, payments by subsidiaries of cash dividends to us, business opportunities and capital requirements, market conditions and other factors that our Directors deem relevant.

The shareholder of Shandong Shengli, namely CPE, resolved that the profit from its operations for the years ended 31 December 2008 and 2009 will be retained and will not be distributed.

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$1,267.4 million from the Global Offering, assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming the initial public Offer Price of HK\$2.25 per Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus.

SUMMARY

We intend to use the proceeds from the Global Offering for the purposes and in the amounts set out below:

- approximately 57.0%, or HK\$737.7 million (RMB650.0 million), to expand our capacity in the design and production of LSAW pipes, with the majority of such amount to be utilized for the construction of one LSAW pipe production line and one anti-corrosion coating line and the purchase of production and testing equipment;
- approximately 38.6%, or HK\$499.4 million (RMB440.0 million), to expand our production capacity of SSAW pipes through the construction of four SSAW pipe production lines as well as two anti-corrosion coating lines to meet the growing demand for high-grade SSAW pipes; and
- approximately 4.4%, or HK\$56.7 million (RMB50.0 million), to expand our capacity in the design and production of ERW pipes through the upgrade of one of our cold-formed section steel production facilities to an ERW pipe production line.

To the extent that the net proceeds are not sufficient to fund the uses set forth above, we intend to fund the balance with cash generated from our operations.

To the extent that the net proceeds from the Global Offering are not immediately applied to the above purposes, we intend to deposit such proceeds into short-term deposits with financial institutions and/or invest in money market instruments.

The net proceeds that we estimate we would receive from subscriptions for additional Shares in the event the Over-allotment Option is exercised in full is approximately HK\$158.0 million and HK\$234.8 million (assuming the lowest and highest points of the indicative Offer Price range, respectively). In the event the Over-allotment Option is exercised in full, we intend to apply the additional proceeds to the above uses in the proportions stated above.

The Selling Shareholders will be selling a portion of their Shares in the Global Offering. The net proceeds of the Global Offering to the Selling Shareholders (after deducting underwriting commissions and estimated expenses and fees payable by the Selling Shareholders in connection with the Global Offering and assuming an Offer Price of HK\$2.25 per Share, being the midpoint of the indicative offer price range) will be approximately HK\$256.0 million, assuming the Over-allotment Option is not exercised. We will not receive any of the proceeds from the sale of Sale Shares by the Selling Shareholders in the Global Offering.

We will not use any of the net proceeds of the Global Offering to fund activities that any U.S. person would be prohibited from undertaking under sanctions administered by OFAC.

SUMMARY

RISK FACTORS

There are certain risks and considerations involved in our business. These risks can be categorized into (i) risks related to our business and industry; (ii) risks related to the People's Republic of China; (iii) risk related to the Cayman Islands; and (iv) risks related to the Global Offering. These risk factors are set out under the section headed "Risk Factors" in this Prospectus and can be summarized as follows:

Risks Related to Our Business and Industry

- Our revenue is generated substantially from the sale of a single product.
- We rely heavily on a limited number of customers.
- Our revenue largely depends on public spending on oil and gas pipeline infrastructure.
- We are vulnerable to the delay or rescheduling of oil and gas pipeline projects.
- A change in the payment settlement arrangement with our major customers may require us to maintain additional working capital.
- We are exposed to risks arising from credit terms extended to our customers.
- We may encounter difficulties when expanding into new products and new markets.
- We may fail to secure supply contracts for new projects through competitive bidding.
- We are affected by the state of relations between China and foreign countries from which China imports oil and gas.
- Fluctuations in global oil and gas prices could lead to reduced demand for our products and services.
- We may experience shortages of or price increases in raw materials.
- Failure to compete effectively in our industry may adversely affect our business and prospects.
- Any significant downtime in our production facilities would adversely affect our business.
- We have a limited operating history under our current Shareholders.
- We may incur significant costs in relation to warranties provided to our customers.
- We do not have a fixed production arrangement with our major customers, making it difficult to compare our results with results from another reporting period.

SUMMARY

- The operating results and financial condition of Shengli Steel Pipe and the Group are not directly comparable due to the Group's partial acquisition of the assets and liabilities related to the SSAW pipe operations of Shengli Steel Pipe.
- We have limited insurance coverage.
- Our continued success depends on our ability to attract, retain or replace key management personnel and senior management members.
- Our expansion plans require significant and continual capital expenditures, for which we may not have adequate financial resources.
- Our business operations and financial condition may be adversely affected by present or future environmental, health and safety laws and regulations or enforcement.
- Our business strategy of growth through strategic alliances, joint ventures or acquisitions may not succeed.
- Protectionist measures such as initiation of anti-dumping and anti-subsidy proceedings and imposition of anti-dumping and/or countervailing duties by governments in our overseas markets could materially and adversely affect our export sales.
- Failure to protect our corporate name and reputation effectively may affect our business and financial performance.
- We may not successfully obtain and maintain the necessary regulatory permits, approvals or clearance for the manufacture and sale of our products in certain markets.
- Our levels of indebtedness and interest payment obligations may adversely affect our business.
- Our products may subject us to product liability claims.
- Our manufacturing processes involve inherent risks and occupational hazards.
- Power shortages or substantial increase in energy costs could have an adverse impact on our operations.
- We do not possess the building ownership certificates for certain buildings that we occupy.
- We may be adversely affected by the recent global economic crisis.
- Our interests may conflict with those of our Substantial Shareholders, who may take actions that are not in, or may conflict with, our public Shareholders' best interests.

SUMMARY

- Some of our future revenue may be derived from countries that are subject to U.S. OFAC sanctions.
- The widespread outbreak of communicable diseases could affect our results of operations.

Risks Related to the People's Republic of China

- Economic, political and social conditions, as well as government policies in China could have a material adverse effect on our business, results of operations and financial condition.
- Changes in foreign exchange regulations and future movements in the exchange rate of Renminbi may adversely affect our financial condition and results of operations and our ability to pay dividends.
- The PRC legal system is evolving and has inherent uncertainties that could limit the legal protection available to you.
- It may be difficult to enforce judgments obtained from outside China against us, our Directors, or our senior management members who reside in China.
- We are a holding company that relies heavily on dividend payments from our PRC subsidiary for funding.
- Gains on the sales of our Shares and dividends on our Shares may be subject to PRC income taxes.
- As a foreign company, our acquisitions of PRC companies may take longer and be subject to higher levels of scrutiny by the PRC Government.

Risk Related to the Cayman Islands

- You may face difficulties in protecting your interests under Cayman Islands law.

Risks Related to the Global Offering

- There has been no prior public market for our Shares.
- The liquidity and market prices of our Shares following this Global Offering may be volatile.
- Investors will experience immediate and substantial dilution as a result of the Global Offering.
- Future sales or a major divestment of Shares by any major Shareholder could adversely affect our Share price.

SUMMARY

- Shareholders' interests may be diluted as a result of additional equity fund-raising.
- We cannot guarantee the accuracy of facts, forecasts and other statistics obtained from official government sources contained in this Prospectus.
- This Prospectus contains forward-looking statements relating to our plans, objectives, expectations and intentions, which may not represent our overall performance for periods of time to which such statements relate.

SHENGLI STEEL PIPE'S DISPOSAL OF SHANDONG SHENGLI AND THE SSAW PIPE BUSINESS

In December 2007, Shengli Steel Pipe sold its entire 74% equity interest in Shandong Shengli and the relevant assets of its SSAW pipe business comprising mainly the production facilities and business in Zibo and Dezhou, Shandong Province (excluding land and buildings) to CPE, then an investment vehicle indirectly wholly owned by Mr. Yan. Notwithstanding the fact that Shengli Steel Pipe had no immediate need for cash, it agreed to the disposal of its entire 74% equity interest in Shandong Shengli and the entire SSAW pipe business to Mr. Yan with a deferred payment of the consideration for the sale in March 2008 and June 2008, respectively. Subsequently the payments of the consideration were delayed to July 2008 and August 2008, respectively. In addition, Shengli Steel Pipe agreed to provide non-trade financial support to Shandong Shengli mainly from its internal financial resources and with the proceeds of sales of the 74% equity interest in Shandong Shengli and the relevant assets of its SSAW pipe business received from CPE, which reached a maximum amount on a monthly basis of RMB81.2 million in August 2008 among the 12 months ended 31 December 2008 and RMB3.3 million in May 2009 among the six months ended 30 June 2009. Except for the RMB8.45 million used for CPE's acquisition of the 26% equity interest in Shandong Shengli from Victory Trading, Mr. Yan did not personally provide any funding for the transaction, and, instead, obtained funding through a loan facility under the Exchangeable Loan Agreement. Mr. Yan neither provided any funding for the subsequent development of the Group. Shengli Steel Pipe's sale of the 74% equity interest in Shandong Shengli and the SSAW pipe business to CPE therefore had no apparent economic rationale to a third party without the background knowledge. Please refer to the section headed "History and Corporate Structure" in this Prospectus for further details on the background of the disposal.

The aggregate consideration of the sale of 100% equity interest in Shandong Shengli (including 26% equity interest in Shandong Shengli sold by Victory Trading to CPE for a consideration of RMB8.45 million) and the SSAW pipe business i.e. RMB116.51 million represents a 97.6% discount to the market capitalization of the Company (assuming the Over-allotment Option is not exercised) based on the mid-point of the Offer Price range and an exchange rate of RMB0.8810 to HK\$1.00.

DEFINITIONS

In this Prospectus, the following terms have the following meanings unless the context otherwise requires. Certain technical terms are explained in the section headed “Glossary” in this Prospectus.

“Aceplus”	Aceplus Investments Limited, our Controlling Shareholder and a connected person of the Company;
“API”	American Petroleum Institute;
“Apollo Asia”	Apollo Asia Opportunity Master Fund, L.P., a Shareholder of the Company and an Independent Third Party;
“Application Form(s)”	white application form(s), yellow application form(s) and green application form(s), or where the context so requires, any of them relating to the Hong Kong Public Offering;
“Articles of Association” or “Articles”	the articles of association adopted by the Company on 21 November 2009, a summary of which is set forth in the paragraph headed “Summary of Articles of Association and Cayman Islands Companies Law” included in Appendix VI to this Prospectus;
“Associates”	companies or persons under the meaning ascribed thereto under the Hong Kong Listing Rules;
“Audit Committee”	the audit committee of the Company;
“Beijing Guoyou Dazheng”	Beijing Guoyou Dazheng Assets Valuation Company Limited (北京國友大正資產評估有限公司), an asset valuation company incorporated in the PRC, with qualification to conduct asset valuations in relation to securities, and an Independent Third Party;
“Board” or “Board of Directors”	the board of Directors of the Company;
“Business Day”	a day that is not a Saturday, Sunday or public holiday in Hong Kong;
“BVI”	the British Virgin Islands;
“CAGR”	compound annual growth rate;
“Capitalization Issue”	the issue of 1,799,800,000 Shares to be made upon capitalization of certain sums standing to the credit of the share premium account of the Company referred to in the paragraph headed “Written resolutions of our Shareholders passed on 21 November 2009” under the section headed “Statutory and General Information — A. Further Information About The Group” in Appendix VII to this Prospectus;

DEFINITIONS

“Cayman Islands Companies Law”	the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands;
“CCASS”	the Central Clearing and Settlement System established and operated by the HKSCC;
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or a general clearing participant;
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant;
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant, who may be an individual or joint individuals or a corporation;
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant;
“CNOOC”	China National Offshore Oil Corporation (中國海洋石油總公司), an Independent Third Party;
“CNPC”	China National Petroleum Corporation (中國石油天然氣集團公司), an Independent Third Party;
“CNPC Group”	CNPC and its subsidiaries;
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“Company”	Shengli Oil & Gas Pipe Holdings Limited (勝利油氣管道控股有限公司), a company incorporated under Cayman Islands Companies Law on 3 July 2009;
“Company Law” or “PRC Company Law”	Company Law of the PRC (中華人民共和國公司法), as adopted at the Fifth Session of the Standing Committee of the Eighth NPC on 29 December 1993, effective 1 July 1994, as amended, supplemented or otherwise modified from time to time;
“connected person”	has the meaning ascribed to it under the Hong Kong Listing Rules;
“Controlling Shareholders”	has the meaning ascribed thereto under the Hong Kong Listing Rules and, in the context of this Prospectus, means the controlling shareholders of the Group, being Aceplus and Mr. Yan;

DEFINITIONS

“Core Business”	the SSAW pipe business and the cold-formed section steel business operated by Shengli Steel Pipe before the Group’s acquisition of Shandong Shengli on 29 December 2007;
“Corporate Reorganization”	the corporate reorganization of the Group in preparation for the Listing of our Shares on the Hong Kong Stock Exchange, the particulars of which are described in the section “History and Corporate Structure — Our Corporate Reorganization”;
“CPE”	China Petro Equipment Holdings Pte. Ltd., an indirect wholly owned subsidiary of the Company;
“CPMEC”	China Petroleum Materials and Equipment (Group) Corporation (中國石油物資公司), an Independent Third Party;
“CPTDC”	China Petroleum Technology & Development Corporation (中國石油技術開發公司), an Independent Third Party;
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會), a regulatory body responsible for the supervision and regulation of the PRC national securities markets;
“Director(s)”	the director(s) of the Company;
“Energy Information Administration” or “EIA”	an independent statistical agency within the U.S. Department of Energy;
“Exchangeable Loan Agreement”	the exchangeable loan agreement dated 8 July 2008, entered into among CPE, Aceplus, SEAVI Advent Equity V (A), Apollo Asia, Mr. Yan and Mr. Zhang;
“Executive Director(s)”	the executive Director(s) of the Company;
“GFA”	gross floor area;
“Global Offering”	the Hong Kong Public Offering and the International Offering;
“Green Application Form(s)”	the application form(s) to be completed by the White Form eIPO Service Provider designated by the Company;
“Group”	the Company and its subsidiaries from 1 November 2007 onward;
“HKSCC”	Hong Kong Securities Clearing Company Limited;
“HKSCC Nominees”	HKSCC Nominees Limited;

DEFINITIONS

“Hong Kong” or “HK”	Hong Kong Special Administrative Region of the PRC;
“Hong Kong dollar” or “HK\$”	the lawful currency of Hong Kong;
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (as amended from time to time);
“Hong Kong Public Offering”	the offer by the Group of an initial 72,000,000 New Shares for subscription by the public in Hong Kong (subject to adjustment as described in the section headed “Structure of the Global Offering”) for cash at the Offer Price (plus brokerage, SFC transaction levies, and Hong Kong Stock Exchange trading fees), on and subject to the terms and conditions described in this Prospectus and the Application Forms as further described in the section headed “Structure of the Global Offering — The Hong Kong Public Offering”;
“Hong Kong Public Offer Shares”	the Shares offered for subscription pursuant to the Hong Kong Public Offering;
“Hong Kong Share Registrar”	Computershare Hong Kong Investor Services Limited;
“Hong Kong Stock Exchange”	the Stock Exchange of Hong Kong Limited;
“Hong Kong Underwriters”	the underwriters of the Hong Kong Public Offering listed as such in the section headed “Underwriting” of this Prospectus;
“Hong Kong Underwriting Agreement”	the underwriting agreement of the Hong Kong Public Offering listed as such in the section headed “Underwriting” of this Prospectus;
“IFRS”	International Financial Reporting Standards promulgated by the International Accounting Standards Board (“IASB”). IFRS includes the International Accounting Standards (“IAS”) and their interpretations;
“Independent Non-Executive Director(s)”	the independent non-executive Director(s) of the Company;
“Independent Third Party(ies)”	person(s) or company(ies) which is(are) independent of the Directors, Controlling Shareholders, Substantial Shareholders and the chief executive (such terms as defined in the Hong Kong Listing Rules) of the Group;
“International Offering”	the conditional placing of the International Offer Shares with institutional, professional, corporate and other investors, as further described in the section headed “Structure of the Global Offering” in this Prospectus;

DEFINITIONS

“International Offer Shares”	the Shares offered pursuant to the International Offering;
“International Purchase Agreement”	the purchase agreement relating to the International Offering, which is expected to be entered into among the Company and the International Underwriters on or around 14 December 2009;
“International Underwriters”	the several underwriters of the International Offering;
“IPO”	initial public offering;
“ISO”	international organization for standardization, a worldwide federation of national standards bodies from some 130 countries, whose mission is to develop industrial standards that facilitate international trade;
“ISO9001”	the part of the ISO9000 series “quality system — model for quality assurance in design/development, productions, installation and servicing” which covers the following areas: quality management system, management responsibility, resource management, product realization, measurement, analysis and improvement;
“Jiaoji Railway”	a section of China’s national railway mainlines connecting Jinan, Shandong Province and Qingdao, Shandong Province;
“km”	kilometer;
“Latest Practicable Date”	29 November 2009, being the latest practicable date prior to the printing of this Prospectus for the purpose of ascertaining certain information in this Prospectus prior to its publication;
“Listing”	the listing of the Offer Shares on the Main Board of the Hong Kong Stock Exchange;
“Listing Date”	the date on which dealings in the Shares commence on the Hong Kong Stock Exchange;
“m ² ”	square meters;
“Macquarie”	Macquarie Capital Securities Limited, a licensed corporation under the SFO to conduct types 1 (dealing in securities), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities as defined in the SFO;
“Ministry of Commerce” or “MOFCOM”	the Ministry of Commerce of the PRC (中華人民共和國商務部);

DEFINITIONS

“Ministry of Finance” or “MOF”	the Ministry of Finance of the PRC (中華人民共和國財政部);
“Mr. Yan”	Mr. Yan Tangfeng, our Controlling Shareholder;
“Mr. Zhang”	Mr. Zhang Bizhuang, our Executive Director and chief executive officer;
“National Bureau of Statistics of China”	National Bureau of Statistics of China (中華人民共和國國家統計局);
“National OCTG Quality Supervision and Inspection Center”	National OCTG Quality Supervision and Inspection Center (國家石油管材質量監督檢驗中心);
“NAV”	net asset value;
“NDRC”	the National Development and Reform Commission of the PRC (中華人民共和國國家發展和改革委員會);
“New Income Tax Law”	Enterprise Income Tax Law of the PRC (中華人民共和國企業所得稅法) as adopted at the Fifth Session of the Tenth NPC on 16 March 2007, effective 1 January 2008;
“New Shares”	the 600,000,000 new Shares being initially offered by the Company for subscription at the Offer Price under the Global Offering and where relevant, any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option;
“Nomination Committee”	the nomination committee of the Company;
“Non-Executive Director(s)”	non-executive Director(s) of the Company;
“NPC”	National People’s Congress of the PRC (全國人民代表大會);
“OFAC”	Office of Foreign Assets Control (OFAC), an agency of the United States Department of the Treasury that administers and enforces, pursuant to the U.S. Economic Sanctions Laws, economic and trade sanctions based on U.S. foreign policy and national security goals against targeted foreign states, organizations, and individuals;

DEFINITIONS

“Offer Price”	the final Hong Kong dollar price per Share (exclusive of 1% brokerage, 0.004% SFC transaction levies and 0.005% Hong Kong Stock Exchange trading fees) at which the Shares are to be subscribed for and issued pursuant to the Hong Kong Public Offering, to be determined as further described in the section headed “Structure of the Global Offering — Pricing and Allocation” in this Prospectus;
“Offer Shares”	the Hong Kong Public Offer Shares and the International Offer Shares together, where relevant, with any additional Shares issued and sold pursuant to the exercise of the Over-allotment Option;
“Over-allotment Option”	the option to be granted by the Company and the Selling Shareholders to the International Underwriters, pursuant to which the Company may be required to allot and issue and the Selling Shareholders may be required to sell up to an aggregate of 108,000,000 Shares comprising of 90,000,000 additional New Shares and 18,000,000 additional Sale Shares (representing 15% of the Offer Shares initially being offered under the Global Offering) at the Offer Price to, among other things, cover over-allocations in the International Offering, details of which are described in the section headed “Structure of the Global Offering” in this Prospectus;
“PBOC” or “People’s Bank of China”	The People’s Bank of China (中國人民銀行), the central bank of the PRC;
“PBOC Rate”	the exchange rate for foreign exchange transactions set daily by the PBOC based on the previous day’s PRC inter-bank foreign exchange rates and with reference to prevailing exchange rates on the world financial markets;
“PetroChina”	PetroChina Company Limited (中國石油天然氣股份有限公司), a joint stock company incorporated in the PRC and a subsidiary of CNPC and an Independent Third Party;
“PRC” or “China” or the “People’s Republic of China”	People’s Republic of China, excluding Hong Kong, Macau and Taiwan for the purposes of this Prospectus;
“PRC GAAP”	the PRC Accounting Standards and Accounting Regulations for Business Enterprises and its supplementary regulations;
“Price Determination Date”	the date, expected to be on or around 14 December 2009 but no later than 16 December 2009, on which the Offer Price and the number of Shares in the Global Offering is fixed for the purposes of the Global Offering;

DEFINITIONS

“Prospectus”	this Prospectus in connection with the Hong Kong Public Offering;
“QIBs”	qualified institutional buyers as defined in Rule 144A;
“Regulation S”	Regulation S under the U.S. Securities Act;
“Remuneration Committee”	the remuneration committee of the Company;
“Rizhao Shengli”	Shengli Steel Pipe (Rizhao) Co., Ltd. (勝利鋼管(日照)有限公司), which was initially established as a sino-foreign equity joint venture with limited liability in Rizhao, Shandong Province, China and mainly operated cold-formed section steel business until being renamed to Shandong Shengli on 14 December 2007 and acquired by the Group on 29 December 2007;
“RMB” or “Renminbi”	the lawful currency of the PRC;
“Rule 144A”	Rule 144A under the U.S. Securities Act;
“SAFE”	the PRC State Administration of Foreign Exchange (中華人民共和國國家外匯管理局);
“SAFE Notice No. 75”	the Notice of the State Administration of Foreign Exchange on Exchange Control Issues Relating to Financing and Reverse Investment by Persons Resident in the People’s Republic of China Through Offshore Special Purpose Vehicles (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知), promulgated by the SAFE on 21 October 2005 and effective on 1 November 2005;
“SAIC” or “State Administration for Industry and Commerce”	the State Administration for Industry and Commerce of the PRC (中華人民共和國國家工商行政管理總局);
“Sale Shares”	the 120,000,000 existing Shares being initially offered by the Selling Shareholders for sale at the Offer Price under the International Offering and where relevant, any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option;
“SASAC”	the State-owned Assets Supervision and Administration Commission of the State Council of the PRC (中華人民共和國國務院國有資產監督管理委員會);
“SAT”	the State Administration of Taxation of the PRC (中華人民共和國國家稅務總局);

DEFINITIONS

“SEAVI Advent Equity V (A)”	SEAVI Advent Equity V (A) Ltd., a Shareholder of the Company and an Independent Third Party;
“Selling Shareholders”	Aceplus, SEAVI Advent Equity V (A) and Apollo Asia;
“SFC”	the Securities and Futures Commission of Hong Kong;
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time;
“Shandong Shengli”	Shandong Shengli Steel Pipe Co., Ltd. (山東勝利鋼管有限公司), formerly known as Rizhao Shengli, an indirect wholly owned subsidiary of the Company;
“Shandong Shengli Dezhou Branch”	Shandong Shengli Steel Pipe Co., Ltd. Dezhou Branch (山東勝利鋼管有限公司德州分公司);
“Shandong Shengli Rizhao Branch”	Shandong Shengli Steel Pipe Co., Ltd. Rizhao Branch (山東勝利鋼管有限公司日照分公司);
“Share” or “Shares”	share or shares of the Company of nominal value HK\$0.1 each;
“Share Option Scheme”	the share option scheme conditionally approved and adopted by the Shareholders on 21 November 2009, a summary of the principal terms of which is set out in the paragraph headed “F. Share Option Scheme” in Appendix VII to this Prospectus;
“Shareholder(s)”	the holder(s) of our Share(s);
“Shengli Coating”	Zibo Shengli Coating Engineering Co., Ltd. (淄博勝利防腐工程有限公司), a limited liability company incorporated in the PRC whose registered capital was held as to 55% by China Petroleum Pipeline Coating Engineering Co., Ltd. (中油管道防腐工程有限公司) and 45% by Shengli Steel Pipe;
“Shengli Factory”	Shengli Oilfield Construction Headquarter Steel Pipe Factory (勝利油田油建指揮部製管廠);

DEFINITIONS

“Shengli Oilfield”	Shengli Oilfield (勝利油田), the predecessor of the Shengli Oilfield Branch Company of China Petroleum & Chemical Corporation (中國石油化工股份有限公司勝利油田分公司), an Independent Third Party to the Company. It is the second largest oil production field in China, which lies in Dong Ying City at the downstream of the Yellow river. Discovered in 1961, Shengli Oilfield started development in 1964 and began to produce petroleum in 1966;
“Shengli Steel Pipe”	Shengli Steel Pipe Co., Ltd. (勝利鋼管有限公司), a limited liability company incorporated in the PRC on 4 January 1996 and a connected person of the Company;
“Shengli (BVI)”	Shengli (BVI) Ltd. (formerly known as Sinolion Equity II Ltd.), a company incorporated in the BVI on 30 October 2008 and a wholly owned subsidiary of the Company;
“Sinopec”	China Petrochemical Corporation (中國石油化工集團公司), an Independent Third Party;
“Sinopec Group”	Sinopec and its subsidiaries;
“Sole Global Coordinator”	Macquarie;
“Stabilizing Manager”	Macquarie;
“State Council”	State Council of the PRC (中華人民共和國國務院);
“Stock Borrowing Agreement”	a stock borrowing agreement expected to be entered into on or about the Price Determination Date between Macquarie and Aceplus;
“Subsidiary(ies)”	has the meaning ascribed to it in the Hong Kong Listing Rules;
“Substantial Shareholders”	has the meaning ascribed to it in the Hong Kong Listing Rules;
“tonnes”	metric tonnes;
“Track Record Period”	the period comprising the three years ended 31 December 2008 and the six months ended 30 June 2009;
“Underwriters”	collectively, the Hong Kong Underwriters and the International Underwriters;
“Underwriting Agreements”	collectively, the Hong Kong Underwriting Agreement and the International Purchase Agreement;

DEFINITIONS

“United States” or “U.S.”	the United States of America;
“US dollar” or “US\$”	the lawful currency of the United States of America;
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder;
“VAT”	value-added tax;
“Victory Trading”	Hongkong Victory Trading Industry Company Limited;
“we” or “our” or “us”	the Group and, except where the context otherwise requires, all of its subsidiaries from time to time and assets which it acquired, including Shengli Steel Pipe, that form the complete business operations during the Track Record Period;
“WFOE”	wholly foreign owned enterprise;
“White Form eIPO”	the application for Hong Kong Public Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of White Form eIPO www.eipo.com.hk ; and
“White Form eIPO Service Provider”	Computershare Hong Kong Investor Services Limited.

GLOSSARY

This glossary contains certain technical terms used in this Prospectus in connection with our operations. Such terms and their meanings may not correspond to standard industry definitions or usage.

“API 5L”	API Spec 5L is a globally recognized industry standard set by the American Petroleum Institute for the oil and natural gas industry that specifies requirements for seamless pipes and welded steel line pipes for use in transporting oil and natural gas;
“cold-formed section steel”	a steel product that is formed in different configurations by curving steel plates or steel strips at room temperature;
“ERW pipe”	a type of longitudinally welded steel pipe formed by electric resistance welding (ERW) or electric induction welding without the addition of filler metal;
“FBE”	fusion bonded epoxy coating, a type of anti-corrosion coating that provides protection for steel pipes that operate at moderate temperature;
“LSAW pipe”	longitudinal submerged arc welded pipe, a type of longitudinally welded steel pipe produced by using the double-sided submerged arc welding method;
“MPa”	mega pascal, a common metric unit of pressure or stress;
“SSAW pipe”	spiral submerged arc welded pipe, a type of spirally welded steel pipe produced by using the double-sided submerged arc welding method;
“tensile test”	a test for determining the physical and mechanical properties of sample materials such as tensile strength, yield strength and elongation percentage;
“UKAS”	United Kingdom Accreditation Service, a governmental organization responsible for approval of accreditation authorities and approval of surveys and tests conducted by laboratories;
“ultrasonic test”	an electronic method of non-destructive testing that utilizes ultra sound waves; and
“welding”	a process of joining pieces of metal by applying heat and pressure until the metal pieces are fused together. Filler metal may or may not be used.

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

MANAGEMENT PRESENCE IN HONG KONG

According to Rule 8.12 of the Hong Kong Listing Rules, we must have a sufficient management presence in Hong Kong. This normally means that at least two of the executive directors must be ordinarily resident in Hong Kong. At present, all our Executive Directors ordinarily reside in China, since our main operations are in China. We do not and will not, in the foreseeable future, have sufficient management presence in Hong Kong.

Accordingly, Orrick, Herrington & Sutcliffe, our Hong Kong legal advisers, have applied on our behalf to the Hong Kong Stock Exchange for, and the Hong Kong Stock Exchange has granted, a waiver from strict compliance with the requirements under Rule 8.12 of the Hong Kong Listing Rules subject to the following conditions:

- (a) The Company has appointed two authorized representatives pursuant to Rule 3.05 of the Hong Kong Listing Rules who will act as the Group's principal channel of communication with the Hong Kong Stock Exchange. The two authorized representatives are Ms. Han Aizhi, our Executive Director, and Mr. Lo Wah Wai, our company secretary. Ms. Han has confirmed that she possesses valid travel documents and can readily travel to Hong Kong to meet with the Hong Kong Stock Exchange upon request of the Hong Kong Stock Exchange, if required. They will be readily contactable by telephone, facsimile and email, and are authorized to communicate on behalf of the Company with the Hong Kong Stock Exchange;
- (b) The authorized representatives have means of contacting our Directors (including the Independent Non-executive Directors) promptly at all times as and when the Hong Kong Stock Exchange wishes to contact our Directors on any matters. To enhance communication between the Hong Kong Stock Exchange, the authorized representatives and our Directors, the Company has implemented a policy whereby (a) each Director will have to provide his/her office phone numbers, mobile phone numbers, residential phone numbers, facsimile numbers and email addresses to the authorized representatives; (b) in the event that an Executive Director expects to travel and be out of office, he/she will have to provide the phone number of the place of his/her accommodation to the authorized representatives; and (c) all Directors will provide their mobile phone numbers, office phone numbers, facsimile numbers and email addresses to the Hong Kong Stock Exchange upon request;
- (c) The Company has, in accordance with Rule 3A.19 of the Hong Kong Listing Rules, also appointed SBI E2-Capital (HK) Limited as its compliance adviser, who will have access at all times to the Company's authorized representatives, Directors and other officers and act as an additional channel of communication with the Hong Kong Stock Exchange. The compliance adviser will advise on on-going compliance requirements and other issues arising under the Hong Kong Listing Rules and other applicable laws and regulations in Hong Kong after the Listing;

WAIVERS FROM COMPLIANCE WITH THE LISTING RULES

- (d) Meetings between the Hong Kong Stock Exchange and our Directors could be arranged through the authorized representatives or the Company's compliance adviser, or directly with our Directors within a reasonable time frame. The Company will inform the Hong Kong Stock Exchange promptly in respect of any change in the Company's authorized representatives and compliance adviser; and
- (e) All of our Directors have confirmed that they possess or can apply for valid travel documents to visit Hong Kong and will be able to meet with the Hong Kong Stock Exchange in Hong Kong upon reasonable notice.

CONNECTED TRANSACTIONS

Shandong Shengli has entered into a transaction with Shengli Steel Pipe, which would constitute a non-exempt continuing connected transaction of the Company under the Hong Kong Listing Rules after the Listing. The Company has received from the Hong Kong Stock Exchange a waiver from strict compliance with the announcement requirements set out in Chapter 14A of the Hong Kong Listing Rules for such non-exempt continuing connected transaction. Further details of such non-exempt continuing connected transaction and the waiver are set out in the section headed "Connected Transactions".

FORWARD-LOOKING STATEMENTS

We have included in this Prospectus forward-looking statements. Statements that are not historical facts, including statements about our intentions, beliefs, expectations or predictions for the future, are forward-looking statements.

These forward-looking statements include, without limitation, statements relating to:

- our business prospects;
- our future debt levels and capital needs;
- future developments, trends and conditions of the oil and gas market and the oil and gas pipeline industry in China and the world;
- our strategies, plans, objectives and goals;
- general economic conditions;
- changes to regulatory or operating conditions in the market in which we operate;
- our ability to reduce costs;
- our dividend policy;
- our capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors;
- certain statements in “Financial Information” with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates; and
- other statements in this Prospectus that are not historical fact.

In some cases, we use the words “aim,” “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “going forward,” “intend,” “ought to,” “may,” “plan,” “potential,” “predict,” “project,” “seek,” “should,” “will,” “would” and similar expressions as they relate to us to identify forward-looking statements.

FORWARD-LOOKING STATEMENTS

These forward-looking statements are based on current plans and estimates, and speak only as of the date they are made. We undertake no obligation to update or revise any forward-looking statement in light of new information, future events or otherwise. Forward-looking statements involve inherent risks and uncertainties and are subject to assumptions, some of which are beyond our control. We caution you that a number of important factors could cause actual outcomes to differ, or to differ materially, from those expressed in any forward-looking statement.

Due to these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements contained in this Prospectus are qualified by reference to this cautionary statement.

RISK FACTORS

Investing in the Shares involves a high degree of risk. You should carefully consider each of the risks described below and all of the other information contained in this Prospectus before deciding to purchase the Shares. In particular, as we are a non-U.S. company, there are risks associated with investing in the Shares that do not arise when investing in the shares of U.S. companies. You should be aware that our subsidiaries in China are governed by a legal and regulatory environment that in some respects differs significantly from that in other countries.

If any of the following risks occur, our business, financial condition and results of operations could be materially and adversely affected. In that case, the trading price of the Shares could decline, and you may lose all or part of your investment.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

Our revenue is generated substantially from the sale of a single product.

We generate a significant majority of our revenue from the sale of high-grade SSAW pipes. For the year ended 31 December 2008 and the six months ended 30 June 2009, sales of SSAW pipes accounted for 92.7% and 98.0% of the Group's revenue, respectively. Approximately 70% of large-diameter oil and gas pipelines in China are constructed using SSAW pipes, however, LSAW pipes are commonly used in high pressure oil and gas transportation lines and are required for sections of pipelines that extend across areas with high population or building density or involve sub-sea applications. A shift in market preference for LSAW pipes among pipeline operators or a substantial reduction in LSAW pipe prices relative to SSAW pipes prices could result in lost sales. To the extent that we are not able to replace sales lost to LSAW pipes or other types of pipes, our business, financial condition and results of operations would be adversely affected. If we cannot expand our product offering to include LSAW pipes as planned or other products in the future, our source of revenue will remain concentrated on SSAW pipes and our financial condition, results of operations and growth prospects may be adversely affected.

We rely heavily on a limited number of customers.

Historically, our customer base has been highly concentrated. Our major customers are primarily CNPC, Sinopec and their respective subsidiaries and affiliates. Aggregate sales attributable to the CNPC Group and the Sinopec Group represented approximately 85.9% and 93.9% of the Group's total sales for the year ended 31 December 2008 and the six months ended 30 June 2009, respectively, and approximately 66.1% and 60.0% of total sales of Shengli Steel Pipe's Core Business for the year ended 31 December 2006 and the period from 1 January to 28 December 2007, respectively. As a result of our customer concentration, the capital expenditures on pipeline infrastructure, business policies and procurement strategies of these customers have had and will continue to have a significant impact on our financial condition and results of operations.

As CNPC and Sinopec are expected to remain the primary operators of oil and gas pipelines in China, we expect to continue relying heavily on our major customers within the CNPC Group and the Sinopec Group for business opportunities. Any unfavorable policy or strategy changes may result in a significant reduction of business from one or more of our major customers for our SSAW pipes. In

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addition, these key customers are large-scale oil and gas companies that have bargaining power in terms of product pricing, production arrangement, raw material sourcing, payment terms and credit periods. As a result, our leverage in negotiating the terms of our supply contracts with these customers is limited.

We cannot assure you that we will be able to maintain or improve our relationships with these customers, or that we will be able to continue to supply products to these customers at current volumes or prices or at all. If any of our key customers substantially reduces, changes, delays or cancels their purchase orders with us or terminates their business relationships with us, we may not be able to obtain orders on comparable terms or in a timely manner or at all from other customers to replace any such lost sales. The occurrence of any of the foregoing events would materially and adversely affect our business, results of operations and financial condition.

Our revenue largely depends on public spending on oil and gas pipeline infrastructure.

We believe our revenue and sales volume increased significantly during the Track Record Period, in part, as a result of favorable government policies that have supported substantial public spending on oil and gas pipeline infrastructure, including a fiscal stimulus plan in 2008 in response to the global economic crisis. We cannot assure you that government support for pipeline infrastructure spending will remain as strong or at sufficient levels to sustain our current sales volume or growth rates. A reduction in pipeline spending may reduce demand for our products and adversely affect our financial condition, results of operations and growth prospects.

We are vulnerable to the delay or rescheduling of oil and gas pipeline projects.

We derive a substantial majority of our revenue from sales of high-grade SSAW pipes, which have enjoyed greater demand in recent years due to the continued development and growth of the PRC economy, active exploration and production activities by oil and gas companies, and favorable government energy policies, which in turn have resulted in the construction of more oil and gas pipelines.

Planned and ongoing oil and gas pipeline projects can be delayed or rescheduled for a number of reasons including, among other factors, changes in the business strategy of pipeline operators, technical difficulties, natural disasters, delays in regulatory approval or budget constraints. We believe that our ongoing projects and the projects for which we have secured supply contracts will contribute significantly to our revenue and profitability. However, should any of the major projects to which we plan to supply line pipes be delayed or rescheduled, our financial forecasts for the year ending 31 December 2009 could become materially inaccurate.

The delay or rescheduling of such projects might also lead to the termination of supply contracts for our products. In the event that our supply contracts are terminated, our business, financial condition and results of operations may be materially and adversely affected.

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A change in the payment settlement arrangement with our major customers may require us to maintain additional working capital.

For the year ended 31 December 2008 and the six months ended 30 June 2009, approximately 71.3% and 26.0%, respectively, of the Group's revenue was derived from sales of SSAW pipes to China Petroleum Technology & Development Corporation, or CPTDC. Under our payment settlement arrangement with CPTDC, this customer settles the payment for steel coils necessary for its orders on our behalf. See "Business — Sales and Marketing — Production arrangement and credit policy". After we deliver the SSAW pipes to CPTDC, we issue a payment notice for the full supply contract price, which includes the purchase price for the steel coils. CPTDC then pays us the supply contract price less the amount of payment already made by it to the supplier for the steel coils. For agreements with the Sinopec Group, it is responsible for the procurement and supply of raw materials, mainly steel coils, necessary for the production of its SSAW pipes. These two payment settlement arrangements reduce our working capital requirements substantially by requiring these two customers to advance the costs of our primary raw material. If these two customers who currently use this method of payment settlement change their practice, we may have to seek and allocate additional working capital for raw material purchases unless we can obtain similar credit terms from our suppliers. A change in their payment settlement practice would adversely affect our business and liquidity.

We are exposed to risks arising from credit terms extended to our customers.

We are exposed to the risk of payment delays and defaults by our two major customers, namely the CNPC Group and the Sinopec Group, arising from the credit terms granted to these customers. As of 31 December 2006 and 28 December 2007, the trade receivables balance of Shengli Steel Pipe's Core Business, inclusive of retention money withheld by customers to guarantee against major quality defects in our delivered products, was RMB47.4 million and RMB61.3 million, respectively. As of 31 December 2008 and 30 June 2009, the trade receivables balance of the Group, inclusive of retention money, was RMB124.5 million and RMB283.6 million, respectively. Our credit terms vary by customers. Credit terms that are extended to domestic customers for our SSAW pipes and cold-formed section steel are generally 90 days. Payments by overseas customers for our overseas sales of cold-formed section steel are generally made by letter of credit. For the year ended 31 December 2008 and the six months ended 30 June 2009, the trade receivable turnover days for the Group were 31.2 days and 20.3 days, respectively. For the year ended 31 December 2006 and the period from 1 January to 28 December 2007, the trade receivable turnover days for Shengli Steel Pipe's Core Business were 187.3 days and 82.4 days, respectively.

There may be a time gap between the maturity of our payables and receivables. To the extent that our receivable turnover days exceed our payable turnover days, we may be required to raise additional working capital. In addition, we cannot assure you that we will be able to maintain or improve current payment terms with our major customers, who have substantial bargaining power over us.

We cannot guarantee the timeliness of our customers' payments or that such customers will be able to perform their obligations. Any inability on the part of our customers to settle their payments in a timely manner may adversely affect our financial performance and cash flow.

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We may encounter difficulties when expanding into new products and new markets.

As part of our plan to broaden our product offerings, we plan to introduce LSAW pipes and ERW pipes, as well as other products related to the oil and gas industry. We plan to invest significant resources into the research and development of new products and the construction of production lines for these new products. Our new products may target the same customer base as our SSAW pipes. However, we cannot assure you that the market will accept or demand these new products when we introduce them.

We also plan to expand our geographic coverage by targeting regional pipeline markets in China. We may face market entry barriers such as strong local competitors that may have a proximity advantage and local connections, which may prevent us from competing effectively in the regional pipeline markets in China.

We may fail to secure supply contracts for new projects through competitive bidding.

Our revenue is generated on a project basis from pipeline projects that are non-recurring in nature. We generally secure supply contracts for projects with the CNPC Group and, to a lesser extent, the Sinopec Group through a bidding and negotiation process. To the best of our knowledge, only invited suppliers that are API certified and maintain a valid CNPC Supplier Admittance Certificate (中國石油天然氣集團公司物資供應商准入證) or a valid Sinopec Gas Company Market Admittance Certificate (中石化股份有限公司天然氣分公司市場准入證) may submit bids for projects of the CNPC Group and the Sinopec Group, respectively. As approximately 85% of contracts during the Track Record Period of the Group and Shengli Steel Pipe, based on contract value, were secured through bidding and negotiation, our financial performance is dependent on our ability to maintain our bidding eligibility, submit competitive bids and continually secure supply contracts.

In addition, due to the nature of the PRC oil and gas pipeline industry, the value of projects that we are able to secure may fluctuate from year to year. We cannot assure you that we will continue to secure new supply contracts or that these supply contracts will be profitable. If we are unable to secure profitable supply contracts, our business, financial performance and financial position will be adversely affected.

We are affected by the state of relations between China and foreign countries from which China imports oil and gas.

To meet increasing domestic demand for oil and gas, PRC oil and gas companies such as CNPC and Sinopec have contracted and have plans to enter into contracts to import oil, natural gas and liquefied natural gas from foreign countries such as Russia, Kazakhstan, Turkmenistan, Uzbekistan and Myanmar and may undertake to construct pipelines to transport such fuels from these countries. We expect CNPC and Sinopec to continue constructing transnational pipelines, and our products may be installed in these pipelines. Planned projects may be postponed or terminated if political relations between China and its trading partners deteriorate. Proposed routes for pipelines may span across regions that are subject to terrorism or political instability, and any attacks or threats of attack may affect a project's progress. Accordingly, our contracts to supply to such projects may be delayed or cancelled, and our product delivery or receipt of payment may be adversely affected.

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Fluctuations in global oil and gas prices could lead to reduced demand for our products and services.

Our primary product, SSAW pipes, is used to transport oil and gas. Demand for SSAW pipes directly correlates with, among other things, the level of demand and prices for oil and gas. Fluctuations, especially a sustained period of decline, in oil and gas prices would affect the investment policies and capital spending by oil and gas companies which in turn could reduce the level of demand for our products and services and adversely affect our financial condition and results of operations.

We cannot predict the future movement of oil and gas prices nor can we provide any assurance that these prices will otherwise remain at sufficiently high levels to support demand for our products. Any sustained decline in the prices of oil and gas may reduce the willingness of oil and gas companies to invest in oil and gas pipeline projects, which may have a detrimental effect on demand for or prices of our products and, as a result, materially and adversely affect our results of operations and financial condition.

We may experience shortages of or price increases in raw materials.

Our production depends on our ability to obtain adequate supplies of raw material on commercially acceptable terms and in a timely manner. A shortage of any of our key raw materials may increase the prices of such materials and reduce our profit margins to the extent that we are unable to pass these price increases to our customers. Raw material purchases accounted for 68.8% and 79.5% of the cost of sales of Shengli Steel Pipe's Core Business for the year ended 31 December 2006 and the period from 1 January to 28 December 2007, respectively, and 95.7% and 96.0% of the Group's cost of sales for the year ended 31 December 2008 and the six months ended 30 June 2009, respectively. The substantial increase in the cost of raw materials as a percentage of total cost of sales during the Track Record Period was due to an increase in contracts where we supply steel pipe products, which include the cost of our raw materials, as opposed to contracts where we only provide processing services.

The principal raw material in our operations and production of SSAW pipes is steel coils. The price of steel has historically fluctuated significantly in line with supply and demand, price fluctuations in iron ore and coking coal and government policies on steel and related industries, among other factors. During the Track Record Period, the prices of various grades of steel coils generally increased from 2006 to the third quarter of 2008 and decreased substantially up until the second quarter of 2009. For example, the average per tonne price of X80 grade steel coils reached a high of RMB10,530 in October 2008, decreased to RMB6,681 in July 2009 and increased to RMB7,266 in September 2009. In addition, we sell our surplus steel and scrap steel at prices which are also affected by fluctuations in steel prices. Accordingly, changes in the price of steel may erode the profitability of our steel pipe sales and/or our sales of surplus and scrap and excess steel.

For the year ended 31 December 2006 and the period from 1 January to 28 December 2007, raw material purchases from the five largest suppliers of Shengli Steel Pipe's Core Business, which are all Independent Third Parties, accounted for approximately 51.9% and 63.6%, respectively, of Shengli

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Steel Pipe's total purchase cost. The Group's raw material purchases from the largest five suppliers accounted for 44.9% and 82.5% of the Group's total purchase cost for the year ended 31 December 2008 and the six months ended 30 June 2009, respectively. We have not entered into any long-term supply agreement with these suppliers, and cannot assure you we will be able to procure sufficient supplies of raw materials on acceptable terms.

Failure to compete effectively in our industry may adversely affect our business and prospects.

We face competition in the domestic PRC market from a number of manufacturers that produce steel pipes that are similar to, or can be used as substitutes for, our products. Our major competitors for SSAW pipes include Baoji Petroleum Steel Pipe Co., Ltd. (寶雞石油鋼管有限責任公司), North China Petroleum Steel Pipe Co., Ltd. (渤海裝備公司華油鋼管有限公司), Shashi Steel Pipe Factory (沙市鋼管廠), Ziyang Steel Pipe Factory (資陽鋼管廠), China Petroleum Pipeline Bureau Steel Pipe Works (中石油管道局鋼管廠) and Shanghai Baoshiwei Petro-Pipe Co., Ltd. (上海寶世威石油鋼管製造有限公司). These competitors are all units of CNPC or Sinopec which may have priority by virtue of their affiliation with CNPC or Sinopec when demand for line pipes is limited. In addition, we compete primarily with regional competitors on the basis of proximity to customers and cost for sales of cold-formed section steel.

Our ability to compete depends on our ability to offer sufficient quantities of high quality products that are suitable for our customers' needs at competitive prices. In addition, our competitiveness depends on our ability to maintain our track record of short lead-times, timely deliveries, low transportation costs and superior customer service. Competitive pressure may require us to reduce our prices and therefore adversely affect our profit margins and results of operations. Our failure to compete effectively could materially and adversely affect our business, financial condition, results of operations and market position.

Any significant downtime in our production facilities would adversely affect our business.

Our business requires substantial investments in complex production facilities and the uninterrupted operation of specialized manufacturing equipment. Our production facilities require periodic shutdowns for repair and maintenance. Major maintenance of our production facilities occurs approximately every three to five years for a month each time.

Substantial damage to our production facilities from extraordinary events, such as earthquakes, floods and fires, or resulting consequences and disruptions, could be costly and time-consuming to repair and may disrupt our production. Any disruption or delay in our production may require us to incur additional expenses in order to produce sufficient inventory and could impair our ability to meet the demand of customers and cause our customers to cancel orders, any of which could negatively affect our reputation and results of operations.

We have a limited operating history under our current Shareholders.

Our principal operating subsidiary, Shandong Shengli, was incorporated in 2005, notwithstanding the fact that our origins can be traced back to the establishment of Shengli Factory in 1972. Our current Substantial Shareholders did not acquire their respective ownership interests in

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the Group until December 2007. Although the senior management team of our operating subsidiary, Shandong Shengli, has not changed materially since its incorporation in 2005, we have a limited operating history under our current ownership. Because of the Group's limited operating history under our current Shareholders, the historical financial information in this Prospectus may not provide a meaningful basis for investors to evaluate our historical business, our operations or our business prospects. Accordingly, our operating results during the Track Record Period may not be indicative of our future performance.

We may incur significant costs in relation to warranties provided to our customers.

We may incur significant costs in relation to warranties provided to certain of our customers. Consistent with industry practice, we allow our SSAW pipe customers to retain 1% to 5% of the purchase price for sales of goods and 5% of the processing fees for provision of services for a warranty period ranging from 12 to 18 months after delivery as a warranty provision against any major quality defects in our delivered products. Due to the considerable contract value of our SSAW pipes, retention money of 1% of the purchase price of our SSAW pipes represents a larger amount than retention money of 5% of our processing fees. We also warrant our SSAW pipes to be free of certain defects, and we guarantee the quality of our products for the warranty period, during which we will rectify any defects.

The warranty arrangement requires that the money retained by our customers be paid to us if there are no major quality issues with our products during the warranty period. Historically, we have recovered all of the money retained by our customers as it became due and we have not incurred any costs in relation to warranties. As it is our policy to only make provisions where there is objective evidence that a financial asset is impaired, we have not made any provisions for money retained by or warranties provided to customers. We cannot assure you, however, that we can maintain our historical recovery rate for retention money in the future or continue not to incur any costs in relation to warranties.

We do not have a fixed production arrangement with our major customers, making it difficult to compare our results with results from another reporting period.

With respect to the sale of SSAW pipes, we may enter into contracts to sell goods or, alternatively, to provide processing services depending on the type of production arrangement we agree upon with our customers. As such, the proportion of our revenue derived from sales of goods and provision of processing services in any financial period may create significant variations in our comprehensive income statement and statement of financial position, making it difficult to compare our financial results with results from another financial period. Although our gross profits under the two production arrangements are comparable, we generate significantly higher revenue from selling goods than from providing processing services. Accordingly, our operating results will fluctuate from period to period depending on our mix of production arrangement with customers.

The operating results and financial condition of Shengli Steel Pipe and the Group are not directly comparable due to the Group's partial acquisition of the assets and liabilities related to the SSAW pipe operations of Shengli Steel Pipe.

Pursuant to an equity transfer agreement dated 25 December 2007, the Group acquired Shandong Shengli, formerly Rizhao Shengli, from Shengli Steel Pipe and Victory Trading and assumed control of the cold-formed section steel operations of Shandong Shengli.

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Pursuant to an asset transfer agreement dated 27 December 2007 entered into between Shandong Shengli and Shengli Steel Pipe, Shandong Shengli acquired assets comprising mainly the production facilities and business at Zibo and Dezhou (excluding land and buildings) and part of the assets and liabilities relating to the SSAW pipe business of Shengli Steel Pipe. The Group, however, did not acquire from Shengli Steel Pipe (i) certain assets and liabilities that were not directly related to the SSAW pipe operations, (ii) results of operations prior to the acquisition of the SSAW pipe operations, such as bank balance and cash, inventories, other receivables, tax payables and bank borrowings, and (iii) land and buildings related to the SSAW pipe operations. Upon the effective date of the acquisition of the assets and liabilities on 31 December 2007, Shandong Shengli owned and operated the SSAW pipe operations that were previously owned and operated by Shengli Steel Pipe. See Note 26 of the Accountants' Report of Shengli Steel Pipe in Appendix IB to this Prospectus.

The operating results and financial condition of Shengli Steel Pipe for the year ended 31 December 2006 and the period from 1 January 2007 to 28 December 2007 are not directly comparable to those of the Group for the year ended 31 December 2008 because the Group did not acquire all of the assets and liabilities related to the SSAW pipe operations of Shengli Steel Pipe. Had the Group acquired all of the assets and liabilities from Shengli Steel Pipe in the acquisition, its operating results and financial condition for the year ended 31 December 2008 would differ from those presented in the Accountants' Report in Appendix IA to this Prospectus. As a result, the operating results and financial condition of Shengli Steel Pipe and the Group are not directly comparable, and you should not place undue reliance on a comparison of the financial condition and results of operations of Shengli Steel Pipe and the Group in deciding whether to invest in the Group.

We have limited insurance coverage.

The insurance industry in China is in an early stage of development compared with countries such as the United States. Insurance companies in China offer limited commercial insurance products. Consistent with what we believe to be customary practice in the oil and gas steel pipe industry in China, we do not have any product liability, business interruption, or litigation insurance coverage for our operations. Any uninsured loss or damage to property, litigation or business disruption may cause us to incur substantial costs and the diversion of resources, which could have a material adverse effect on our financial condition and results of operations. The occurrence of certain incidents including earthquake, fire, severe weather, war, floods, power outages and the consequences, damages and disruptions resulting from them may not be covered adequately or at all by our insurance policies. If we were to incur substantial liabilities that are not covered by our insurance policies or if our business operations were interrupted for a substantial period of time, we could incur costs and losses that could materially and adversely affect our business, financial condition, results of operations and business prospects.

Our continued success depends on our ability to attract, retain or replace key management personnel and senior management members.

Our continued success depends on the continued services of the key management personnel of our operating subsidiary, Shandong Shengli, particularly Mr. Zhang, our Executive Director and chief executive officer, Mr. Wang Xu, our deputy general manager of sales and procurement, and Mr. Liu

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Yaohua, our deputy general manager of production. We believe that these key management personnel's knowledge of our business operations and industry, relationships with key customers and leadership are critical to our success. Furthermore, our ability to identify, recruit, train and retain qualified employees for our management team is an important factor to maintaining our success.

There is no assurance that we will be able to retain our key management personnel, and we do not maintain key person insurance. The loss of the services of our key management personnel, without finding suitable and timely replacements, may result in poor strategy execution, mismanagement and lost business relationships, which would have an adverse impact on our business and future prospects.

Our expansion plans require significant and continual capital expenditures, for which we may not have adequate financial resources.

Our expansion plans will require us to make substantial capital expenditures and assume consequential risks. We may need to raise additional funds through bank borrowing or the issuance of debt or equity securities to finance these capital expenditures. However, our ability to obtain additional financing in the future is subject to a variety of factors, including, but not limited to:

- obtaining the necessary PRC Government approvals to repatriate funds that are raised overseas;
- our future financial condition, results of operations and cash flows;
- general market conditions for capital raising activities by similar companies; and
- economic, political and other conditions in China and elsewhere.

We may be unable to obtain additional financing in a timely manner or on acceptable terms or at all. Moreover, the utilization of debt, equity or other capital resources may not create value for us or our Shareholders. Further financing activities or the remittance of the proceeds into China may also require PRC regulatory approvals, which may not be granted in a timely manner or at all. If adequate funding is delayed or not available, our ability to develop and expand our business may be adversely affected and if we have to divert our capital resources allocated for other uses to finance our capital expenditure plans, our operating results and financial condition may also be adversely affected.

Our business operations and financial condition may be adversely affected by present or future environmental, health and safety laws and regulations or enforcement.

As a company with substantially all of its operations in China, we are subject to various periodic inspections, examinations, inquiries and audits by PRC regulatory authorities in accordance with applicable PRC environmental, health and safety laws and regulations, as part of maintaining or renewing the various licenses, certificates and permits required for conducting business. As the PRC environmental, health and safety laws and regulations continue to change, we cannot guarantee that we will continue to be in compliance with all applicable laws or that we will not incur additional costs to comply with such laws and regulations. Failure to comply with any of these laws and regulations could result in the untimely delivery of goods, delayed receipt of revenue, loss of income, the accrual

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of substantial costs and fines and the suspension or termination of our contracts. Any limitations or costs incurred as a result of our non-compliance with environmental, health and safety laws and regulations may have a material adverse effect on our business, financial condition and results of operations.

Our business strategy of growth through strategic alliances, joint ventures or acquisitions may not succeed.

As part of our growth strategy, we may pursue acquisitions or enter into strategic alliance or joint venture arrangements that we believe would benefit us in terms of product, technology or distribution network. We may also acquire business, products or technologies from third parties. Our ability to grow through acquisitions depends upon our ability to identify, negotiate, complete and integrate suitable acquisitions as well as to obtain necessary financing and any required governmental or third party consents, approvals and permits in a timely manner. Even if we complete acquisitions, we have limited experience with significant acquisitions, and we may experience:

- difficulties in integrating any acquired companies, technologies, personnel or products into our existing business;
- challenges in procuring and allocating resources to fund our expansion;
- difficulties in implementing management and internal control mechanisms that timely and adequately respond to our expanded scope of operations;
- delays or failures in realizing the benefits of the acquired business or assets;
- diversion of our management's time and attention from other business concerns;
- costs of integration that exceed our anticipation; or
- difficulties in retaining key employees of the acquired business who are necessary to manage the acquired business.

If we offer products that are different from our existing products, the foregoing risks may increase because of our limited experience in operating such business. An acquisition could also materially impair our operating results by causing us to incur debt.

Any difficulties in the integration of acquired business, products or technologies or unexpected penalties, lawsuits or liabilities in connection with such business, products or technologies could have a material adverse effect on our business.

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Protectionist measures such as initiation of anti-dumping and anti-subsidy proceedings and imposition of anti-dumping and/or countervailing duties by governments in our overseas markets could materially and adversely affect our export sales.

During the Track Record Period, we did not generate any revenue from overseas sales of our SSAW pipes outside China. The overseas sales of cold-formed section steel of Shengli Steel Pipe's Core Business for the year ended 31 December 2006 and the period from 1 January to 28 December 2007 accounted for 7.8% and 29.3% of total sales of Shengli Steel Pipe's Core Business, respectively. During the year ended 31 December 2008 and the first half of 2009, the Group did not generate any revenue from overseas sales of cold-formed section steel. We, however, may enter into overseas sales in the future and such sales may trigger anti-dumping or anti-subsidy proceedings, or both, in the countries where our products are sold.

Anti-dumping and anti-subsidy proceedings have been initiated by local producers in countries such as the United States and Canada in relation to steel products. These proceedings have resulted in the imposition of significant penalties, anti-dumping or countervailing duties, or a combination of the foregoing. These and other similar measures could trigger trade disputes in the international steel product markets. While neither anti-dumping nor anti-subsidy proceedings have been initiated against us, we cannot guarantee that our plans to expand overseas will not increase the risk of protectionist investigations or proceedings against us. Any such investigation or proceeding would divert significant time and resources from us if unsuccessful and impede access to export markets for our products and limit our growth opportunities if successful.

Failure to protect our corporate name and reputation effectively may affect our business and financial performance.

We believe that we have an established corporate name and reputation that are widely recognized by peers and customers in our industry. We consider our corporate name and reputation to be vital in promoting recognition and customer loyalty. Any major defects in our products or any adverse publicity regarding us may harm our corporate image and reputation and cause our customers to lose confidence in our products, which would in turn adversely affect the number of projects we may secure and have a negative impact on our business and financial performance.

We may not successfully obtain and maintain the necessary regulatory permits, approvals or clearance for the manufacture and sale of our products in certain markets.

The manufacture of oil and gas line pipes is regulated by the government, industry organizations and international standardization bodies, which set requirements and standards for the manufacturing, functionality and safety performance of our products. Our adherence to such requirements and standards can be expensive, which can result in increased manufacturing and development costs. Although we have been advised by our PRC legal advisers, Tian Yuan Law Firm, that we possessed all necessary regulatory permits, approvals and clearances for the manufacture and sale of our products during the Track Record Period, any failure to maintain such permits and approvals could have a material adverse effect on our business and prospects. In addition, extensive government

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regulation and the related delays in seeking the appropriate approvals can significantly delay the introduction of new products, which could materially and adversely affect our market competitiveness. Even if we do obtain approval from the appropriate authorities, it may be granted on a limited basis or subject to modification of our products, which could increase operation costs.

We cannot guarantee that we will receive the necessary regulatory approvals to market our products in the countries and markets where we may seek approval in the future. Moreover, even if we obtain the requisite approvals for our current products, we cannot guarantee that we will remain compliant with these countries' regulations in the future. Any failure to do so may result in a variety of actions against us, including penalties, injunctions, suspension of production, loss of regulatory approvals, product recalls and termination of distribution.

Our levels of indebtedness and interest payment obligations may adversely affect our business.

Our current levels of debt and the instability in debt markets may affect our ability to secure funding for current operations and future production expansion. Historically, we have primarily relied upon short-term borrowings to fund a portion of our capital expenditures and operations. As of 30 June 2009, our total bank borrowings amounted to RMB50.0 million.

We recorded net current liabilities of RMB124.2 million and RMB80.1 million as of 31 December 2007 and 31 December 2008, respectively, primarily due to the outstanding purchase consideration relating to the acquisition of Shandong Shengli and the SSAW pipe operations of Shengli Steel Pipe in 2007 and advances and loans from related parties.

We may seek additional financing in the form of loans for planned capital expenditures and future expansion plans. The level of our indebtedness and the amount of our interest payments could limit our ability to obtain the necessary financing or obtain favorable terms for the financing to fund future capital expenditures and working capital. A shortage of such funds could restrict our ability to prepare for organic and acquisitive growth, or to react to changing market conditions. Such limitations on our debt financing could reduce our competitiveness and increase our exposure and sensitivity to adverse economic and industry conditions, which could have an adverse effect on our financial condition and results of operations.

Our products may subject us to product liability claims.

We may be subject to product liability claims under the laws of applicable jurisdictions where our products are installed if our products are defective and result in our customers' or any third parties' financial loss or personal injury. We do not carry product liability insurance to protect us against these claims. Although we were not subject to any product liability claims during the Track Record Period, we cannot assure you that we will not be subject to future product liability claims or that if any such claim is successful, our business and results of operations will not be materially and adversely affected. Further, we may be held liable for any damages or losses incurred in connection with or arising from defects in our products. Even if claims are not brought against us or our customers or if the claims fail, our business relationship with customers may be undermined as a result of any alleged product failure, which in turn may result in the loss of future business.

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Our manufacturing processes involve inherent risks and occupational hazards.

Our business operations, particularly our manufacturing activities, involve risks and occupational hazards that are inherent to the manufacturing industry and which cannot be completely eliminated through preventive efforts. During the anti-corrosion treatment and x-ray inspection of line pipes, our employees may be exposed to hazards caused by inhalation of chemical substances or radiation. We cannot assure you that accidents, which may result in property damage, severe personal injuries or even fatalities, will not occur at our production facilities. The occurrence of any of the foregoing events may have an adverse effect on our business, financial condition and results of operations.

Power shortages or substantial increase in energy costs could have an adverse impact on our operations.

We consume substantial amounts of electricity in our production process. Our production schedules may be affected by power shortages and blackout periods as we do not have backup generators at our production facilities. If the PRC Government imposes restrictions on the use of electricity due to power shortages, thereby disrupting our power supply, or if we are otherwise unable to obtain adequate supplies of electricity to meet our production requirements, our operations may be disrupted and our production and delivery schedules may be adversely affected. During the Track Record Period, we did not experience any material disruption to our production due to power shortages. In addition, our ability to pass increased energy costs along to our customers may be limited by pressures from competition and customer resistance. We cannot assure you that we will be able to recover the substantial cost increases of energy by raising the prices of our products.

We do not possess the building ownership certificates for certain buildings that we occupy.

We have constructed a warehousing facility located in Rizhao with a GFA of approximately 10,812 m², part of which is located on land that we own and for which we have a valid land use right certificate, while the remaining part, which comprises a GFA of approximately 5,486 m² (“Defective Warehouse”), is located on land that we do not own. We have also constructed an anti-corrosion treatment building (“Anti-corrosion Building”) with a GFA of approximately 7,632.40 m² on one of the parcels of land owned by Shengli Steel Pipe. Both the Defective Warehouse and the Anti-corrosion Building are without proper building ownership certificates. According to relevant PRC regulations, governmental authorities may order us to demolish these buildings within a prescribed period of time or, if such demolition is not possible, the authorities may confiscate the buildings or the illegal income derived from such buildings and may impose on us a fine not exceeding 10% of the total construction cost of the buildings. The occurrence of any of the above events would adversely affect our operations carried out in such buildings. For further information on our properties, see “Business — Real Properties”.

We may be adversely affected by the recent global economic crisis.

The recent global economic crisis has adversely affected the United States and other world economies, including China. Although the PRC Government has adopted increasingly flexible

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macroeconomic policies, including an announced fiscal stimulus package, the growth of China's overall economy has slowed compared with recent years. The demand growth for commodities such as oil and gas may abate if the economic crisis is prolonged, which in turn would affect demand for our products and our profitability.

The ongoing global financial crisis may result in a low level of liquidity in many financial markets and increased volatility in credit and equity markets. If these conditions happen, our customers' capital expenditure plans, as well as our cost of financing or availability of funding, or both, for our operations and expansion plans, may be adversely affected.

Our interests may conflict with those of our Substantial Shareholders, who may take actions that are not in, or may conflict with, our public Shareholders' best interests.

Immediately after the Global Offering, assuming that the Over-allotment Option is not exercised, Capitalization Issue and sale of Sale Shares, Aceplus will hold approximately 59.5% of the Company's then entire issued share capital. Accordingly, Aceplus, by virtue of its ownership interest as well as its ability to nominate Directors on our Board, will be able to exercise significant control, or exert significant influence over, our business or other matters of significance to us and other Shareholders. These matters include, but are not limited to, the election of our Directors, the selection of our senior management, the amount of dividend payments, increases or decreases in our share capital, new securities issuance, mergers and acquisitions and any amendments to our bylaws. Our Substantial Shareholder is free to exercise its votes according to its interests, which may differ from the interests of other Shareholders.

Some of our future revenue may be derived from countries that are subject to U.S. OFAC sanctions.

As a non-U.S. corporation, we are generally not subject to sanctions administered by the United States Department of the Treasury's Office of Foreign Assets Control, or OFAC, which prohibit persons subject to OFAC restrictions from conducting business activities in certain countries or with certain individuals that are subjects of OFAC sanction programs. We did not generate any revenue from countries or individuals that were subjects of OFAC sanction programs during the Track Record Period. However, we cannot assure you that we will not conduct business activities in countries or with individuals that are subjects of OFAC sanction programs in the future. Neither can we assure you that our products will not be installed in any pipeline projects in sanctioned countries.

The engagement of business activities in or the resale of our products to sanctioned countries could limit our ability to pursue business opportunities in the United States or obtain financing from the United States. The occurrence of any of the foregoing events could affect our sales to overseas markets, results of operations and financing position.

The widespread outbreak of communicable diseases could affect our results of operations.

The outbreak of communicable diseases can have an adverse effect on business sentiments and activities. We are unable to forecast the potential impact of an outbreak of serious communicable diseases, which can have a significant impact on the regional and global economic environment. If any

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of our employees, customers or suppliers, is affected by the outbreak of communicable diseases, we may be required to temporarily shut down certain facilities and implement quarantine measures to prevent further spread of the disease. This would disrupt our operations or those of our customers and suppliers and may adversely affect our financial condition and results of operations.

RISKS RELATED TO THE PEOPLE'S REPUBLIC OF CHINA

Economic, political and social conditions, as well as government policies in China could have a material adverse effect on our business, results of operations and financial condition.

China's economy differs from the economies of most developed countries in many respects, including:

- socialist market economic structure;
- level of government involvement;
- level of development;
- growth rate;
- control of foreign exchange; and
- allocation of resources.

China's economy has been transitioning from a planned economy towards a more market-oriented economy. However, a substantial portion of productive assets in China remains state-owned over which the PRC Government exercises a high degree of control. In addition, the PRC Government continues to play a significant role in regulating industrial development by imposing industrial policies. For the past three decades, the PRC Government has implemented economic reform measures to emphasize the utilization of market forces in economic development.

Although China has been one of the world's fastest growing economies in the world as measured by growth in gross domestic product in recent years, its economic growth has been uneven, both geographically and across various sectors of the economy. Concerned that such growth rates and distributions of growth are not sustainable, the PRC Government has in recent years implemented a series of measures, including but not limited to macroeconomic control measures, export policies and elimination or adjustment of VAT refund for exported goods, to curb the rapid growth of the economy in relation to certain industries. The key purposes of the measures are to forestall threatening inflation and to stabilize China's economy. Such measures include tightening control over investments and bank loans in certain sectors, raising the deposit-reserve ratio for financial institutions, raising the proportion of equity investment in certain sectors, strict enforcement of land acquisition and land use regulations and abandoning or delaying of industrial projects which are expected to lead to economic inefficiencies. These measures may benefit the overall PRC economy in the long term but may also have a negative effect on us.

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An economic downturn in China may reduce the level of capital spending on oil and gas pipeline projects by PRC oil and gas companies and result in decreased demand for our products and services. A substantial majority of our revenue for the year ended 31 December 2008 and the six months ended 30 June 2009 was attributable to sales within China. As such, our future success is, to some extent, dependent on the economic conditions in China, and any significant downturn in market conditions, particularly in the PRC oil and gas market, may adversely affect our business prospects, financial condition and results of operations. Moreover, we cannot assure you that the PRC or international demand for oil and gas pipelines will not be adversely affected by further macro-economic measures implemented by the PRC Government and result in a material adverse effect on our business and financial condition.

Changes in foreign exchange regulations and future movements in the exchange rate of Renminbi may adversely affect our financial condition and results of operations and our ability to pay dividends.

The conversion of Renminbi into other currencies is regulated in China. Renminbi is freely exchangeable in current account transactions, but controlled in capital accounts. Under existing foreign exchange regulations, following completion of the Global Offering, we will be able to pay dividends in foreign currencies without prior approval from the PRC State Administration of Foreign Exchange (the “SAFE”) by complying with certain procedural requirements. However, there is no assurance that these foreign exchange policies regarding payment of dividends in foreign currencies will continue in the future.

We are exposed to foreign exchange risks because we from time to time generate revenues in foreign currency from sales of our products while our relevant cost and expenses are denominated in Renminbi. For the year ended 31 December 2006 and the period from 1 January to 28 December 2007, Shengli Steel Pipe’s Core Business generated RMB7.1 million and RMB69.6 million, or 7.8% and 29.3% of its total revenue respectively, in foreign currencies. The Group did not generate any revenue in foreign currencies for the year ended 31 December 2008 and the first half of 2009. In addition, the exchange rate between Renminbi and foreign currencies for our export sales at the time of entry into the sales contract may be substantially different from those at the time when our products are delivered and payment for our goods are received. Should the exchange rate of the Renminbi against the relevant foreign exchange increase substantially, our profit from certain export sales may decrease. We are required from time to time to make payments in U.S. dollars or in other foreign currencies. As of 30 June 2009, we did not have any loans denominated in currencies other than Renminbi. As a result, we are exposed to foreign exchange fluctuations and movements in the exchange rate of Renminbi, which may have a direct impact on our profit.

In July 2005, the PRC Government reformed the Renminbi exchange rate mechanism so that the Renminbi was no longer pegged to the U.S. dollar but to a basket of currencies. A revaluation of Renminbi resulted in the appreciation of Renminbi against the U.S. dollar and Hong Kong dollar by approximately 21% as of July 2009. The relaxation of the Renminbi-U.S. dollar peg may contribute to volatility or increased fluctuations in the value of Renminbi. Further appreciation of Renminbi could diminish our cost advantage over overseas competitors or decrease our operating revenues that are generated in foreign currencies. In addition, we plan to deposit the unused proceeds from the Global Offering in bank accounts outside of China without remitting those funds into China and

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converting them into Renminbi assets. In the event that the appreciation of Renminbi against the U.S. dollar continues, we may incur foreign exchange loss on such deposits. Conversely, depreciation of Renminbi could adversely affect the value of dividends, if any, payable on the Shares by the Group in foreign currency terms and could increase the cost of importing equipment and facilities that are quoted and sold in foreign currencies.

The PRC legal system is evolving and has inherent uncertainties that could limit the legal protection available to you.

The legal system in China is a civil law system based on written statutes. Unlike common law systems, it is a system in which prior court decisions have limited value as precedents. Since 1979, the PRC Government has promulgated laws and regulations governing economic matters in general such as foreign investment, corporate organization and governance, commerce, taxation and trade. Although legislation since 1978 has significantly enhanced the protections afforded to various forms of foreign investment in China, particularly with respect to laws and regulations applicable to wholly foreign-owned enterprises, these laws, regulations and legal requirements are relatively new. Because of the limited volume of published cases and their non-binding nature, interpretation and enforcement of these newer laws and regulations involve greater uncertainties than those in jurisdictions available to you. We cannot predict the effect of future developments in the PRC legal system, including the promulgation of new laws, changes to existing laws, or the interpretation or enforcement thereof, or the pre-emption of local regulations by national laws.

It may be difficult to enforce judgments obtained from outside China against us, our Directors, or our senior management members who reside in China.

The legal framework in China that our Directors and senior management members and substantially all our assets are subject to is materially different in certain areas from that of other jurisdictions, including Hong Kong and the United States, particularly with respect to the protection of minority shareholders. In addition, the mechanisms for enforcement of rights under the corporate governance framework in China are also relatively underdeveloped and untested. However, in 2005, the PRC Company Law was amended to allow shareholders to commence an action against the directors, supervisors, officers or any third party on behalf of a company under certain limited circumstances.

China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with countries such as the United States, the United Kingdom and Japan, and therefore enforcement in China of judgments of a court in these jurisdictions may be difficult or impossible.

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We are a holding company that relies heavily on dividend payments from our PRC subsidiary for funding.

According to the “Agreement between the Government of the People’s Republic of China and the Government of the Republic of Singapore for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income”, where the Singapore resident company directly owns at least 25% of the capital of the PRC company, 5% dividend withholding tax rate is applicable. We presently rely on this provision to reduce the rate of PRC withholding on dividends from Shandong Shengli to CPE.

The SAT issued Circular 601 on 27 October 2009, which addresses which entities are treated as “beneficial owners” under the treaty articles on dividends, interest and royalties. According to Circular 601, the PRC tax authorities must evaluate whether an applicant (income recipient) qualifies as a “beneficial owner” on a case-by-case basis based on the “substance over form” principle. It is possible, based on these principles, that the tax authorities would deny the claim for the reduced rate of withholding tax. Under current law, this would result in dividends from Shandong Shengli to CPE being subject to PRC withholding tax at a 10% rate instead of a 5% rate. This would negatively impact us and it would impact our ability to pay dividends.

Gains on the sales of our Shares and dividends on our Shares may become subject to PRC income taxes.

Under the PRC EIT Law and its implementation rules, our Company may in the future be recognized as a PRC tax resident enterprise by the PRC tax authorities. As such, we may be required to withhold PRC income tax on capital gains realized from sales of our Shares and dividends distributed to Shareholders, as such income may be regarded as income from “sources within the PRC”. In such case, our foreign corporate Shareholders may become subject to a 10% withholding income tax under the PRC EIT Law, unless any such foreign corporate Shareholder is qualified for a preferential withholding rate under a tax treaty.

If the PRC tax authorities recognized the Company as a PRC resident enterprise, Shareholders who are not PRC tax residents and seek to enjoy preferential tax rates under relevant tax treaties will need to apply to the PRC tax authorities for recognition of eligibility for such benefits in accordance with Circular 124, issued by the SAT on 24 August 2009. It is likely that eligibility will be based on a substantive analysis of the Shareholder’s tax residency and economic substance. With respect to dividends, the beneficial ownership tests under Circular 601 will also apply. If determined to be ineligible for treaty benefits, such a Shareholder would become subject to higher PRC tax rates on capital gains realized from sales of our Shares and on dividends on our Shares.

In such circumstances, the value of such foreign Shareholders’ investment in our Offer Shares may be materially and adversely affected.

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As a foreign company, our acquisitions of PRC companies may take longer and be subject to higher levels of scrutiny by the PRC Government.

On 8 August 2006, the MOFCOM, the State Administrations for Industry and Commerce (the “SAIC”), the State Administration of Taxation (the “SAT”), the SAFE, the State-owned Assets Supervision and Administration Commission (the “SASAC”) and the China Securities Regulatory Commission (the “CSRC”) jointly promulgated rules governing the approval process by which a PRC domestic entity’s assets or equity interests may be acquired (the “M&A Rules”). These rules became effective on 8 September 2006 and were reissued by the MOFCOM in June 2009. The M&A Rules established additional procedures and requirements, including, but not limited to, the requirement that foreign investors must obtain MOFCOM’s approval when they acquire equity or assets of a PRC domestic enterprise through a cross-border share swap. It is generally expected that compliance with the regulations will be more time consuming and costly than in the past and will result in a more extensive evaluation by the PRC Government and result in increased control over the terms of the transaction. Therefore, acquisitions in China by non-PRC entities may face difficulties in completion because the terms of the transaction may not satisfy terms required by regulatory authorities in the approval process. If we decide to acquire a PRC company, the execution of our acquisition plan may become more time-consuming, complex and uncertain, and as a result, our growth prospects would be adversely affected.

RISK RELATED TO THE CAYMAN ISLANDS

You may face difficulties in protecting your interests under Cayman Islands law.

Our corporate affairs are governed by, among other things, the Articles of Association, the Companies Law and common law of the Cayman Islands. The rights of Shareholders to take action against the Directors, actions by minority shareholders and the fiduciary responsibilities of our Directors to us under Cayman Islands law are to a large extent governed by the common law of the Cayman Islands and our Articles of Association. The common law of the Cayman Islands is derived in part from comparatively limited judicial precedent in the Cayman Islands as well as that from English common law, which has persuasive, but not binding, authority on a court in the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in Hong Kong and other jurisdictions. The remedies available to the minority Shareholders may be limited compared to the laws other jurisdictions. See “Appendix VI — Summary of Articles of Association and Cayman Islands Companies Law”.

RISKS RELATED TO THE GLOBAL OFFERING

There has been no prior public market for our Shares.

Prior to the Global Offering, there has been no public market for our Shares. The initial issue price range for our Shares was the result of negotiations among us and the Sole Global Coordinator on behalf of the Underwriters and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We have applied for listing of and permission to deal in our Shares on the Hong Kong Stock Exchange. There is no assurance that the Global Offering will result in the development of an active, liquid public trading market for our Shares. Factors such as variations

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in our revenue, net income and cash flows or any other developments of the Group may affect the volume and price at which our Shares will be traded. If an active market for our Shares does not develop after the Global Offering, the market price and liquidity of our Shares may be materially and adversely affected. There can be no assurance as to the ability of the Shareholders to sell their Shares, or as to the prices at which Shareholders would be able to sell their Shares.

The liquidity and market prices of our Shares following this Global Offering may be volatile.

The price and trading volume of the Shares may be highly volatile. The market price for the Shares may be influenced by many factors, some of which are beyond our control, including those described above under “— Risks Related to Our Business and Industry” actual or anticipated fluctuations in the Group or our competitors’ operating results, announcements of new products, capacity changes, significant contracts, acquisitions, strategic alliances or investments, our and our competitors’ growth rates, the financial market and general economic conditions, changes in stock market analyst recommendations regarding the Group, our competitors or the oil and gas industry generally, or lack of analyst coverage of our Shares, conditions in the oil and gas industry in China, additions or departures of key personnel, release of lock-up or other transfer restrictions on the outstanding Shares or sales of additional Shares, potential litigation or regulatory investigations, fluctuations in market prices for the our products or the costs of raw materials and changes in accounting principles.

Any such developments may result in large and sudden changes in the volume and price at which the Shares will trade. We cannot assure you that these developments will not occur in the future. In addition, shares of other companies listed on the Hong Kong Stock Exchange with significant operations and assets in China have experienced substantial price volatility in the past, and it is possible that the Shares will be subject to changes in price that may not be directly related to our financial or business performance. As a result of these factors, you may not be able to resell your Shares above the Offer Price, and you may suffer loss on your investment.

Investors will experience immediate and substantial dilution as a result of the Global Offering.

Investors will pay a price per Share that substantially exceeds the per Share value of the Company’s tangible assets after subtracting the Company’s total liabilities and will therefore experience immediate dilution when investors purchase the Offer Shares in the Global Offering. As a result, if the Company were to distribute its net tangible assets to the Shareholders immediately following the Global Offering, investors purchasing in the Global Offering would receive less than the amount they paid for their Shares.

Future sales or a major divestment of Shares by any major Shareholder could adversely affect our Share price.

Future sales, disposals, or other transfers of a substantial number of our Shares by our current Shareholders in public markets, or any prospects or possibilities of such sales, disposals or other transfers, as to or against which the holders of our Shares may or may not have a right to vote or veto,

RISK FACTORS

could adversely affect the market price of our Shares and our ability to raise equity capital in the future at a time and price we deem appropriate. There can be no assurance that any of our major Shareholders will not sell, dispose of or otherwise transfer any Shares they may own now or in the future at the completion of the applicable lock-up periods.

Shareholders' interests may be diluted as a result of additional equity fund-raising.

We may need to raise additional funds in the future to finance further expansion of our capacity and business relating to our existing operations, acquisitions or strategic partnerships. If additional funds are raised through the issuance of new equity or equity-linked securities of the Company other than on a pro rata basis to existing Shareholders, the percentage ownership of such Shareholders in the Company may be reduced, and such new securities may confer rights and privileges that take priority over those conferred by the Shares.

We cannot guarantee the accuracy of facts, forecasts and other statistics obtained from official government sources contained in this Prospectus.

Facts, forecasts and other statistics in this Prospectus relating to the economy and the oil and gas pipeline industry on an international, regional and specific country basis have been collected from materials from official government sources. We cannot assure you nor make any representation as to the accuracy or completeness of such information. Neither we or any of our respective affiliates or advisers, nor the Underwriter or any of its affiliates or advisers, have prepared or independently verified the accuracy or completeness of such information directly or indirectly derived from official government sources. Statistics, industry data and other information relating to the economy and the industry derived from the official government sources used in this Prospectus may not be consistent with other information available from other sources and should not be unduly relied upon. Due to possible flawed collection methods, discrepancies between published information, different market practices or other problems, the statistics, industry data and other information relating to the economy and the industry derived from official government sources might be inaccurate or might not be comparable to statistics produced from other sources. In all cases, you should carefully consider how much weight or importance you should attach or place on such statistics, industry data and other information relating to the economy and the industry.

This Prospectus contains forward-looking statements relating to our plans, objectives, expectations and intentions, which may not represent our overall performance for periods of time to which such statements relate.

This Prospectus contains certain forward-looking statements and information relating to us and the subsidiaries comprising the Group that are based on the beliefs of our management as well as assumptions made by and information currently available to our management. When used in this Prospectus, the words “aim,” “anticipate,” “believe,” “continue,” “could,” “estimate,” “expect,” “going forward,” “intend,” “may,” “plan,” “potential,” “predict,” “project,” “seek,” “should,” “will,” “would” and similar expressions, as they relate to the Group or our management, are intended to identify forward-looking statements. Such statements reflect the current views of the Group’s management with respect to future events, operations, liquidity and capital resources, some of which may not materialize or may change. These statements are subject to certain risks, uncertainties and

RISK FACTORS

assumptions, including the other risk factors as described in this Prospectus. You are strongly cautioned that reliance on any forward-looking statements involves known and unknown risks and uncertainties. The risks and uncertainties facing the Group which could affect the accuracy of forward-looking statements include, but are not limited to, the following:

- our business prospects;
- our future debt levels and capital needs;
- future developments, trends and conditions in the markets in which we operate;
- our strategies, plans, objectives and goals;
- general economic conditions;
- changes to regulatory or operating conditions in the markets in which we operate;
- our ability to reduce costs;
- our dividend policy;
- our capital expenditure plans;
- the amount and nature of, and potential for, future development of our business;
- capital market developments;
- the actions and developments of our competitors;
- certain statements in “Financial Information” with respect to trends in prices, volumes, operations, margins, overall market trends, risk management and exchange rates; and
- other statements in this Prospectus that are not historical facts.

Subject to the requirements of the Hong Kong Listing Rules, we do not intend to publicly update or otherwise revise the forward-looking statements in this Prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this Prospectus might not occur in the way we expect, or at all. Accordingly, you should not place undue reliance on any forward-looking information. All forward-looking statements in this Prospectus are qualified by reference to this cautionary statement.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This Prospectus includes particulars given in compliance with the Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Hong Kong Listing Rules for the purpose of giving information to the public with regard to us. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this Prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this Prospectus misleading.

UNDERWRITING

This Prospectus is published solely in connection with the Hong Kong Public Offering which forms part of the Global Offering. Details of the terms of the Global Offering are described in the section headed "Structure of the Global Offering" in this Prospectus and on the Application Forms.

The listing of our Shares on the Hong Kong Stock Exchange is sponsored by Macquarie. The Offer Shares are fully underwritten by the Underwriters pursuant to the Underwriting Agreements. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement. The International Offering is managed by Macquarie. The International Purchase Agreement relating to the International Offering is expected to be entered into on or about 14 December 2009, subject to determination of the pricing of the Offer Shares. If, for any reason, the Offer Price is not agreed among us and the Sole Global Coordinator, Macquarie, (on behalf of the Underwriters) by 16 December 2009, the Global Offering (including the Hong Kong Public Offering) will not proceed and will lapse. For further information relating to the Underwriters and the underwriting arrangements, see the section headed "Underwriting" in this Prospectus.

RESTRICTIONS ON THE USE OF THIS PROSPECTUS

Each person acquiring Hong Kong Public Offer Shares will be required to confirm, or by his acquisition of Hong Kong Public Offer Shares will be deemed to confirm, that he is aware of the restrictions on offers of the Hong Kong Public Offer Shares described in this Prospectus and that he is not acquiring, and has not been offered, any Hong Kong Public Offer Shares in circumstances that contravene any such restrictions.

No action has been taken to permit a public offering of the Offer Shares or the distribution of this Prospectus in any jurisdiction other than Hong Kong. Accordingly, and without limitation to the following, this Prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorized or to any person to whom it is unlawful to make such an offer or invitation.

The distribution of this Prospectus and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorization by the relevant securities regulatory authorities or an exemption therefrom. In particular, the Offer Shares have not been offered and sold and will not be offered or sold, directly or indirectly, in China.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

CERTAIN MATTERS RELATING TO THE HONG KONG PUBLIC OFFERING

Application for Listing on the Hong Kong Stock Exchange

We have applied to the Listing Committee of the Hong Kong Stock Exchange for the listing of, and permission to deal in, our Shares to be issued by the Group pursuant to the Global Offering (including the Shares which may be issued and upon the exercise of the Over-allotment Option) and any Shares which may fall to be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme. Dealings in our Shares on the Hong Kong Stock Exchange are expected to commence on 18 December 2009.

Except as otherwise disclosed in this Prospectus, no part of our share or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or proposed to be sought in the near future.

Register of Members and Hong Kong Stamp Duty

All of the Shares issued and sold pursuant to applications made in the Hong Kong Public Offering and the International Offering will be registered on our register of members to be maintained in Hong Kong. Our principal register of members will be maintained by us at our head office in China.

No stamp duty is payable by applicants in the Global Offering. Dealings in the Shares registered on our register of members in Hong Kong will be subject to Hong Kong stamp duty. See “Appendix V — Taxation and Foreign Exchange”.

Eligibility for Admission into CCASS

If the Hong Kong Stock Exchange grants the listing of, and permission to deal in, our Shares on the Main Board of the Hong Kong Stock Exchange and we comply with the stock admission requirements of the Hong Kong Securities Clearing Company Limited (“HKSCC”), the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

Settlement of transactions between participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. You should seek the advice of your stockbroker or other professional adviser for details of those settlement arrangements as such arrangements will affect your rights and interests.

All necessary arrangements have been made enabling our Shares to be admitted into CCASS.

Professional Tax Advice Recommended

Applicants for the Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of the subscription, purchase, holding or disposal of, dealing in or the exercise of any rights in relation to the Offer Shares.

INFORMATION ABOUT THIS PROSPECTUS AND THE GLOBAL OFFERING

We, the Sponsor, the Sole Global Coordinator, the Underwriters, the Selling Shareholders, any of their respective directors, agents or advisers or any other persons or party involved in the Global Offering do not accept responsibility for any tax effects on, or liabilities of, any person resulting from the subscription, purchase, holding or disposing of, dealing in or the exercise of any rights in relation to our Shares.

Procedure for Application for Hong Kong Public Offer Shares

The procedure for applying for Hong Kong Public Offer Shares is set out in the section headed “How to Apply for Hong Kong Public Offer Shares” in this Prospectus and on the relevant Application Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed “Structure of the Global Offering” in this Prospectus.

OVER-ALLOTMENT AND STABILIZATION

Details of the arrangements relating to the Stabilization and Over-allotment Option are set out in “Structure of the Global Offering — Over-allotment” and “Structure of the Global Offering — Stabilization” in this Prospectus.

STOCK BORROWING ARRANGEMENT

In order to facilitate the settlement of over-allocations in connection with the International Offering, Macquarie may choose to borrow Shares from Aceplus under a stock borrow arrangement between Macquarie and Aceplus. Such stock borrowing arrangement will be in compliance with Rule 10.07(3) of the Hong Kong Listing Rules. Details of such stock borrowing arrangement are set out under the section “Structure of the Global Offering — Stock Borrowing Agreement.”

EXCHANGE RATE

Solely for your convenience, this Prospectus contains translations of certain Renminbi amounts into Hong Kong dollars at specified rates. No representation is made that the Renminbi amounts could actually be converted into any Hong Kong dollar amounts at the rates indicated or at all. Unless otherwise stated or for transactions that have occurred at historical exchange rates, all translations of Renminbi into Hong Kong dollars were made at the rate of RMB0.8810 to HK\$1.00, which was the PBOC Rate prevailing on 20 November 2009 set by the People’s Bank of China (“PBOC”) for foreign exchange transactions and all translations of US dollars into Hong Kong dollars were made at the rate of US\$1.00 to HK\$7.7497. Further information on exchange rates is set forth in “Appendix V — Taxation and Foreign Exchange”.

ROUNDING

Any discrepancies in any table, chart or elsewhere between totals and sums of amounts listed therein are due to rounding.

PARTIES INVOLVED IN THE GLOBAL OFFERING

DIRECTORS

<u>Name</u>	<u>Address</u>	<u>Nationality</u>
<i>Executive Directors</i>		
Mr. Zhang Bizhuang	Room 301, Unit 2, Block 28 10 Shengli Road Zhongbu Town Zhangdian District Zibo City, Shandong Province the PRC	Chinese
Mr. Wang Xu	Room 202, Unit 2, Block 28 10 Shengli Road Zhongbu Town Zhangdian District Zibo City, Shandong Province the PRC	Chinese
Ms. Han Aizhi	Room 502, Unit 1, Block 26 10 Shengli Road Zhongbu Town Zhangdian District Zibo City, Shandong Province the PRC	Chinese
<i>Non-Executive Directors</i>		
Mr. Yan Tangfeng	35 Jurong East Avenue 1 #02-03 Parc Oasis Singapore	Chinese
Mr. Teo Yi-Dar	451 Ang Mo Kio Avenue 2 Singapore	Singaporean
Mr. Ling Yong Wah	1F Shelford Road #04-43 The Shelford Singapore	Malaysian
Mr. Ong Kar Loon (alternate Director to Mr. Ling Yong Wah)	Block 507 Serangoon North Avenue 4 #03-398 Singapore	Singaporean
<i>Independent Non-Executive Directors</i>		
Mr. Huo Chunyong	32 Dianzi Second Road Xi'an City, Shaanxi Province the PRC	Chinese
Mr. Guo Changyu	Xiuyuan Neighborhood 45-2-2 West City of Dongying Shandong Province the PRC	Chinese
Ms. Wong Wing Yee Jessie	6th Floor, K.Y. Mansion 4A Shiu Fai Terrace Stubbs Road Hong Kong	Chinese

PARTIES INVOLVED IN THE GLOBAL OFFERING

PARTIES INVOLVED

**Sole Global Coordinator and
Bookrunner**

Macquarie Capital Securities Limited
Level 18, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

**Sole Sponsor and Lead Manager
of the Hong Kong Public Offering**

Macquarie Capital Securities Limited
Level 18, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

**Sole Lead Manager of the
International Offering**

Macquarie Capital Securities Limited
Level 18, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

Legal Advisers to the Company

As to Hong Kong and United States law:
Orrick, Herrington & Sutcliffe
43rd Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

As to PRC law:
Tian Yuan Law Firm
11th Floor, Tower C, Corporate Square
35 Financial Street, Xicheng District
Beijing 100140
the PRC

As to Singapore law:
WongPartnership LLP
One George Street
#20-01
Singapore 049145

As to Cayman Islands law:
Conyers Dill & Pearman
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

PARTIES INVOLVED IN THE GLOBAL OFFERING

Legal Advisers to the Underwriters	<i>As to Hong Kong and United States law:</i> Baker & McKenzie 14th Floor, Hutchison House 10 Harcourt Road Central Hong Kong <i>As to PRC law:</i> Zhong Lun Law Firm 36th and 37th Floor, SK Tower 6A Jianguomenwai Avenue Chaoyang District Beijing 100022 the PRC
Auditors and Reporting Accountants	Deloitte Touche Tohmatsu Certified Public Accountants 35th Floor, One Pacific Place 88 Queensway Hong Kong
Valuers	Jones Lang LaSalle Sallmanns Limited 17th Floor, Dorset House, Taikoo Place 979 King's Road Quarry Bay Hong Kong
Receiving Bankers	The Hongkong and Shanghai Banking Corporation Limited 1 Queen's Road Central Hong Kong Industrial and Commercial Bank of China (Asia) Limited 33rd Floor, ICBC Tower 3 Garden Road Central Hong Kong

CORPORATE INFORMATION

Registered office	Cricket Square Hutchins Drive P.O. Box 2681 Grand Cayman, KY1-1111 Cayman Islands
Headquarters in China	Zhongbu Town Zhangdian District, Zibo City Shandong Province the PRC Postal Code 255082
Principal place of business in Hong Kong	43rd Floor, Gloucester Tower The Landmark 15 Queen's Road Central Hong Kong
Company Secretary	Mr. Lo Wah Wai <i>HKICPA AICPA</i>
Authorized representatives	Ms. Han Aizhi Room 502, Unit 1, Block 26 10 Shengli Road Zhongbu Town Zhangdian District Zibo City, Shandong Province Mr. Lo Wah Wai <i>HKICPA AICPA</i> Duplex C, 19th and 20th, Tower 1 The Astrid, No. 180 Argyle Street Ma Tau Wai Kowloon Hong Kong
Audit Committee	Ms. Wong Wing Yee Jessie (<i>chairman</i>) Mr. Huo Chunyong Mr. Teo Yi-Dar
Nomination Committee	Mr. Zhang Bizhuang (<i>chairman</i>) Mr. Guo Changyu Mr. Huo Chunyong
Remuneration Committee	Mr. Yan Tangfeng (<i>chairman</i>) Ms. Wong Wing Yee Jessie Mr. Huo Chunyong
Company's website	www.slogp.com (<i>information contained in this website does not form part of this Prospectus</i>)

CORPORATE INFORMATION

Compliance adviser	SBI E2-Capital (HK) Limited
Principal Share Registrar and transfer office	Butterfield Fulcrum Group (Cayman) Limited Butterfield House 68 Fort Street P.O. Box 609 Grand Cayman KY1-1107 Cayman Islands
Hong Kong Share Registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17th Floor Hopewell Centre 183 Queen's Road East Wanchai, Hong Kong
Principal bankers	Industrial & Commercial Bank of China Zibo Tieshan Branch Zhongbu Town, Zhangdian District, Zibo City, Shandong Province the PRC Postal Code 255082 Bank of China Zibo Branch #49 Liuquan Road, Zhangdian District, Zibo City, Shandong Province the PRC Postal Code 255037

INDUSTRY OVERVIEW

Certain information and statistics set out in this section have been extracted from various official government sources. No independent verification has been carried out on the information and statistics contained in official government publications. The Directors have exercised reasonable care in extracting and presenting such information. We, the Sponsor, the Underwriters, their respective directors and advisers or any other party involved in the Global Offering make no representation as to the accuracy of such information and statistics, which may not be consistent with each other or with other information compiled within or outside China.

The Tubular Goods Research Center of CNPC, an affiliate of CNPC that specializes in the scientific research of oil tubular goods, prepared an industry report upon our request on the PRC oil and gas pipeline industry (the “TGRC Report”) for which no fee was charged. Information and statistics from the TGRC Report have been included in this Prospectus.

GENERAL INTRODUCTION

Pipeline Transportation

Modern logistics consists of five modes of transportation, namely railway, highway, shipping, air and pipeline. Pipeline transportation refers to the transportation of goods, including liquids, gases and certain solids through a network of pipes. Pipeline transportation is expected to continue experiencing significant growth in usage and gain increasing importance.

The viability of world economies depends on the effectiveness of transportation networks to move energy resources to where they are needed. Pipeline transportation offers distinct advantages over alternative modes of transportation because of its reliability in delivering large volumes of goods over long distances in an economical and safe manner. According to the Association of Oil Pipe Lines, one modest-sized pipeline, which might transport 150,000 barrels of oil per day, can replace 750 gasoline tanker truck loads per day. Rising environmental awareness also supports the increased use of pipeline transportation, which does not contribute to traffic congestion or emit pollution.

Overview of Oil and Gas Line Pipes

Oil and gas line pipes refer to the group of pipes used to transport hydrocarbon products such as crude oil, natural gas and refined petroleum products from production sites to processing facilities and to distribute finished products to consumers. When assembled together, these pipes form the basic components of pipelines. Oil and gas pipes are generally classified by their method of manufacturing, which determines the permissible material grade and technical specifications, such as pipe diameter

INDUSTRY OVERVIEW

and wall thickness. Line pipes that are manufactured pursuant to steel grade specifications set by API are widely used in pipeline construction worldwide. Unless otherwise indicated, discussions related to oil and gas pipelines in this Prospectus are limited to the following types of welded steel line pipes:

- *Spiral submerged arc welded pipe (SSAW pipe):* Spiral welded pipes are formed using narrower plates or hot rolled coils, which lowers their production costs significantly. The spiral welding process permits the production of large-diameter pipes suitable for transporting large volumes of oil and gas. Traditional SSAW pipes were historically limited to low pressure applications; however, modern SSAW pipes have been used extensively in Russia, Canada and Asian countries in high pressure gas pipelines.
- *Longitudinally submerged arc welded pipe (LSAW pipe):* LSAW pipes are welded tubular products made out of flat plates that are formed, bent and prepared for welding. LSAW pipes are welded with a straight seam that runs lengthwise across the pipe. LSAW pipes are commonly used in high pressure oil and gas pipelines because their shorter welded seams decrease the likelihood of ruptures and make repairs easier. These pipes are commonly required for sections of a pipeline that extend across areas with high population or building density or involve subsea applications. Due to their high raw material costs and the substantial investment required for LSAW pipe production lines, LSAW pipes are generally more costly to produce than SSAW pipes.
- *Electric resistance welded pipe (ERW pipe):* ERW pipes have a longitudinal weld running the length of the pipe that is formed by resistance heating or high frequency induction heating. These pipes were traditionally used in low pressure applications, but manufacturing improvements have made modern ERW suitable for medium to high pressure gas transportation.

For the purposes of this Prospectus, pipelines that span over 200 km are deemed to be long-distance pipelines. Our industry generally defines pipelines that operate at a service pressure above 10 MPa as high-pressure pipelines and those with outside diameters exceeding 300 mm as large-diameter pipelines.

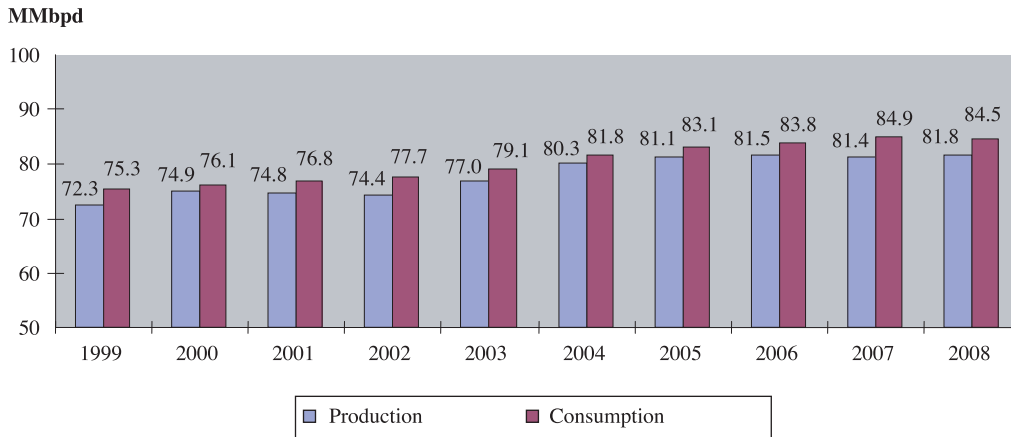
OIL AND GAS MARKET OVERVIEW

Global Oil and Gas Markets

Investment in pipeline networks correlates with, among other factors, demand for oil and natural gas. According to *BP Statistical Review of World Energy 2009* (“BP Statistical Review”), global crude oil consumption increased from 75.3 million barrels per day, or MMbpd, in 1999 to 84.5 MMbpd in 2008 at a compound annual growth rate, or CAGR of 1.3%. Similarly, global crude oil production increased from 72.3 MMbpd in 1999 to 81.8 MMbpd in 2008 at a CAGR of 1.4%. Oil is projected by the U.S. Energy Information Administration, or EIA, to remain the key source for energy in the next few decades, followed by coal, natural gas, renewable energies and nuclear power.

INDUSTRY OVERVIEW

Global Crude Oil Production and Consumption

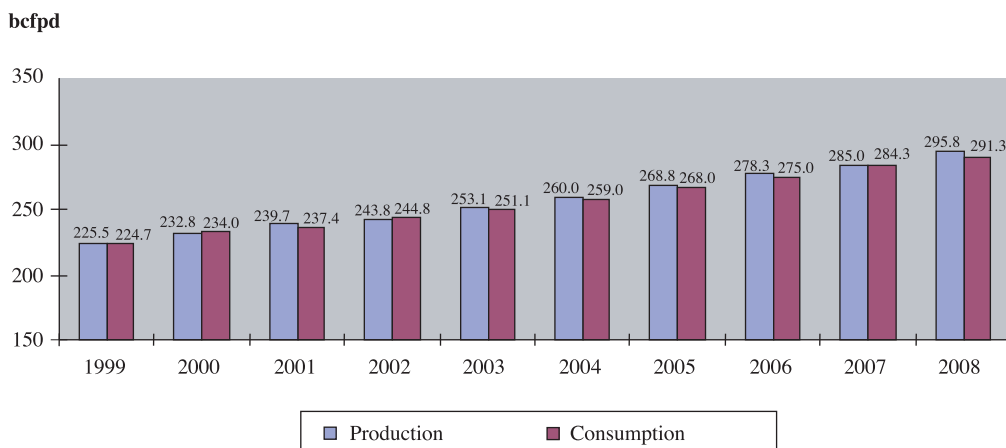


Source: BP Statistical Review of World Energy 2009

According to *BP Statistical Review*, global natural gas consumption and production have experienced higher growth than global oil consumption and production, with gas production increasing from 225.5 billion cubic feet per day, or bcfpd, in 1999 to 295.8 bcfpd in 2008, at a CAGR of 3.1%, and gas consumption increasing from 224.7 bcfpd to 291.3 bcfpd in the same period, at a CAGR of 2.9%.

According to the EIA, oil is expected to account for approximately 32% of global primary energy consumption through 2030. Natural gas is expected to account for approximately 23% of global primary energy consumption during the same period.

Global Natural Gas Production and Consumption



Source: BP Statistical Review of World Energy 2009

The EIA estimates that global energy consumption will increase approximately 44% from 2006 to 2030 and oil and natural gas will, in aggregate, account for approximately 55% of the energy

INDUSTRY OVERVIEW

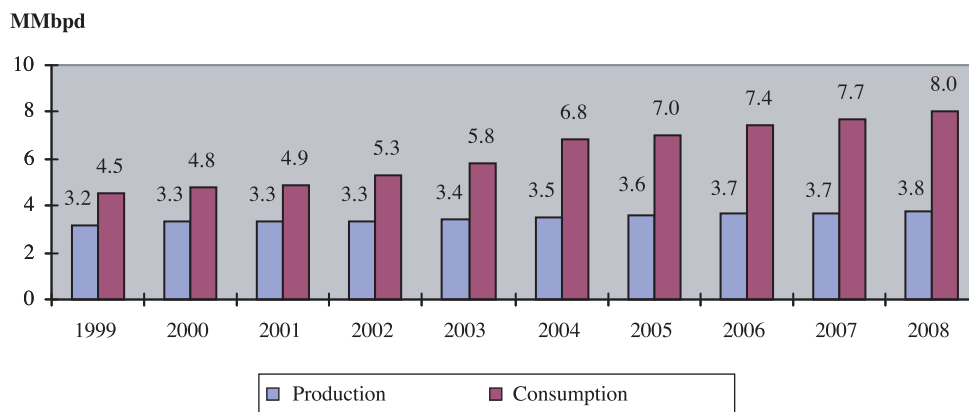
consumed through 2030. The projected growth of oil and gas production and increasing oil and gas demand are expected to help sustain a high level of investment in pipeline infrastructure, which, in turn, are expected to result in increasing demand for oil and gas line pipes.

PRC Oil and Gas Markets

Production and consumption

The PRC economy has been growing at a rapid pace, which has driven China's demand for energy. According to the *BP Statistical Review*, China became the world's second largest consumer of oil in 2003 and has since steadily gained on the United States, the largest consumer. During the period from 1999 to 2008, the growth of China's crude oil consumption significantly outpaced its crude oil production, with a CAGR of 6.6% for consumption compared with a CAGR of 1.9% for production. As a result, China has become increasingly dependent on foreign oil to sustain its economic growth.

PRC Crude Oil Production and Consumption

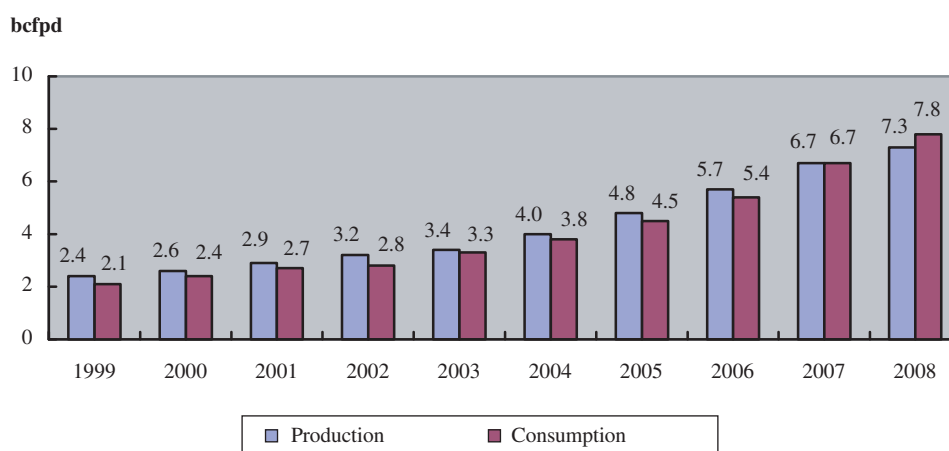


Source: *BP Statistical Review of World Energy 2009*

The natural gas market in China has experienced even higher growth, with natural gas consumption increasing at a CAGR of 15.8% and natural gas production increasing at a CAGR of 13.1% between 1999 and 2008. China's strong demand growth for oil and gas is expected to drive substantial investment in pipeline infrastructure, which, in turn, are expected to result in increasing demand for steel pipe products. The PRC Government has been promoting the consumption of natural gas relative to other energy sources. Natural gas represents approximately 2% of China's total energy consumption, but China aims to increase its natural gas consumption to 8% within the next ten years.

INDUSTRY OVERVIEW

PRC Natural Gas Production and Consumption



Source: BP Statistical Review of World Energy 2009

Capital expenditure of major PRC oil and gas companies

The performance of the PRC pipeline industry is closely related to the capital expenditures of major PRC oil and gas companies, particularly capital expenditure on pipeline infrastructure. Between 2004 and 2008, combined capital expenditures by China's three largest domestic oil and gas companies, namely PetroChina, the listed subsidiary of CNPC, Sinopec and CNOOC, increased at a CAGR of 20.1%. According to the 2008 annual report of PetroChina, it expects to increase capital expenditure in its natural gas and pipeline segment by 41.7% from RMB36.8 billion in 2008 to RMB52.2 billion in 2009. This increase is expected to fund the number of large pipeline projects undertaken by the CNPC Group, see "— PRC Oil and Gas Pipeline Industry — Existing major pipelines". The following table sets forth the capital expenditure of China's major oil and gas companies for the periods indicated:

	2004	2005	2006	2007	2008	CAGR 2004 to 2008
	(in RMB millions except percentages)					
PetroChina	106,295	133,820	158,578	194,182	243,752	23.1%
Sinopec	65,800	67,300	83,900	109,300	107,300	13.0%
CNOOC	13,958	17,898	24,998	31,003	35,858	26.6%
Total	186,053	219,018	267,476	334,485	386,910	20.1%

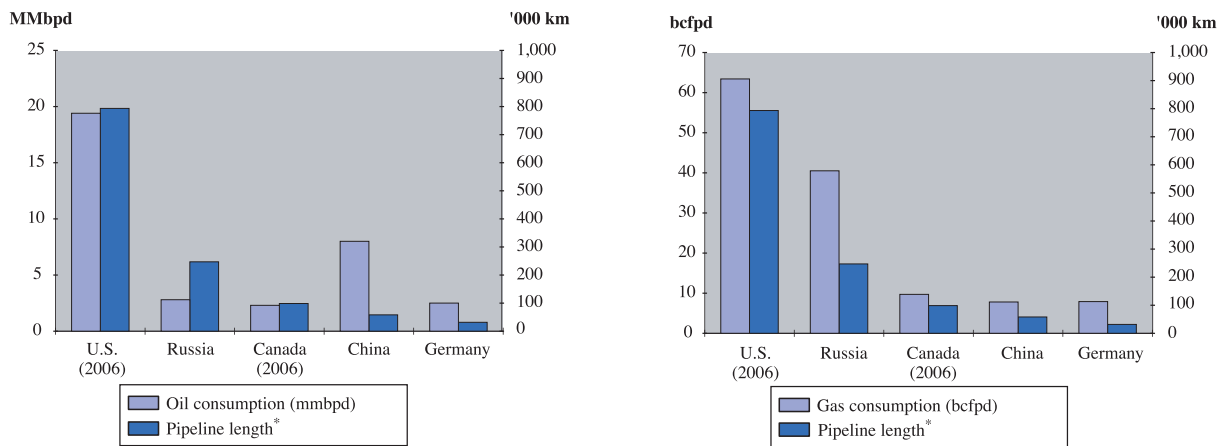
Source: 2008 annual reports of PetroChina, Sinopec and CNOOC

INDUSTRY OVERVIEW

GLOBAL OIL AND GAS PIPELINE INDUSTRY

Pipeline Infrastructure

Developed countries generally have higher pipeline infrastructure density and greater reliance on complex pipeline networks to distribute energy resources. The charts below set forth the total pipeline length of selected countries in 2008, except for the U.S. and Canada for which only 2006 figures are available, and the oil and gas consumption of such countries in 2008:



Source: *The CIA World Factbook for pipeline length, BP Statistical Review of World Energy 2009 for oil and gas consumption*

* The pipeline lengths for the United States and Canada are for 2006 while the pipeline lengths for the remaining selected countries are for 2008. Accordingly, the pipeline lengths presented in the above charts, and the corresponding oil and gas consumption information, may not be directly comparable.

According to estimates made in July 2009 by Simdex, a pipeline project consultancy, approximately 326,000 km of pipelines will be constructed in the next five years. Douglas-Westwood, an independent research consultant for the energy sector, predicts that global investment in onshore pipeline projects between 2008 and 2012 will reach US\$180 billion. During the same timeframe, Asia will be the biggest market for pipeline investment and will attract estimated investments of US\$42 billion.

Despite being the world's second highest energy consumer and having made significant investments in infrastructure construction in recent years, China accounts for a disproportionately small portion of the world's total pipeline length as of 2008. China's oil consumption and gas consumption were equivalent to 41.2% and 12.3%, respectively, of U.S. consumption in 2008. However, its total pipeline length represented only 7.3% of that of the United States in the same year. According to the National Bureau of Statistics of China, the length of national oil and gas pipelines in China was approximately 58,300 km in 2008. Compared with developed countries, the total length of China's pipeline infrastructure relative to its energy consumption is low. The relatively underdeveloped state of China's pipeline infrastructure suggests that pipeline construction will increase in order for the scale of its pipeline infrastructure to rise to the level of developed countries.

INDUSTRY OVERVIEW

Global Pipeline Development Trends

We believe that the following key developments and trends in the global oil and gas pipeline industry will influence the industry's development:

- Improvements in the manufacturing techniques and technology for SSAW pipes continue to increase the dimensional accuracy, fatigue resistance and tensile and yield strength of SSAW pipes while lowering the residual stress caused during the manufacturing process. As a result, increasingly more pipeline operators have been choosing SSAW pipes for high pressure applications, which are common in natural gas pipelines.
- Most of the world's proven oil and gas reserves are located in developing countries. This uneven geographic distribution of reserves will increase demand for transnational pipelines, which are necessary to transport oil and gas from these countries to foreign markets.
- Developing countries are experiencing the highest demand growth for oil and gas according to the World Bank, and strong demand in these countries will support the construction of domestic pipeline networks within these countries.
- The useful life of pipelines varies depending on quality and usage, and installed pipelines generally have to be repaired or replaced every 30 to 50 years. Replacement demand, particularly among developed countries is expected to contribute to demand for line pipes. For example, two thirds of existing pipelines in the United States are over 40 years old.

PRC OIL AND GAS PIPELINE INDUSTRY

Pipeline transportation is an increasingly important means of transporting crude oil and natural gas within China. Extensive networks of long-distance pipelines are necessary to transport oil and gas products from China's major oil and gas reserves, which are located predominately in western China to the country's largest consuming markets located in eastern China.

The major pipeline projects undertaken by the CNPC Group and the Sinopec Group involved the construction of mainlines in long-distance oil and gas pipelines. Mainlines require large-diameter pipes to convey large volumes of gas or liquid, which are distributed into smaller lateral pipeline networks. As PRC line pipe manufacturers have been active in the development of SSAW pipe production techniques, approximately 70% of major pipelines in China are constructed using SSAW pipes that were manufactured in China. The remaining 30% of China's major pipelines are composed of LSAW and ERW pipes.

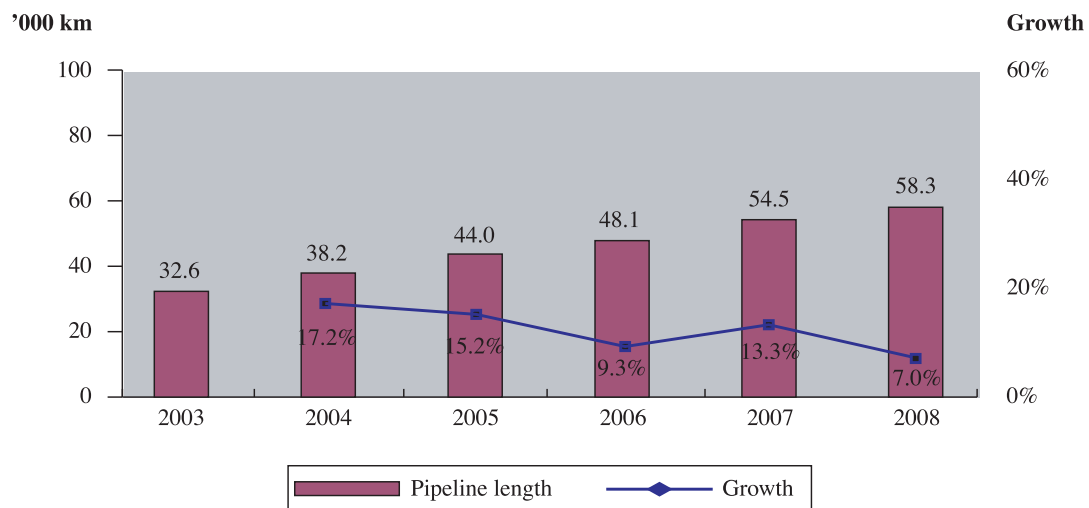
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Historical Information

PRC pipeline infrastructure

China's pipeline infrastructure has grown in tandem with the country's energy consumption and economic growth. Approximately half of China's national network oil and gas pipelines are designed for the transportation of natural gas, and the other half are for crude oil and refined petroleum products, according to Beijing Golden Bright International Business Investigation Consultancy ("Golden Bright"). Figures from the National Bureau of Statistics of China show that the length of oil and gas pipelines in China had increased by 67.2% from 2003 to 2007. The NDRC announced in November 2008 that China will increase expenditure on infrastructure development and commence a series of energy infrastructure projects as part of China's economic stimulus package, which includes an investment of RMB93.0 billion in the eastern segment of the Second West-East Gas Pipeline.

PRC National Pipelines



Source: National Bureau of Statistics of China

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Existing major pipelines

In recent years, China has undertaken the construction of a number of major pipeline projects to support increasing energy consumption. A number of these long-distance pipelines were transnational projects that extended into neighboring countries such as Turkmenistan, Kazakhstan, Uzbekistan and Russia. The following table sets forth the major oil and gas pipelines that have been constructed by China's oil and gas companies in recent years.

Major Gas Pipelines

Project name	Project operator	Construction period	Total length (km)
First West-East Gas Pipeline (西氣東輸一線工程)	the CNPC Group	2002-2004	3,900
Zhongxian-Wuhan Natural Gas Pipeline (忠縣-武漢天然氣管線)	the CNPC Group	2003-2005	1,375
Second Shaanxi-Beijing Gas Pipeline (陝京二線輸氣管線)	the CNPC Group	2004-2005	1,498
Hebei-Nanjing Connection Gas Pipeline (冀寧聯絡輸氣管線)	the CNPC Group	2005-2005	912
Sichuan Gas Pipeline (川氣東送管線)	the Sinopec Group	2007-2009	1,702

Major Oil Pipelines

Project name	Project operator	Construction period	Total length (km)
Lanzhou-Chengdu-Chongqing Refined Oil Pipeline (蘭成渝成品油管道)	the CNPC Group	2000-2002	1,250
Ningbo-Shanghai-Nanjing Oil Pipeline (甬-滬-寧原油管線)	the Sinopec Group	2001-2004	645
Southwest Oil Pipeline (西南成品油管線)	the Sinopec Group	2003-2005	1,691
Yizheng-Changling Crude Oil Pipeline (儀征-長嶺原油管線)	the Sinopec Group	2004-2006	979
Shandong-Anhui Oil Pipeline (魯皖成品油管線)	the Sinopec Group	2004-2005	761
Second Shandong-Anhui Oil Pipeline (魯皖成品油管線二期)	the Sinopec Group	2007-2009	1,280
West Oil Pipeline (西部原油成品油管線)	the CNPC Group	2005-2006	4,000
Lanzhou-Zhengzhou-Changsha Refined Oil Pipeline (蘭鄭長成品油管道)	the CNPC Group	2007-2008	2,422
Kazakhstan-China Oil Pipeline (哈薩克斯坦-中國輸油管線)	the CNPC Group	2004-2005	962

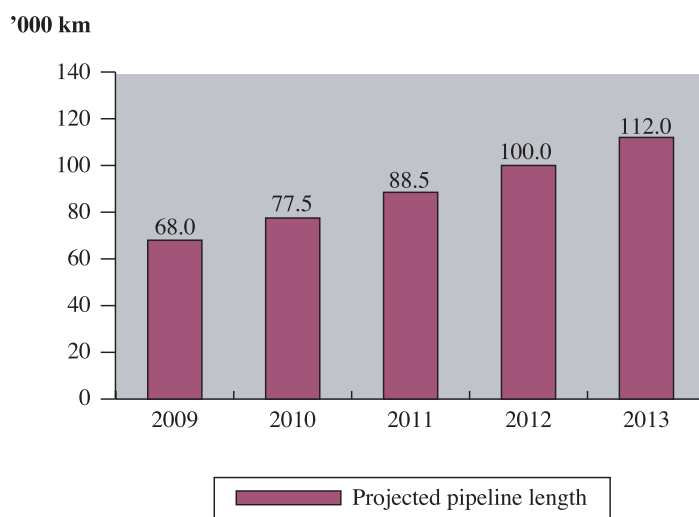
INDUSTRY OVERVIEW

There are currently four large-scale pipeline projects under construction in China, namely, the Second West-East Gas Pipeline (西氣東輸二線工程); the Third Shaanxi-Beijing Gas Pipeline (陝京三線工程); the Mohe-Daqing Crude Oil Pipeline (漠河-大慶原油管線); and the Yulin-Puyang-Jinan Gas Pipeline (榆-濮-濟輸氣管線). Collectively these projects will add 11,934 km to China's pipeline network.

2009 to 2013 Outlook

The *Tubular Goods Research Center of CNPC* predicts that pipeline construction in China will remain strong in the medium term, particularly for natural gas pipelines. The same source estimates that approximately 8,000 km of oil and gas pipelines, including mainlines and lateral pipelines, will be added to China's national pipeline network in 2009. The following chart sets forth the projected growth of China's national pipeline network for the periods indicated:

PRC National Pipelines and Lateral Pipelines



Source: *TGRC Report*

PRC pipeline development trends

We believe that the following key developments and trends in the PRC oil and gas pipeline industry will influence the industry's development:

- Larger diameter line pipes have been used in national oil and gas pipelines to increase transportation efficiency. As a result, the tonnage per kilometer ratio of line pipes that are installed in these pipelines has increased, which has generated additional business for line pipe manufacturers. The TGRC Report estimates that the tonnage per kilometer of oil and gas SSAW pipes in China will grow from 300 in 2008 to approximately 380 by 2015.

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- PRC pipeline operators have increasingly designed pipelines with higher steel grades and thicker walls to increase reliability and pressure tolerance.
- The construction of transnational pipelines will remain active as China continues efforts to secure long-term access to regional natural gas and crude oil reserves from neighboring countries. Negotiations for energy cooperation between China and Russia, which hold the world's largest proven reserves of natural gas, are ongoing. The first phase of the Central Asia-China Natural Gas Pipeline will be completed by the end of 2009, giving China access to natural gas from Turkmenistan and the construction of the second phase will begin thereafter.

Planned major pipeline projects

According to the TGRC Report, a number of major pipeline projects are planned to commence construction between 2010 and 2015. Notably, the Third West-East Gas Pipeline (西氣東輸三線), the Double Central-Asian Pipelines (中亞管線複線) and the Urumqi-Honghu Crude Oil Pipeline (烏魯木齊-洪湖原油管線) will each exceed 3,000 km.

Regional and Municipal Pipeline Networks

Small and medium-sized cities and rural areas in China generally have limited access to piped gas. However, China's rapid urbanization, which increased an average of 1.2% every year from 1998 to 2008 according to CEIC Data Company Ltd. ("CEIC"), is expected to increase demand substantially for piped gas. The PRC Government has been promoting the consumption of gas relative to other energy sources and aims to increase national gas consumption levels to 8% of overall energy consumption in China within the next ten years. To increase access to energy, the PRC Government has actively invested and gradually encouraged foreign investment in the construction of regional and municipal natural gas infrastructure to support China's growing national network of natural gas pipelines. Growing consumer preference for piped gas over gas delivered by other means has led to the increased construction of regional and municipal gas pipelines. Internationally, the total length of municipal and regional pipeline networks is generally more than two times the length of main pipeline networks in mature pipeline systems, and, currently, China's regional and municipal pipelines is approximately the same length as its national pipelines. According to estimates included in the TGRC Report, the construction of regional pipelines has entered a phase of high growth, and the total length of regional natural gas pipelines in China will increase by approximately 20,000 to 30,000 km each year in the short to medium term.

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Industry Competition

In contrast to the highly fragmented PRC steel pipe industry that consists of over a thousand manufacturers, a limited number of domestic manufacturers dominate the sector of the industry that supplies to oil and gas companies for their large-scale high pressure pipeline projects. Each of these line pipe manufacturers has a long-standing relationship with China's major oil and gas companies, and all but the Group is a unit of the CNPC Group or the Sinopec Group. In addition to the Group, the largest oil and gas line pipe manufacturers in China include Baoji Petroleum Steel Pipe Co., Ltd. (寶雞石油鋼管有限責任公司), China Petroleum Pipeline Bureau Steel Pipe Works (中石油管道局鋼管廠), North China Petroleum Steel Pipe Co., Ltd. (渤海裝備公司華油鋼管有限公司), Shanghai Baoshiwei Petro-Pipe Co., Ltd. (上海寶世威石油鋼管製造有限公司), Shashi Steel Pipe Factory (沙市鋼管廠) and Ziyang Steel Pipe Factory (資陽鋼管廠). The Group and these other six manufacturers collectively supplied substantially all of the line pipes that have been installed in China's national and transnational pipelines, as well as the overseas pipeline projects undertaken by the CNPC Group and the Sinopec Group.

Stringent track record requirements, growing customer emphasis on product safety and the significant capital required to achieve competitive production volumes have created significant entry barriers to the oil and gas pipeline industry. It may take years to gain customer acceptance and certification from the American Petroleum Institute, or API, which is a prerequisite to supplying to PRC oil and gas companies. Oil and gas pipelines are designed to convey gas and liquids that are flammable and potentially hazardous. A leakage in pipelines can result in significant environmental damage and costly operational disruptions for pipeline operators. Consequently, the CNPC Group and the Sinopec Group are selective about their line pipe suppliers and only permit approved suppliers to tender bid proposals for their pipeline projects.

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BACKGROUND INFORMATION ON SOURCES OF INFORMATION

Provided below is information on some of the sources referred to in this Prospectus. Statistics and reports provided by these sources are not commissioned by us and, to the best of the Directors' knowledge, information and belief, these sources are independent of us.

British Petroleum

BP is one of the world's largest oil and gas companies. Every June it publishes a new edition of its BP Statistical Review of World Energy, which has provided data on world energy markets to the media, academia, world governments and energy companies for 58 years.

CEIC

Founded in 1992, CEIC Data Company Ltd. is a financial information service provider that maintains a comprehensive database containing economic, sector and financial information used for economic research on emerging and developed markets by economists around the globe.

Douglas-Westwood

Established in 1990, Douglas-Westwood is an independent employee-owned company and the leading provider of business research and analysis, strategy and commercial due diligence on the global energy services sectors. To date, it has completed more than 550 projects for clients in over 50 countries.

Golden Bright

Beijing Golden Bright International Business Investigation Consulting Co., Ltd. is an international and professional business consulting organization that is certified and supervised by National Bureau of Statistics of China and Society of Competitive Intelligence of China.

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WHOLLY FOREIGN-OWNED ENTERPRISE (“WFOE”)

A WFOE is governed by the Law of the PRC on Wholly Foreign-owned Enterprises (中華人民共和國外資企業法), which was promulgated on 12 April 1986 and revised on 31 October 2000, and its Implementation Regulations promulgated on 12 December 1990 and revised on 12 April 2001 (“WFOE Law”).

Procedures for Establishment of a WFOE

The establishment of a WFOE must be approved by the Ministry of Commerce (“MOFCOM”) or the authorized people’s government (“Approval Authority”). If two or more foreign investors jointly apply for the establishment of a WFOE, a copy of the contract between the parties must also be submitted to Approval Authority for its record. A WFOE must also obtain a business license from the relevant local Administration for Industry and Commerce before it can commence business operation.

Nature of WFOE

A WFOE is a limited liability company under the WFOE Law. A WFOE is a legal person who is entitled to independently assume civil obligations, enjoy civil rights and own, use and dispose of property. It is required to have a registered capital contributed by the foreign investor(s). The liability of the foreign investor(s) is limited to the amount of registered capital it subscribed to contribute. A foreign investor is permitted to make its contributions by installments and the registered capital shall be contributed within the required time period as approved by the MOFCOM (or its delegated authorities) in accordance with relevant PRC laws and regulations.

Profit Distribution

The WFOE Law provides that a WFOE shall withdraw reserve fund and employee bonus and benefit fund from the after-tax profit. The allocation ratio for the employee bonus and welfare fund shall be determined by the enterprise. However, at least 10% of the after-tax profits must be allocated to the reserve fund. If the cumulative total of allocated reserve funds reaches 50% of the enterprise’s registered capital, the enterprise will not be required to make any additional contribution. The enterprise is prohibited from distributing dividends unless the losses (if any) of previous years have been made up.

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SUMMARY OF LAWS AND REGULATIONS RELEVANT TO THE OIL AND GAS PIPE INDUSTRY

Pursuant to the Regulations on Protection of Petroleum and Natural Gas Pipelines (石油天然氣管道保護條例) promulgated and effective as of 2 August 2001 (“Petroleum and Natural Gas Pipelines Regulations”), enterprises operating certain installations and production facilities in the oil and gas industry to manufacture, *inter alia*, petroleum or natural gas pipelines (“Pipelines”) and/or to provide anti-corrosion treatments for SSAW pipes, are required to adopt operating and work safety policies to ensure proper handling and safe operation of such installations and production facilities. Such enterprises are responsible for the safe operation of their installations and production facilities and must ensure that they comply with the following obligations: (1) to design, construct, inspect and operate Pipelines strictly according to the quality criteria of the PRC for the installation and construction of Pipelines; (2) to apply an anti-corrosion coating on the external surface of pipelines and to attach cathode protection devices thereto; (3) to erect appropriate markings after the completion of construction of the Pipelines as part of the protective measures for such Pipelines from potential damage from vehicle collision, human interference or livestock; (4) to implement and ensure stringent compliance to technical operation rules and safety regulations relating to the transport of Pipelines installations; (5) to conduct regular inspections and maintenance of Pipelines installations; (6) to provide assistance and co-operation efforts with the local people’s governments to inform people living in the vicinity of Pipelines installations on the nature of such Pipelines installations; and (7) to co-ordinate with public security bodies to ensure the protection of Pipelines installations. In addition, such enterprises are also responsible pursuant to the Petroleum and Natural Gas Pipelines Regulations to recover and dispose of petroleum leaked and discharged from Pipelines. Enterprises that fail to comply with the above-mentioned obligations and results in damage caused to the Pipelines installation shall be investigated by the department designated by the local people’s government pursuant to the relevant PRC laws and regulations. Such enterprises may be liable to make corrections, and a fine of between RMB 20,000 and RMB 100,000.

Pursuant to the Interim Regulations on Management and Supervision of Safety of Petroleum and Natural Gas Pipelines (石油天然氣管道安全監督與管理暫行規定) promulgated by the former State Economic and Trade Commission on 24 April 2000 and effective as of the date of promulgation, enterprises that manufacture steel pipes (“Steel Pipe Manufacturers”) shall obtain the relevant qualifications, certificates and other relevant production permissions, and the production of steel pipes shall comply with the relevant state technology standards. Steel Pipe Manufacturers shall ensure to have the appropriate work safety and technical operating policies and facilities to comply with the relevant standards of production, examination and inspection of steel pipes produced. Raw materials used for the production of steel pipes shall be duly inspected and it cannot be utilized for production unless and until such raw materials are inspected and/or proven to meet quality inspection standards. The Steel Pipe Manufacturers shall implement and ensure stringent compliance to the relevant quality control procedures required for the production of steel pipes. Steel pipes produced shall be examined and inspected to ensure that they meet inspection standards before they are put into use. The production of steel pipes must have a supervision system (監理制) in place and must be supervised by a qualified unit. Steel pipes produced without such supervision shall not be used to transport petroleum and/or natural gas.

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PRODUCT QUALITY LAW

Under the Product Quality Law of the PRC (中華人民共和國產品質量法) (“Product Quality Law”), which was promulgated by the Standing Committee of the NPC on 22 February 1993 and amended on 8 July 2000, producers and sellers shall be responsible for the product quality. The product quality shall be inspected and comply with national and industrial standards. A supervisory inspection system for product quality with the spot check as its main form was regulated in the Product Quality Law. Where any product is found to be unqualified by any supervision and inspection that is carried out according to this law, the producer or seller shall be ordered to make corrections within the time limit by the product quality supervision administration that carries out the supervision and inspection. Where the producer or seller fails to make corrections within the time limit, he shall be publicized by the product quality supervision administration of the people’s government on or above the provincial level; if the product quality is still not qualified after re-examination, the producer or seller shall be ordered to suspend business for rectifications within the time limit; if the product quality is still proved unqualified by re-examination after the period for rectifications, the business license of the producer or seller shall be revoked. A seller shall be responsible for repair, or change, or refund of a product if it is sold under any of the following circumstances, and, where the product has caused any loss on its users or consumers, the seller shall compensate for such loss: (1) not having the functions it ought to have, and no prior explanation thereabout having been given by the seller; (2) not conforming to the product standards marked on the product or its package; (3) not conforming to the state of quality indicated by way of product directions or sample, etc. After repair, change, refund or compensation has been made according to the provisions of the Product Quality Law, provided the liability is attributed to the producer or to another seller who has supplied the product, the seller shall have the right to recover his losses from the producer or the supplier. Where products produced do not comply with the relevant national or industrial standards safeguarding the health or safety of human life and property, the producer shall be ordered to stop production, the products and earnings illegally produced and made shall be confiscated, and, a fine no more than three times the amount of the unlawful earnings shall be imposed concurrently, and the business license may be revoked if the illegal situation is found to be severe. If the case constitutes a crime, the producer shall be investigated for criminal responsibility according to relevant PRC laws.

PRODUCTION SAFETY

Under the PRC legal framework, the Production Safety Law of PRC (中華人民共和國安全生產法) (“Production Safety Law”) which was promulgated by the Standing Committee of the NPC on 29 June 2002 and took into effect on 1 November 2002, shall be applied to regulate the production and business operation entities, which requires the following requirements be satisfied, and for enterprises conducting mining, construction, and dangerous chemicals, fireworks and crackers and civil explosive material productions (hereinafter collectively referred to as the “Enterprises”), the licensing system for safety production (安全生產許可制度) shall be applied under the Production Safety Licensing Regulation. Pursuant to the Production Safety Law, production and business operation entities are required to satisfy the following qualifications, i.e. the production and business operation entities

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shall be equipped with the conditions for safe production as provided in the present law and other relevant laws, administrative regulations, national standards and industrial standards. The production and business operation entities shall offer education and training programs to the employees thereof regarding production safety so as to ensure that the employees have the necessary knowledge of production safety, know the relevant regulations and rules for safe production and the rules for safe operation, and master the skills for safe operation for their own positions. The safety facilities of the newly built, rebuilt or expanded engineering projects of the production and business operation entities shall be designed, built and put into production and use at the same time of the principal part of the projects, and lastly the production and business operation entities shall provide labor protection articles that meet the national standards or industrial standards to the employees. The Production Safety Law also requires that the employers maintain safe production conditions as required by the Production Safety Law and other relevant laws, administrative regulations, national standards and industrial standards. It further provides that any entity that is not sufficiently equipped to ensure safe production may not engage in production and business operation activities, and that companies must provide production safety education and training programs to their employees. The design, manufacture, installation, use, checking and maintenance of the safety equipment are required to conform to applicable national or industrial standards. In addition, it is required that labor protection equipment must meet the national or industrial standards and that companies must supervise and educate their employees to wear or use such equipment according to the prescribed rules.

In addition, the Regulations on Safety Supervision over Special Equipment (特種設備安全監察條例) (“Regulations”) which were promulgated by the State Council on 11 March 2003 and amended on 14 January 2009 with effectiveness as of 1 May 2009, prescribe that entities engaging in production activities involving and/or producing special equipment (including pressure pipelines and pressure pipeline components) shall conduct such production activities in compliance with the Regulations and with the requirements of the Safety Technical Code (安全技術規範) (“Safety Technical Code”) enacted and promulgated by the Department of Safety Supervision for Special Equipment (特種設備安全監督管理部門) (“Department of Safety Supervision for Special Equipment”). Such entities are required to satisfy the following conditions to obtain a manufacturing license of special equipment (pressurized pipeline) (特種設備製造許可證(壓力管道)) (“Manufacturing License”) pursuant to the Regulations: (1) ensure that professional technicians and technical workers manufacturing special equipment are professionally trained; (2) ensure that production conditions and testing means are in place; and (3) ensure that quality control management systems and responsibility systems are sound. Companies found to have engaged or engaging in production activities involving and/or producing special equipment without obtaining the due licensing will be liable to, *inter alia*, cessation of production activities and confiscation of manufactured products and a fine ranging from RMB100,000 to RMB500,000. Criminal liability may be further imposed on parties responsible in charge and directly responsible for such illegal operation of special equipment in accordance with the crime of producing or selling fake and inferior products, the crime of illegal business operations, or other crimes. In addition, pursuant to the Regulations, where such special equipment is sold without accompanying documentation such as a certificate of compliance or a supervision inspection certificate as required pursuant to the Safety Technical Code, the Department of Safety Supervision for Special Equipment may impose the correction of such situation, cessation of such transaction, confiscation of any income as a result of such transaction and a fine of up to 30% of the value of such special equipment.

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The Administrative Rules on Manufacturing Licenses of Industrial Products of the PRC (中華人民共和國工業產品生產許可證管理條例) (“Administrative Rules”) promulgated on 9 July 2005 by the State Council prescribe the manufacturing licenses of industrial products on certain listed products, including welded pipe for oil and gas transmission. Pursuant to these Administrative Rules, a company may apply to the relevant provincial competent authority for a manufacturing license of industrial products with the following conditions: (1) having its own business license; (2) having the professional technicians and technical workers fit in with the manufacturing product; (3) having the production conditions and testing means fit in with the manufacturing product; (4) having the technique documents fit in with the manufacturing product; (5) having perfect quality management systems and responsibility systems; (6) the product complying with relevant national and industrial standards and the requirement of safeguarding the property and the health of human body; and (7) compliance with the state industry policy and nonexistence of pollution and waste of resources etc. Subsequent to the application, the provincial competent authority shall execute an examination including investigation on the spot and product inspection. If both the investigation on the spot and the product inspection are eligible, the Company will be issued with a manufacturing license. The validity period of the manufacturing license is five years and renewable with an application to the competent authority for change of new manufacturing license six months prior to the expiry of the manufacturing license.

According to the Regulations, and the Measures for the Supervision and Administration of the Operating Personnel of Special Equipment (特種設備作業人員監督管理辦法), promulgated on 10 January 2005 by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中華人民共和國品質監督檢驗檢疫總局) and effective on 1 July 2005, staff operating specialized equipment such as the welding machinery and hydraulic machinery, and conducting quality control inspection procedures are required to attend specialized technical external training courses and to obtain Special Equipment Operating Personnel Licenses (特種設備作業人員證) in order to be qualified to operate such specialized equipment or conduct quality control inspections. In addition, staff operating such specialized equipment is also required to satisfy the following conditions: (1) a minimum age requirement of 18 years old; (2) of good health and able to meet the requisite physical requirements for operating specialized equipment; (3) an educational background complying with the requirements for operating specialized equipment; (4) having the requisite working experience for operating specialized equipment; (5) having the requisite knowledge and skills of work safety guidelines and procedures in relation to the operation of specialized equipment; and (6) complying with such other requirements as provided from time to time by industrial standards or norms on work safety practices.

LABOR LAWS

Relevant labor and safety laws and regulations in China include the PRC Labor Law (中華人民共和國勞動法), the PRC Labor Contract Law (中華人民共和國勞動合同法), the Regulation of Insurance for Labor Injury (工傷保險條例), the Unemployment Insurance Law (失業保險條例), the Provisional Insurance Measures for Maternity of Employees (企業職工生育保險試行辦法), Interim

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Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法), Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例) and other related regulations, rules and provisions issued by the relevant governmental authorities from time to time for our operations in China.

Subject to the PRC Labor Law, employers must enter into employment contracts with their employees, based on the principles of equality, consent and agreement through consultation. The employers must provide wages which are no less than the local minimum wage standards to the employees from time to time. The employers are required to establish a system for labor safety and sanitation, strictly abide by State rules and standards and provide relevant education to their employees. The employers are also required to provide the employees with labor safety and sanitation conditions meeting State rules and standards and carry out regular health examinations of the employees engaged in hazardous occupations. The employers must also pay for their employees' social insurance premium.

According to the PRC Labor Contract Law, which was promulgated by the Standing Committee of the NPC on 29 June 2007 and came into effect on 1 January 2008, employers shall establish employment relationship with employees on the date that they start employing the employees. To establish employment, a written employment contract shall be concluded, otherwise employers will be liable for the illegal actions. Furthermore, the probation period and liquidated damages shall be restricted by the law to safeguard employees' rights and interests.

On 18 September 2008, the State Council promulgated the Implementation Regulations of the PRC Labor Contract Law ("Implementation Regulations") (中華人民共和國勞動合同法實施條例) which came into effect on the same date. Pursuant to the Implementation Regulations, the conclusion or dissolution of a non-fixed term employment contract were formulated intensively and special provisions on the labor-dispatch were also instituted. Furthermore, the Implementation Regulations improve and implement the economic compensation system.

As required under the Regulation of Insurance for Labor Injury (工傷保險條例), Provisional Insurance Measures for Maternity of Employees (企業職工生育保險試行辦法), Interim Regulation on the Collection and Payment of Social Insurance Premiums (社會保險費徵繳暫行條例) and Interim Provisions on Registration of Social Insurance (社會保險登記管理暫行辦法), employers are obliged to provide employees in China with welfare schemes covering pension insurance, unemployment insurance, maternity insurance, injury insurance and medical insurance.

ENVIRONMENTAL PROTECTION REGULATIONS

In accordance with the Environmental Protection Law (環境保護法) adopted by the Standing Committee of the NPC on 26 December 1989, the Administration Supervisory Department of Environmental Protection sets the national guidelines for the discharge of pollutants. The provincial

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and municipal governments of provinces, autonomous regions and municipalities may also set their own guidelines for the discharge of pollutants within their own provinces or districts in the event that the national guidelines are inadequate.

A company or enterprise which causes environmental pollution and discharges other polluting materials which endanger the public should implement environmental protection methods and procedures into their business operations. This may be achieved by setting up a system of accountability within the company's business structure for environmental protection; adopting effective procedures to prevent environmental hazards such as waste gases, water and residues, dust powder, radioactive materials and noise arising from production, construction and other activities from polluting and endangering the environment. The environmental protection system and procedures should be implemented simultaneously with the commencement of and during the operation of construction, production and other activities undertaken by the company. Any company or enterprise which discharges environmental pollutants should report and register such discharge with the competent administration supervisory department of environmental protection and pay any fines imposed for the discharge. A fee may also be imposed on the company for the cost of any work required to restore the environment to its original state. Companies which have cause severe pollution to the environment are required to restore the environment or remedy the effects of the pollution within a prescribed time limit. If a company fails to report and/or register the environmental pollution caused by it, it will receive a warning or be penalized. Companies which fail to restore the environment or remedy the effects of the pollution within the prescribed time will be penalized or have their business licenses terminated. Companies or enterprises which have polluted and endangered the environment must bear the responsibility for remedying the danger and effects of the pollution, as well as to compensate the losses or damages suffered as a result of such environmental pollution.

Under the Prevention and Control of Water Pollution Law (水污染防治法), companies which discharge pollutants directly or indirectly into bodies of water must register with the environmental protection department of the local government at county level or above in the area where they are situated. Such companies must provide information on their facilities which discharge such pollutants, their treatment plants, the type, amount and concentration of the pollutants discharged under normal business operations, in accordance with regulations set by the Administration Supervisory Department of Environmental Protection. If there are significant changes to the type, amount or concentration of pollutants being discharged, such changes must be reported immediately.

The dismantling or non-usage of pollution treatment plants also require the approval of the environmental protection department of the local government at county level or above.

Under the Prevention and Control of Atmospheric Pollution Law (大氣污染防治法), companies which discharge pollutants into the atmosphere must provide details of the discharge to the environmental protection department of the local government. Such details must include the facilities which discharge such pollutants, their treatment plants, the type, amount and concentration of the pollutants discharged under normal business operations, in accordance with regulations made by the

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Administration Supervisory Department of Environmental Protection. If there are significant changes to the type, amount or concentration of pollutants being discharged, such changes must be reported immediately. The dismantling or non-usage of pollution treatment plants also requires the approval of the environmental protection department of the local government.

Under the Prevention and Control of Solid Waste Pollution Law (固體廢物污染環境防治法), companies which discharge solid waste pollution shall be responsible for their pollution. Companies must register with the local relevant authority for their solid waste pollution, and must provide information in relation to the type, amount, discharge and treatment of such pollution, in accordance with regulations made by the Administration Supervisory Department of Environmental Protection. If there are significant changes to the type, amount or concentration of pollutants being discharged, such changes must be reported immediately. The dismantling or non-usage of pollution treatment plants also requires the approval of the environmental protection department of the local government.

Under the Law on Prevention and Control of Environmental Noise Pollution (環境噪聲污染防治法) promulgated by the Standing Committee of the NPC on 29 October 1996 and effective as of 1 March 1997, every project under construction, renovation or expansion must conform to the regulations of the State governing environmental protection. Where a construction project might cause environmental noise pollution, the unit undertaking the project must prepare an environmental impact statement which includes the measures it takes to prevent and control such pollution, and submit it, following the procedures prescribed by the State, to the competent administrative department for environmental protection for approval. Enterprises and institutions that produce environmental noise pollution must maintain normal operation of the facilities for prevention and control of such pollution. Any industrial enterprise that produces environmental noise pollution due to the use of permanent equipment in the course of industrial production must, in accordance with the regulations of the competent administrative department for environmental protection under the State Council, report to the competent administrative department for environmental protection of the local people's government at or above the county level the types and quantity of its equipment that produces environmental noise pollution, the noise level produced under normal operation and the facilities installed for prevention and control of such pollution, and provide technical information relating to the prevention and control of noise pollution. Industrial enterprises that produce environmental noise pollution shall take effective measures to minimize the impact of noise on the living environment of the neighborhood.

The entities that are engaged in the activities of production and services and the departments in charge of relevant administration within the territory of the PRC shall organize and carry out clean productions according to the provisions of the Law of the PRC on Promoting Clean Production (中華人民共和國清潔生產促進法) promulgated by the Standing Committee of the NPC on 29 June 2002 and effective as of 1 January 2003. For the projects of new building, rebuilding and expanded building, appraisals shall be made with regard to the effects upon the environment, analytical argumentations shall be made about the use of raw materials, consumption of resources, comprehensive utilization of resources, and the generation and disposal of pollutants, etc., and priority

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shall be placed on the adoption of clean production technologies, techniques and equipments that have high use rate of resources and generating few pollutants. Enterprises shall, in their technological renovations, adopt the following clean production measures: (1) using the raw materials that are innocuous and harmless or slightly noxious and harmful to replace the raw materials that are seriously noxious and harmful; (2) using the techniques and equipments that have high use rate of resources and generate few pollutants to replace the techniques and equipments that have low use rate of resources and generate plenty of pollutants; (3) making comprehensive or recurrent use of the waste things, waste water, and waste heat, etc. produced in the process of production; and (4) using the pollution-preventing technologies that have come to the national or local standards about the emission of pollutants and the indexes for controlling the total emission of pollutants.

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OUR HISTORY AND DEVELOPMENT

The history of our predecessor, Shengli Steel Pipe, dates back to 1972 when it was known as Shengli Oilfield Construction Headquarter Steel Pipe Factory (勝利油田油建指揮部製管廠) (“Shengli Factory”) which was established as a factory unit under the Oilfield Construction Headquarter (油田建設指揮部) of the PRC Government. Shengli Factory was principally engaged in the manufacture and sales of steel pipes and its first production facility was in Zibo, Shandong Province, which was completed in 1975 and production of SSAW pipes was commenced in the same year.

In 1989, Shengli Factory changed its name to Shengli Administration of Petroleum Steel Pipe Factory (勝利石油管理局鋼管廠). It later changed its name to Shengli Oilfield Zibo Pipe Co., Ltd. (勝利油田淄博製管有限公司) (“Shengli Oilfield Zibo Pipe”) in 1996 and it was incorporated as an independent legal entity in the same year. It also received in the same year the certificate of authority from the American Petroleum Institute (“API”) to use the official API monogram on its SSAW pipes whose quality system that met the API-5L international standards. From 1972 to 1998, Shengli Oilfield Zibo Pipe (formerly Shengli Factory and Shengli Administration of Petroleum Steel Pipe Factory) operated as a subordinate unit and then a subsidiary of CNPC’s predecessor. From 1998 to 2004, Shengli Oilfield Zibo Pipe became a subsidiary of Sinopec as a result of the reorganization of state-owned assets by the PRC Government.

In June 2004, the entire registered capital of Shengli Oilfield Zibo Pipe was acquired by 14 employee representatives on behalf of 675 employees of Shengli Oilfield Zibo Pipe for a total consideration of approximately RMB73.54 million. The total consideration was paid by the employees partly in cash and partly by setting off the compensation, allowances and other incentives payable to such employees. The approval for the conversion of Shengli Oilfield Zibo Pipe from a state-owned enterprise into a privately-owned enterprise was given in an approval document 《關於中國石油化工集團公司主輔分離輔業改制分流安置富餘人員第二批實施方案的批覆》 issued by SASAC and an approval document 《關於勝利石油管理局淄博製管有限公司改制分流實施方案的批覆》 issued by Sinopec in June 2004. Upon completion of the acquisition in June 2004, Shengli Oilfield Zibo Pipe changed its name to Shengli Steel Pipe and the 14 employee representatives were registered as the holders of the entire equity interest of Shengli Steel Pipe. The 14 employee representatives hold their respective equity interest in Shengli Steel Pipe on behalf of 675 employees pursuant to 14 entrustment agreements. For more information relating to the entrustment agreements, please refer to “The entrustment arrangements” below in this section. Tian Yuan Law Firm, the Company’s PRC legal advisers, are of the view that (i) the acquisition of Shengli Oilfield Zibo Pipe by its employees and its conversion from a state-owned enterprise into a privately owned enterprise had been duly approved by SASAC and Sinopec; and (ii) the acquisition of the entire registered capital of Shengli Oilfield Zibo Pipe by the 14 employee representatives (on behalf of the 675 employees including themselves) had been duly completed and was legal and valid under PRC laws and regulations.

In April 2005, Shengli Steel Pipe established Shengli Steel Pipe (Rizhao) Co., Ltd. (勝利鋼管(日照)有限公司) (“Rizhao Shengli”) (subsequently renamed as Shandong Shengli) as a sino-foreign equity joint venture in April 2005, with a registered capital of RMB50 million, which was held as to 74% by Shengli Steel Pipe and 26% by Victory Trading. Victory Trading was a company incorporated as a limited liability company in Hong Kong on 15 February 2005 and its issued share capital was held as to 40% by Ms. Han Aizhi, 30% by Mr. Liu Yaohua and 30% by Mr. Jiang Yong,

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all of whom held such equity interests on behalf of Mr. Zhang Zhengjie and Mr. Xiong Xiang pursuant to an agreement dated 26 January 2005. Mr. Zhang Zhengjie and Mr. Xiong Xiang are Independent Third Parties. On 19 June 2007, Ms. Han Aizhi transferred her entire shareholding in Victory Trading to Mr. Xiong Xiang for a nominal consideration of HK\$1.0 and Mr. Liu Yaohua and Mr. Jiang Yong transferred their entire shareholdings in Victory Trading to Mr. Zhang Zhengjie for nominal considerations of HK\$1.0 each, respectively. Rizhao Shengli was established to undertake the production of cold-formed section steel.

In August 2006, Shengli Steel Pipe acquired the assets including the buildings of a steel pipe manufacturing enterprise, Shandong Haosen Spiral Pipe Company Limited (山東灑森螺旋製管有限公司), in Dezhou, Shandong Province for a consideration of approximately RMB10.98 million and set up a branch in Dezhou with the acquired assets, which became Shengli Steel Pipe Co., Ltd., Dezhou branch (勝利鋼管有限公司德州分公司) (“Shengli Dezhou”). The assets of Shengli Dezhou were acquired by us when Shandong Shengli (formerly known as Rizhao Shengli) acquired the SSAW pipe business of Shengli Steel Pipe. Please refer to paragraphs headed “Our Corporate Reorganization” in this section below for details of the acquisition of SSAW pipe business from Shengli Steel Pipe. Shengli Dezhou is principally engaged in the production of SSAW pipes.

SHENGLI STEEL PIPE’S DISPOSAL OF SHANDONG SHENGLI AND THE SSAW PIPE BUSINESS

In December 2007, Shengli Steel Pipe sold its entire 74% equity interest in Shandong Shengli and the relevant assets of its SSAW pipe business comprising mainly the production facilities and business in Zibo and Dezhou, Shandong Province (excluding land and buildings) to CPE, then an investment vehicle indirectly wholly owned by Mr. Yan. Notwithstanding the fact that Shengli Steel Pipe had no immediate need for cash, it agreed to the disposal of its entire 74% equity interest in Shandong Shengli and the entire SSAW pipe business to Mr. Yan with a deferred payment of the consideration for the sale in March 2008 and June 2008, respectively. Subsequently the payment of the consideration were delayed to July 2008 and August 2008, respectively. In addition, Shengli Steel Pipe agreed to provide non-trade financial support to Shandong Shengli mainly from its internal financial resources and with the proceeds of sales of the 74% equity interest in Shandong Shengli and the relevant assets of its SSAW pipe business received from CPE, which reached a maximum amount on a monthly basis of RMB81.2 million in August 2008 among the 12 months ended 31 December 2008 and RMB3.3 million in May 2009 among the six months ended 30 June 2009. Except for the RMB8.45 million used for CPE’s acquisition of the 26% equity interest in Shandong Shengli from Victory Trading, Mr. Yan did not personally provide any funding for the transaction, and, instead, obtained funding through a loan facility under the Exchangeable Loan Agreement. Mr. Yan neither provided any funding for the subsequent development of the Group. Shengli Steel Pipe’s sale of the 74% equity interest in Shandong Shengli and the SSAW pipe business to CPE therefore had no apparent economic rationale to a third party without the background knowledge. Please refer to the description below for further details on the background of the disposal.

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The aggregate consideration of the sale of 100% equity interest in Shandong Shengli (including 26% equity interest in Shandong Shengli sold by Victory Trading to CPE for a consideration of RMB8.45 million) and the SSAW pipe business i.e. RMB116.51 million represents a 97.6% discount to the market capitalization of the Company (assuming the Over-allotment Option is not exercised) based on the mid-point of the Offer Price range and an exchange rate of RMB0.8810 to HK\$1.00.

RATIONALE AND BACKGROUND OF DISPOSAL OF SHANDONG SHENGLI AND THE SSAW PIPE BUSINESS BY SHENGLI STEEL PIPE

The need for additional capital to maintain market share

In the second half of 2007, the major customers of Shengli Steel Pipe started to plan for new major pipeline projects including the Second West-East Gas Pipeline which set a higher capacity and technical specification requirements for the suppliers of line pipes. In order to participate in the new pipe line projects, Shengli Steel Pipe had to invest in two new SSAW pipe production lines (the “New SSAW Project”) with higher capacity and technical specifications, the estimated total capital expenditure of which was approximately RMB140 million. In late 2007, Shengli Steel Pipe anticipated that despite that it had net cash balance of approximately RMB23.6 million as well as other current assets, it had difficulties in financing the capital expenditure for the New SSAW Project because:

- (i) it could not obtain sufficient bank loans or have access to other sources of finance in China to finance the construction as the PRC Government was enforcing a tight monetary policy by restricting the lending of commercial banks at the material times; and
- (ii) the historical net profits of Shengli Steel Pipe in years 2006 and 2007 were relatively low and the senior management of Shengli Steel Pipe, based on the historical profit results and the production orders received at the end of 2007, did not anticipate any substantial growth of the business in 2008 and onwards and concluded that the New SSAW Project could not be financed by the profits to be generated from the continuing self-operations.

Shengli Steel Pipe had faced similar changes in line pipe specifications in 2000 when the First East-West Gas Pipeline project was launched. In order to participate in the First West-East Gas Pipeline project and funded by its parent company Shengli Oil Field which was a subsidiary of Sinopec, Shengli Steel Pipe upgraded its production lines in July 2000. Through participation in the First West-East Gas Pipeline, Shengli Steel Pipe also secured orders for other major pipeline projects which required participation in the First East-West Gas Pipeline as a basic qualification of the line pipe suppliers. The requirement of prior supply of line pipes in First West-East Gas Pipeline in effect ruled out those manufacturers which did not participate in the First West-East Gas Pipeline in subsequent major pipeline projects in the PRC. When faced with the higher capacity and technical specifications of the Second West-East Gas Pipeline project in 2007, the senior management of Shengli Steel Pipe knew from their past experience the critical challenge faced by Shengli Steel Pipe and the risk to Shengli Steel Pipe if it failed to participate in this major pipeline project in the PRC. The consequences of not being able to meet the higher capacity and specifications of the major customers, including losing the opportunity to participate in the Second West-East Gas Pipeline

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project, would place Shengli Steel Pipe in a disadvantage position compared with other major competitors who were state-owned enterprises and subsidiaries of CNPC or Sinopec, who were able to obtain funds through their state-owned parents to invest and expand their production capacities and capabilities. As a result, Shengli Steel Pipe might have difficulties to maintain its market share, compete successfully in the SSAW pipe industry in the PRC and eventually might have to exit the business.

Shengli Steel Pipe is also under time pressure to invest in the New SSAW Project because some of its major competitors had commenced construction of new production lines meeting the higher capacity and technical specifications of new major pipeline projects in the PRC such as the Second West-East Gas Pipeline project.

Reasons for disposals by Shengli Steel Pipe and terms of the acquisitions by Mr. Yan

Through participation in the promotional activities organized by the local government of Shandong Province to promote investment opportunities in local and provincial enterprises, Shengli Steel Pipe was introduced by the local government officials to Mr. Yan, our Controlling Shareholder, who was engaged in investment management businesses and was looking for investment opportunities in China. The major terms of investment proposed by Mr. Yan were as follows:

- (i) Mr. Yan proposed to acquire 100% of the SSAW pipe business of Shengli Steel Pipe. His plan was to apply for listing of the SSAW pipe business as soon as possible when appropriate and in order to maximize his investment returns and to ensure the entire profits of the SSAW pipe business can be reflected in the listing vehicle, he would not agree to any of the 675 employees retaining any interests, direct or indirect, in or participate in his investment. Moreover, if allowed to participate in his investment, the 675 employees would represent fragmented shareholdings which would be difficult to obtain consensus. As such, other alternative investment structures such as allowing Mr. Yan to participate by issuing new shares/equity in Shengli Steel Pipe to him were not open for negotiations;
- (ii) The structure of his investment was that (a) he, through CPE, a company wholly-owned by him, would (1) acquire the 100% equity interests in Shandong Shengli (renamed from Rizhao Shengli in December 2007) to take advantage of the preferential tax treatment of Shandong Shengli as a sino-foreign equity joint venture to minimize his initial investment risks; and (2) use Shandong Shengli to acquire the assets of the SSAW pipe business of Shengli Steel Pipe but without acquiring the land and buildings and the results of operations prior to the acquisition, such as bank balances, cash, inventories and other receivables, payables and bank borrowings related to the SSAW pipe business; (b) in order that Shandong Shengli would have sufficient working capital to continue its operations, Shengli Steel Pipe would assist in providing the working capital to Shandong Shengli during the transitional period; (c) the proceeds payable by him for such acquisitions would be made available to Shandong Shengli to fund the New SSAW Project and as working capital; and (d) upon completion and operation of the New SSAW Project, the proceeds of his acquisitions would be paid back to Shengli Steel Pipe; and

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- (iii) Mr. Yan would obtain funds from private equity funds to finance his acquisitions of Shandong Shengli and the SSAW pipe business and therefore structure his acquisitions in the form of a leverage buyout, under which he undertook the risk of making interest payments for the loan facility under the Exchangeable Loan Agreement or transferring his controlling interest in the Group to the Investors under the provisions of the Exchangeable Loan Agreement subject to the performance of the Group. For details, please refer to the paragraphs headed “Exchangeable Loan Agreement” in this section. Payments for such acquisitions would be in March 2008 for the transfer of the equity interest in Shandong Shengli and June 2008 for the transfer of the SSAW pipe business, respectively.

Despite efforts by the senior management of Shengli Steel Pipe to look for alternative financing sources, Mr. Yan’s proposal was the only practicable and available proposal to Shengli Steel Pipe at the material time. Shengli Steel Pipe agreed to such terms of investments because:

- (i) there were no other suitable financing channels available at the material time and failure to obtain sufficient funding for the New SSAW Project would place Shengli Steel Pipe in a disadvantage position and posed threat to the livelihood of its employees;
- (ii) the proceeds of sales of the equity interest of Shandong Shengli and the SSAW pipe business in an aggregate amount of RMB108.06 million represented a moderately satisfactory return (an increase of approximately 46.9% compared to the original cost of investment of approximately RMB73.54 million by the 675 employees in the privatization of Shengli Steel Pipe in 2004 and approximately three times of the original cash contribution) to the 675 employees of Shengli Steel Pipe. In addition, as Shengli Steel Pipe had retained the results of operations prior to the disposals including bank balances, cash, inventories and other receivables, and if these were also taken into account, the disposals represented quite a good return for their original investment;
- (iii) the 675 employees/beneficial owners of Shengli Steel Pipe continued to enjoy the return on the retained assets of Shengli Steel Pipe including the land and buildings in Zibo, Shandong province which have been leased to Shandong Shengli for a term of 20 years from 1 January 2009 to 31 December 2028 at an annual rent of RMB6.4 million for the initial three years from 1 January 2009 to 31 December 2011, subject to adjustment at the prevailing market rent once every three years. For the year 2008, the rental received from Shandong Shengli was RMB3.5 million. The rental income represents a stable source of income to Shengli Steel Pipe. Please refer to “Connected Transactions — Non-exempt Continuing Connected Transactions — Lease of Land and Buildings from Shengli Steel Pipe” for more information relating to the lease; and
- (iv) with the continued operations of the SSAW pipe business and if the investment by Shandong Shengli in the New SSAW Project turned out to be successful, (1) for the 502 employees/beneficial owners whose employment would be transferred to Shandong Shengli after the disposals, they would be able to maintain their jobs with Shandong Shengli with a stable source of income (2) for the 173 remaining employees/beneficial owners (please refer to paragraphs headed “The entrustment arrangements” for details of such

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employees/beneficial owners), they would be able to secure the return on their original investment in Shengli Steel Pipe and (3) all 675 employees/beneficial owners would enjoy future return on investment to be made by Shengli Steel Pipe with the proceeds of sales of the equity interest of Shandong Shengli and the SSAW pipe business.

The senior management of Shengli Steel Pipe had not considered other comparable valuation of similar companies when negotiating with Mr. Yan in relation to the basis of consideration for the disposals and agreed to the use of net asset value as the basis of consideration as this was consistent with the basis used in the privatization of Shengli Steel Pipe by the 675 employee shareholders in 2004, which was a common standard for valuation of state-owned assets.

Timing of payment of the acquisition consideration

In December 2007, CPE entered into agreements with each of Shengli Steel Pipe and Victory Trading to acquire their entire equity interests in Shandong Shengli, which was converted into a WFOE on 29 December 2007. Please refer to the paragraphs headed “Our Corporate Reorganization” in this section below for details of the acquisition of Shandong Shengli. In December of the same year, Shandong Shengli entered into an agreement with Shengli Steel Pipe to acquire some assets and liabilities relating to the SSAW pipe business of Shengli Steel Pipe. The parties agreed under the aforesaid agreement that the considerations for the acquisition of the equity interest in Shandong Shengli and SSAW pipe business would be paid in March (for the transfer of equity interest in Shandong Shengli) and June 2008 (for the transfer of the SSAW pipe business), respectively and such timing of payment of considerations was consistent with Shengli Steel Pipe’s capital requirements for the initial plan of purchase of equipment and construction of the New SSAW Project.

Delay in payment of the consideration for the acquisitions

The timing for payment of the consideration for the acquisitions was later delayed to July 2008 (for the transfer of equity interest in Shandong Shengli) and August 2008 (for the transfer of the SSAW pipe business) pursuant to relevant supplemental agreements as a result of the difficulty in financing the payment of the considerations by Mr. Yan due to the tightening of investments by private equity funds in general. The senior management of Shengli Steel Pipe agreed to the delay in payment of consideration because: (i) there was a delay by the contractors in the delivery of equipment for the new SSAW pipe production lines from July to September 2008 and a delay in the construction of the factory buildings for the new SSAW production lines from June to September 2008, both of which in turn eased the pressing payment requirement under such contracts, (ii) Shengli Steel Pipe and Shandong Shengli were able to generate sufficient cash flow from their ordinary course of operations to support Shandong Shengli’s daily operation and short-term capital outlay of Shandong Shengli during the delay, (iii) the Investors introduced by Mr. Yan gave a very positive feedback to the senior management that they would honor their funding commitment in Shandong Shengli despite the fact that the global financial crisis had caused a delay in their preparation of funds, (iv) as Mr. Zhang had control of the business operation of Shandong Shengli as its chairman of the board, he considered that he could give some time to Mr. Yan and the Investors to finalize the terms of their investments, and (v) Shengli Steel Pipe had already placed orders in November and December 2007 for the key

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equipment of the New SSAW Project as well as having made payments for such equipment since December 2007. Failure to continue to make the installment payments might result in complete loss of the initial payments. Please refer to paragraphs headed “Our Corporate Reorganization” in this section for details of the agreements. The cash flow from the ordinary course of operations of Shengli Steel Pipe and Shandong Shengli, even though sufficient to support Shandong Shengli’s daily operation and short-term capital outlay of Shandong Shengli during the delay of Mr. Yan in payment of the considerations, would not be able to cover the entire capital expenditure requirements for the new SSAW production lines and the additional operating cash flow required in view of the increase in scale of operation. Without the subsequent funding provided by Mr. Yan, Shengli Steel Pipe and Shandong Shengli would lack the capital to continue the construction of the New SSAW Project and face the risk of losing all related initial investments.

Financial support from Shengli Steel Pipe to Shandong Shengli

The timing for Mr. Yan, through CPE, to provide the funding as consideration for the acquisition of the SSAW pipe business was clearly set out in the asset purchase agreement. However, the requirement for Shengli Steel Pipe to provide financial support by making its cash and the proceeds of the disposals to Shandong Shengli was not recorded in writing or forming any verbal agreement binding on Mr. Yan or Shengli Steel Pipe, and Shengli Steel Pipe, led by Mr. Zhang, and Mr. Yan cooperated based on their mutual trust with each other. This was because Shengli Steel Pipe was introduced by the local government officials to Mr. Yan in June 2007 and during the six-month period in which Shengli Steel Pipe was negotiating with Mr. Yan on the terms and conditions of the disposal of the equity interest in Shandong Shengli and SSAW pipe business, both parties established trust and a close working relationship with each other. Mr. Zhang also considered that he was able to exercise control over the business operation of Shandong Shengli as its chairman of the board and he was confident that after its new SSAW production lines were in place, Shandong Shengli should be able to generate sufficient income to repay Shengli Steel Pipe. Accordingly, no written agreement was entered into other than the equity transfer agreement between CPE and Shengli Steel Pipe and an asset transfer agreement between Shengli Steel Pipe and Shandong Shengli.

In order to pay the considerations for acquisitions of the equity interest in Shandong Shengli and SSAW pipe business and to fund the operations of Shandong Shengli, Mr. Yan initiated discussion with SEAVI Advent Corporation Ltd. in connection with the potential investment opportunity in Shengli Steel Pipe and Shandong Shengli in January 2008 and later obtained RMB138 million from SEAVI Advent Equity V (A) and Apollo Asia pursuant to the Exchangeable Loan Agreement. Please refer to the paragraphs headed “Exchangeable Loan Agreement” in this section below for details. Of the total consideration payable by Mr. Yan for the acquisitions, Mr. Yan himself only provided a loan of RMB8.45 million to CPE through Aceplus for the payment of the consideration of the acquisition of 26% equity interest of Shandong Shengli from Victory Trading. Mr. Yan himself did not fund the construction of the New SSAW Project nor did he or companies controlled by him provide any deposit or interim payment. The rest of the consideration and the funding for the operations of Shandong Shengli were from the funds obtained by Mr. Yan from the investments by SEAVI Advent Equity V (A) and Apollo Asia. Both the loan of RMB138 million from the Investors and the loan of RMB8.45 million from Mr. Yan have been capitalized prior to the Listing.

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The entrustment arrangements

As referred to above, the entire registered capital of Shengli Oilfield Zibo Pipe was acquired by its 675 employees of Shengli Steel Pipe, through their 14 employee representatives. The 675 employees entrusted their equity interests in Shengli Steel Pipe to the 14 employee representatives by 14 entrustment agreements, which were each for a term of five years from 18 June 2004 to 17 June 2009. In June 2009, 14 new entrustment agreements were entered into with 674 employees (please refer to below for the change in the number of employees from 675 to 674) upon expiry of the original entrustment agreements. Pursuant to the terms of the entrustment agreements, each of the 14 employee representatives was authorized to register the entrusted equity interest under his/her name, exercise all rights of and control over the entrusted equity interest and was prohibited from transferring and pledging the equity interest registered under his/her name. Tian Yuan Law Firm, the Company's PRC legal advisers, have advised that the entrustment agreements and arrangements between the 14 employee representatives and the 675 employees (including themselves) (for the expired entrustment agreements) and 674 employees (for the current entrustment agreements) are not in breach of the PRC laws and are legally binding on the parties. Based on the entrustment agreements, each of the 14 employee representatives, being the registered shareholders of Shengli Steel Pipe, is entitled to attend and vote at the shareholders' general meeting of Shengli Steel Pipe and in accordance with the articles of association of Shengli Steel Pipe, the disposal of the equity interest and the disposal of the SSAW pipe business would require the approval by shareholders holding majority equity interest in Shengli Steel Pipe. As stipulated in Rules 5.1 and 5.2 of the Internal Shareholding Management Rules of Shengli Steel Pipe ("Management Rules"), the matters which require the majority approval at a general meeting ("Internal Meeting") of the 675 employees of Shengli Steel Pipe ("Material Matters") include (i) the merger of Shengli Steel Pipe by any other company; (ii) the establishment of a new entity upon consolidation of Shengli Steel Pipe with other company(ies); (iii) the application by Shengli Steel Pipe for bankruptcy; (iv) the change in legal status of Shengli Steel Pipe to that of a company limited by shares; and (v) resolutions involving the Management Rules and any major amendments to the Management Rules. Tian Yuan Law Firm, the Company's PRC legal advisers, are of the opinion that the transfer of 74% equity interest in Shandong Shengli to CPE and the disposal of the SSAW pipe business of Shengli Steel Pipe ("Disposals") do not fall within the Material Matters as provided in the Management Rules. By two separate shareholders resolutions dated 25 December 2007 and 27 December 2007, the Disposals were respectively and unanimously approved by all the 14 employee representatives on behalf of the 675 employees (for themselves and on behalf of the other employees). Each of the two shareholders resolutions was posted by way of internal announcement in three different locations inside Shengli Steel Pipe for a period of one week from the date of passing of the resolutions.

Further, for the avoidance of doubt, each of the 674 employees (please refer to below for the change in the number of employees from 675 to 674), who are the current beneficial owners of the relevant equity interests in Shengli Steel Pipe, on 28 September 2009 signed a confirmation letter, confirming that (i) he/she was informed by the respective entrusted parties and fully understood the details of the Disposals before the relevant shareholders' meetings were held; (ii) the Disposals did not require to be resolved at an Internal Meeting and the Disposals could be resolved by the 14 employee representatives; (iii) the 14 employee representatives had been authorized by the

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entrustment agreements and had the right, pursuant to the Management Rules and the entrustment agreements, to attend and vote at the relevant shareholders' meetings of Shengli Steel Pipe for the Disposals; and (iv) he/she agreed to be bound by the resolutions on the Disposals passed at the relevant general meetings of Shengli Steel Pipe. We are advised by Tian Yuan Law Firm, the PRC legal advisers of the Company, that the equity interest in Shandong Shengli held by and the SSAW pipe business of Shengli Steel Pipe had been duly disposed and such Disposals were legal and valid under PRC laws. Tian Yuan Law Firm have further confirmed that as Shengli Steel Pipe was a privately-owned enterprise at the time of the Disposals, no approval from the SASAC was required.

Amongst the 675 employees of Shengli Steel Pipe who were its shareholders prior to the disposal of 74% equity interest in Shandong Shengli and the SSAW pipe business, 502 employees were transferred to Shandong Shengli after the respective transactions while 20 employees were retained by Shengli Steel Pipe for business unrelated to the SSAW pipe business. The remaining 153 individuals were no longer employees of Shengli Steel Pipe as a result of retirement prior to the acquisition of Shandong Shengli, resignation or death but they or their legal representatives remained beneficial owners of the relevant equity interests in Shengli Steel Pipe. Among the deceased individual shareholders of Shengli Steel Pipe, the beneficial interests of two individuals were transferred to their respective legal representatives who were also existing beneficial owners of Shengli Steel Pipe while the beneficial interest of one individual was transferred to his two legal representatives. Accordingly, the total number of beneficial owners of Shengli Steel Pipe decreased to 674.

Under both the expired and current entrustment agreements, Mr. Zhang is the registered holder of 49.87% equity interest in Shengli Steel Pipe (which is held as to 1.19% for himself and as to 48.68% for 315 employees). There are no guarantees provided or back-to-back arrangements made by the employees to Mr. Zhang. Same as other employees of Shengli Steel Pipe, Mr. Zhang acquired his own equity interest by contributing cash and his other entitlements in Shengli Steel Pipe.

The 14 employee representatives have confirmed that (1) neither Shengli Steel Pipe nor the 674 ultimate beneficial owners of Shengli Steel Pipe (including themselves) have any direct or indirect interest in the business of the Group since the disposal of such business by Shengli Steel Pipe in December 2007 and (2) they had informed the 674 ultimate beneficial owners in relation to the application of listing of the SSAW pipe business and the cold-formed steel business by the Company. Mr. Yan had also made similar confirmation by way of a statutory declaration confirming that he is the ultimate beneficial owner of his indirect interest in the Company, Shandong Shengli and the SSAW pipe business since their acquisitions in December 2007 and he is not holding such interest on behalf of any third party.

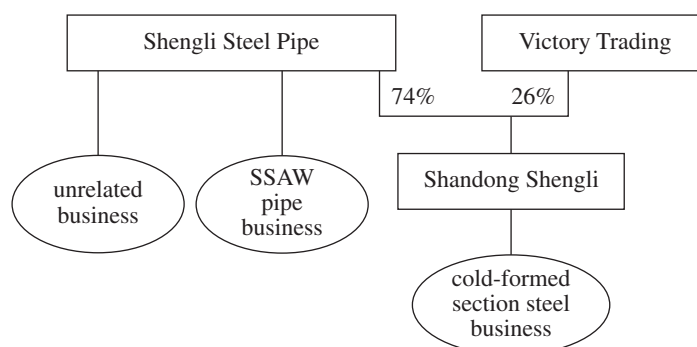
HISTORY AND CORPORATE STRUCTURE

OUR CORPORATE REORGANIZATION

In late 2007, CPE acquired the equity interest of Shandong Shengli from Shengli Steel Pipe and Victory Trading and through Shandong Shengli we acquired the SSAW pipe business from Shengli Steel Pipe. Our Corporate Reorganization involved the following steps:

Acquisition of Shandong Shengli by CPE

Immediately prior to the acquisition of Shandong Shengli by CPE, the structure of Shengli Steel Pipe (including its Core Business) and Shandong Shengli was as below:



CPE was an investment vehicle incorporated by our Controlling Shareholder for the purpose of acquiring the equity interest in Shandong Shengli. It was incorporated in Singapore on 1 November 2007 as a private company limited by shares and it allotted and issued two nil paid ordinary shares to Mr. Yang Jun after incorporation. Mr. Yang Jun was the brother-in-law of Mr. Yan, our Controlling Shareholder, and as Mr. Yang Jun was handling the incorporation matters of CPE for Mr. Yan, he held the shares in CPE on behalf of Mr. Yan pursuant to a declaration of trust dated 1 November 2007. Mr. Yang Jun transferred the two ordinary shares in CPE to Aceplus on 2 July 2008. Pursuant to the declaration of trust, Mr. Yang Jun would exercise all voting and other rights in accordance with Mr. Yan's directions or instructions.

Aceplus is a company incorporated in the BVI on 7 July 2005 as an investment holding vehicle, and SEAVI Advent Management Ltd. became its shareholder on 26 July 2005. As Mr. Yan required an investment holding vehicle to hold his equity interest in our Group, SEAVI Advent Management Ltd., an Independent Third Party, provided Aceplus to Mr. Yan for such purpose. Pursuant to a declaration of trust entered into between SEAVI Advent Management Ltd. and Mr. Yan on 4 July 2008, SEAVI Advent Management Ltd. declared that it holds the one share in Aceplus as the nominee of Mr. Yan and will exercise all voting and other rights in accordance with his directions or instructions. Aceplus was used by Mr. Yan to hold his equity interest in CPE, which in turn holds the entire equity interest of Shandong Shengli.

WongPartnership LLP, the Singapore legal advisers to our Company, have confirmed that (1) the declaration of trust entered into between Mr. Yan and SEAVI Advent Management Ltd., and (2) the declaration of trust entered into between Mr. Yan and Mr. Yang Jun, both of which were governed by the laws of Singapore, were legal, valid and enforceable under the laws of Singapore.

HISTORY AND CORPORATE STRUCTURE

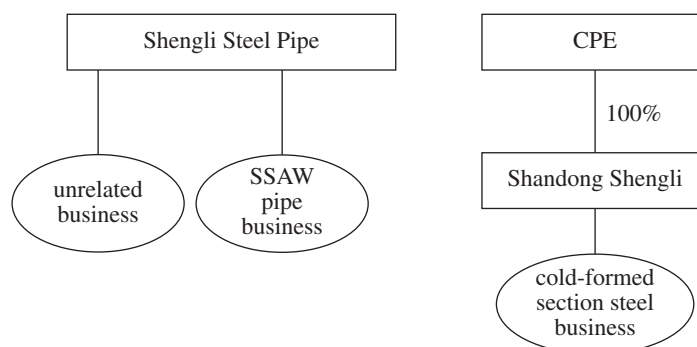
Principal Terms of the Equity Transfer Agreements

CPE entered into an equity transfer agreement dated 25 December 2007 respectively with Shengli Steel Pipe and Victory Trading whereby CPE acquired from Shengli Steel Pipe and Victory Trading their entire interest in Shandong Shengli, representing approximately 74% and 26% of the registered capital of Shandong Shengli respectively, for cash consideration of RMB28 million and approximately RMB9.05 million, to be paid within 3 months from the completion of the relevant share transfers. The consideration was determined with reference to the net asset value (“NAV”) of Shandong Shengli as of 31 October 2007 as stated in the asset valuation report dated 21 December 2007 issued by Beijing Guoyou Dazheng Assets Valuation Company Limited (北京國友大正資產評估有限公司) (“Beijing Guoyou Dazheng”). The equity transfers were subject to the conditions including (i) results of due diligence conducted on Shandong Shengli being satisfactory to CPE, (ii) all internal approvals for the equity transfers and the applicable amendment to the articles of association of Shandong Shengli had been obtained and the other shareholder of Shandong Shengli had waived its pre-emptive rights to purchase the equity interest to be disposed, (iii) Shengli Steel Pipe and Victory Trading had made full disclosure of the business, operation, assets and liabilities of Shandong Shengli to CPE, (iv) no material adverse change had happened to the business, operation, assets and liabilities of Shandong Shengli after 31 October 2007 and (v) the equity transfers under the equity transfer agreements and the amendment to the articles of association of Shandong Shengli had received approval of the relevant authority and Shandong Shengli had obtained the approval certificate from the relevant authority. All such conditions had been fulfilled prior to the issue of the new business license of Shandong Shengli on 29 December 2007 and the equity transfers became effective on the same date.

On 20 March 2008, CPE entered into supplemental agreements with Shengli Steel Pipe and Victory Trading to amend the amount of consideration for the acquisition of 74% and 26% equity interests by CPE from Shengli Steel Pipe and Victory Trading to RMB24.05 million and RMB8.45 million, respectively, with additional reference to the NAV of Shandong Shengli as of 31 December 2007 and to extend the payment of the consideration (i) for RMB24.05 million from three months from the effective date of transfer to on or before 31 July 2008; and (ii) for RMB8.45 million from three months from the effective date of transfer to on or before 31 December 2008.

HISTORY AND CORPORATE STRUCTURE

Immediately after the acquisition of Shandong Shengli by CPE, the structure of Shengli Steel Pipe (including its Core Business) and Shandong Shengli was as below:



Acquisition of SSAW pipe business from Shengli Steel Pipe by Shandong Shengli

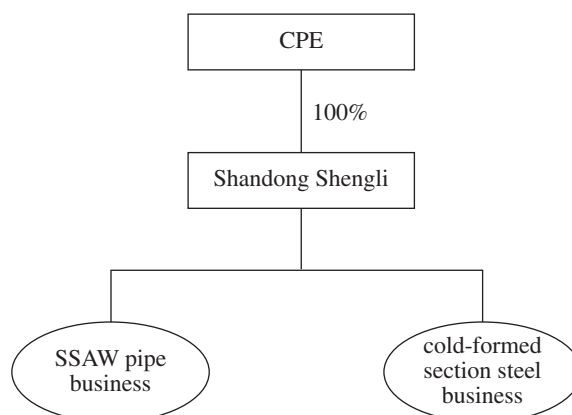
Principal Terms of the Asset Transfer Agreement

Pursuant to an asset transfer agreement dated 27 December 2007 entered into between Shandong Shengli and Shengli Steel Pipe, Shandong Shengli acquired the relevant assets of Shengli Steel Pipe's SSAW pipe business comprising mainly the production facilities and business at Zibo and Dezhou, Shandong Province (excluding land and buildings) and part of the assets and liabilities relating to the SSAW pipe business of Shengli Steel Pipe ("SSAW Assets and Liabilities") for a total cash consideration of RMB63 million. The consideration was determined with reference to the NAV of the SSAW Assets and Liabilities as of 30 November 2007 as stated in the asset valuation report dated 24 December 2007 issued by Beijing Guoyou Dazheng. The asset transfer was subject to the condition that all approvals from the relevant approval authority had been obtained. Shandong Shengli, however, did not acquire from Shengli Steel Pipe (i) some of the assets and liabilities that were not directly related to the SSAW pipe operations, (ii) results of operations prior to the acquisition from the SSAW pipe operations, such as bank balance and cash, inventories, other receivables, tax payables and bank borrowings, and (iii) land and buildings related to the SSAW pipe operations. Please refer to Note 26 to the accountants' report of Shengli Steel Pipe in Appendix IB to this Prospectus for details of such retained assets. Upon the effective date of the acquisition of the assets and liabilities on 31 December 2007, Shandong Shengli owned and operated the SSAW pipe operations that were previously owned and operated by Shengli Steel Pipe.

On 25 June 2008, Shandong Shengli and Shengli Steel Pipe entered into a supplemental agreement to amend the amount of consideration for the acquisition of the SSAW Assets and Liabilities to RMB84.01 million with additional reference to the NAV of the SSAW Assets and Liabilities as of 31 December 2007 and to extend the payment of the consideration from six months from the effective date of transfer to on or before 31 August 2008.

HISTORY AND CORPORATE STRUCTURE

Immediately after the acquisition of the SSAW pipe business of Shengli Steel Pipe by Shandong Shengli, the structure of Shandong Shengli (including its Core Business) was as below:



Pursuant to an Exchangeable Loan Agreement dated 8 July 2008, Aceplus as the borrower obtained from Apollo Asia and SEAVI Advent Equity V (A) a loan facility of approximately RMB138 million. Such proceeds were provided by Aceplus to CPE as a shareholder's loan which was then remitted to the relevant entities in the PRC in July and August 2008, respectively. Of the sum of RMB138 million, (i) RMB24.05 million was used to pay for the acquisition of 74% equity interest held by Shengli Steel Pipe in Shandong Shengli; (ii) RMB100.8 million was used as capital contribution to Shandong Shengli; and (iii) RMB13.15 million was retained by CPE. The sum of RMB24.05 million as consideration for the 74% equity interest in Shandong Shengli was paid on 16 July 2008. The aggregate sum of RMB84.01 million for the acquisition of the SSAW Assets and Liabilities was paid on 8 and 31 July 2008 and 6 August 2008. Please refer to the paragraphs headed "Exchangeable Loan Agreement" in this section for details of the loan. The payment of RMB8.45 million for the acquisition of the 26% equity interest held by Victory Trading was paid in December 2008.

The preparation for the construction of these new SSAW production lines began in November 2007 and the construction commenced in April 2008 which was after the acquisition of SSAW pipe business by Shandong Shengli. Shengli Steel Pipe placed the order for the machinery for the new production lines in November and December 2007 for a consideration of approximately RMB80 million and paid about 20% deposit. The lead time for delivery of the new machinery was about six to eight months and the balance of the consideration was to be paid in installments in 2008. Such funding requirements for the new production lines ultimately were satisfied after Shengli Steel Pipe provided its financial support to Shandong Shengli from its internal financial resources and funding received from CPE through Shandong Shengli and CPE made a capital contribution of approximately RMB100.8 million to the registered capital of Shandong Shengli in July and August 2008, respectively. Amongst this amount of RMB100.8 million, RMB84.01 million was paid by Shandong Shengli to Shengli Steel Pipe as consideration for the acquisition of the SSAW Assets and Liabilities while the remaining RMB16.79 million was kept by Shandong Shengli as its working capital and capital expenditure.

HISTORY AND CORPORATE STRUCTURE

The granting of loans by Shengli Steel Pipe to Shandong Shengli (the “Loans”) was in breach of the General Rules on Loans (貸款通則) (the “General Rules”) promulgated by the People’s Bank of China (“PBOC”) in 1996. Pursuant to Article 73 of the General Rules, where non-financial enterprises engage in lending and borrowing between themselves without authorization from the PBOC, the PBOC may (i) impose a fine on the lender, the amount of which may be between one time and five times of the illegal interest gained by the lender; and (ii) suppress such activity. Pursuant to the relevant interpretation issued by the PRC Supreme People’s Court, the loan contracts between non-financial enterprises shall be invalidated, and in the event that the borrower fails to repay the loan when it is due and the relevant party brings a lawsuit to the competent people’s court, the borrower may be charged a fine equal to the interest that may be generally charged by commercial banks for loans of the same term. However, as (i) Shandong Shengli was the borrower of the Loans, (ii) the Loans were all interest-free and Shengli Steel Pipe as the lender did not gain any income from granting of the loans, and (iii) the Loans have all been repaid and therefore it is unlikely that any legal proceedings will be brought by Shengli Steel Pipe, the Group’s PRC legal advisers, Tian Yuan Law Firm, are of the view that there will be no adverse legal consequence on the Group.

EXCHANGEABLE LOAN AGREEMENT

Background of the Investors

SEAVI Advent Equity V (A)

SEAVI Advent Corporation Ltd. (“SEAVI Advent”), the Asian affiliate of Boston based private equity institution Advent International Corporation, is one of the first private equity and venture capital firms to operate in the Asia Pacific region. Since 1984, the firm has invested over US\$500 million into many Asian companies, from growth to late stage, as well as buyout and control transactions. SEAVI Advent focuses on investment in sectors such as manufacturing, engineering, electronics, chemicals and resource.

SEAVI Advent has successfully helped more than 40 portfolio companies strengthen their business positions through initial public offerings on various stock exchanges including Singapore, Hong Kong and the United States.

Save for the fact that SEAVI Advent Equity V (A) has nominated the appointments of Mr. Ling Yong Wah and Mr. Teo Yi-Dar as our Non-executive Directors, and Mr. Ong Kar Loon as alternate director to Mr. Ling Yong Wah, neither SEAVI Advent Equity V (A) or its direct shareholder, or its indirect shareholders, or their respective directors are connected persons of the Company. The Company has no plan for the resignation or retirement of Mr. Ling Yong Wah and Mr. Teo Yi-Dar as Non-executive Directors upon Listing and will discuss with the relevant Directors before forth-coming annual general meeting for any such arrangement which will be subject to the applicable provisions of the Articles of Association of the Company.

HISTORY AND CORPORATE STRUCTURE

Apollo Asia

Apollo Asia Opportunity Master Fund, L.P. is an exempt limited partnership established in the Cayman Islands. The investment decisions of Apollo Asia are made by its investment manager, Apollo Asia Management, L.P. Apollo Asia Management, L.P. is part of the Apollo Global Management group, which is a global alternative asset manager registered in Delaware, United States. Neither Apollo Asia or its direct shareholder, or its indirect shareholders, or their respective directors are connected persons of the Company.

Exchangeable Loan Agreement

On 8 July 2008, Apollo Asia, SEAVI Advent Equity V (A), Aceplus, CPE, Mr. Yan and Mr. Zhang entered into the Exchangeable Loan Agreement. The terms of the Exchangeable Loan Agreement were rectified by a rectification agreement dated 26 July 2009 and amended by a supplemental agreement dated 24 September 2009, a second supplemental agreement dated 28 October 2009 and a third supplemental agreement dated 30 November 2009. Pursuant to the rectification agreement dated 26 July 2009, a number of terms in the Exchangeable Loan Agreement in relation to the exchange of the loan facility thereunder into shares of CPE were rectified to reflect the parties' original intention and arrangement such that the obligation of CPE to deliver its shares pursuant to exchange for the loan facility was rectified. Set out below is a summary of certain of the principal terms of the Exchangeable Loan Agreement as rectified by the rectification agreement and amended by the relevant supplemental agreements.

Issuer	: Aceplus
Investors	: Apollo Asia and SEAVI Advent Equity V (A) (the "Investors")
Facility	: US\$ equivalent of RMB138 million aggregate principal amount of exchangeable financing (the "Loan Facility")
Date of Exchangeable Loan Agreement	: 8 July 2008
Maturity Date	: 24 months from 9 July 2008 ("Original Funding Date")
Compensation Cost to Investors	: a) in the event the Company is not successfully listed on the Hong Kong Stock Exchange (for any reason other than its decision not to apply for an IPO) within 24 months from the Original Funding Date (the "IPO Target Date"), compensation costs payable by Aceplus to the Investors shall be at the compounded annual rate of 7.38% per annum on the aggregate amount of the Loan Facility;

HISTORY AND CORPORATE STRUCTURE

- b) in the event the Company qualifies for an IPO through a public listing on the Hong Kong Stock Exchange but chooses not to carry out the IPO before the IPO Target Date without the prior unanimous consent of the Investors, compensation costs payable by Aceplus to the Investors shall be at the compounded annual rate of 20% per annum on the aggregate amount of the Loan Facility; or
- c) in the event of a judgment by the Singapore courts or the International Arbitration Centre in respect of a material breach by Aceplus, CPE, Mr. Yan or Mr. Zhang of any of the warranties, representations, undertakings or any other terms under Exchangeable Loan Agreement, compensation costs payable by Aceplus to the Investors shall be at the compounded annual rate of 30% per annum on the aggregate amount of the Loan Facility.
- Security : a) a personal guarantee given by Mr. Zhang which was requested by the Investors as a management undertaking to protect their interest; and
- b) a share charge of all shares held by Aceplus in CPE. The share charge was released upon the exchange of the Loan Facility with Shares in the Company held by Aceplus described below.
- Exchange : The principal of the Loan Facility was exchanged into Shares of the Company held by Aceplus on 28 October 2009 in accordance with the following formula:
- $$A\% = PA / (1 - \text{discount factor}) \times PE \times \text{NPAT}$$
- A%: the aggregate shareholding percentage of the Investors in the Company upon exchange
- PA: the RMB denominated principal amount of the Loan Facility i.e. RMB138 million
- discount factor: 45%
- PE: the price earnings ratio of 11 times
- NPAT: our audited consolidated or combined net profit after tax (in RMB), excluding any extraordinary or exception gain items for the financial year ended 31 December 2008

HISTORY AND CORPORATE STRUCTURE

- Adjustment : If the lower end of the final pre-dilution historical price earning ratios of the Company under the range of Offer Price provided in the Prospectus is lower than 11 times, Aceplus would transfer additional number of Shares it holds in the Company to the Investors such that the total number of Shares acquired by the Investors pursuant to (i) exchange under the Exchangeable Loan Agreement and (ii) transfer of additional Shares by Aceplus is equal to the number of Shares the Investors would have obtained under exchange using the lower end of the final pre-dilution historical price earning ratios of the Company under the range of Offer Price provided in the Prospectus as PE in the formula for exchange (the “PE Adjustment”).
- Resets : a) Mr. Zhang, our Executive Director, undertakes to use his best efforts to ensure that:
- (i) the actual NPAT for the financial year of 2008 (“FY2008”) for the Group shall be no less than RMB100 million; and
 - (ii) the actual NPAT for the financial year of 2009 (“FY2009”) for the Group shall be at least the higher of RMB140 million and 115% of the actual FY2008 NPAT.
- b) If the actual FY2008 NPAT for the Group as shown in its audited consolidated or combined financial statements for FY2008 shall be less than RMB100 million, the discount factor used in the determination of the exchange price shall be adjusted upwards by the percentage of the shortfall below RMB100 million and this would lead to additional Shares in the Company to be transferred by Aceplus to the Investors.
- c) If the actual FY2009 NPAT for the Group as shown in its audited consolidated or combined financial statements for FY2009 shall be less than RMB140 million or less than 115% of the actual FY2008 NPAT for the Group, the discount factor (after adjusting for any FY2008 shortfall, if applicable) shall be adjusted upwards by the percentage of the shortfall below RMB140 million and this would lead to additional Shares in the Company to be transferred by Aceplus to the Investors.
- d) The discount factor shall not be adjusted to exceed 60%.

HISTORY AND CORPORATE STRUCTURE

Put Option (1) : Mr. Zhang, our Executive Director, granted to the Investors a put option to require him to purchase from the Investors all the Shares delivered to the Investors pursuant to the exchange of the Loan Facility which was requested by the Investors as a management undertaking to protect their interest.

The consideration for the sale and purchase of the Shares held by the Investors pursuant to the exercise of the put option (1) shall be 100% of the principal amount of the Loan Facility together with any applicable compensation costs.

The Put Option (1) will lapse upon Listing.

Put Option (2) : Aceplus granted to the Investors a put option to require it to purchase from the Investors all the Shares delivered to the Investors pursuant to the exchange of the Loan Facility.

The consideration for the sale and purchase of the Shares held by the Investors pursuant to the exercise of the Put Option (2) shall be 100% of the principal amount of the Loan Facility together with any applicable compensation costs.

The Put Option (2) will lapse upon Listing.

Appointment of Directors : The Investors shall be entitled to appoint up to two directors to our Board with effect from the Original Funding Date. Such right will be terminated upon Listing.

Information rights : Prior to Listing, the Investors are entitled to receive from the Company periodic financial information. The Investors also have the right to request for information regarding business affairs and financial condition of our Group. Such rights, together with any other special rights granted to the Investors, will be terminated upon Listing.

The exchange of the Loan Facility into Shares held by Aceplus on 28 October 2009 was agreed between the parties to the Exchangeable Loan Agreement pursuant to a supplemental agreement dated 24 September 2009, a second supplemental agreement dated 28 October 2009 and a third supplemental agreement dated 30 November 2009, which amend the terms of the Exchangeable Loan Agreement that originally provided for mandatory exchange of the Loan Facility into shares of CPE (as the wholly owned subsidiary of Aceplus holding equity interests in Shandong Shengli prior to its acquisition by Shengli (BVI)) upon the obtaining of approval of Listing. The Loan Facility held by the Investors were exchanged with 30,120 ordinary Shares of the Company held by Aceplus on 28 October 2009, representing approximately 15.06% of the then issued share capital of the Company. The effective cost for per Share transferred to the Investors by Aceplus under the Exchangeable Loan Agreement (as rectified by the rectification agreement and amended by the relevant supplemental agreements) is approximately RMB0.51, representing a discount of 74.24% to HK\$2.25, being the mid-point of the proposed Offer Price range of HK\$1.81 to HK\$2.69 per Share.

HISTORY AND CORPORATE STRUCTURE

Save as the Reset in relation to the NPAT of the Group for FY2009, any adjustment or transfer by Aceplus of additional Shares to the Investors would be completed after the Price Determination Date and prior to the Listing Date. Our Directors confirm that all Adjustments and Resets would be conducted in compliance with the Hong Kong Listing Rules including Rule 10.07.

Rationale for personal guarantee, Put Option and undertaking regarding net profit of the Group granted by Mr. Zhang

Mr. Zhang was willing to provide the personal guarantee despite not having any equity interest in the Company because (i) the guarantee was requested by the Investors, and (ii) Mr. Zhang and other senior management of Shengli Steel Pipe did not have other funding opportunities available which were better than the proposal by Mr. Yan at that time. In addition, when Mr. Zhang agreed to the undertaking regarding the net profit of the Group for year of 2008 in July 2008, he already had relevant information on the performance of Shandong Shengli in the first half of 2008 and therefore Mr. Zhang was confident that the Group would be able to meet the target net profit for year 2008. Mr. Zhang confirmed that he would be unable and had no source of funding to honour the personal guarantee or his obligations upon the exercise of the put option (1).

SEAVI Advent Equity V (A) and Apollo Asia confirmed that they did not expect Mr. Zhang to have sufficient financial resources to honour his personal guarantee or obligations under the put option (1). Nonetheless, such terms were included for the moral and accountability obligations imposed on Mr. Zhang to ensure he would exercise the best of his ability to manage the business of Shandong Shengli.

Save as the share charge of all shares held by Aceplus in CPE, the put option (2) granted by Aceplus to the Investors and an undertaking to procure the due and punctual performance of the obligations of Aceplus and CPE under the Exchangeable Loan Agreement, Mr. Yan has no direct personal or other indirect liabilities under the Exchangeable Loan Agreement.

Save as disclosed in the Prospectus, Mr. Yan and Mr. Zhang by way of statutory declaration have confirmed that there does not exist any trust arrangement, trust agreement or undertaking or understanding relating to a trust between them or any other persons in connection with the sale of the SSAW pipe business of Shengli Steel Pipe and the 74% equity interest in Shandong Shengli (“Arrangement”). The Directors (including Mr. Yan and Mr. Zhang), SEAVI Advent Equity V (A) and Apollo Asia have also confirmed that they are not aware of any such Arrangement. Macquarie, in its capacity as sponsor to the listing application of the Company, also confirmed that it was not aware in the course of its due diligence exercise of any such Arrangement.

Shareholder Loan Provided by Aceplus to CPE

It was provided under the Exchangeable Loan Agreement that Aceplus should provide a shareholder loan of RMB138 million to CPE for its business expansion and general working capital and such shareholder loan should be assigned to the Investors. As stated above, Aceplus obtained the loan facility of approximately RMB138 million from Apollo Asia and SEAVI Advent Equity V (A) in July and August 2008 pursuant to the Exchangeable Loan Agreement, which was extended as shareholder’s loan to CPE by two disbursements, one on 11 July 2008 for RMB55.2 million and the

HISTORY AND CORPORATE STRUCTURE

other on 1 August 2008 for RMB82.8 million. On 28 October 2008, Aceplus and CPE entered into a shareholders loan agreement (“Shareholders Loan Agreement”), which was rectified by a rectification agreement dated 26 July 2009, pursuant to which Aceplus and CPE agreed on the terms of the shareholders loan of RMB138 million to CPE. On 28 October 2008, Aceplus also entered into a deed of assignment pursuant to which it assigned all its rights and benefits under the Shareholders Loan Agreement to the Investors.

As a result of the exchange of the Loan Facility into Shares of the Company held by Aceplus, the Investors entered into a termination agreement with Aceplus on 24 September 2009 to terminate the deed of assignment mentioned above. On 24 September 2009, Aceplus and CPE entered into a subscription agreement for the capitalization of the RMB138 million shareholders’ loan and a supplemental agreement was entered into on 28 October 2009 between Aceplus, the Company and CPE such that the capitalization would be executed at the level of the Company instead.

On 28 October 2009, Aceplus, the Company and CPE entered into a deed of assumption in relation to the shareholders’ loan of RMB138 million provided by Aceplus to CPE under the Shareholders’ Loan Agreement and an advance of RMB8.45 million provided by Aceplus to CPE (“Shareholders’ Loans”). Accordingly, the Shareholders’ Loans of RMB146.45 million were capitalized by the Company on 28 October 2009 with the Company issuing 100,000 ordinary shares to Aceplus.

Incorporation of the Company

The Company was incorporated in the Cayman Islands on 3 July 2009 as the holding company of the Group.

Transfer of nominee interest in Aceplus to Mr. Yan

On 23 September 2009, SEAVI Advent Management Ltd. transferred its entire nominee shareholding in Aceplus to its beneficial owner Mr. Yan for nil consideration and the trust arrangement between SEAVI Advent Management Ltd. and Mr. Yan in respect of the equity interest in Aceplus was accordingly terminated.

Transfer of Equity Interest in Shengli (BVI) to the Company

On 23 September 2009, Mr. Yan and the Company entered into a sale and purchase agreement, pursuant to which Mr. Yan transferred his 100% shareholding in Shengli (BVI) to the Company in consideration of the Company crediting as fully paid the one nil paid share held by him and issuing one ordinary share, credited as fully paid, to him.

Transfers of Equity Interest in CPE to Shengli (BVI) and Equity Interest in the Company to Aceplus

On 24 September 2009, Aceplus and Mr. Yan entered into a sale and purchase agreement, pursuant to which Mr. Yan transferred two Shares in the Company to Aceplus in consideration of Aceplus issuing two shares in its share capital to Mr. Yan.

HISTORY AND CORPORATE STRUCTURE

Aceplus, the Company and Shengli (BVI) entered into a sale and purchase agreement on 24 September 2009 and a supplemental sale and purchase agreement dated 28 October 2009, pursuant to which Aceplus transferred two shares in the share capital of CPE to Shengli (BVI) in consideration of the Company issuing 99,998 ordinary shares, credited as fully paid, to Aceplus.

SAFE REGISTRATION

According to the Notice of the State Administration of Foreign Exchange on Exchange Control Issues Relating to Financing and Reverse Investment by Persons Resident in the People's Republic of China Through Offshore Special Purpose Vehicles (國家外匯管理局關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知) ("SAFE Notice No.75"), which was issued by SAFE on 21 October 2005, and effective on 1 November 2005:

- domestic residents who plan to establish or control an offshore special purpose vehicle must conduct foreign exchange registration with the local foreign exchange authority;
- domestic residents who have contributed their assets or shares of a domestic enterprise into an offshore special purpose vehicle, or have raised funds offshore after such contribution, must conduct foreign exchange registration for the modification of the record concerning the offshore special purpose vehicle with the local foreign exchange authority; and
- domestic residents who are the shareholder of an offshore special purpose vehicle are required to go through registration for the modification of the record with the local foreign exchange authority within 30 days from the date of any major capital change event, such as an increase/decrease of capital, share transfer, share swap, merger or division, long term equity or debt investment or foreign guarantee where no round-trip investment is involved.

Our PRC legal advisers, Tian Yuan Law Firm, have advised that Mr. Yan, being the relevant beneficial shareholder of the Company and a Singapore permanent resident holding PRC passport, has submitted his application for foreign exchange registration of offshore investment at the Zibo Branch of SAFE on 21 July 2009 and such application was accepted by the Zibo Branch of SAFE on 4 August 2009. Upon the application for foreign exchange registration by Mr. Yan, the Zibo Branch of SAFE issued a confirmation letter on 19 August 2009 confirming that the application is outside the scope of administration of SAFE. We have also conducted consultation, through our PRC legal advisers, with the officers of the Shandong Branch of SAFE, who are appropriate officers and authorities to give advice on such consultation. Such officers have indicated that Mr. Yan does not need to conduct the registration application in relation to the offshore investment-related foreign exchange ascribed thereto in the SAFE Notice No. 75. Based on the foregoing, the Company's PRC legal advisers, Tian Yuan Law Firm, are of the view that Mr. Yan does not have to take further action to complete the foreign exchange registration as required by the SAFE Notice No. 75 and no penalties will be imposed on our Company due to such non-registration.

OUR CORPORATE REORGANIZATION AND THE RULES ON THE MERGER AND ACQUISITION OF DOMESTIC ENTERPRISES BY FOREIGN INVESTORS

According to the Rules on the Merger and Acquisition of Domestic Enterprises by Foreign Investors (關於外國投資者並購境內企業的規定) ("M&A Rules") collectively promulgated by the

HISTORY AND CORPORATE STRUCTURE

MOFCOM, the SASAC, the SAT, the SAIC, the CSRC and the SAFE on 8 August 2006, came into effect on 8 September 2006 and reissued by the MOFCOM in June 2009, where a domestic natural person intends to take over his/her related domestic company in the name of an offshore company which he/she lawfully established or controls, the takeover shall be subject to the examination and approval of the MOFCOM; and where a domestic natural person holds equity interest in a domestic company through an offshore special purpose company, any transaction involving the overseas listing of that special purpose company shall be subject to approval by the CSRC.

According to Article 2 of the M&A Rules, “takeover of a domestic enterprise by a foreign investor” is defined as a situation where (i) a foreign investor (a) purchases the equity interests of a domestic non-foreign-invested enterprise (a “domestic company”) or (b) subscribes to the increased capital of a domestic company, and thus converts the domestic company into a foreign-invested enterprise; or (ii) a foreign investor establishes a foreign-funded enterprise, and through which it purchases by agreement the assets of a domestic enterprise and operates its assets; or (iii) a foreign investor purchases by agreement the assets of a domestic enterprise, and then uses such assets to invest in and establish a foreign-invested enterprise through which it operates the assets. On the basis that Shandong Shengli was established as a Sino-foreign equity joint venture in 2005, the legal nature of the transfer to CPE, a Singapore-incorporated company, of the entire equity interests formally held by the domestic and foreign shareholders was a transfer of equity in a foreign invested enterprise. Accordingly, the acquisition of the entire equity interests of Shandong Shengli by CPE did not constitute a “takeover of a domestic enterprise by a foreign investor” as defined under Article 2 of the M&A Rules, and it did not require the approval of the MOFCOM.

In accordance with Article 55 of the M&A Rules, the acquisition by CPE of the entire equity interests of Shandong Shengli was subject to the “Provisions for the Alteration of Investors’ Equities in Foreign-Invested Enterprise” (外商投資企業投資者股權變更的若干規定), which provides that the acquisition would be effective after obtaining approval from Shandong Shengli’s original approval authority, namely, the Zibo Bureau of Foreign Trade and Economic Cooperation (淄博市對外貿易經濟合作局) (“Zibo MOFCOM”). Zibo MOFCOM issued an approval letter (《關於同意山東勝利鋼管有限公司股權變更的批覆》) dated 26 December 2007 in relation to the acquisition by CPE of the entire equity interests of Shandong Shengli.

Because the acquisition by CPE of the entire equity interests of Shandong Shengli did not fall within the definition of a “takeover of a domestic enterprise by a foreign investor” as defined under Article 2 of the M&A Rules, the governmental approvals, including the approval of the CSRC, as stated in the M&A Rules, are not applicable to the Global Offering and the Listing. Thus, the Company is not required to obtain the CSRC’s approval in respect of the Global Offering and the Listing.

Shandong Shengli (formerly known as Rizhao Shengli) was established as a Sino-foreign equity joint venture in 2005 with its own business and assets, and, based on the information provided by the Company, was for the purpose of setting up a factory in Rizhao for the manufacturing of cold-formed section steel. The SSAW pipe business of Shengli Steel Pipe acquired by Shandong Shengli in December 2007 constituted only part, but not the entirety, of the assets of Shandong Shengli after such acquisition. Therefore, at the time of the acquisition of the assets of Shengli Steel Pipe, Shandong Shengli had already been established and had its own assets and business. Further, the Zibo MOFCOM issued a letter dated 29 December 2007 (《關於山東勝利鋼管有限公司收購勝利鋼管有限公司部分資

HISTORY AND CORPORATE STRUCTURE

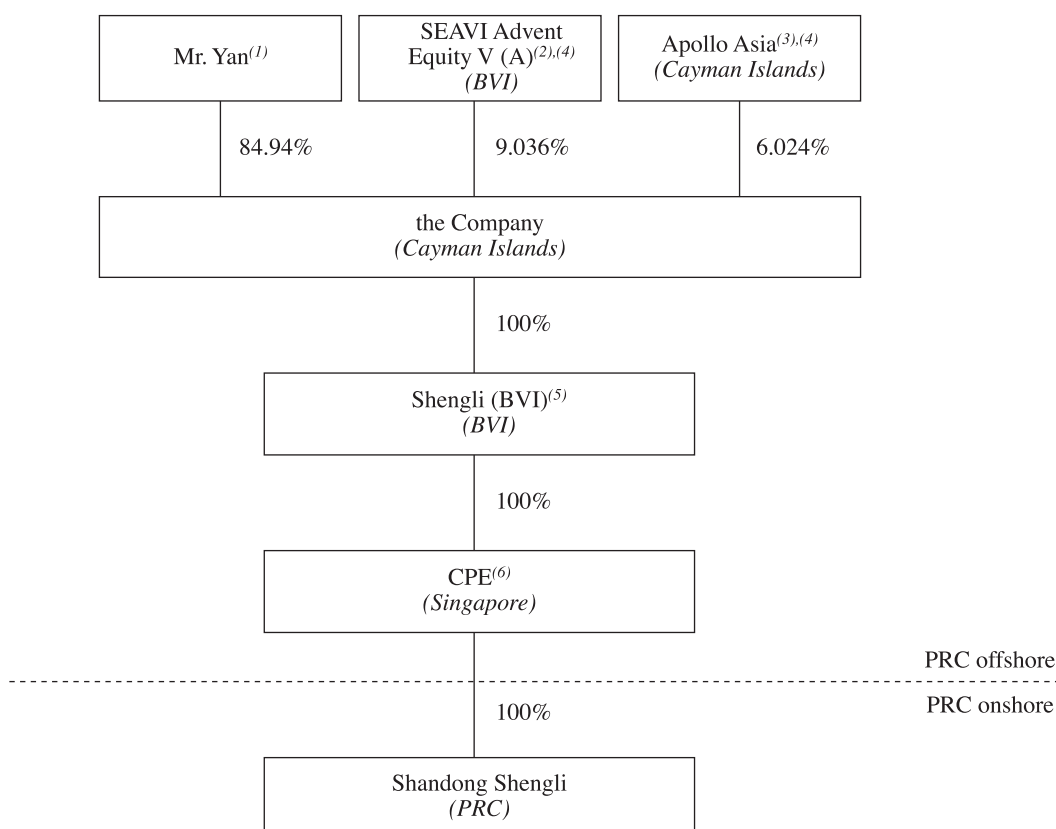
產的覆函》) confirming that no approval was required for the acquisition of the SSAW pipe business of Shengli Steel Pipe. Based on the foregoing, Tian Yuan Law Firm, the Company's PRC legal advisers, are of the opinion that the acquisition by Shandong Shengli of the SSAW pipe business of Shengli Steel Pipe (a) did not fall within the definition of a "takeover of a domestic enterprise by a foreign investor" as defined under Article 2 of the M&A Rules; and (b) is not in breach of or does not violate, contravene or otherwise conflict with any PRC laws, including without limitation the M&A Rules.

Based on the above, our PRC legal advisers, Tian Yuan Law Firm, are of the view that each of the Corporate Organization and the Listing of the Company is not in breach of or does not violate, contravene or otherwise conflict with any PRC laws, including without limitation the M&A Rules, and all approvals, licenses or registrations required by applicable PRC laws in relation to each of the Corporate Reorganization and the Listing have been duly obtained and in each case, are in full force and effect and no further approval of the MOFCOM and/or CSRC is required for the Corporate Reorganization and/or the Listing.

HISTORY AND CORPORATE STRUCTURE

CORPORATE STRUCTURE

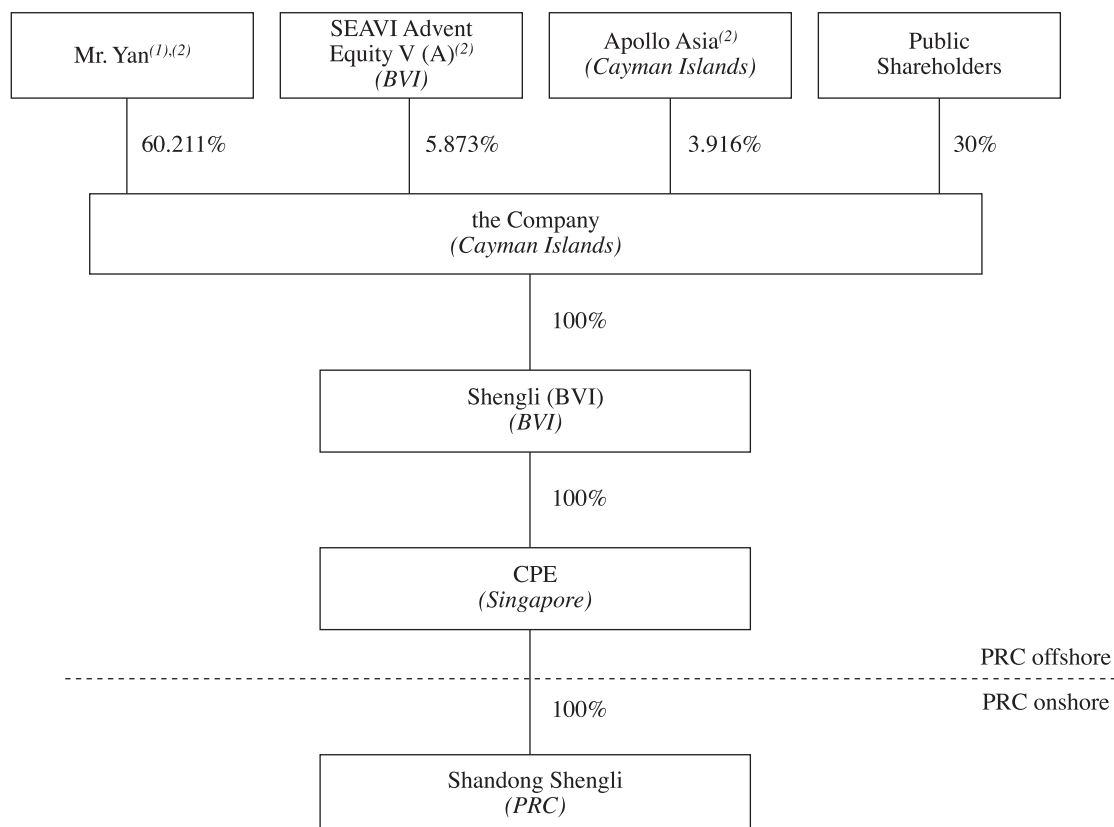
Set out below is the shareholding structure of the Group after the Corporate Reorganization and immediately prior to the Capitalization Issue and the Global Offering:



- (1) Mr. Yan held his equity interest in the Company through his wholly-owned investment vehicle Aceplus. As of the Latest Practicable Date, Mr. Yan was the sole director of Aceplus.
- (2) SEAVI Advent Equity V (A) is an investment holding company incorporated in the British Virgin Islands. For its details, please refer to the paragraphs headed “— Exchangeable Loan Agreement — Background of the Investors” in this section.
- (3) Apollo Asia is an exempt limited partnership established in the Cayman Islands. For its details, please refer to the paragraphs headed “— Exchangeable Loan Agreement — Background of the Investors” in this section.
- (4) The Shares held by SEAVI Advent Equity V (A) and Apollo Asia were transferred by Aceplus to the respective Investor upon the exchange of a loan facility granted by the Investors to Aceplus. Please refer to the paragraphs headed “— Exchangeable Loan Agreement” in this section for details.
- (5) As of the Latest Practicable Date, Mr. Yan was the sole director of Shengli (BVI).
- (6) As of the Latest Practicable Date, Mr. Yan and Mr. Zhang were directors of CPE.

HISTORY AND CORPORATE STRUCTURE

Immediately following the completion of the Global Offering, the Capitalization Issue and sale of Sale Shares (assuming that (i) the Over-allotment Option has not been exercised, and no options have been granted under the Share Option Scheme and that (ii) no adjustment under the Exchangeable Loan Agreement is necessary), the shareholding and corporate structure of the Group will be as follows:



- (1) Mr. Yan holds his equity interest in the Company through his wholly-owned investment vehicle Aceplus.
- (2) To realize part of their investments in the Group, Aceplus, SEAVI Advent Equity V (A) and Apollo Asia will offer 83,856,000, 21,686,400 and 14,457,600 Sale Shares respectively for sale at the Offer Price under the International Offering (assuming the Over-allotment Option is not exercised). Following completion of the Corporate Reorganization, the Global Offering (assuming the Over-allotment Option is not exercised), the Capitalization Issue and sale of Sale Shares, Aceplus, SEAVI Advent Equity V (A) and Apollo Asia will remain interested in 1,445,064,000, 140,961,600 and 93,974,400 Shares respectively, representing approximately 60.211%, 5.873% and 3.916% of the then entire issued share capital of the Company.

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You should read the whole document before you decide to invest in our Shares, and you should not rely solely on key or summarized information. The financial information in this section has been extracted without material adjustment from the Accountants' Reports set forth in Appendices IA and IB to this Prospectus.

OVERVIEW

We are one of the largest oil and gas line pipe manufacturers in China. We focus on the design, manufacture, value-added processing and servicing of spiral submerged arc welded pipes, or SSAW pipes, that are used to transport crude oil, refined petroleum products and natural gas, among others. Following our recent expansion, we led the PRC industry in terms of production capacity and the number of production lines for SSAW pipes as of 31 December 2008. With seven SSAW pipe production lines that have a collective annual production capacity of 540,000 tonnes, we increased our market share of oil and gas SSAW pipes in China from 17% in 2008 to 22% in the first half of 2009 according to the National OCTG Quality Supervision and Inspection Center. As the only privately owned manufacturer among the few approved SSAW pipe suppliers to China's major oil and gas companies, we are positioned to benefit from our rapidly growing industry and the planned pipeline projects of our major customers.

We have long-standing customer relationships with China's largest oil and gas companies, which we have established as a result of our solid track record. We were established as Shengli Factory in 1972, and, in 1996, we supplied approximately one-third of the SSAW pipes installed in China's first long-distance gas pipeline, the Shaanxi-Beijing Gas Pipeline. Since that time, our SSAW pipes have been installed in pipeline projects within China's domestic and transnational pipeline projects, as well as pipeline projects in Central Asia and Africa. Major pipeline projects using our line pipes include the First West-East Gas Pipeline, the West Oil Pipeline, the Central Asia-China Natural Gas Pipeline and the Sichuan Gas Pipeline, each of which is over 1,000 km in length. With limited exceptions, we have supplied SSAW pipes to substantially all of China's major long-distance oil and gas pipeline projects, including China's first transnational crude oil pipeline and China's first transnational natural gas pipeline. Since 1975, we have provided approximately 4,000 km of line pipes to Shengli Oilfield (勝利油田), the second largest oil production field in China. As of the Latest Practicable Date, we had supplied approximately 15,000 km of SSAW pipes, of which approximately 93.5% have been installed in major oil and gas pipelines located in China and approximately 6.5% have been installed overseas.

We believe that we are one of the few suppliers in China with SSAW pipes that meet the high pressure and large diameter requirements for the transportation of crude oil, refined petroleum products and natural gas over long distances. We differentiate ourselves from our major competitors by offering comprehensive quality services encompassing pre-sale, processing, transportation and maintenance services for our steel pipes. We believe that our customer-oriented service model and ongoing support services provide us with a platform to establish long-standing customer relationships and generate recurring business.

In addition to our SSAW pipes, we produce a wide variety of cold-formed section steel using our steel piping and welding technologies and facilities. Cold-formed section steel is an important construction and industrial material for steel structure buildings, freight containers and heavy-duty trucks.

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Our production facilities are strategically located in Zibo, Rizhao and Dezhou in Shandong Province, in proximity to major highways and railway lines for low-cost and timely delivery of our products across China as well as to major shipping ports for convenient exportation. The location of each of our manufacturing facilities also ensures the stable supply of energy and ready access to the skilled labor required for our operations.

During the Track Record Period, we underwent the Corporate Reorganization, pursuant to which CPE, the Company's subsidiary, acquired Shandong Shengli from Shengli Steel Pipe and Victory Trading. Shandong Shengli in turn acquired certain assets and liabilities related to the SSAW pipe operations of Shengli Steel Pipe to rationalize our corporate structure and operations in preparation for the Global Offering. As a result of the reorganization, we assumed the key business operations of both Shandong Shengli and Shengli Steel Pipe. The major operating entities and the management of the Group, Shandong Shengli and Shengli Steel Pipe remained substantially the same throughout the Track Record Period.

We experienced significant revenue and profit growth during the Track Record Period. For the year ended 31 December 2008 and the six months ended 30 June 2009, the Group generated revenue of RMB1,070.7 million and RMB1,813.2 million, respectively. For the year ended 31 December 2006 and the period from 1 January to 28 December 2007, Shengli Steel Pipe's Core Business generated revenue of RMB91.1 million and RMB237.5 million, respectively. The Group's net profit for the year ended 31 December 2008 and the six months ended 30 June 2009 was RMB148.8 million and RMB144.9 million, respectively. The net profit of Shengli Steel Pipe's Core Business for the year ended 31 December 2006 and the period from 1 January to 28 December 2007 was RMB10.0 million and RMB34.1 million, respectively.

COMPETITIVE STRENGTHS

We believe the following strengths distinguish us from our competitors and enable us to capture opportunities in the oil and gas pipeline industry and compete effectively in the PRC and international markets:

A leading oil and gas line pipe manufacturer in China

We are one of the largest oil and gas line pipe manufacturers in China based on our market share in the first half of 2009, according to the National OCTG Quality Supervision and Inspection Center. With seven SSAW pipe production lines that have a collective annual production capacity for 540,000 tonnes of oil and gas line pipes, we led the PRC industry in terms of the number of production lines and production capacity as of 31 December 2008. In 2008 and the first half of 2009, our production volume represented approximately 17% and 22%, respectively, of the SSAW pipes in the PRC oil and gas line pipe market. Our SSAW pipes are the predominate type of line pipes used in high-pressure oil and gas pipelines in China. We are the only privately owned SSAW pipe manufacturer among the few approved SSAW pipe suppliers to China's major oil and gas companies, operating in a rapidly growing market in which planned pipeline projects will create strong demand for our products. As such, we believe that we are well-positioned to benefit from the current growth cycle of the PRC oil and gas pipeline industry.

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Our major customers, the CNPC Group and the Sinopec Group, who are the two largest oil and gas companies in China, generally only allow the oil and gas line pipe manufacturers who have participated in their major pipeline projects, such as the First West-East Gas Pipeline, to supply line pipes for their new projects. The track record requirements of our major customers for their oil and gas line pipe suppliers create substantial market entry barriers, limiting the number of suppliers that receive invitations to bid for major pipeline projects. We believe our increased production capacity positions us to capture significant business from the pipeline projects announced by the CNPC Group and the Sinopec Group, particularly in the concentrated market where production by the limited number of approved suppliers is unable to keep pace with demand from rapid pipeline construction activities. With our large-scale production, we will be able to maintain effective cost control to benefit from economies of scale. In recent years, we have significantly increased our production capacity, and with our plans to further expand capacity, we believe we will continue to enjoy the benefits of our customers' current growth cycle and the expected spending of the PRC Government on pipeline infrastructure.

Solid track record of providing reliable and industry-leading products

We have a solid track record of supplying SSAW pipes for major oil and gas pipeline projects in China as well as overseas and transnational pipeline projects undertaken by the CNPC Group in Central Asia and Africa. Our production facilities and manufacturing processes that meet stringent customer requirements ensure our continued status as an approved oil and gas line pipe supplier to the CNPC Group and the Sinopec Group, and we have maintained such status since these customers began constructing oil and gas pipelines. Our predecessor, Shengli Factory, first supplied oil line pipes for Shengli Oilfield in 1975. Since then, we have grown with the PRC oil and gas industry and developed products to meet the evolving requirements of our customers with respect to product performance, specification and safety. As a result of increasingly stringent customer requirements, a strong track record of supplying reliable products is required to secure orders for major pipeline projects in China.

Our extensive supply of SSAW pipes to oil and gas pipeline projects, in particular milestone projects such as the First and Second West-East Gas Pipelines, have helped raise industry perception of the quality of SSAW pipes. Our products were installed in China's first transnational crude oil pipeline as well as China's first transnational natural gas pipeline. Through improvements in manufacturing techniques, we have increased the dimensional accuracy of our SSAW pipes so that they can be installed with greater reliability. We believe CNPC's recognition of us as a superior supplier, evidencing by a Certificate of Superiority, for our participation in the First West-East Gas Pipeline strengthened our reputation and positioned us favorably to secure future contracts. We were invited to supply large-diameter SSAW pipes to the Second West-East Gas Pipeline in 2008, which will be the longest X80 pipeline in the world when completed. Our X80 SSAW pipes installed in this pipeline project was determined by the Department of Science and Technology of Shandong Province to meet prevailing global industry standards. By pioneering the development of high performance products, such as X80 SSAW pipes, and promoting the industry's widespread adoption of these products, we continuously build upon our track record of industry leadership.

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Our participation in these major oil and gas pipeline projects, among other projects, allows us to play an important role in industry-leading research. We participate in the establishment of industry standards for oil and gas line pipes in China through our membership on the Technical Committee on Petroleum Equipment and Materials Standardization, along with our senior officers who serve as committee representatives in their personal capacities.

Long-standing customer relationships with PRC oil and gas industry leaders

We have established long-standing customer relationships with the CNPC Group and the Sinopec Group. Together with six units of the CNPC Group and the Sinopec Group, we are one of the seven oil and gas line pipe manufacturers in China that supply line pipes for the pipeline projects of the CNPC Group and the Sinopec Group. Before our privatization in 2004, we commenced operations as a subordinate unit and then a subsidiary of CNPC's predecessor in 1972 and remained so until we became a subsidiary of the Sinopec Group in 1998. We have participated in the significant majority of oil and gas pipeline projects undertaken by the CNPC Group and the Sinopec Group since 1975. We maintain close connections with these major customers, who construct and own substantially all of the onshore oil and gas pipelines in China's national and transnational pipeline network. Our unique history with these customers enables us to understand their operations and anticipate their needs for oil and gas line pipe products. We participated in China's first long-distance natural gas pipeline, the Shaanxi-Beijing Gas Pipeline, in 1996. Since then, we have participated in a significant majority of China's major oil and gas pipelines, including China's first transnational oil pipeline and first transnational gas pipeline projects.

We plan to strengthen further our relationships with our largest customers. To this end, we have entered into a strategic cooperation agreement with CPMEC, Sinopec Gas Company, a subsidiary of Sinopec, and CPTDC, the CNPC subsidiary responsible for procurement for the CNPC Group's overseas projects. Pursuant to their respective agreements, these customers pledge to support our production activities in exchange for priority production and technical and after-sales services from us. The parties to these agreements also pledge to exchange technological expertise to enhance one another's business development. These strategic cooperation arrangements allow us to work even more closely with China's largest oil and gas companies and to gain first hand insight into developing trends in our market.

Advantages from distinct history enhanced by flexibility from operating as a private enterprise

CNPC and Sinopec lead the PRC oil and gas pipeline industry in manufacturing techniques and technological innovation, and we continue to benefit from our historical relationship with CNPC and Sinopec. While operating as a subordinate unit and then a subsidiary of CNPC's predecessor from 1972 to 1998 and as a subsidiary of Sinopec from 1998 to 2004, we accumulated extensive manufacturing and managerial experience, product technology and industry connections, which we are better able to leverage as a private enterprise. Recognizing the significant growth potential for oil and gas pipelines in China, our management seized favorable market opportunities presented by the reorganization of the PRC oil and gas industry to privatize Shengli Steel Pipe in 2004. We managed to retain substantially all of our predecessor's management and engineering technicians during the course of privatization, which enabled us to assume its competitive advantages.

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Our flexible organizational structure under private ownership enables us to adapt our business strategies to market conditions in a timely and effective manner. In 2008, we rapidly expanded our production capacity of SSAW pipes from 320,000 tonnes to 540,000 tonnes by constructing and commencing the operation of two production lines in nine months' time to meet growing demand from planned pipeline projects, in particular the Second West-East Gas Pipeline. Our increased capacity has enabled us to generate more business, increase our market share and further strengthen our leading position in the industry. In addition, we have the ability to attract and retain talent through market incentives and implement cost control and productivity initiatives, which helps us maintain and improve upon the quality of our products and services. As a result, we are uniquely positioned as the only line pipe supplier to major PRC oil and gas companies that combines the benefits of private ownership together with the advantages of our former affiliation with CNPC and Sinopec.

Strategically located production facilities offering delivery advantages

Our strategically located production facilities contribute to our operational efficiency and competitiveness. Our facilities, which are located in the economically more developed eastern China, give us a proximity advantage to key suppliers and customers and access to high growth regional markets, which are also concentrated in eastern China. We lease and operate an exclusive railway track from Shengli Steel Pipe that connects our main production facilities in Zibo directly to Jiaoji Railway, a major railway network, and national shipping facilities such as the ports of Qingdao and Yantai in Shandong Province. Our railway system can deliver one million tonnes of raw materials and finished products annually to and from our Zibo facilities in Shandong Province, giving us greater control over our supply chain while shortening delivery times and lowering transportation costs. Under our supply contracts, our customers generally bear any transportation costs, which represent a significant cost of our products. We believe that our key customers select suppliers based on transportation costs, among other factors. Our delivery advantage contributes to our success in bidding for projects and is critical to maintaining low operating costs. In addition, our production facilities are located in a region that gives us ready access to reliable energy supplies and skilled labor at competitive costs.

Experienced management team with extensive industry knowledge and market foresight

Our management team combines extensive industry experience with a proven record of operating and rapidly expanding our manufacturing business. In particular, Mr. Zhang, our Executive Director and chief executive officer, has accumulated nearly 20 years of extensive operational and managerial experience in our industry while forging strong relationships with key customers. Mr. Zhang and members of our core management team successfully privatized Shengli Steel Pipe in 2004 and have since promoted a corporate culture of entrepreneurship and technological innovation, which we believe have helped us attract and retain talent. We are able to adapt quickly to changing trends in the regional and global pipeline industries because of our operational flexibility resulting from privatization combined with the diverse expertise of our senior management in engineering, production and marketing. Mr. Yan, our Non-Executive Director and chairman, joined our team in 2008, bringing his managerial experience and market foresight to position us to capitalize on the strong growth in the PRC pipeline industry and related industries. For the foregoing reasons, we believe our management team can leverage our competitive strengths to achieve sustainable growth and secure our market leadership.

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BUSINESS STRATEGIES

Our long-term goal is to become a leader in the global oil and gas line pipe industry through the enhancement of our overall competitiveness by ramping up production capacity for SSAW pipes and diversifying our product offering to include LSAW and ERW pipes to expand our domestic and international footprint. To achieve this goal, we intend to:

Expand our SSAW pipe production capacity to meet growing demand

We plan to capitalize on current market conditions by further expanding our production capacity to meet demand from oil and gas pipeline projects and to enlarge our market share. We believe that China's existing pipeline infrastructure is insufficient to support its projected in growth energy consumption. In December 2008, CNPC announced the blueprint for its Crude Oil Pipeline Network Program for 2009 to 2020, whereby it plans to invest RMB200 billion in five projects, including the construction of three oil and gas pipeline projects, during the period of the program. As approximately 70% of China's large-diameter long-distance oil and gas pipelines are constructed using SSAW pipes, we expect the construction of these planned projects to increase demand for our products. During the Track Record Period, sales of our SSAW pipes grew by a CAGR of 76.0% from 70,773 tonnes in 2006 to 219,110 tonnes in 2008.

Our management team is experienced in managing rapid business growth as we increased our SSAW pipe capacity from 320,000 tonnes to 540,000 tonnes in 2008. We expect demand for SSAW pipes to continue to grow and have already commenced the construction of two production lines with a capacity of 100,000 tonnes, which are expected to be completed in 2010. In addition to the two production lines currently under construction, we plan to construct two additional SSAW pipe production lines, along with two anti-corrosion coating lines with a collective capacity of 4.8 million m². To further enhance our capacity we will upgrade our existing production facilities to increase the rate of automation and reduce set-up time for product configuration. Upon completion of our expansion plans, we will be able to increase our participation in major oil and gas pipeline projects and enhance our competitiveness through economies of scale.

Diversify our product offering to capture growing opportunities in the pipeline market

To diversify our product portfolio, we plan to introduce value-added products as we believe our future success depends on our continued ability to introduce new products that meet market demand. Approximately 30% of China's large-diameter long-distance oil and gas pipelines are constructed using LSAW and ERW pipes. Although we derive a substantial majority of our revenue from SSAW pipes, we plan to invest in a LSAW pipe production line with an annual capacity of 200,000 tonnes as well as one anti-corrosion coating line with a capacity of 2.4 million m². We expect the construction of this LSAW pipe production line to be completed in 2011. The introduction of LSAW pipes complements our product portfolio by enabling us to provide another high value product to our major customers while extending the application of our current production facilities, technological and industry knowledge and management skills. Providing LSAW pipes will also increase our competitiveness as a supplier to existing customers because only LSAW pipes can be installed in

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certain sections of national and transactional pipeline networks. Pipeline operators in China require LSAW pipes for pipeline sections that extend across areas with high population or building density or involve subsea installations due to the thicker walls and shorter welded seams of LSAW pipes, notwithstanding the relatively higher cost.

We also plan to upgrade one of our existing cold-formed section steel facilities by the fourth quarter of 2010 so that such facilities can be reconfigured into an ERW pipe production line with a capacity of 100,000 tonnes. ERW pipes are commonly used in small- to medium-diameter lateral pipelines and refined oil pipelines, and we expect the growth of lateral pipeline networks to follow the significant growth of China's national pipelines. The introduction of these two types of pipes complements our existing product offering by enabling us to offer customers a full range of line pipes for their pipeline projects.

In addition, we plan to construct production lines for heat insulated oil transportation steel pipes, petroleum pipe fittings and expanded pipe casings. We have identified these products as high growth products that share the same customer base as our existing steel pipe products. We believe that these product expansions will allow us to apply our competitive strengths to serve other sectors of the oil and gas industry that have significant growth potential.

Broaden our geographical coverage domestically and internationally

While we have established our leading position in the PRC pipeline industry by supplying to China's large-scale national and transnational pipeline projects, we plan to broaden our coverage by entering the sizeable regional markets in China. Regional pipeline infrastructure represents approximately half of the total length of pipelines in China. Strong oil and gas demand as well as urbanization in China will result in the increased construction of regional pipeline networks, which are critical for the economical distribution of refined petroleum products. These construction activities will create significant demand for SSAW pipes, LSAW pipes and ERW pipes, which are commonly used in regional and municipal distribution networks. We plan to leverage our competitive strengths, capital resources and manufacturing knowledge to penetrate regional markets in China and secure additional revenue sources for our business.

We plan to increase overseas sales to reduce our reliance on any particular geographic region and to achieve a more diversified distribution of our products. Our SSAW pipes have been installed in a number of CNPC's overseas pipeline projects in Central Asia and Africa, where we have established a market presence. Approximately 6.5% of our SSAW pipes have been installed in overseas projects. We plan to continue working with our distributors and agents to sell our products overseas and develop the ability to conduct direct overseas sales to increase our control over marketing and profit margin. An overwhelming majority of existing pipeline infrastructure is located in mature pipeline markets such as the United States. As two thirds of the pipelines in the aging pipeline network in the United States are more than 40 years old, we believe the replacement demand from the United States creates substantial market opportunities in the long term.

We also intend to expand sales of our products in overseas markets, such as the United States and Canada. We believe that we can compete effectively in these mature markets in terms of product quality and pricing and have dedicated over one third of our sales and marketing team to the development of overseas markets.

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Seek growth through strategic alliances, joint ventures or acquisitions

We will explore opportunities to collaborate with suitable partners in related fields through strategic alliances, joint ventures or acquisitions that provide synergies or otherwise strengthen our current market leading position. We believe the fragmented PRC regional and municipal pipeline industry presents significant acquisition opportunities. Our objectives are to expand our customer and revenue base, broaden our geographic coverage and seek cross-selling opportunities across different product lines. We believe that our experience and knowledge of the oil and gas industry and pipeline industry allow us to understand industry trends and identify market opportunities, which will assist us in making decisions regarding such alliances, joint ventures or acquisitions. Furthermore, our successful history of identifying and integrating acquisition targets, including the asset acquisition of Shandong Haosen Spiral Pipe Company Limited in Dezhou, Shandong Province and the SSAW pipe business of Shengli Steel Pipe, will facilitate the execution of our plan to grow through acquisitions. While we currently have not identified any specific targets or opportunities, we will seek and evaluate opportunities to expand into other oil and gas equipment businesses.

OUR PRODUCTS AND SERVICES

We focus on the design, manufacture, value-added processing and servicing of welded steel pipes. Based on our production arrangements with customers, we generated during the Track Record Period, and expect to continue to generate, our revenues primarily from sales of goods and provision of processing services. We conduct our business in two product segments:

- spiral submerged arc welded pipe, or SSAW pipe, operations; and
- cold-formed section steel operations.

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The following table sets forth the revenues and percentage to our total revenue generated from each of our business segments for the periods indicated:

	Core Business of Shengli Steel Pipe ⁽¹⁾				The Group ⁽¹⁾					
	Year ended		Period from		Year ended		Six months ended		Six months ended	
	31 December 2006		1 January to		31 December 2008		30 June 2008		30 June 2009	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
(audited)		(audited)		(audited)		(unaudited)		(audited)		
SSAW pipe operations										
Sales of goods	38,285	42.0	59,723	25.1	892,358	83.4	385,860	78.2	1,601,986	88.4
Processing services	45,682	50.2	104,713	44.1	84,873	7.9	63,494	12.9	34,932	1.9
Anti-corrosion treatments	—	—	—	—	15,167	1.4	—	—	140,731	7.7
Subtotal	<u>83,967</u>	<u>92.2</u>	<u>164,436</u>	<u>69.2</u>	<u>992,398</u>	<u>92.7</u>	<u>449,354</u>	<u>91.1</u>	<u>1,777,649</u>	<u>98.0</u>
Cold-formed section steel operations										
Sales of goods	7,149	7.8	73,108	30.8	77,957	7.3	44,016	8.9	35,096	2.0
Processing services	0	0.0	0	0.0	392	0.0	120	0.0	454	0.0
Subtotal	<u>7,149</u>	<u>7.8</u>	<u>73,108</u>	<u>30.8</u>	<u>78,349</u>	<u>7.3</u>	<u>44,136</u>	<u>8.9</u>	<u>35,550</u>	<u>2.0</u>
Total	<u><u>91,116</u></u>	<u><u>100.0</u></u>	<u><u>237,544</u></u>	<u><u>100.0</u></u>	<u><u>1,070,747</u></u>	<u><u>100.0</u></u>	<u><u>493,490</u></u>	<u><u>100.0</u></u>	<u><u>1,813,199</u></u>	<u><u>100.0</u></u>

- (1) Although the Group acquired substantially all the assets and liabilities of the Core Business of Shengli Steel Pipe as a going concern, their respective results of operations before and after the acquisitions are not directly comparable. This table contains financial information from the accountants' reports of two separate entities, which are included as Appendix IA and Appendix IB to this Prospectus.

SSAW Pipes

SSAW pipes are installed primarily in oil and gas pipelines to transport crude oil, petroleum products and natural gas. SSAW pipes are suitable for oil and gas due to their tolerance to high temperature and pressure and their impact strength. SSAW pipes are manufactured from hot-rolled steel coils using an automated submerged arc welding process that enables the manufacture of pipes with large outer diameters with narrow steel sheets. See “— Production — Production process” for more details on our SSAW pipe production process and anti-corrosion treatment process.

Our SSAW pipes are produced according to API standards, namely API 5L specifications for line pipes that are designed for the transportation of oil and gas, among other liquids. API 5L specifications include a stringent set of product criteria regarding steel material, permissible variations in wall thickness, tensile strength requirements and testing requirements. We also provide anti-corrosion treatments as a value-added service to customers. Our SSAW pipes are manufactured to meet customer specifications with respect to the steel grade and dimensions of SSAW pipes.

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We have participated extensively in the construction of China's national and transnational pipelines, as well as overseas pipeline projects undertaken by our major customers. Our SSAW pipes have been installed in the following major pipeline projects:

Constructed Pipeline Projects	Construction period	Project length (km)	Length of SSAW pipes used in the project (km)	Length and percentage of SSAW pipes provided by us (km)(%)
<i>Domestic Pipeline Projects</i>				
First West-East Gas Pipeline (西氣東輸一線工程)	2002-2004	3,900	2,719	61 (2.2%)
West Oil Pipeline (西部原油成品油管線)	2005-2006	4,000	2,310	292 (12.6%)
Sichuan Gas Pipeline (川氣東送管線)	2007-2009	1,702	1,030	431 (41.0%)
Southwest Oil Pipeline (西南成品油管線)	2003-2005	1,691	979	828 (84.6%)
Shaanxi-Beijing Gas Pipeline (陝京管線)	1996-1997	1,256	853	250 (29.3%)
Yizheng-Changling Crude Oil Pipeline (儀征-長嶺原油管線)	2004-2006	979	626	188 (30.0%)
Sebei-Xining-Lanzhou Natural Gas Pipeline Ancillary Line (澀-寧-蘭輸氣管線複線)	2008-2009	945	945	121 (12.8%)
Shandong-Anhui Oil Pipeline (魯皖成品油管線)	2004-2005	761	262	262 (100.0%)
Qingdao-Jinan-Handan Oil Pipeline (青島-濟南-邯鄲成品油管線)	2007-2009	1,280	557	530 (95.2%)
Ningbo-Shanghai-Nanjing Oil Pipeline (甬-滬-寧原油管線)	2001-2004	645	645	231 (35.8%)
Zhongyuan Oilfield-Qufu-Jinan Natural Gas Pipeline (中-曲-濟輸氣管線)	2004-2007	368	310	310 (100.0%)
Jinan-Qingdao Natural Gas Pipeline (濟南-青島天然氣管線)	2002-2003	386	360	303.9 (84.4%)
Northeast-West Sichuan Natural Gas Connection Pipeline (川東北-川西天然氣聯絡線)	2007-2008	430	55	33 (60.1%)
Anping-Jinan Natural Gas Pipeline (安平-濟南天然氣管線)	2004-2006	245	243	241 (100.0%)
Tianjin Ethene Integrative Refined Oil Pipeline (天津乙烯一體化工程原油管線)	2006-2009	232	232	119.6 (51.6%)
Hejian-Shijiazhuang Oil Pipeline (河澗-石家莊成品油管線)	2006-2009	151	124	74 (59.7%)
Jing-Xi Second Natural Gas Pipeline Expansion Project (靖西二期天然氣管線擴能工程)	2003-2004	130	130	80 (61.5%)
Liaocheng-Tai'an Natural Gas Pipeline (聊城-泰安輸氣管線)	2000-2002	117	117	120 (100.0%)
Hangzhou-Huzhou Natural Gas Pipeline (杭州-湖州天然氣管線)	2002-2003	82	82	60 (73.2%)
Jiaozhou-Rizhao Natural Gas Pipeline (膠州-日照天然氣管線)	2008-2009	126	84	83.6 (99.5%)

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Constructed Pipeline Projects	Construction period	Project length	Length of SSAW pipes used in the project	Length and percentage of SSAW pipes provided by us
		(km)	(km)	(km)(%)
Tabamiao-Yulin Natural Gas Pipeline (塔巴廟-榆林天然氣送管線)	2004-2005	80.5	70	70 (100.0%)
Yantai Zhongshi Natural Gas Pipeline (煙台中世天然氣管線)	2006-2007	62	59	40 (67.8%)
<i>Transnational Pipeline Projects</i>				
Muglad Basin-Port Sudan Oil Pipeline (蘇丹穆格萊德-蘇丹港成品油管線)	1998-1999	1,506	1,506	74 (4.9%)
Kazakhstan-China Oil Pipeline (哈薩克斯坦-中國輸油管線)	2004-2005	962	542	244 (45.0%)
Melut Basin-Port Sudan Oil Pipeline (蘇丹美魯特盆地成品油管線)	2005-2007	1,376	478	125 (26.1%)
Sudan Fula Oilfield Crude Oil Pipeline (蘇丹富拉油田原油管線)	2002-2004	723	723	183 (25.6%)

We are currently supplying to or have secured contracts to supply SSAW pipes to the following major oil and gas pipeline projects:

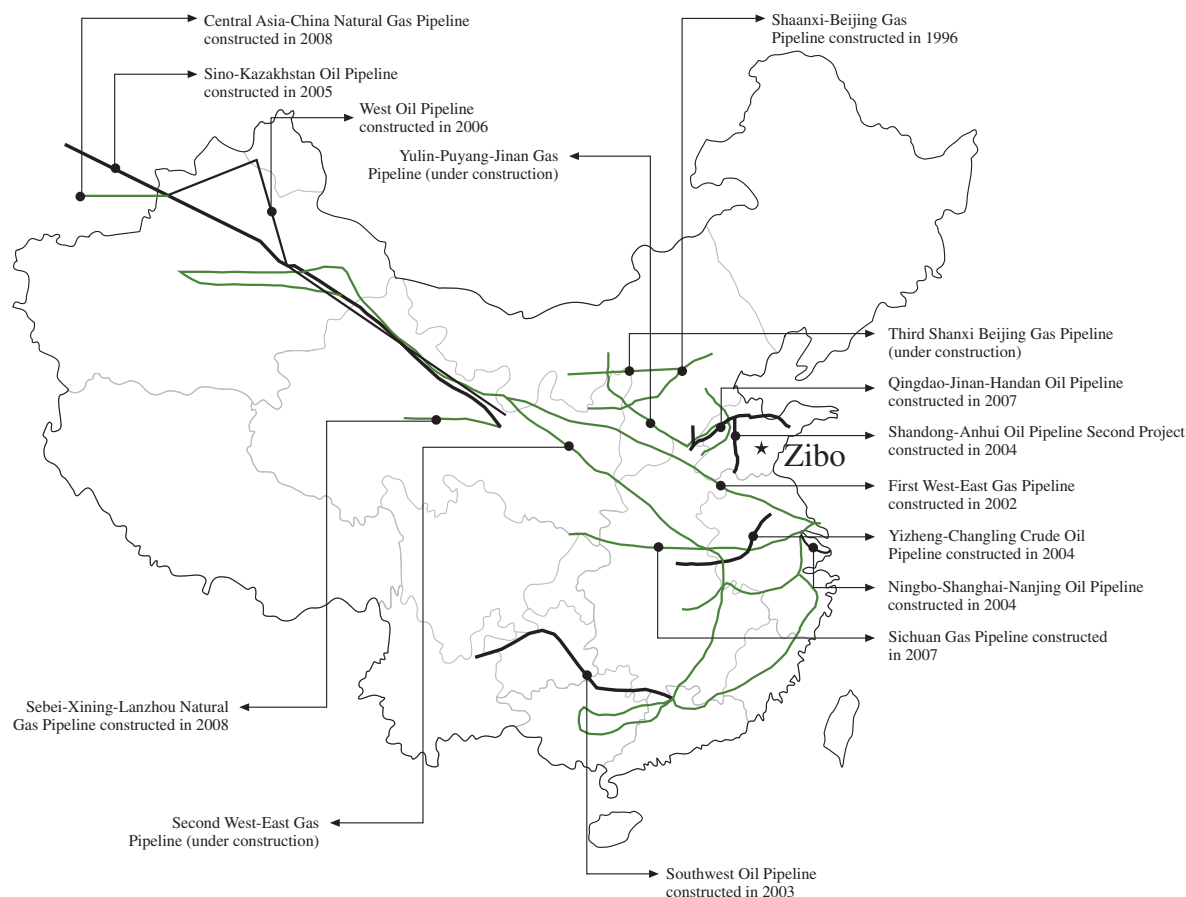
Pipeline Projects Under Construction	Commencement date of construction	Length of SSAW pipes supplied by us⁽¹⁾	Project length⁽²⁾
		(km)	(km)
<i>Domestic Pipeline Projects</i>			
Second West-East Gas Pipeline (西氣東輸二線工程)	2008	268	9,102
Yulin-Puyang-Jinan Gas Pipeline (榆-濮-濟輸氣管線)	2007	542	1,045
Mohe-Daqing Crude Oil Pipeline (漠河-大慶原油管線)	2009	31	965
Third Shaanxi-Beijing Gas Pipeline (陝京三線工程)	2009	363	822
<i>Transnational Pipeline Project</i>			
Central Asia-China Natural Gas Pipeline (中亞天然氣管線)	2008	354	1,801

(1) represents the total length of SSAW pipes we have provided and/or will provide pursuant to the supply contracts we have entered into.

(2) includes the total length of SSAW pipes and other types of welded steel pipes in a pipeline.

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The following map illustrates the location of certain major pipeline projects in which we have participated:



Our major customers for SSAW pipes are primarily the group companies and joint ventures of CNPC or Sinopec. See “ — Sales and Marketing” and “ — Major Customers”.

We also generate revenue from sales of surplus raw materials, which represent the raw materials that remain unused after production. Surplus raw materials, mainly steel, generally belong to us under our processing service contracts. When we are able to produce the requisite quantity of SSAW pipes without using all the raw materials procured for a purchase order, we sell the surplus raw materials to other steel product makers. During the Track Record Period, we sold a total of 7,213.5 tonnes of surplus raw materials in connection with our SSAW pipe operations. The profit from such sales amounted to RMB9.3 million during the Track Record Period.

Cold-formed Section Steel

Our cold-formed section steel is mainly used in the construction industry and the manufacture of automobiles and freight containers. Our production lines can be reconfigured to manufacture square and rectangular tubes, round steel pipes and other cold-formed section steel.

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We produced our cold-formed section steel according to national and international standards that our customers may specify in their contracts, such as GB/T6728-2002 standards for the dimensions and weight of pipes.

Cold-formed section steel is manufactured with a cold forming process, which allows for the shaping of steel at room temperature without the application of heat. The cold forming process enables fast production and the efficient use of raw materials as it generates less waste material than hot metalworking processes such as traditional hot rolling process. See “ — Production — Production process” for more details on our production process for cold-formed section steel.

Our major customers for cold-formed section steel are construction companies and manufacturers of heavy-duty trucks and freight containers. See “ — Sales and Marketing” and “ — Major Customers”.

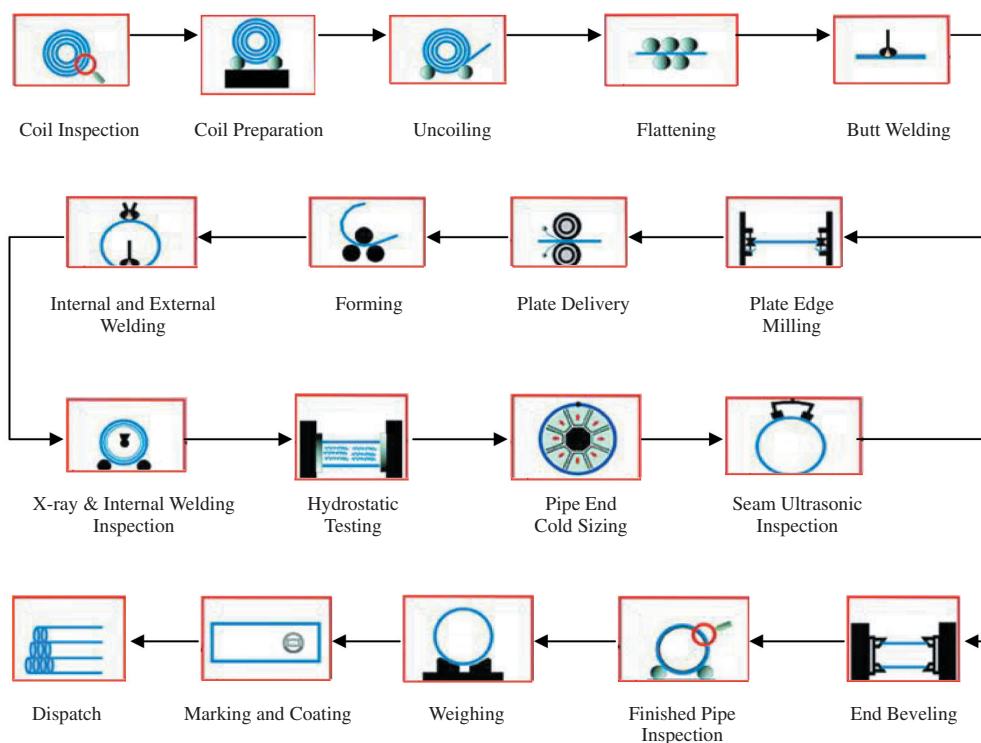
PRODUCTION

We are an integrated manufacturer of welded steel pipes with a comprehensive set of production processes that include anti-corrosion treatments and quality inspection.

Production Process

SSAW pipes

The following flowchart illustrates the production process of our SSAW pipes:



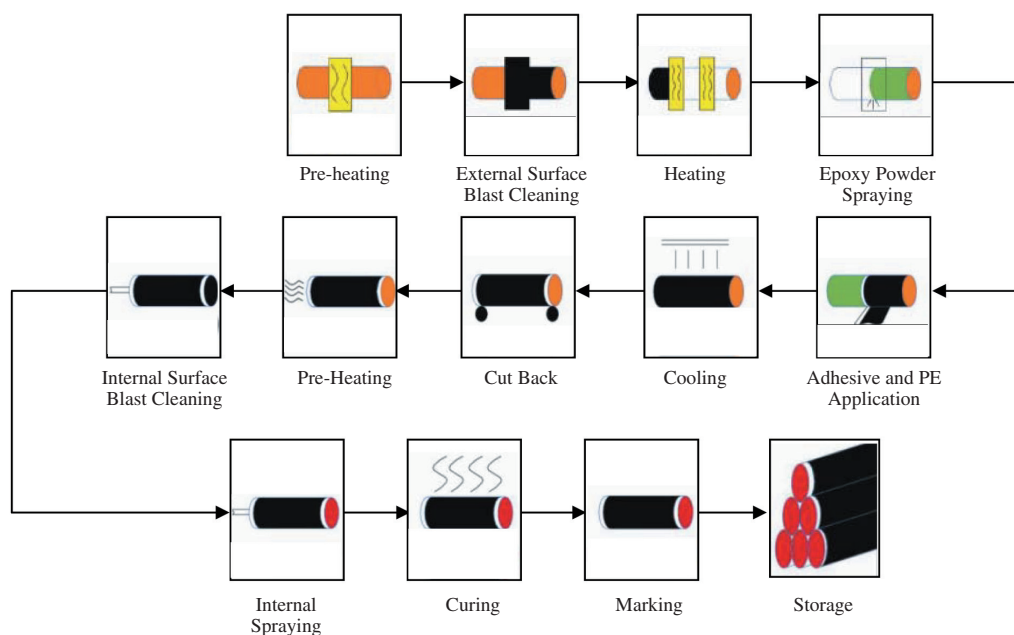
BUSINESS

Our SSAW pipe production lines can manufacture pipes with the following specifications:

Production line	Location	Diameter range	Maximum wall thickness	Highest steel grade of SSAW pipes manufactured by each production line ⁽¹⁾
1	Zibo, Shandong Province	219 mm-920 mm	16.0 mm	X70
2	Zibo, Shandong Province	325 mm-1,420 mm	20.0 mm	X80
3	Zibo, Shandong Province	508 mm-2,200 mm	20.0 mm	X80
4	Zibo, Shandong Province	610 mm-1,620 mm	25.4 mm	X80
5	Zibo, Shandong Province	610 mm-1,620 mm	25.4 mm	X80
6	Dezhou, Shandong Province	219 mm-630 mm	10.0 mm	X60
7	Dezhou, Shandong Province	219 mm-630 mm	10.0 mm	X60

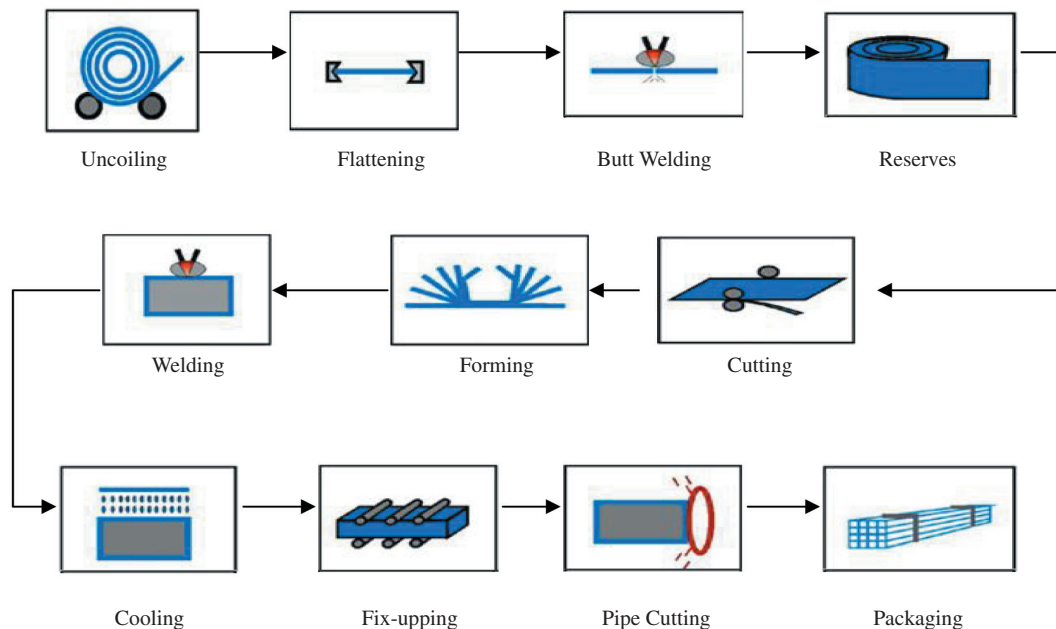
(1) API 5L standardizes steel grades for line pipes that specify a range of material specifications. Line pipes manufactured with higher steel grades can achieve higher tensile and yield strengths with relatively thinner walls.

We provide anti-corrosion treatments for oil and gas line pipes if requested by customers. The following flowchart illustrates our anti-corrosion treatment process:



Cold-formed section steel

The following flowchart illustrates the production process of our cold-formed section steel:



Our cold-formed section steel production lines, which are located in Rizhao, Shandong Province can manufacture cold-formed section steel with the following specifications:

- square pipes with a dimension range of between 40 mm x 40 mm and 300 mm x 300 mm, wall thickness range from 1.0 mm to 12.7 mm;
- rectangular pipes with a dimension range of between 20 mm x 40 mm and 400 mm x 200mm, wall thickness range from 1.0 mm to 12.7 mm; and
- round pipes with a diameter range of between 38 mm and 377 mm, wall thickness range from 1.0 mm to 12.7 mm.

Production Facilities and Capacity

Our production facilities are located in Zibo, Rizhao and Dezhou in Shandong Province with an aggregate GFA of 65,809.92 m². As of 30 June 2009, our annual production capacity for SSAW pipes and cold-formed section steel was 540,000 tonnes and 60,000 tonnes, respectively, comprising seven SSAW pipe production lines, three cold-formed section steel production lines and two anti-corrosion coating lines for SSAW pipes.

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We plan to increase our production capacity for SSAW pipes to 1,000,000 tonnes by constructing four additional production lines, which will commence production during 2010. The following table sets forth the annual production capacity and utilization rates of our SSAW pipe and cold-formed section steel production lines for the periods indicated:

Products	Year ended 31 December			Six months ended 30 June 2009
	2006	2007	2008	
SSAW pipes				
Utilization rate ⁽¹⁾	23.0% ⁽²⁾	58.2%	77.7%	84.9%
Production capacity ⁽³⁾ (tonnes)	305,000	320,000	356,667	270,000
Cold-formed section steel				
Utilization rate ⁽¹⁾	20.7%	46.1%	22.1%	37.3%
Production capacity ⁽³⁾ (tonnes)	18,333	56,250	60,000	30,000

(1) The utilization rate for each period is calculated by dividing actual output for the period by production capacity.

(2) Two production lines were acquired by Shengli Steel Pipe in August 2006 and the three remaining production lines underwent a four-month upgrade.

(3) The production capacity for each period is the weighted average capacity during the period.

Tax policy changes in 2007 and 2008 that discouraged the export of cold-formed section steel, resulted in a decline in sales of this product and lowered utilization rates for our cold-formed section steel production lines. Certain cold-formed section steel that was manufactured in 2007 was not sold until 2008.

Maintenance

We have implemented an effective repair and maintenance system for our equipment and production facilities to ensure production efficiency and safety. Our facilities are closed for repair and maintenance for approximately one month every three to five years subject to actual loading conditions. During the Track Record Period, we did not experience any major interruptions to production due to equipment failure.

RAW MATERIALS AND MAJOR SUPPLIERS

Raw Materials

The primary raw material used in the manufacture of our SSAW pipes and cold-formed section steel is steel coils, which we receive from certain customers or purchase from suppliers depending on the type of production arrangement under each contract.

In addition to steel coils, we also use a substantial amount of welding wire and welding flux in our production. Welding wire and welding flux are stored separately according to their specifications, manufacturer and steel grade in climate-controlled warehouses that control the humidity and temperature of the storage environment to preserve the quality of the raw materials.

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Major Suppliers

For production of goods

We have an established process for selecting raw material suppliers and generally select suppliers based on product quality, delivery time and pricing. To ensure the reliable delivery and quality of raw materials as well as to realize economies of scale through centralized procurement, a number of our major SSAW pipe customers require us to purchase steel coils from a list of approved suppliers, which is limited to the major steel mills in China. For sales to these customers, we select raw material suppliers among the list of approved suppliers using our standard selection criteria. Under contracts to produce and sell goods, we are responsible for ensuring the quality and timely delivery of raw materials. Our procurement department conducts on-site inspections of potential suppliers and evaluates potential suppliers on their track record in terms of product quality, delivery and production capacity as well as the supplier's certifications and other criteria we deem relevant.

Based on industry practice, we are generally required to make payments for our steel coil purchases before delivery as we do not have any credit arrangements with our suppliers. However, under a number of the contracts that we enter into with our major SSAW pipe customers, we request that our customers settle the purchase price of our raw materials on our behalf through entrustment notes. See “ — Sales and Marketing — Production arrangement and credit policy”.

For provision of processing services

Under arrangements to provide processing services, our customers supply steel coils and other raw materials to us without our participation in the procurement of raw materials. These raw materials are consigned to us. Therefore, we take possession but not title to such raw materials, which we process into finished goods specified by our customer. Under this arrangement, our customers assume ultimate responsibility for ensuring the quality and timely delivery of the raw materials that they procure, but we conduct our standard quality control measures on these raw materials.

Largest suppliers

Our largest suppliers are the steel mills that supply steel coils for our production. Purchases from our five largest suppliers for the year ended 31 December 2008 and the six months ended 30 June 2009 accounted for approximately 44.9% and 82.5% of the Group's total purchase cost respectively, of which purchases from our largest supplier accounted for approximately 27.7% and 56.9% of the Group's total purchase cost during the respective periods. Purchases from the five largest suppliers of Shengli Steel Pipe for the year ended 31 December 2006 and the period from 1 January to 28 December 2007 accounted for approximately 51.9% and 63.6%, respectively, of Shengli Steel Pipe's total purchase cost, and purchases from the largest supplier of Shengli Steel Pipe accounted for approximately 22.6% and 26.2% of Shengli Steel Pipe's total purchase cost during the respective periods. We made a significant majority of our sales in 2008 to pipeline projects of CNPC Group. Due to a change in 2008 from provision of processing services to sales of goods, that required us to procure substantially more steel coils from the suppliers on CNPC's list of approved suppliers, our supplier concentration increased substantially in 2008 compared with prior years.

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All of the five largest suppliers of the Group and Shengli Steel Pipe are Independent Third Parties. To the knowledge of our Directors, none of our Directors, their respective Associates or any of our Shareholders that owns more than 5% of our issued capital owned any interest in any of our five largest suppliers during the Track Record Period.

ELECTRICITY AND WATER

We rely on electricity provided by the Shandong Province power grid to carry out our production activities. During the Track Record Period, we did not experience any material shortage of electricity.

We source water for our operations from wells owned and operated by us within our production facilities and pay the local water authority based on usage. During the Track Record Period, we did not experience any shortage of water.

INVENTORY MANAGEMENT

We monitor and control the inventory levels of our raw materials and finished products to optimize our operations, sales and delivery. Our inventory primarily consists of steel coils, welding wire, welding flux and finished SSAW pipes and cold-formed section steel. Our storage facilities are located at our production facilities with a total GFA of 12,304.42 m² and can store approximately 80,000 tonnes of steel coils, 70 tonnes of welding wire and 200 tonnes of welding flux.

For steel coils, our inventory levels are regularly adjusted based on our production schedule. Other raw materials, such as welding wire and welding flux, are purchased whenever inventory reaches a prescribed level. In order to ensure that there is sufficient stock at all times in our storage facilities to meet sales orders, we make periodic reviews of the physical stock level. For welding wires, we maintain a raw material inventory level that is equivalent to approximately one month of our estimated production requirements. Our finished product inventory levels are managed based on our sales and delivery schedules. We conduct a comprehensive inventory review annually to ensure that our inventory records are accurate and reliable.

SALES AND MARKETING

During the Track Record Period, all of our export sales, consisting only of cold-formed section steel, were made through distributors and all of our domestic sales, with exception of the sale of cold-formed section steel in inventory, were conducted through our direct sales and marketing efforts.

Our sales and marketing staff are responsible for collecting customer feedback and market information, submitting bid proposals, negotiating orders, identifying business opportunities, promoting our products and maintaining customer relationships. In addition, our sales and marketing team works with our research and development department in the development of our products by contributing their market knowledge to our product development efforts. As of the Latest Practicable Date, our sales and marketing team consisted of 38 staff.

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PRC Market

More than 90% of our SSAW pipes were supplied to customers located in China and installed in national oil and gas pipeline projects. Our customers primarily consist of oil and gas companies as well as other companies in the construction and transportation industries in China. Our main customers for SSAW pipes are the group companies and joint ventures within the CNPC Group and the Sinopec Group, such as CPTDC, CPMEC, Sinopec Gas Company and Sinopec Pipeline Storage and Transportation Branch Company.

We entered into five-year strategic cooperation agreements with CPMEC in 2008, CPTDC and Sinopec Gas Company in 2009 to receive priority in the award of projects. The key terms of such strategic cooperation agreements include:

- forming and sustaining a long-term and strategic cooperation relationship on a mutually beneficial basis;
- allowing us to participate in the customer's oil and gas pipeline projects to optimize our capacity and utilize our technical advantages;
- giving the customer's purchase orders and processing assignments priority;
- offering the most competitive price and delivering quality products in a timely manner to meet the pipeline construction needs of the customer;
- enhancing the exchange of information regarding raw material demand, resource allocation and product development;
- cooperating in the development of new products, technology and applications;
- participating proactively in the trial production of new steel pipe products and providing technical, personnel and other support;
- providing quality after-sales services, including on-site technical support and consulting services; and
- participating in periodic technical and commercial activities and conducting timely communication on steel pipe production, research and development and pipeline installation.

In 2007, we exported approximately 95% of our cold-formed section steel to the United States. However, we sold all of our cold-formed section steel to customers in China in 2008 due to the change of the tax rebate policy for the export of steel pipes. See “ — Major Customers”.

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Overseas Market

In addition to our overseas sales of cold-formed section steel, a portion of the SSAW pipes that we sell to CPTDC have been installed by our customers in their overseas and transnational pipeline projects in countries such as Kazakhstan and Uzbekistan. Although we have not exported our SSAW pipes directly to any customers who are located overseas, all of our SSAW pipes that were sold to CPTDC during the Track Record Period were destined for overseas markets. As of the Latest Practicable Date, we had not established any overseas sales offices.

Pricing

Our SSAW pipe contracts are generally procured through invitational bidding and subsequent price negotiations. As is customary in our industry, the bidding process is used by pipeline project operators to solicit bid proposals from qualified suppliers. Qualified suppliers submit non-binding bid proposals to indicate their available production capacity and price levels. After sections of a pipeline project are awarded, the prices for line pipes are finalized through negotiations among the successful bidders and the project operator. Large-scale pipeline projects are generally awarded in stages as construction of the pipeline progresses, and the price of line pipes in subsequently formed contracts may be adjusted to reflect movements in the prices of raw materials.

Depending on the customer and the type of production arrangement requested, our contracts may be for the sale of goods or the provision of processing services. For sales of goods, the price that we submit in bid proposals reflects our costs of raw materials and labor, production expenses and profit. Because our raw material costs are passed onto our customers at cost, fluctuations in the price of our key raw materials have limited effect on us because we are able to pass substantially all price fluctuations of raw materials to our customers pursuant to our production and payment arrangements. In the contracts to provide processing services, we generally quote processing fees based on the specifications of the requested products.

Production Arrangement and Credit Policy

Our production arrangement and credit policy vary by customer. In our SSAW pipe operations, we generate revenue from (i) the provision of processing services; (ii) the sale of goods for domestic oil and gas pipeline projects; and (iii) the sale of goods for overseas and transnational oil and gas pipeline projects. In addition, we sell cold-formed section steel to customers located in China and overseas and provide, on a limited basis, processing services for cold-formed section steel.

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Provision of processing services

During the Track Record Period, all of our revenue generated from the Sinopec Group and a portion of revenue generated from the CNPC Group prior to 2008 was from the provision of processing services for SSAW pipes. Pursuant to service agreements with the Sinopec Group, the customer is responsible for procuring raw materials, mainly steel coils, and supplying the same to us for the production of the customer's SSAW pipes. As we do not procure or assume title to raw materials in the provision of services, our revenue from the Sinopec Group consists exclusively of processing fees.

For the Sinopec Group, we generally receive progress payments for shipments of SSAW pipes made under an agreed delivery schedule. A retention money representing 5% of the service fee is typically withheld by Sinopec Group during a 12-month warranty period beginning after the completion and commencement of operations by the relevant pipeline or a 18-month warranty period after product delivery. Our customers release the retention money to us at the expiry of the warranty period if no major defects were discovered in our products.

Sales of SSAW pipes for domestic pipeline projects

We manufacture and sell SSAW pipes to a number of pipeline operators and their affiliates for domestic pipeline projects. During the Track Record Period, we conducted sales to CPMEC, which enters into purchase contracts on behalf of the project companies in the CNPC Group, such as Pipeline Construction Management Project Department of PetroChina ("Pipeline Construction Department"). CPMEC is a trading company within the CNPC Group that coordinates procurement for the domestic operations of the CNPC Group. Although there is no provision in our supply contract that requires us to procure steel coils from CPMEC for the production of SSAW pipes to be sold to these CNPC project companies as our end customers, we source from CPMEC because of its attractive credit arrangements that enhance our cash flow management and its ability in sourcing high quality materials.

Upon each shipment of SSAW pipes to our end customers under the delivery schedule stated in each supply contract, we issue a payment notice for the delivered pipes. Pursuant to the arrangement terms of our purchase agreement and supply contracts with CPMEC, we agree with the end customers and CPMEC to apply part of our sales proceeds to settle the raw materials costs and receive the remaining balance of the sales price of our SSAW pipes from the end customers.

We generally request a deposit of approximately 30% of the contract value upon the execution of a supply contract. We receive progress payments for the remaining balance of the contract value upon each shipment of finished products. Each time the Pipeline Construction Department settles its outstanding balance under a supply contract, it withholds a retention money representing 1% of the purchase price for a 12 to 18 months warranty period, which begins after inspection and acceptance of our products. Our customers release the retention money to us at the expiry of the warranty period if no major defects were discovered in our products.

Sales of SSAW pipes for overseas and transnational pipeline projects

We manufacture and sell SSAW pipes to CPTDC for its overseas and transnational pipeline projects. In connection with these sales, we generally enter into a supply contract with CPTDC to

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provide SSAW pipes and separately enter into a purchase agreement with a third party supplier to purchase steel coils. CPTDC generally requires us to purchase steel coils from a list of approved steel mills located in China. Advance payments are made by CPTDC based on our estimated monthly production volume, and the remaining balance of the contract value is settled upon delivery and acceptance of our products. Payment for SSAW pipes includes labor cost, production overheads, as well as the purchase price of raw materials. Under the terms of our supply contract, we issue an entrustment note to CPTDC for it to procure and advance payments for steel coils on our behalf and guarantee to settle such advance payments from CPTDC after we issue our invoice for our SSAW pipes. Accordingly, CPTDC pays us the amount of the purchase price of SSAW pipes net of the costs of steel coils.

Sales of cold-formed section steel

Our customers for cold-formed section steel are generally required to make a prepayment according to the delivery schedule stipulated in the sales contracts.

Logistics

The locations of our manufacturing facilities in Zibo and Rizhao, Shandong Province, give us convenient access to major highway and railway routes as well as major ports, which allow us to deliver our products to customers and receive raw materials from suppliers in a timely and efficient manner. We lease from Shengli Steel Pipe and operate an exclusive railway track that connects our Zibo facilities directly with Jiaoji Railway, which is a major railway mainline linking Jinan and Qingdao, a national shipping port. Our sales of SSAW pipes and cold-formed section steel are generally delivered by rail and truck to destinations selected by our customers. The transportation costs of SSAW pipes are usually included in our bid proposal and are generally borne by customers. We generally bear the transportation costs associated with the delivery of raw materials, which we may pass on to our customers. Under service contracts to provide processing services, our customers assume the transportation costs of raw materials. Our cold-formed section steel is sold ex-factory or inclusive of transportation expenses.

Warranties

We offer warranties for our SSAW pipes and allow our customers to withhold a percentage of each contract amount for 12 to 18 months following product delivery as retention money against any major quality defects in our products. We generally permit a withholding of 1% to 5% of the purchase price in relation to contracts for the sale of goods and the provision of processing services. Our warranty arrangement with customers requires this retention money to be released to us if no major quality defects were discovered in our products during the warranty period. Historically, we have collected substantially all of the retention money held by customers after the expiration of the relevant warranty period and have not made any provisions for the collection of retention money.

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Seasonality

Our manufacturing and sales activities are generally not subject to seasonality. However, sales of our small-diameter SSAW pipes, which we produce at our Dezhou production facilities, are lower during winter than the rest of the year. We attribute this seasonality to the slowdown or suspension of the installation of regional and municipal pipeline networks during winter, particularly in northern China, due to inclement weather conditions.

MAJOR CUSTOMERS

Our primary customers for SSAW pipes are the group companies and joint ventures of CNPC and Sinopec, which are China's largest oil and gas companies. CNPC and Sinopec collectively operate substantially all of China's onshore oil and gas pipelines. We believe that the receipt of purchase orders from these customers is a testament of our product quality and solid track record because of these customers' high quality standards.

We have established long-standing relationships with the CNPC Group and the Sinopec Group and are one of only few suppliers of line pipes used in the large-scale pipeline projects of these customers. The CNPC Group and the Sinopec Group are our largest customers, and our sales have historically been concentrated on these customers because of their prominence in the PRC oil and gas pipeline industry.

For the year ended 31 December 2008 and the six months ended 30 June 2009, the five largest customers of the Group accounted for approximately 86.0% and 95.5% of the Group's revenue, respectively. For the year ended 31 December 2006 and the period from 1 January to 28 December 2007, the five largest customers of Shengli Steel Pipe accounted for approximately 72.5% and 61.2% of its total revenue, respectively. Sales attributable to the largest customer of the Group for the year ended 31 December 2008 and the six months ended 30 June 2009, the CNPC Group, accounted for approximately 78.5% and 93.1% of the Group's total revenue, respectively. Sales attributable to the largest customer of Shengli Steel Pipe for the year ended 31 December 2006 and the period from 1 January to 28 December 2007, the Sinopec Group accounted for approximately 55.2% and 51.9% of Shengli Steel Pipe's total revenue, respectively. All of our five largest customers are Independent Third Parties. None of our Directors, chief executives, management, Associates or Shareholders holding more than 5% of our issued share capital had any interest in any of our five largest customers during the Track Record Period.

For the year ended 31 December 2008 and the six months ended 30 June 2009, the five largest customers of the Group in terms of sales volume of SSAW pipes accounted for approximately 85.0% and 96.7% of the Group's total sales volume of SSAW pipes, respectively. For the year ended 31 December 2006 and the period from 1 January to 28 December 2007, the five largest customers of Shengli Steel Pipe in terms of sales volume of SSAW pipes accounted for approximately 96.3% and 91.6% of the sales volume of SSAW pipes by Shengli Steel Pipe, respectively. In 2008, we sold to our largest customer, the CNPC Group, a total of 109,157 tonnes of SSAW pipes, which accounted for approximately 49.8% of our total supply of SSAW pipes.

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We believe that our long-standing relationships with major PRC oil and gas companies provide us with the necessary credibility to establish relationships with new customers and facilitate our plans for geographic expansion. In order to broaden our customer base, we plan to expand our sales to regional markets in China and overseas markets.

COMPETITION

We face competition in all aspects of our business. We compete primarily against PRC manufacturers based on product and service quality, business track record and reputation, production capacity, production technology, capital resources and proximity to pipeline projects and suppliers. We believe that new market entrants face substantial obstacles to entry including the challenge of gaining customer acceptance, particularly in relation to the supply of oil and gas line pipes for which customers require potential suppliers to have a strong track record; the technical knowledge required to develop high-performance and reliable products; and the significant capital required to achieve the production volumes required to keep pace with the demand of major customers and maintain competitive unit costs.

We compete against certain competitors in China for sales of SSAW pipes that are suitable for large-scale oil and gas pipelines. Each of these competitors, namely Baoji Petroleum Steel Pipe Co., Ltd., North China Petroleum Steel Pipe Co., Ltd., Shashi Steel Pipe Factory, Ziyang Steel Pipe Factory, China Petroleum Pipeline Bureau Steel Pipe Works and Shanghai BSW Petro-Pipe Co., Ltd., are units of either CNPC or Sinopec. The Group and these six manufacturers collectively supplied substantially all of the line pipes that have been installed in China's national and transnational pipelines, as well as the overseas pipeline projects undertaken by the CNPC Group and the Sinopec Group.

For our cold-formed section steel operations, we compete primarily with regional competitors on the basis of proximity to customers and cost. The market for cold-formed section steel is fragmented and occupied by numerous manufacturers, but high transportation costs relative to the product's selling price give significant advantages to regional manufacturers.

We believe that we are well-positioned to compete effectively in the PRC and international markets and that our strengths and strategies will distinguish us from our competitors. See “ — Competitive Strengths” for a discussion of our competitive strengths.

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BACKLOG

Orders are recognized and entered into our backlog upon the execution of a supply contract or receipt of a purchase order and recognized as revenue upon delivery of the associated goods. The order backlog of the Group segmented by product was as follows as of the dates indicated:

	Backlog	
	As of 31 December 2008	As of 30 June 2009
	(RMB'000)	
SSAW pipes	1,104,205	1,231,430
Cold-formed section steel	<u>1,011</u>	<u>1,296</u>
Total	<u>1,105,216</u>	<u>1,232,726</u>

RESEARCH AND DEVELOPMENT

We believe that our research and development efforts are crucial to the maintenance of our long-term competitiveness. We concentrate our research and development efforts on production efficiency and production process improvements. Through the refinement of our production process and the acquisition of high-technology manufacturing and testing equipment, we are able to enhance product quality, increase productivity and achieve cost-efficiency.

We plan to upgrade and improve our production process to use raw materials more efficiently and benefit from the resulting cost savings. We have received various awards for our improvements in production methodology, including the “High Advanced Technologies Enterprise Award” issued by the Department of Science and Technology of Shandong Province in recognition of our effective usage of advanced technology in 2006. We have also entered into strategic cooperation agreements with each of CPTDC, CPMEC and Sinopec to exchange technology knowledge and pledged our support to conduct trial production of pipeline-related products developed by these strategic partners. We are engaged in collaborative research efforts with the China University of Petroleum to improve our manufacturing techniques and enhance our products.

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As of the Latest Practicable Date, our research and development team comprised 133 staff involved in our research and development activities.

MAJOR AWARDS AND CERTIFICATIONS

During the Track Record Period, we were granted the following major awards and certifications:

Award	Awarding Organization	Date of Issue
China Western Pipeline Project — Outstanding Supplier	China Petroleum Group (CNPC) West Pipeline Co., Ltd. (Pipeline Bureau Project Manager Department)	February 2008
Shandong Famous Brand	Shandong Province Famous Brand Strategy Promotion Committee, Shandong Bureau of Quality and Technical Supervision	December 2006
High Advanced Technologies Enterprise	Department of Science and Technology of Shandong Province	June 2006
West to East Pipeline Project Winning Supplier Certificate	PetroChina West-to-East Pipeline Branch	January 2006
Kenjyak-Atran and Kazakhstan-China Pipeline Projects — Excellent Steel Pipe Manufacturer	China Petroleum Technology & Development Corporation	July 2005

QUALITY CONTROL

We have adopted a comprehensive set of stringent quality control procedures at all stages of our production process to ensure product quality. Our quality control system ensures the compliance of our products with standards set by the API. We have been certified by the API to use the API monogram on certain of our products that fall within the scope of API's monogram program. API certification is renewable every three years upon satisfaction of premise inspections conducted by API representatives. Our quality control systems have been evaluated and certified by agencies such as the China Classification Society Quality Assurance Ltd. and UKAS and have received ISO9001:2000 certification.

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Raw Materials Quality Control

Each steel coil is supplied to us with a quality certificate containing an identification number and information on the specifications, weight and steel grade of the steel coil. We conduct sample testing on the steel coils that we receive to ensure that they meet our quality requirements for use in our production. Steel coil samples are subject to chemical analysis to determine the chemical composition and content of the sample. Our quality control team measures the dimensions of steel coil samples, checks for visible nonconformities and conducts a tensile test to ensure that the tensile strength of the steel coil meets customer requirements. In addition, we conduct ultrasound testing on each steel coil to ensure that the thickness of the steel coil conforms to stated specifications. If quality defects are discovered, the entire batch of steel coils may be returned to the relevant steel mill for replacement.

Product Quality Control

In addition to our quality control procedures, our SSAW pipes are also manufactured in accordance with API 5L specifications, which provide the leading industry standard for the manufacture of line pipes used for the transportation of oil and gas, among other liquids. We utilize a fleet of state-of-the-art equipment in our production process to conduct detailed testing processes to aid our quality control, including a JL-50000 DWTT machine; a ARL3460 vacuum direct-reading spectrum instrument; a WAW Y1000 servo universal material testing machine; a 2602N-2 sharp impact test machine; Seifert x-ray inspection systems; DR digital flat panel x-ray imaging systems; and digital auto-UT inspection systems. In addition, we are equipped with hydrostatic testing machines, which have the ability to test the internal pressure tolerance of pipes and to detect any leakage. We configure our testing equipment and instruments regularly to ensure the accuracy of our quality tests. We believe that these measures will ensure that our products meet API 5L specifications with respect to chemical composition, physical properties, dimension and appearance.

As of the Latest Practicable Date, we had a team of 154 quality control personnel equipped with advanced testing equipment. Our quality control procedures also require inspections at various stages of our production process and on finished products to ensure that our finished products conform to their intended specifications. We require our quality control personnel to have relevant educational qualifications or work experience in quality control management. In addition to on-the-job training, we conduct regular internal and external training sessions and administer annual assessments for our quality control team.

In addition to our internal inspections, our production process and products are also subject to periodic quality control inspections by government regulatory authorities and quality control teams retained by our customers.

INTELLECTUAL PROPERTY RIGHTS

We rely on a combination of patents, trademarks and contractual rights to protect our intellectual property rights. We also possess unregistered trade secrets, technologies, know-how, processes and other intellectual property rights. Our intellectual property rights are important to our businesses because our potential market share may be reduced by the appropriation of our intellectual property and subsequent application of our intellectual property for the manufacture and sale of similar

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products in the domestic market by our competitors in China. As of the Latest Practicable Date, we were in the process of registering our corporate logo as a trademark in Hong Kong and had obtained approval of registration of two patents in China for technologies used in our quality control process. Our Directors confirm that they were not aware of any impediment in the trademark application as of the Latest Practicable Date. The details of the two patents registered in China are set out in the table below:

<u>Name of Product</u>	<u>Classification</u>	<u>Patent No.</u>	<u>Date of Application</u>	<u>Date of Grant</u>
Lenticular guiding plate for SSAW pipes 螺旋縫埋弧管凹凸式導板	Utility model	ZL200820027559.3	5 September 2008	17 June 2009
Pipe with double beveled pipe end 帶有雙坡口管端的鋼管	Utility model	ZL200820027560.6	5 September 2008	17 June 2009

As of the Latest Practicable Date, we were not involved in any disputes or litigations for infringement of intellectual property rights, nor are we aware of any violation of the same.

OCCUPATIONAL HEALTH AND SAFETY

We are subject to the relevant PRC laws and regulations on occupational health and safety, including the Production Safety Law of the PRC, the Law of the PRC on Administrative Penalties for the Illegal Acts regarding Safe Production, the Regulations on Production Safety Permits and the Law of the PRC on the Prevention and Treatment of Occupational Diseases. We have established a safety production department to oversee our compliance with relevant laws, conduct regular safety performance reviews, identify safety risks, organize accident prevention and management training, issue internal safety procedures and policies and ensure our compliance with customer safety performance requirements.

Our safety procedures and policies were established to ensure that our working environment is safe for our employees. We implement and ensure that all of our employees are aware of our safety procedures and policies, which include guidelines for safety management, emergency situations and the proper operation of machinery. Our employees who are involved in production and quality control are required to attend internal training courses and take examinations on workplace safety.

We have received GB/T28001-2001 certification from the China Classification Society Quality Assurance Ltd. for our occupational health and safety management system. No serious work-related injuries or fatalities occurred at our production facilities during the Track Record Period. According to our PRC legal advisers, Tian Yuan Law Firm, we complied with all applicable health and safety laws and regulations during the Track Record Period and have not been subject to any material occupational health and safety claims, lawsuits, penalties or disciplinary actions as of the Latest Practicable Date.

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ENVIRONMENTAL MATTERS

Our operations are subject to various PRC laws and regulations concerning environmental protection. Although we do not operate in a highly-polluted industry and our production processes primarily involve technical processing and manufacturing, we believe that environmental compliance is important to our operations. Our operations are subject to, among other relevant environmental protection laws and regulations, the following: (i) the Environmental Protection Law; (ii) the Prevention and Control of Water Pollution Law; (iii) the Prevention and Control of Environmental Noise Pollution; (iv) the Prevention and Control of Atmospheric Pollution Law; (v) the Law of the PRC on Promoting Clean Production; (vi) the Prevention and Control of Solid Waste Pollution; and (vii) the Law of the PRC on Appraising the Environmental Impact, see “Regulations”. Under PRC law, we are not permitted to commence a construction project until we register or file an environmental impact assessment for the project and obtain approval from the relevant environmental authorities. We are also required to monitor the emission of waste water, polluted air, noise and other wastes to ensure full compliance with state and local regulations.

With regard to our operations, we are committed to strict and full compliance with the relevant PRC environmental protection requirements. We have received ISO14001:2004 certification for our environmental management system. We recognize that the environment may be negatively affected as a result of our operations and strive to reduce the adverse impact on the environment by using technologies to conserve and efficiently use resources in our production process. We recycle the waste water produced during our operations at all of our production facilities. In addition, the low levels of waste water, gas pollution, noise pollution and solid waste we generate during our production process, after internal processing, are all within the permitted levels.

According to our PRC legal advisers, Tian Yuan Law Firm, we complied with all applicable environmental laws and regulations during the Track Record Period and have not been subject to any material environmental claims, lawsuits, penalties or disciplinary actions as of the Latest Practicable Date.

REAL PROPERTIES

Our corporate headquarters and main production facilities are located in Zibo, Shandong Province. We carry out our operations in two other facilities in Rizhao and Dezhou, Shandong Province. We have obtained all of the ownership certificates for the land use rights and buildings on which our production facilities in Rizhao and Dezhou, Shandong Province are located, except for a warehousing facility with a GFA of approximately 5,486.00 m². We lease the land use rights and buildings on which our facilities in Zibo, Shandong Province are located.

Owned Property

We hold the land use rights to the land underlying our facilities located in Rizhao, Shandong Province. As of the Latest Practicable Date, the total site area of the parcel of land that we owned and for which we have valid land use right certificates was approximately 66,606.61 m². We are the registered owner of the building ownership certificates for four buildings thereon with a total GFA of approximately 18,829.77 m², which we use for production, office and multi-purpose uses. We have

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constructed a warehousing facility with a GFA of approximately 10,812 m², part of which is located on land that we own and for which we have a valid land use right certificate, while the remaining part of the warehousing facility with a GFA of approximately 5,486 m² is on land that we do not own. Therefore we do not have a proper building ownership certificate for the portion of the warehouse facility not located on our property. With respect to this portion of the warehouse facility not located on our property, governmental authorities may, in accordance with relevant PRC regulations, order us to demolish this portion of the warehouse facility within a prescribed period of time. If such demolition is not possible, the authorities may confiscate this portion of the warehouse facility or the illegal income derived from such portion of the warehouse facility and may impose on us a fine not exceeding 10% of the total construction cost of the portion of the warehouse facility, which is approximately RMB567,000. The Directors are of the view that this portion of the warehouse facility is not material to the Group's operations and there will not be any material impact on the operations of the Group if portion of the warehouse facility cannot continue to be used for its current purposes.

We also hold the land use rights to the land underlying our facilities located in Dezhou, Shandong Province. As of the Latest Practicable Date, the total site area of the parcel of land that we owned and for which we have valid land use right certificates was approximately 117,332.55 m². We are the registered owner of the building ownership certificates for ten buildings thereon with a total GFA of approximately 15,233.73 m², which we use for production, office and multi-purpose uses.

Leased Property

We lease the land use rights and buildings of our facilities in Zibo, Shandong Province, together with the right to use a railway track spanning 1,100 meters thereon, which links our facilities in Zibo with the Jiaoji Railway (running between Qingdao and Jinan, Shandong Province), from Shengli Steel Pipe. Such properties comprise three parcels of land with a total site area of approximately 193,412.78 m² and 16 buildings with a GFA of approximately 54,578.51 m². We initially leased such properties under a lease agreement dated 18 August 2008 for a term of five years commencing from 1 January 2008 at an annual rent of approximately RMB3.5 million. Pursuant to a new lease agreement dated 26 July 2009 between the parties, the annual rent was revised to RMB6.4 million per year for the first three years of the lease (exclusive of water, electricity and gas charges) to reflect prevailing market rates commencing from 1 January 2009 and the term of the tenancy was extended to 20 years commencing from 1 January 2009. We use these properties for production, office and storage purposes. Shengli Steel Pipe is the registered owner of the land use rights for the three parcels of land as well as all 16 buildings thereon. The lease agreement involving the land use rights and buildings of the Company's facilities in Zibo has been registered with the relevant property administration authority in Zibo, Shandong Province. Pursuant to our tenancy agreement, we have a pre-emptive right to acquire the land and buildings composing our facilities in Zibo from Shengli Steel Pipe, if a sale of any such land and buildings is contemplated.

For further details relating to the lease of the land and buildings located in Zibo, Shandong Province, see "Connected Transactions — Non-exempt Continuing Connected Transactions".

We have constructed a building with a GFA of 7,632.40 m² on one of the parcels of land owned by Shengli Steel Pipe. The building is without proper building ownership certificates and is used for the provision of anti-corrosion treatments for our SSAW pipes. With respect to this building,

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governmental authorities may, in accordance with relevant PRC regulations, order us to demolish the building within a prescribed period of time. If such demolition is not possible, the authorities may confiscate the building or the illegal income derived from such building and may impose on us a fine not exceeding 10% of the total construction cost of the building, which is approximately RMB600,000. The Directors are of the view that this building is not material to the Group's operations and there will not be any material impact on the operations of the Group if the building cannot continue to be used for its current purposes.

INSURANCE

We contribute to social welfare insurance for our full-time employees in accordance with the relevant PRC regulations, which includes pension benefits, medical insurance, unemployment insurance, work-related injury insurance and maternity insurance. We maintain all risk property insurance for our buildings and production facilities located in Zibo, Shandong Province, but do not maintain property insurance for our buildings and production facilities located in Rizhao and Dezhou, Shandong Province.

We do not maintain any other insurance coverage, including product liability insurance, business interruption insurance, and third party liability insurance for claims of personal injury or property damage arising from accidents relating to our operations. Such insurance policies are not mandatory according to the laws and regulations of the PRC and would impose additional costs on our operations, which would reduce our competitiveness. See "Risk Factors — Risks Related to Our Business and Industry — We have limited insurance coverage". As of the Latest Practicable Date, we have not been subject to any claims for product liability or any other litigation, nor have we experienced any material business interruptions.

We believe our current level of insurance coverage is adequate and in line with the practice of the steel pipe industry in China.

OFAC REGULATIONS

The U.S. Department of the Treasury's Office of Foreign Assets Control, or OFAC, administers certain laws and regulations, or U.S. Economic Sanctions Laws, that impose restrictions upon U.S. persons with respect to activities or transactions with certain countries, governments, entities and individuals that are the subjects of U.S. Economic Sanctions Laws, or Sanction Targets. We sell our products to customers in China with operations in various parts of the world, and our products have been exported and installed by our customers in certain countries that are Sanction Targets. During the Track Record Period, we did not engage in business with any countries that were Sanction Targets; however, we cannot assure you that we will not directly or indirectly generate revenue from activities or transactions with countries that are Sanction Targets in the future. Neither can we assure you that our products will not be installed in pipeline projects in countries that are subjects of U.S. Economic Sanctions Laws.

For the purpose of the foregoing paragraph, the term "U.S. Economic Sanctions Laws" includes all U.S. sanctions administered by OFAC, including but not limited to U.S. regulations codified in Chapter V of title 31, U.S. Code of Federal Regulations, all U.S. Executive orders, proclamations, and

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regulations issued under the 169 authority of the Trading with the Enemy Act, the International Emergency Economic Powers Act, the International Security and Development Cooperation Act, the Antiterrorism and Effective Death Penalty Act, the Cuban Liberty and Democratic Solidarity (Libertad) Act and the United Nations Participation Act, the aforementioned statutes themselves and all orders, licenses or rules issued under the authority of any of the foregoing.

We will not use any of the proceeds of the Global Offering to fund activities that a U.S. corporation would be prohibited from undertaking under sanctions administered by OFAC.

LEGAL PROCEEDINGS

The Company or its subsidiaries may from time to time be involved in litigation incidental to the conduct of their business. As of the Latest Practicable Date, to the best of our knowledge, we were not aware of any pending or threatened litigation, arbitration or administrative proceedings against the Company or its subsidiaries that could have a material adverse effect on our financial condition or results of operations.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

MANAGEMENT

Board of Directors

Our Board comprises three Executive Directors, three Non-Executive Directors, three Independent Non-Executive Directors and one alternate Director to our Non-Executive Director, Mr. Ling Yong Wah. We have entered into a service contract or an appointment letter (as the case may be) with each of our Directors.

DIRECTORS AND SENIOR MANAGEMENT

Information concerning our Directors and senior management is set forth below. Save as disclosed in this Prospectus, there are no other matters that need to be brought to the attention of the Shareholders of the Company in connection with our Directors' respective appointment and there is no other information relating to our Directors that should be disclosed pursuant to Rule 13.51(2) of the Hong Kong Listing Rules.

Executive Directors

Mr. Zhang Bizhuang, aged 42, is our Executive Director and chief executive officer. He was appointed to our Board on 3 July 2009 and is responsible for the overall management of our business operations. Mr. Zhang is currently the chairman and general manager of Shandong Shengli, and is responsible for the overall management of its business operations. He started his career in Shengli Oilfield Zibo Pipe (formerly Shengli Factory and Shengli Administration of Petroleum Steel Pipe Factory) from July 1990 to September 1996 as a technician, and was subsequently promoted to department head of technical supervision and then to department head of quality control inspection, where he was responsible for quality control management. Between July 1996 and June 2004, Mr. Zhang became the chairman and deputy manager, vice chairman and manager of Shengli Oilfield Zibo Pipe Co., Ltd., and was responsible for the management of its operations. From June 2004 to December 2008, he served as general manager of Shengli Steel Pipe and was responsible for its overall operational management.

From March 2004 to December 2008, he was the chairman of Shengli Steel Pipe, responsible for its overall management. From December 2008 to date, he has been the non-executive chairman of Shengli Steel Pipe, responsible for the management of major decisions in its operation. From December 2007 to December 2008, he was an executive director and general manager of Shandong Shengli. From December 2008 to date, he has been the chairman and general manager of Shandong Shengli and is responsible for its operation.

From April 2005 to December 2007, Mr. Zhang was the chairman of Rizhao Shengli. He was the chairman of Shandong Shengda Chemical Company Limited (山東勝達化工有限公司) ("Shengda Chemical") from July 2006 to December 2008, and was the chairman and director of Shengli Coating from January 2001 to December 2008. He graduated from Chongqing University with a bachelors degree in metallurgical and materials engineering in July 1990, and graduated from the Open University of Hong Kong with a masters degree in business administration in June 2004.

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Mr. Zhang was certified as a senior engineer in November 2000 by the Sinopec Group Shengli Petroleum Administrative Bureau, and obtained the Chinese Career Manager qualification from the Chinese Career Manager Coalition in July 2005. He was a member of the second annual China Petroleum Materials and Equipment on Export Network in September 1999. Mr. Zhang was awarded the Technological Improvement (Third Class) Award, in recognition of his efforts on the transformation in anti-corrosion (internal and external) coating lines, and the Technological Improvement (First Class) Award, in recognition of his contribution in the transformation of SSAW pipes equipment in the West-East Gas Pipeline Project, both by the Sinopec Group Shengli Petroleum Administrative Bureau in June 2003.

Mr. Wang Xu, aged 41, is our Executive Director and was appointed to our Board on 22 July 2009. He has been the deputy general manager of Shandong Shengli since December 2007 and is responsible for the management of sales and purchases. He has been the director of Shandong Shengli since December 2008. He started his career in Shengli Administration of Petroleum Steel Pipe Factory as a technician from July 1990 to March 1996. From March 1996 to December 2000, he worked in Shengli Oilfield Zibo Pipe Co., Ltd. and held positions as deputy officer of factory No. 1, deputy manager and manager of the supply and sales department. From December 2000 to June 2004, he held the position of deputy general manager in Shengli Oilfield Zibo Pipe Co., Ltd. and was responsible for sales and purchase. From June 2004 to December 2008, he was the deputy manager of Shengli Steel Pipe, responsible for the sales and purchases of Shengli Steel Pipe. Mr. Wang was a director of Shengli Steel Pipe from March 2004 to December 2008, and was a director of Shengda Chemical from July 2006 to December 2008. He was a director of Rizhao Shengli from April 2005 to December 2007. Mr. Wang graduated from Dalian University of Technology in July 1990 with a bachelors degree in mechanical engineering, and a master degree in business administration from the Open University of Hong Kong in June 2004. He was also certified as a senior engineer from the Sinopec Group Shengli Petroleum Administrative Bureau in December 2001. Mr. Wang was awarded, the Technological Improvement (First Class) Award, in recognition of his contribution in the transformation of the SSAW pipes equipment in the West-East Gas Pipeline Project by the Sinopec Group Shengli Petroleum Administrative Bureau in June 2003. In addition, he was also awarded the “Double Civilized Advanced Staff” title, in recognition of his outstanding achievements and work ethics by the Shengli Petroleum Administration Bureau in February 2004.

Ms. Han Aizhi, aged 42, is our Executive Director. She was appointed to our Board on 22 July 2009. She has been the deputy general manager of Shandong Shengli since December 2007, responsible for quality management, environmental issues and management of vocational health and safety systems. She has been a director of Shandong Shengli since December 2008. She started her career in Shengli Oilfield Zibo Pipe (formerly Shengli Factory and Shengli Administration of Petroleum Steel Pipe Factory) from July 1988 to December 1998, as a technician, quality supervisor and office secretary of the company successively. From December 1998 to June 2004, Ms. Han was employed by Shengli Oilfield Zibo Pipe Co., Ltd., and had held various positions such as head of the technology supervision division, head of the quality and technology management division and officer of the enterprise management department, and was responsible for quality management, enterprise management and human resources management. From July 2004 to December 2008, she was employed by Shengli Steel Pipe as, inter alia, the officer of the general manager’s office, general manager assistant, deputy general manager and management representative, and was responsible for quality management, environmental issues, management of vocational health and safety systems, enterprise

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management, financial management, human resources management, equity management as well as daily work involving shareholders' meetings and the board of directors. Ms. Han was a director of Rizhao Shengli from April 2005 to December 2007, and a director of Shengda Chemical between July 2006 and December 2008. She graduated from Chengde Petroleum College in July 1988 and was awarded a professional graduation certificate in welding technology, and graduated from the Party School of the Shandong Province Committee of CPC in December 2002 with a graduation certificate in economic management. Ms. Han had obtained a masters degree in business administration from the Open University of Hong Kong in June 2004. In addition, she was certified as an engineer by the Sinopec Group Shengli Petroleum Administrative Bureau in September 2000, and had obtained the PRC Quality Professional Technician Qualification (middle tier) Certificate from the Ministry of Personnel of the PRC General Administration of Quality Supervision, Inspection and Quarantine in December 2001. She was awarded a "Third Class Honor" of Shengli Oilfield by the Sinopec Group Shengli Petroleum Administrative Bureau and the Labor Union of Shengli Petroleum Administrative Bureau in recognition of her contribution towards the development of Sinopec Group Shengli Petroleum Administrative Bureau in November, 1990 and October 2003, respectively.

Non-Executive Directors

Mr. Yan Tangfeng, aged 39, is our Non-Executive Director and chairman and was appointed to our Board on 3 July 2009. He is also the managing director of CPE since 7 July 2008. He has been the chief executive officer of Sinolion Investment Pte. Ltd., responsible for the management of investments and overall management of business operations since September 2007. Mr. Yan started his career as a teacher and secretary of the faculty's Party Committee in Shandong University of Technology (which combined with Shandong University in 2001) between July 1994 and April 2003. From April 2003 to September 2007, Mr. Yan worked in ICH Capital Pte. Ltd. as vice president and was subsequently promoted to senior vice president, responsible for investment management. Mr. Yan is also an executive director of Sinolion Investment Holdings Limited since July 2007, and a director of China Albetter Technology Holdings Pte. Ltd. since August 2008. Mr. Yan graduated from Shandong University of Technology in July 1994 (combined with Shandong University in 2001) with a bachelors degree in engineering.

Mr. Teo Yi-Dar, aged 38, is our Non-Executive Director and was appointed to our Board on 22 July 2009. He is the investment director in SEAVI Advent Corporation Ltd. since October 1999, where he is responsible for the management of investment activities in China and South East Asia, with a focus in the electronics, chemical, engineering and technology segments. Mr. Teo started his career as an engineer in SGS-Thomson Microelectronics Pte. Ltd. from September 1996 to June 1997. Between July 1997 and June 1999, he was with Keppel Corporation Ltd. as its business development executive, where he was responsible for conducting business development activities for its engineering, marine and offshore oil & gas business segments. Mr. Teo is a director in numerous companies including companies listed in Singapore such as China Yuanbang Property Holdings Limited and Yangzijiang Shipbuilding (Holdings) Ltd. Mr. Teo graduated from the National University of Singapore ("NUS") with a bachelors degree in Engineering in July 1996, a Master of Science (Industrial & Systems Engineering) degree and a Master of Science (Applied Finance) degree in June 1998 and August 2000 from NUS, respectively. Mr. Teo obtained a chartered financial analyst accreditation by the CFA Institute in September 2001.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Ling Yong Wah, aged 43, is our Non-Executive Director and was appointed to our Board on 22 July 2009. He is the vice president in SEAVI Advent Corporation Ltd. since April 2000, and is responsible for identifying suitable companies for investments, executing investment transactions and monitoring portfolio companies. Mr. Ling started his career in United Overseas Bank Ltd. from October 1994 to September 1996 as an assistant manager, responsible for the execution of corporate finance transactions in the corporate finance department. Between September 1996 and March 2000, he was a business development manager for Econ International Ltd., responsible for identifying suitable companies for acquisition and corporate matters of the company. Mr. Ling is a non-executive director of China Sunshine Chemical Holdings Ltd. since March 2007, and an independent director of Frencken Group Limited and EDM I Limited since May 2005 and September 2003 respectively, all of which are companies listed in Singapore. Mr. Ling graduated from the Monash University with a bachelors degree in Economics in 1987, and is qualified as a chartered accountant from the Institute of Chartered Accountants in England and Wales since 1992.

Mr. Ong Kar Loon, aged 30, is the alternate Director to Ling Yong Wah and was appointed to our Board on 22 July 2009. He joined SEAVI Advent Corporation Ltd. in September 2005 and is currently an assistant vice president, where he is responsible for identifying suitable companies for investments, executing investment transactions and monitoring of portfolio companies. Mr. Ong started his career in Phillip Securities Pte. Ltd. between September 2003 to July 2004, as an executive, responsible for advising clients on equity investment products, and the research and analysis of Singapore and US equities market. Mr. Ong graduated from the Monash University in September 2003 with a bachelors degree of Business in Banking and Finance.

Independent Non-Executive Directors

Mr. Huo Chunyong, aged 43, is our Independent Non-Executive Director and was appointed to our Board on 22 July 2009. From June 1990 to date, he has been working in the Tubular Goods Research Center of CNPC (“TGRC”). He has been the deputy head of the TGRC since October 2002. Mr. Huo was admitted as a Ph.D. student from Xi’an Jiaotong University in 2005. Mr. Huo has significant experience in the research of petroleum pipes and he possesses the qualification of professor-grade senior engineer, as well as the qualifications of State Safety Assessor and State Registered Equipment Supervisor. He was awarded 12 technological advancement awards at provincial level and the “15th Sunyueqi Youth Technological Advancement Award”. He was elected the “Outstanding Youth in technological systems in Shanxi” in 2002. He is a committee member of the State Steel Standardization Technological Committee and Fundamental Technological Sub-committee, a member of Supervisory Technological Committee of China Equipment, Oil & Gas Pipe Professional Committee of the Chinese Petroleum Society and a member of the second session of the analysis and testing committee of the Chinese Society of Metals.

The Company considers that Mr. Huo’s independence under Rule 3.13 of the Hong Kong Listing Rules is not affected by the issue of the research report by Tubular Goods Research Center (“TGRC”) and in particular, based on the confirmations set out below, Mr. Huo does not have any material interest in any principal business activity of or is involved in any material business dealings with the Company, its holding company or their respective subsidiaries or with any connected persons of the Company. TGRC also does not have any interest in the principal business activity of or is involved in any material business dealings with the Company. The Company confirms that (i) TGRC is a

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business unit of China National Petroleum Corporation (“CNPC”), which is a state-owned enterprise and Mr. Huo does not directly or indirectly hold or control any equity interest in CNPC or TGRC, (ii) save as the issue of the research report, TGRC is not involved in any business dealings with the Company, (iii) save as being an independent non-executive director of the Company, Mr. Huo is not involved in any business dealings with the Company, and (iv) Mr. Huo is not involved in any aspect of the preparation of the research report by TGRC.

Mr. Guo Changyu, aged 60, is our Independent Non-Executive Director and was appointed to our Board on 22 July 2009. Mr. Guo is currently a committee member of Shandong Province Political Association, a leader of the third patrol team of China Petrochemical Corporation and the deputy head of the China Association of Labor Studies. Prior to 2000, Mr. Guo had served various positions in Shengli Oilfields and its subordinate units, including the director of the material supply department, the secretary of the Party Committee of Shengli Oilfields Administrative Bureau and deputy chief economist of Shengli Petroleum Administrative Bureau. From February 2000 to November 2004, Mr. Guo was a member of the standing committee to the Party Committee of Shengli Petroleum Administrative Bureau and its deputy head, vice mayor of Municipal Government of Dong Ying City of Shandong Province and the deputy secretary-general. From November 2004 to March 2007, he was the deputy secretary of CPC Party Committee and the deputy head of Shengli Petroleum Administrative Bureau as well as the vice municipal secretary of Dong Ying City. Since March 2007, he has been the secretary of CPC Party Committee, the deputy head of Shengli Petroleum Administrative Bureau as well as the vice municipal secretary of Dong Ying City. In January 2008, he was a committee member of the Provincial Political Association, secretary of CPC Party Committee and deputy head of Shengli Petroleum Administrative Bureau. Mr. Guo graduated from Dalian University of Technology in 2005 with a masters degree in business administration and he possesses the qualification of professor-grade senior economist. In 2005, he was awarded the title of “Outstanding expert in technology and management in China Petrochemical industry 2004”. In April 2008, he was awarded the national “First of May” labor medal.

The Company considers that Mr. Guo’s role as a leader of the third patrol team of China Petrochemical Corporation (“Sinopec”) does not affect his independence under Rule 3.13 of Hong Kong Listing Rules. Such patrol team is a team of officers in Sinopec with the administrative function for supervision and monitoring of, among others, human resources decision and anti-corruption measures in different departments in Sinopec and they are not involved in any actual business operation of Sinopec or any of its subsidiaries or subordinate business units. Mr. Guo, whether personally or through his role in Sinopec, does not have a material interest in any principal business activity of or in involved in any material business dealings with the Company, its holding company or their respective subsidiaries or with any connected person of the Company.

Ms. Wong Wing Yee, Jessie, aged 43, is an Independent Non-Executive Director and was appointed to our Board on 22 July 2009. Ms. Wong graduated from University of Southern California with a bachelor degree in Accountancy in 1988 and from University of Wolverhampton with a LLB degree in 1999. She is a member of the American Institute of Certified Public Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. She was the head of compliance of Guotai Junan Financial Holdings Limited from 2004 to 2007. Ms. Wong has also worked at Grand Cathay Securities (Hong Kong) Limited as their head of compliance from 2000 to

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2004, and has also worked with the Securities and Futures Commission as an assistant manager and a manager from 1993 to 2000, and with Ernst & Young in Hong Kong as an auditor. From 2007 to date, she has been an independent non-executive director of China Sunshine Paper Holdings Company Limited (stock code: 02002).

Senior Management

Mr. Wang Kunxian, aged 41, has been the deputy general manager of Shandong Shengli since December 2007 and is responsible for the technological development and quality control. He has been a director of Shandong Shengli since December 2008. He started his career in Shengli Administration of Petroleum Steel Pipe Factory from July 1990 to March 1996, as a technician and the head of technological team. He worked in Shengli Oilfield Zibo Pipe Co., Ltd. from March 1996 to June 2004 and was subsequently promoted to deputy chief engineer and deputy general manager, responsible for production management. From June 2004 to December 2008, he was the deputy general manager of Shengli Steel Pipe and was responsible for production management. From March 2004 to December 2008, Mr. Wang was a director of Shengli Steel Pipe. He was also a director and general manager of Rizhao Shengli from April 2005 to December 2007. Mr. Wang graduated from Chongqing University in July 1990 with a bachelors degree in metallurgical and materials engineering, and a masters degree in business administration from the Open University of Hong Kong in June 2004. Mr. Wang was certified as a senior engineer in December 2001 by the Sinopec Group Shengli Petroleum Administrative Bureau. He has been an editorial board member of the Steel Pipe Journal since January 2004, assisting in the review of articles from a technical perspective, as well as a member of the Welded Steel Pipe Committee of Steel Rolling Committee of The Chinese Society of Metals (中國金屬學會軋鋼分會) since March 2006.

Mr. Liu Yaohua, aged 38, has been the deputy general manager of Shandong Shengli since December 2007, responsible for production and technological management. He has been a director of Shandong Shengli since December 2008. He started his career in Shengli Oilfield Zibo Pipe Co., Ltd. (formerly Shengli Factory and Shengli Administration of Petroleum Steel Pipe Factory) from July 1995 to March 2004 as an inspection technician of the quality control office, and was subsequently promoted to the deputy head of quality control office, deputy officer of factory No. 1 and deputy officer of factory No. 2 and was the then officer of factory No.2, responsible for production process. From March 2004 to December 2008, Mr. Liu worked in Shengli Steel Pipe and held various positions such as officer of factory No. 2, general manager assistant and deputy general manager, and was responsible for the management of production process and organization of new projects. He was a director of Rizhao Shengli from April 2005 to December 2007, and was a director of Shengli Steel Pipe between March 2004 to December 2008. Mr. Liu graduated the North China Institute of Technology in July 1995 with a bachelors degree in detection technology and instrument & meter engineering, and had obtained a masters degree in business administration from the Open University of Hong Kong in June 2004. He was certified as a senior engineer by the Shandong Province Human Resources Department in January 2007. He was awarded with the Third Class Award by the Sinopec Group Shengli Petroleum Administrative Bureau in July 1998, in recognition of his contribution towards the development of the Sinopec Group Shengli Petroleum Administrative Bureau. In addition, he was presented with the “Double Civilized Advanced Staff” and “Civilized Advanced Staff” awards, both by the Sinopec Group Shengli Petroleum Administrative Bureau in February 2000 and February 2003, respectively.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Mr. Lee Pin Kwan, aged 33, is our chief financial officer and is responsible for the Group's financial and accounting functions, and overseeing the financial reporting, accounting functions and compliance requirements. He started off his career in Pioneer Management Services Pte. Ltd. from June 1998 to September 1999 as an assistant involved in accounting-related matters for clients. Between September 1999 and December 2000, Mr. Lee was an assistant associate in PricewaterhouseCoopers Services Pte. Ltd., responsible for the preparation of tax-related matters for high net worth clients. From January 2001 to June 2004, he was with Ernst and Young LLP as an audit senior, where he was responsible for the statutory audits of multinational companies. From June 2004 to September 2008, Mr. Lee was an assurance manager in PricewaterhouseCoopers LLP, where he was responsible for managing audits of multinational companies and listed companies. He has been the deputy chief financial officer of CPE on full-time basis since September 2008. He graduated from the Ngee Ann Polytechnic with a diploma in accountancy in 1998. Mr. Lee is a fellow of the Association of Chartered Certified Accountants since June 2007, and a non-practicing member of the Institute of Certified Public Accountants of Singapore since August 2008.

Ms. Zhao Hui, aged 38, has been the chief accountant of Shandong Shengli since December 2008. She is responsible for the financial management work of Shandong Shengli and reports the relevant work to the chief financial officer of the Company. Ms. Zhao was an accounting staff and responsible accountant of Shengli Steel Pipe (formerly Shengli Oilfield Zibo Pipe) from August 1991 to August 2007 and subsequently held the position of deputy chief accountant from August 2007 to December 2008, responsible for financial-related matters. She graduated from Daqing Petroleum Institute in July 1991 with a graduation certificate, and graduated from Shandong Economic Institute in December 1994 with a graduation certificate in materials accounting. Ms. Zhao obtained a masters degree in business administration from the Open University of Hong Kong in December 2004. She was awarded, inter alia, the "Bureau Level Advanced Staff in Civilization Development Award", in recognition of her outstanding performance in 2003 by the Shengli Petroleum Administration Bureau in January 2004.

None of our Executive Officers are related either by blood or by marriage to each other or by any other family relationship, or to any of our Directors or our Substantial Shareholders of the Company.

COMPANY SECRETARY

Mr. Lo Wah Wai, aged 46, joined the Group in September 2009 and is the secretary and authorized representative of the Company. He has more than 20 years of experience in auditing and business consulting services. He is currently an independent non-executive director of Sino-Tech International Holdings Limited (Stock Code: 724) and Chongqing Machinery & Electric Co., Ltd. (Stock Code: 2722). He received a bachelors degree in business administration from the Chinese University of Hong Kong in December 1986 and a masters degree in science in management from New Jersey Institute of Technology, the United States in October 1992. He is a member of the Hong Kong Institute of Certified Public Accountants and is a member of the American Institute of Certified Public Accountants.

Mr. Lo has confirmed to us that he would allocate sufficient time to us as our company secretary.

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

BOARD COMMITTEES

We have established the following three committees in our Board of Directors: an Audit Committee, a Nomination Committee and a Remuneration Committee.

Audit Committee

We established an Audit Committee on 21 November 2009 with written terms of reference in compliance with the Hong Kong Listing Rules. The primary duties of the Audit Committee are to review and supervise our financial reporting process. All members of the Audit Committee are appointed by the Board. The Audit Committee currently consists of three Directors, namely, Ms. Wong Wing Yee Jessie, Mr. Huo Chunyong and Mr. Teo Yi-Dar. Ms. Wong Wing Yee Jessie currently serves as the chairman of our Audit Committee.

Nomination Committee

We established a Nomination Committee on 21 November 2009. The primary functions of the Nomination Committee are to make recommendations to the Board regarding candidates to fill vacancies on the Board. The Nomination Committee consists of three members, comprising Mr. Zhang Bizhuang, Mr. Guo Changyu and Mr. Huo Chunyong. Mr. Zhang Bizhuang currently serves as the chairman of the Nomination Committee.

Remuneration Committee

We have established a Remuneration Committee on 21 November 2009 in compliance with the Hong Kong Listing Rules. The primary duties of the Remuneration Committee are to formulate the training and compensation policies and to determine and manage the compensation of our senior management. The Remuneration Committee currently consists of three Directors, namely, Mr. Yan Tangfeng, Ms. Wong Wing Yee Jessie and Mr. Huo Chunyong. Mr. Yan Tangfeng currently serves as the chairman of our Remuneration Committee.

COMPENSATION OF DIRECTORS AND SENIOR MANAGEMENT

Our Directors receive compensation in the form of salaries, bonuses, housing allowances and other benefits-in-kind, including our contribution to the pension plan on their behalf. The aggregate fees and compensation paid or payable to our Directors in 2008 and the six months ended 30 June 2009 were approximately RMB544,000 and RMB814,000, respectively. As required by PRC regulations, we participate in various defined contribution pension funds organized by provincial and municipal governments for our employees, including the employees who are also Directors and management personnel. The Group contributed RMB31,000 and RMB23,000 for our Directors for the year ended 31 December 2008 and the six months ended 30 June 2009, respectively. The aggregate amount of compensation we paid to our two highest paid individual employees among the five highest paid individual employees and who are not our Directors during the year ended 31 December 2008 and the

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

six months ended 30 June 2009 was approximately RMB257,000 and RMB362,000, respectively. Under the existing arrangements currently in force, the aggregate remuneration payable to and benefits-in-kind received by our Directors (including three Independent Non-Executive Directors) in respect of the year ending 31 December 2009 are estimated to be approximately RMB1.8 million.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. Details of the principal terms of our Share Option Scheme are summarized in the paragraphs headed “Statutory and General Information — F. Share Option Scheme” set out in Appendix VII to this Prospectus.

EMPLOYEES

The table below sets forth the number of our full-time employees as of the Latest Practicable Date:

Function	Number of employees
Management and administration	76
Production	439 ⁽¹⁾
Quality control	162 ⁽¹⁾
Technical and maintenance	131 ⁽¹⁾
Sales and marketing	38
Procurement	99
Total	945

(1) consisting of our staff with research and development function, in a total number of 133.

Our recruitment and retention policies consider a number of factors, including primarily current market conditions, business demands, and future capacity expansion, and our employees are selected through a competitive process.

We have implemented a number of initiatives in recent years to enhance the productivity of our employees. We conduct periodic performance reviews for all our employees, and salaries and bonuses of employees are performance-based. In addition, we have implemented training programs for different job requirements. Our Directors believe that these initiatives have contributed to increased employee productivity.

We have not experienced any strikes or other labor disputes that have interfered with our operations, and our Directors believe that our management has a good relationship with our employees.

The remuneration package for our employees generally includes salary and bonuses. Employees also receive welfare benefits including medical care, unemployment, occupational injury insurance

DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

and other miscellaneous items. As required by applicable regulations, we participate in various retirement plans organized by municipal and provincial governments for our employees. A member of the plan is entitled to the basic retirement pension. We have no other material obligations for the payment of pension benefits associated with these plans beyond the annual contributions described above.

We believe that the quality of our human resources, particularly our management and professional personnel, is critical to our ability to compete effectively. We aim to achieve and exceed international standards of performance excellence by adhering to international best practices for management processes and corporate governance. We also seek to continue to attract and retain highly skilled and experienced PRC and international management and engineering personnel through the continued implementation and refinement of our incentive bonus programs as well as through staff development programs, such as periodic in-house training.

COMPLIANCE ADVISER

We have appointed SBI E2-Capital (HK) Limited as our compliance adviser pursuant to Rule 3A.19 of the Hong Kong Listing Rules. Pursuant to Rule 3A.23 of the Hong Kong Listing Rules, the compliance adviser will advise us in the following circumstances:

- before the publication of any regulatory announcement, circular or financial report;
- where a transaction, which might be a notifiable or connected transaction, is contemplated, including share issues and share repurchases;
- where we propose to use the proceeds of the Global Offering in a manner different from that detailed in this Prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this Prospectus; and
- where the Hong Kong Stock Exchange makes an inquiry of us under Rule 13.10 of the Hong Kong Listing Rules.

The term of the appointment of SBI E2-Capital (HK) Limited shall commence on the Listing Date and end on the date on which we distribute our annual report in respect of our financial results for the first full financial year commencing after the Listing Date.

SUBSTANTIAL SHAREHOLDERS

Each of the following persons will, immediately following completion of the Global Offering, the Capitalization Issue and sale of Sale Shares (without taking into account the Shares which may be issued upon the exercise of the Over-allotment Option or Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme), have an interest or short position in Shares or underlying Shares which would be required to be disclosed to the Group and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“the SFO”), or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company and other member of the Group:

Long position in the Company:

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholding
Aceplus	Beneficial owner	1,445,064,000	60.211%
Mr. Yan Tangfeng ⁽¹⁾	Interest in a controlled corporation	1,445,064,000	60.211%
SEAVI Advent Equity V (A)	Beneficial owner	140,961,600	5.873%
SEAVI Advent Corporation Ltd. ⁽²⁾	Interest in a controlled corporation	140,961,600	5.873%

(1) Mr. Yan Tangfeng owns the entire issued share capital of Aceplus and is deemed under the SFO to be interested in such Shares.

(2) SEAVI Advent Equity V (A) is a special purpose vehicle for investment holding. Pursuant to a management agreement entered into between SEAVI Advent Corporation Ltd. (“SEAVI Advent Corporation”) and SEAVI Advent Equity V (A), SEAVI Advent Corporation has agreed to act as the investment manager of SEAVI Advent Equity V (A), in particular to make investment decision on behalf of SEAVI Advent Equity V (A). Under such agreement, when exercising the voting rights in general meetings of the relevant company in which SEAVI Advent Equity V (A) has invested, SEAVI Advent Corporation is empowered to make the voting decisions and to instruct the directors of SEAVI Advent Equity V (A) to vote accordingly. As a result, SEAVI Advent Corporation is deemed to be interested in all the Shares held by SEAVI Advent Equity V (A).

Save as disclosed herein, the Directors are not aware of any person who will, immediately following the Global Offering, the Capitalization Issue and sale of Sale Shares, have an interest or short position in Shares or underlying Shares which would be required to be disclosed to the Group and the Hong Kong Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, directly or indirectly, be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or other member of the Group.

SHARE CAPITAL

SHARE CAPITAL

The authorized and issued share capital of the Group is as follows:

Number of Shares comprised in the authorized share capital:

	HK\$
<u>5,000,000,000</u> Shares	<u>500,000,000</u>

Shares issued and to be issued, fully paid or credited as fully paid assuming the Over-allotment Option is not exercised and there will be no reallocation of Shares between the Hong Kong Public Offering and the International Offering:

	HK\$
200,000 Shares in issue at the date of this Prospectus	20,000
1,799,800,000 Shares to be issued under the Capitalization Issue (including 120,000,000 Sale Shares)	179,980,000
<u>600,000,000</u> Shares to be issued under the Global Offering	<u>60,000,000</u>
<u>2,400,000,000</u> Total	<u>240,000,000</u>

Shares issued and to be issued, fully paid or credited as fully paid assuming the Over-allotment Option is exercised in full and there will be no reallocation of Shares between the Hong Kong Public Offering and the International Offering:

	HK\$
200,000 Shares in issue at the date of this Prospectus	20,000
1,799,800,000 Shares to be issued under the Capitalization Issue (including 120,000,000 Sale Shares and 18,000,000 additional Sale Shares pursuant to the exercise of the Over-allotment Option)	179,980,000
600,000,000 Shares to be issued under the Global Offering	60,000,000
<u>90,000,000</u> Shares to be issued pursuant to the exercise of the Over-allotment Option	<u>9,000,000</u>
<u>2,490,000,000</u> Total	<u>249,000,000</u>

SHARE CAPITAL

This table assumes the Global Offering will become unconditional and the sale of Sale Shares and issue of Shares is made pursuant thereto. It takes no account of any Shares to be allotted and issued upon the exercise of any options which may be granted under the Share Option Scheme or any Shares which may fall to be allotted and issued or repurchased by the Group pursuant to the general mandates for the allotment and issue or repurchase of Shares referred to in the paragraphs headed “General Mandate To Issue New Shares” and “General Mandate to Repurchase Shares” below.

Save as disclosed in this Prospectus, no share or loan capital of the Group or any of our subsidiaries is under any option or is agreed conditionally or unconditionally to be put under any option.

Other than the Global Offering, we do not propose to carry out a public or private issue or to place securities simultaneously with the Global Offering or within the next six months. We have not approved any share issue plan other than the Global Offering and the exercise of options granted under the Share Option Scheme.

We have given certain undertakings in respect of the issuance of our Shares and other securities. See “Underwriting — Underwriting Arrangements and Expenses”.

RANKING

The Offer Shares will rank *pari passu* in all respects with all Shares now in issue or to be issued and will rank equally in all respects for all dividends or other distributions declared, made or paid on the Shares after the date of this Prospectus.

GENERAL MANDATE TO ISSUE NEW SHARES

A general unconditional mandate was given to the Directors to allot, issue and deal with otherwise than by way of rights issue or pursuant to the exercise of any options which may be granted under the Share Option Scheme, Shares with an aggregate nominal value not exceeding

- 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Global Offering (but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option); and
- the aggregate nominal amount of the share capital of the Company repurchased by the Company pursuant to the authority referred to in the paragraph headed “General Mandate to Repurchase Shares” below.

Such mandate shall expire:

- at the end of the next annual general meeting of the Company; or

SHARE CAPITAL

- at the end of the period within which the next annual general meeting of the Company is required by law or the Articles to be held; or
- when revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest.

Particulars of this general mandate are set forth under “A. Further Information About the Group — 4. Written resolutions of our Shareholders passed on 21 November 2009” in Appendix VII to this Prospectus.

GENERAL MANDATE TO REPURCHASE SHARES

A general unconditional mandate was given to the Directors authorizing the Company to purchase on the Hong Kong Stock Exchange, or on any other stock exchange on which the Shares may be listed and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose, Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal value of the share capital of the Company in issue immediately following completion of the Global Offering (but excluding any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option).

Repurchases shall be made in accordance with the Hong Kong Listing Rules. A summary of the relevant Hong Kong Listing Rules are set forth under “Statutory and General Information — A. Further Information About the Group — 5. Repurchase of our Shares” in Appendix VII to this Prospectus.

This mandate shall expire:

- at the end of the next annual general meeting of the Company; or
- at the end of the period within which the next annual general meeting of the Company is required by law or the Articles to be held; or
- when revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting,

whichever is the earliest.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

CONTROLLING SHAREHOLDERS

Immediately after completion of the Capitalization Issue, the Global Offering and sale of Sale Shares, our Controlling Shareholders will control the exercise of voting rights of more than 30% of the Shares eligible to vote in the general meeting of the Company (assuming the Over-allotment Option is not exercised). Mr. Yan, our Controlling Shareholder, is an investor to enterprises engaged in high-tech industry and other companies whose shares are listed on stock exchanges in Singapore and Germany, none of which is engaged in business which directly or indirectly competes with our business. Save and except for its respective interest in the Group, none of our Controlling Shareholders nor any of its respective associate had interests in any other companies which, as of the Latest Practicable Date, directly or indirectly held interest in a business that may, directly or indirectly, compete with our business.

NON-COMPETE UNDERTAKING

Our Controlling Shareholders have entered into the deed of non-competition in favor of the Group, pursuant to which our Controlling Shareholders have undertaken to the Group (for itself and for the benefit of our subsidiaries) that it or he would not, and would procure that its or his associates (except any members of the Group) would not, during the restricted period set out below, directly or indirectly, either on its or his own account or in conjunction with or on behalf of any person, firm or company, among other things, carry on, participate or be interested or engaged in or acquire or hold (in each case whether as a shareholder, partner, agent, employee or otherwise) any business which is or may be in competition with the business of any member of the Group from time to time (the “Restricted Business”).

Such non-competition undertaking does not apply to:

- (a) any interests in the shares of any member of the Group; or
- (b) interests in the shares of a company other than the Group which shares are listed on a recognized stock exchange provided that:
 - (i) any Restricted Business conducted or engaged in by such company (and assets relating thereto) accounts for less than 5% of that company’s consolidated turnover or consolidated assets, as shown in that company’s latest audited accounts; and
 - (ii) the total number of the shares held by our Controlling Shareholders and/or their respective associates in aggregate does not exceed 5% of the issued shares of that class of the company in question and such Controlling Shareholders and/or their respective associates are not entitled to appoint more than half of the directors of that company and at any time there should exist at least another shareholder of that company whose shareholdings in that company should be more than the total number of shares held by our Controlling Shareholders and their respective associates in aggregate.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

The “restricted period” stated in the deed of non-competition refers to the period during which (i) the Shares of the Group remain trading on the Hong Kong Stock Exchange; and (ii) in relation to our Controlling Shareholders, it or he or its or his associate holds an equity interest in the Group and (iii) the relevant Controlling Shareholders and their respective associates are jointly entitled to exercise or control the exercise of not less than 30% in aggregate of the voting power at general meetings of the Company and no longer the single largest shareholder of the Company.

DIRECTORS’ COMPETING BUSINESS

Our Executive Directors, Mr. Zhang and Ms. Han Aizhi, were the registered holders of 49.87% and 5.54% equity interests in the registered capital of Shengli Steel Pipe as of the Latest Practicable Date. Mr. Zhang and Ms. Han are holding such equity interests for himself/herself and on behalf of 315 and 35 employees, respectively, of Shengli Steel Pipe pursuant to agreements dated 18 June 2009. They were holding such equity interests on behalf of employees of Shengli Steel Pipe since 18 June 2004 pursuant to agreements dated 18 June 2004 which expired on 17 June 2009. Mr. Zhang and Ms. Han are beneficially interested in 1.19% and 0.34% equity interests in Shengli Steel Pipe. Mr. Wang Xu, also one of our Executive Directors, is beneficially interested in 0.91% equity interest in Shengli Steel Pipe. Shengli Steel Pipe owns equity interest in Shengli Coating which is a limited liability company established in the PRC on 14 June 2001 with the registered capital of RMB12 million. Shengli Coating’s entire registered capital was held as to 55% by China Petroleum Pipeline Coating Engineering Co., Ltd. (中油管道防腐工程有限公司) (“China Petroleum Pipeline Coating”), an Independent Third Party, and 45% by Shengli Steel Pipe. Shengli Coating is engaged in the provision of anti-corrosion treatments for steel pipes for oil and gas pipelines. According to the audited financial statements of Shengli Coating, for the three years ended 31 December 2006, 2007 and 2008, the turnover of Shengli Coating was approximately RMB10.2 million, RMB43.6 million, and RMB40.0 million, respectively, and it recorded net loss of approximately RMB0.7 million for the year ended 31 December 2006 and net profit of approximately RMB2.3 million, and RMB5.9 million for the two years ended 31 December 2007 and 2008, respectively. According to the management account of Shengli Coating, for the six months ended 30 June 2009, the turnover of Shengli Coating was approximately RMB2.7 million, and it recorded net loss of approximately RMB0.9 million.

Our Directors do not consider that Shengli Coating’s business competes directly or indirectly with the business of the Group because (i) such business is not in line with our Core Business, which is primarily the manufacture and sales of steel pipes and (ii) our anti-corrosion service is only carried out for internal processing of our steel pipes if certain customers request such services for their line pipes manufactured by us. We only commenced internal anti-corrosion treatments for our line pipes in August 2008 and we have no immediate plan to provide anti-corrosion treatments to any third parties on a stand-alone basis for line pipes not manufactured by us.

Shengli Steel Pipe also held 70% equity interest in Shengda Chemical which is engaged in the production of industrial-use chemicals. Shengda Chemical did not commence its business in 2007 and accordingly, Shengda Chemical did not have any revenue for the period from 1 January 2007 to 28 December 2007. The Directors consider the business of Shengda Chemical is not in direct or indirect competition with the business of the Group.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Shengli Steel Pipe is not engaged in any other business apart from holding the interests of Shengli Coating, Shengda Chemical and certain properties in Zibo, Shandong Province.

Save as disclosed above, each of our Executive Directors has confirmed to the Group that he or she is not engaged in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group. The terms of the service contracts for our Executive Directors will have relevant provisions to restrict them from participating in business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

CORPORATE GOVERNANCE MEASURES

The Group will adopt the following measures to manage the conflict of interests arising from any competing business and to safeguard the interests of our Shareholders:

- (i) our Independent Non-Executive Directors will review, on an annual basis, the compliance with the non-competition undertaking by our Controlling Shareholders under the deed of non-competition;
- (ii) our Controlling Shareholders undertake to provide all information requested by the Group which is necessary for the annual review by our Independent Non-Executive Directors and the enforcement of the deed of non-competition;
- (iii) the Group will disclose decisions on matters reviewed by our Independent Non-Executive Directors relating to compliance and enforcement of the non-competition undertaking of our Controlling Shareholders under the deed of non-competition in the annual reports of the Group; and
- (iv) our Controlling Shareholders will make an annual declaration on compliance with their undertaking under the deed of non-competition in the annual report of the Group.

INDEPENDENCE FROM OUR CONTROLLING SHAREHOLDERS

Having considered the matters described above and the following factors, we believe that the Group is capable of carrying on its business independently of our Controlling Shareholders and their respective associates after the Global Offering:

Management Independence

Our Board comprises three Executive Directors, three Non-Executive Directors (with an additional alternate Director) and three Independent Non-Executive Directors. Our Controlling Shareholder, Mr. Yan, is our Non-Executive Director and chairman.

RELATIONSHIP WITH THE CONTROLLING SHAREHOLDERS

Save as disclosed above, no other Controlling Shareholders holds any directorship in the Group.

Each of our Directors is aware of his or her fiduciary duties as a Director of the Group which require, among other things, that he or she acts for the benefit and in the best interests of the Group and does not allow any conflict between his or her duties as a Director and his or her personal interest. In the event that there is a potential conflict of interest arising out of any transaction to be entered into between the Group and our Directors or their respective associates, the interested Director(s) shall abstain from voting at the relevant Board meetings of the Group in respect of such transactions and shall not be counted in the quorum. In addition, we have an independent senior management team to carry out the business decisions of the Group.

Having considered the above factors, our Directors are satisfied that they are able to perform their roles in the Group independently, and our Directors are of the view that we are capable of managing our business independently from our Controlling Shareholders after the Global Offering.

Operational Independence

We have established our own set of organizational structure made up of individual departments, each with specific areas of responsibilities. The Group has independent access to sources of supplies or raw materials for production as well as customers. We have also established a set of internal controls to facilitate the effective operation of our business.

Financial Independence

The Group has an independent financial system and makes financial decisions according to our own business needs. Our Directors confirm that, as of the Latest Practicable Date, we do not have any outstanding loans or guarantees provided by our Controlling Shareholders. Therefore, we are not financially dependent on our Controlling Shareholders.

CONNECTED TRANSACTIONS

Members of the Group have entered into transactions with parties who are connected persons of the Company and the transactions will continue after the Listing, thereby constituting continuing connected transactions of the Company under the Hong Kong Listing Rules.

EXEMPTED CONTINUING CONNECTED TRANSACTION

The following connected transaction will constitute exempted continuing connected transaction for the Group under Rule 14A.33(3) of the Hong Kong Listing Rules and accordingly, will be exempted from the reporting, announcement and independent shareholders' approval requirements stipulated under the Hong Kong Listing Rules. The use of office by CPE described below was undertaken on an arms-length basis and on normal commercial terms or terms more favorable to our Group and the percentage ratios (other than the profit ratio) of the lease on an annual basis is less than 0.1% or, if more than 0.1%, is less than 2.5% and the annual consideration is less than HK\$1.0 million.

The relevant connected person is Sinolion Investment Pte. Ltd. ("Sinolion Investment"), a limited liability company incorporated in Singapore on 6 June 2007. As of the Latest Practicable Date, its issued share capital was entirely held by Ms. Yang Chun, the spouse of Mr. Yan, our Controlling Shareholder and Non-Executive Director. Accordingly, Sinolion Investment is an Associate of Mr. Yan and a connected person of the Company.

Use of Office by CPE

On 2 November 2009, Sinolion Investment granted CPE the right to use free of charge the premise situated at 24-01A, Fuji Xerox Towers 80 Anson Road, Singapore 079907 as its registered office.

Pursuant to the grant letter, CPE shall endeavor to comply in all aspects with the lease agreement between the landlord and Sinolion Investment, and use the premise and the furniture located therein in good faith. In case of notice of termination of the grant given by Sinolion Investment, a period of three months' notice applies.

As it was granted for free by Sinolion Investment, no rent was paid by CPE to Sinolion Investment during the Track Record Period.

NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS

The relevant connected person, with whom a member of the Group has entered into non-exempt continuing connected transaction, is as follows:

Shengli Steel Pipe: Shengli Steel Pipe (formerly Shengli Oilfield Zibo Pipe) is a limited liability company incorporated in the PRC on 4 January 1996. As of the Latest Practicable Date, its registered capital was held as to 49.87% by Mr. Zhang (for himself as to 1.19% and the rest on behalf of 315 employees of Shengli Steel Pipe). As Mr. Zhang is entitled to control the exercise of more than 30% voting power in Shengli Steel Pipe's general meeting, Shengli Steel Pipe is an Associate of Mr. Zhang and a connected person of the Company.

CONNECTED TRANSACTIONS

Shengli Coating, in which Shengli Steel Pipe has a 45% interest, is not a connected person of Mr. Zhang because (i) Shengli Coating is not an Associate of Mr. Zhang for the purposes of the Hong Kong Listing Rules; and (ii) although Mr. Zhang and Ms. Han Aizhi in aggregate has 55.41% majority interest (as to 49.87% by Mr. Zhang and as to 5.54% by Ms. Han Aizhi) in Shengli Steel Pipe, their interests should not be aggregated to determine Shengli Coating as an associate of Shengli Steel Pipe as the respective equity interest of each of Mr. Zhang and Ms. Han Aizhi in Shengli Steel Pipe is held by them for himself/herself and as trustees for their respective fellow employees of Shengli Steel Pipe. Mr. Zhang is holding the 49.87% interest for himself and on behalf of 315 other employees whereas Ms Han Aizhi is holding her 5.54% interest for herself and on behalf of 35 other employees. The interests they represent are diversified and should not be aggregated.

Set out below are the terms of the continuing connected transaction which are subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules.

Lease of Land and Buildings from Shengli Steel Pipe

Zibo facilities

Nature of transaction

Shandong Shengli, a member of the Group, has been leasing land and buildings in Zibo, Shandong Province (the “Zibo Properties”) from Shengli Steel Pipe since 1 January 2008 for its manufacturing facilities. The Zibo Properties comprise three parcels of land with a total site area of approximately 193,412.78 m², 16 buildings with a GFA of approximately 54,578.51 m² and a railway. Shandong Shengli initially leased the Zibo Properties from Shengli Steel Pipe for an annual rent of approximately RMB3.5 million. Pursuant to a lease agreement dated 26 July 2009 between the parties, the annual rent, based on independent valuation, was revised to RMB6.4 million per year (exclusive of water, electricity and gas charges) commencing from 1 January 2009. For the year ended 31 December 2008, Shandong Shengli paid rental of approximately RMB3.5 million to Shengli Steel Pipe for the lease of the Zibo Properties on normal commercial terms and with reference to the then market rent of similar properties.

The Zibo Properties leased by Shandong Shengli from Shengli Steel Pipe include a railway which was used by Shandong Shengli to transport raw materials for its manufacturing of line pipes and its line pipe products from its production facilities to other destinations required by its customers. The Company has been advised by its PRC legal advisers, Tian Yuan Law Firm, that the lease of railway from Shengli Steel Pipe to Shandong Shengli is not subject to any governmental approval.

Major terms

On 26 July 2009, Shengli Steel Pipe entered into a lease agreement with Shandong Shengli whereby Shengli Steel Pipe agreed to lease to Shandong Shengli the Zibo Properties for a term of 20 years commencing from 1 January 2009 to 31 December 2028 renewable at the option of Shandong Shengli. The annual rent for the initial three-year from 1 January 2009 to 31 December 2011 during the term of the lease is RMB6.4 million and the parties will then determine the new annual rental for

CONNECTED TRANSACTIONS

the next three-year period based on the opinion of an independent valuer. Such review and adjustment of annual rent will be conducted at three-year interval during the term of the lease and the Company will comply with the applicable provisions of Chapter 14A of the Hong Kong Listing Rules after each of such review and adjustment of annual rent.

Our Directors (including the Independent Non-Executive Directors) and the Sponsor consider a term of 20 years for the lease of the Zibo Properties is consistent with normal business practice for contracts of this type and is to the benefit of the Group because relocation of the Group's manufacturing facilities at the Zibo Properties to other premises would have impact on the Group's operations. As the Group has the right to terminate the lease with three-month notice anytime during the term and there is the rental review arrangement set out above, the Directors consider a term of 20 years of the lease provide guarantee on continuity of premises to house the Group's manufacturing facilities while providing flexibility to the Group in terms of renting the Zibo Properties at market rate and relocation in case a more suitable location is available.

Additionally, a first right of refusal was granted by Shengli Steel Pipe to Shandong Shengli with respect to any proposed sale of the Zibo Properties.

Reason for the transaction

The Zibo Properties house the SSAW pipe manufacturing facilities of Shengli Steel Pipe in Zibo, Shandong Province prior to their acquisition by Shandong Shengli. Shandong Shengli acquired the SSAW pipe related assets from Shengli Steel Pipe in December 2007. The Directors consider it is to the benefit of the Group to continue the lease of such land and buildings from Shengli Steel Pipe for its manufacturing facilities in Zibo, Shandong Province instead of acquiring new land and buildings for its manufacturing facilities which would require substantial capital expenditures and interference to its production arrangement.

Our Directors estimate that the annual rental under the lease with Shengli Steel Pipe for the Zibo Properties will not exceed the following annual caps for the three years ending 31 December 2009, 2010 and 2011:

Annual Caps		
For the year ending 31 December		
2009	2010	2011
(RMB in million)		
6.4	6.4	6.4

The aforesaid annual caps have been determined based on the annual rental payable under the lease agreement with Shengli Steel Pipe.

The annual rental is determined at the prevailing market rent of similar premises in the area. Jones Lang LaSalle Sallmanns Limited, an independent property valuer, has confirmed that the annual rental payable under the lease agreement of the Zibo Properties with Shengli Steel Pipe is comparable

CONNECTED TRANSACTIONS

to the prevailing market rate and is fair and reasonable. Our Directors, including the Independent Non-Executive Directors, consider that (i) the lease agreement of the Zibo Properties is carried out in the ordinary and usual course of business, on normal commercial terms that are fair and reasonable or on terms which are more favorable to our Group and in the interests of our Shareholders as a whole; (ii) the proposed annual caps for the lease of the Zibo Properties are fair and reasonable and in the interests of our Shareholders as a whole.

APPLICATION FOR WAIVER FOR NON-EXEMPT CONTINUING CONNECTED TRANSACTION

Each of the applicable percentage ratios of the continuing connected transaction with Shengli Steel Pipe, namely the lease of the Zibo Properties, is on an annual and aggregate basis, expected to be less than 2.5% under Rule 14A.34 of the Hong Kong Listing Rules. Therefore such transaction is exempt from the independent shareholders' approval requirements but is subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Hong Kong Listing Rules.

As the Non-exempt Continuing Connected Transaction will continue after the Listing on a recurring basis, our Directors consider that strict compliance with the announcement requirement under the Hong Kong Listing Rules would be unduly burdensome and impractical.

Accordingly, we have applied for, and have received from, the Hong Kong Stock Exchange a waiver from strict compliance with the announcement requirement set out in Chapter 14A.47 of the Hong Kong Listing Rules for the Non-exempt Continuing Connected Transaction.

In respect of Rules 14A.35(2), the maximum aggregate annual cap for the Non-exempt Continuing Connected Transaction shall not exceed the applicable limited set out below:

Transactions	Proposed Annual Cap for the year ending 31 December		
	2009	2010	2011
	(RMB in million)		
Lease with Shengli Steel Pipe for the Zibo Properties	6.4	6.4	6.4

The Group confirms that the Group will comply with the requirements set out in Chapter 14A of the Hong Kong Listing Rules, including Rules 14A.35(1), 14A.35(2), 14A.36 to 14A.40 and 14A.45 in relation to the above continuing connected transaction and that the maximum aggregate annual values of the continuing connected transaction with Shengli Steel Pipe for the three years ending 31 December 2009, 2010 and 2011 are not expected to exceed the annual caps, and will re-comply with Rules 14A.35(3) and (4) of the Hong Kong Listing Rules if any of the respective annual caps set out above are exceeded, or when the relevant agreement is renewed or when there is a material change to the terms of the relevant agreement. The Company will ensure compliance with provisions under Chapter 14A of the Hong Kong Listing Rules following expiry of the three financial years ending 31 December 2011.

CONNECTED TRANSACTIONS

CONFIRMATION FROM THE SPONSOR

The Sponsor is of the view that (i) the Non-exempt Continuing Connected Transaction for which waiver is sought has been entered into in the ordinary and usual course of business of the Group on normal commercial terms that are fair and reasonable or on terms which are more favorable to the Group and in the interests of our Shareholders as a whole; and (ii) the proposed annual caps for the Non-exempt Continuing Connected Transaction are fair and reasonable and in the interest of our Shareholders as a whole.

FINANCIAL INFORMATION

The following discussion should be read in conjunction with the financial information included in “Appendix IA — Accountants’ Report of the Group” and “Appendix IB — Accountants’ Report of Shengli Steel Pipe” and the notes thereto and the selected financial information and operating data included elsewhere in this Prospectus. The Accountants’ Reports have been prepared in accordance with IFRS.

SELECTED FINANCIAL INFORMATION

The selected (i) comprehensive income statement information and cash flow information for the two months ended 31 December 2007, the year ended 31 December 2008 and the six months ended 30 June 2008 and 2009 and (ii) statement of financial position information as of 31 December 2007 and 2008 and 30 June 2009 set forth below are derived from the Accountants’ Report of the Group included in Appendix IA to this Prospectus. The selected (i) comprehensive income statement information and cash flow information for the year ended 31 December 2006 and the period from 1 January 2007 to 28 December 2007 and (ii) statement of financial position information as of 31 December 2006 and 28 December 2007 set forth below are derived from the Accountants’ Reports of Shengli Steel Pipe included in Appendix IB to this Prospectus. The selected financial information for each of the Group and Shengli Steel Pipe has been prepared in accordance with IFRS and is qualified in its entirety by reference to such Accountants’ Reports, including the notes thereto, and should be read in conjunction with them and with “ — Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in this section. Financial information for the foregoing periods may not be comparable to financial information for subsequent periods.

Selected Comprehensive Income Statement Information

The Group

The table below sets forth the comprehensive income statement information of the Group for the two months ended 31 December 2007, the year ended 31 December 2008 and the six months ended 30 June 2008 and 2009:

	Two months ended 31 December 2007⁽¹⁾	Year ended 31 December 2008⁽¹⁾	Six months ended 30 June 2008	Six months ended 30 June 2009
	(RMB’000)	(RMB’000)	(RMB’000) (unaudited)	(RMB’000)
Revenue	—	1,070,747	493,490	1,813,199
Cost of sales	—	(935,241)	(413,719)	(1,667,739)
Gross profit	—	135,506	79,771	145,460
Other income	141	36,141	18,397	19,130
Selling and distribution expenses	—	(6,020)	(2,416)	(5,849)
Administrative expenses	(12)	(16,830)	(7,611)	(12,586)
Finance costs	—	—	—	(1,275)
Profit before taxation	129	148,797	88,141	144,880
Income tax expenses	—	—	—	—
Profit for the period/year and total comprehensive income for the period/year	<u>129</u>	<u>148,797</u>	<u>88,141</u>	<u>144,880</u>

(1) These periods are not consistent in length; therefore, the financial information for each period is not comparable to that of the other. The financial information of the Group was prepared for the periods/year beginning or subsequent to 1 November 2007, being the incorporation date of our indirectly wholly owned subsidiary, CPE.

FINANCIAL INFORMATION

Shengli Steel Pipe

The table below sets forth the consolidated comprehensive income statement information of Shengli Steel Pipe and its subsidiaries attributable to the equity holders and minority interests of Shengli Steel Pipe for the year ended 31 December 2006 and for the period from 1 January to 28 December 2007:

	Year ended 31 December 2006			Period from 1 January to 28 December 2007 ⁽¹⁾		
	Core Business	Non-core Business	Total	Core Business	Non-core Business	Total
	(RMB'000)					
Revenue	91,116	1,232	92,348	237,544	—	237,544
Cost of sales	(60,275)	(1,106)	(61,381)	(154,687)	—	(154,687)
Gross profit	30,841	126	30,967	82,857	—	82,857
Other income	3,438	—	3,438	9,678	—	9,678
Other losses	(2)	(351)	(353)	—	—	—
Selling and distribution expenses	(3,084)	(110)	(3,194)	(11,963)	—	(11,963)
Administrative expenses	(21,176)	(65)	(21,241)	(16,164)	(7,232) ⁽²⁾	(23,396)
Finance costs	(34)	—	(34)	(3,985)	—	(3,985)
Share of results of associates	—	(559)	(559)	—	(443)	(443)
Profit (loss) before taxation	9,983	(959)	9,024	60,423	(7,675)	52,748
Income tax expenses	—	(25)	(25)	(26,338)	—	(26,338)
Profit (loss) for the year/period and total comprehensive income for the year/period	<u>9,983</u>	<u>(984)</u>	<u>8,999</u>	<u>34,085</u>	<u>(7,675)</u>	<u>26,410</u>

- (1) Shengli Steel Pipe sold substantially all assets and liabilities related to its Core Business to the Group in two transactions, the first of which became effective on 29 December 2007. However, the operating results of the Core Business during the last three days of 2007 are included in the period from 1 January to 28 December 2007 because the amounts were deemed not material to the Group's financial results for the period.
- (2) The administrative expenses of Shengli Steel Pipe's Non-core Business for the period from 1 January 2007 to 28 December 2007 mainly consisted of the organization costs of its subsidiary, Shengda Chemical, which did not commence business until after 2007.

FINANCIAL INFORMATION

Selected Statement of Financial Position Information

The Group

The table below sets forth statement of financial position information of the Group as of 31 December 2007 and 2008 and as of 30 June 2009:

	As of 31 December		As of 30 June
	2007	2008	2009
	(RMB'000)		
Non-current assets	124,839	229,512	228,747
Current assets	<u>102,987</u>	<u>1,074,739</u>	<u>826,529</u>
Current liabilities	227,222	1,154,850	760,995
Net current assets (liabilities)	<u>(124,235)</u>	<u>(80,111)</u>	<u>65,534</u>
Total assets less current liabilities	<u>604</u>	<u>149,401</u>	<u>294,281</u>
Total equity	129	148,926	293,806
Non-current liabilities	<u>475</u>	<u>475</u>	<u>475</u>
Total equity and non-current liabilities	<u>604</u>	<u>149,401</u>	<u>294,281</u>

Shengli Steel Pipe

The table below sets forth statement of financial position information of the Core Business of Shengli Steel Pipe, on a consolidated basis, as of 31 December 2006 and as of 28 December 2007:

	As of 31 December 2006	As of 28 December 2007
		(RMB'000)
Non-current Assets	117,371	151,304
Current assets	<u>157,781</u>	<u>206,167</u>
Current liabilities	<u>62,535</u>	<u>174,149</u>
Net current assets	<u>95,246</u>	<u>32,018</u>
Total assets less current liabilities	<u>212,617</u>	<u>183,322</u>

FINANCIAL INFORMATION

Selected Cash Flow Information

The Group

The table below sets forth cash flow information of the Group for the two months ended 31 December 2007, the year ended 31 December 2008 and the six months ended 30 June 2008 and 2009:

	Two months ended 31 December 2007⁽¹⁾	Year ended 31 December 2008⁽¹⁾	Six months ended 30 June 2008	Six months ended 30 June 2009
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
			(unaudited)	
Cash and cash equivalents at beginning of the period/year	<u>—</u>	<u>926</u>	<u>926</u>	<u>80,796</u>
Net cash from/(used in) operating activities	23	(15,687)	(647)	73,988
Net cash from/(used in) investing activities	903	(222,564)	(49,548)	(11,599)
Net cash from/(used in) financing activities	—	318,121	59,920	(64,807)
Net increase/(decrease) in cash and cash equivalents	<u>926</u>	<u>79,870</u>	<u>9,725</u>	<u>(2,418)</u>
Cash and cash equivalents at end of the period/year	<u><u>926</u></u>	<u><u>80,796</u></u>	<u><u>10,651</u></u>	<u><u>78,378</u></u>

(1) These periods are not consistent in length; therefore, the financial information for each period is not comparable to that of the other. The financial information of the Group was prepared for the periods/year beginning or subsequent to 1 November 2007, being the incorporation date of our indirectly wholly owned subsidiary, CPE.

FINANCIAL INFORMATION

Shengli Steel Pipe

The table below sets forth cash flow information of Shengli Steel Pipe and its subsidiaries, on a consolidated basis, for the year ended 31 December 2006 and for the period from 1 January to 28 December 2007:

	Year ended 31 December 2006	Period from 1 January to 28 December 2007 ⁽¹⁾
	(RMB'000)	
Cash and cash equivalents at beginning of the year/period	31,784	28,002
Net cash from/(used in) operating activities	30,052	(6,389)
Net cash used in investing activities	(39,534)	(34,338)
Net cash from financing activities	5,700	37,255
Net decrease in cash and cash equivalents	(3,782)	(3,472)
Cash and cash equivalents at end of the year/period	<u>28,002</u>	<u>24,530</u>

(1) The operating results of Shengli Steel Pipe and its subsidiaries during the last three days of 2007 are included in the period from 1 January to 28 December 2007 because the amounts were deemed not material to the financial results of this period.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis contains certain forward-looking statements that reflect our current views with respect to future events and financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether the actual outcome and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. See "Risk Factors" and "Forward-looking Statements".

Overview

We divide our operations into two business segments: SSAW pipe operations; and cold-formed section steel operations.

These two business segments are collectively referred to as the "Core Business" throughout this Prospectus and the Accountants' Reports. The Core Business is presented as a discontinued operation in the Accountants' Report of Shengli Steel Pipe included as Appendix IB to this Prospectus.

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SSAW pipe operations

We are one of the largest oil and gas line pipe manufacturers in China. We have seven SSAW pipe production lines that have a collective annual production capacity for 540,000 tonnes of oil and gas line pipes. In 2008 and the first half of 2009, we held approximately 17% and 22%, respectively, of the market for oil and gas SSAW pipes in China. We focus on the design, manufacture, value-added processing and servicing of SSAW pipes. We are the only privately owned SSAW pipe supplier among the few approved suppliers to the major oil and gas companies in China. Our SSAW pipes have been installed in pipeline projects within China, transnational pipeline projects as well as pipeline projects in Central Asia and Africa. As of the Latest Practicable Date, our SSAW pipes formed approximately 15,000 km of the world's major oil and gas pipelines.

The Group commenced its SSAW pipe operations on 31 December 2007 following its acquisition of Shengli Steel Pipe's Core Business through CPE. Prior to 31 December 2007, our SSAW pipe operations were conducted by Shengli Steel Pipe as its Core Business.

Cold-formed section steel operations

In addition to SSAW pipes, we utilize our steel piping and welding technologies and facilities to produce a wide variety of cold-formed section steel. Our cold-formed section steel is an important construction and industrial material for the construction of steel structure buildings and the manufacture of freight containers and heavy-duty trucks.

The Group commenced its cold-formed section steel operations on 29 December 2007 following its acquisition of Shandong Shengli, formerly known as Rizhao Shengli, through CPE. Prior to the acquisition, our cold-formed section steel operations were conducted by Rizhao Shengli, which was a subsidiary controlled by Shengli Steel Pipe.

Summary of results of operations

We experienced significant revenue and profit growth during the Track Record Period from our operations. For the year ended 31 December 2008 and the six months ended 30 June 2009, the Group generated revenue of RMB1,070.7 million and RMB1,813.2 million, respectively. For the year ended 31 December 2006 and the period from 1 January to 28 December 2007, Shengli Steel Pipe's Core Business generated revenue of RMB91.1 million and RMB237.5 million, respectively. The Group's net profit for the year ended 31 December 2008 and the six months ended 30 June 2009 was RMB148.8 million and RMB144.9 million, respectively. The net profit of Shengli Steel Pipe's Core Business for the year ended 31 December 2006 and the period from 1 January to 28 December 2007 was RMB10.0 million and RMB34.1 million, respectively.

FINANCIAL INFORMATION

Basis of Presentation

In preparation for the Global Offering, the Company was incorporated in the Cayman Islands on 3 July 2009. Pursuant to our corporate reorganization, the Company became the ultimate holding company of CPE, a company incorporated in Singapore that wholly owns Shandong Shengli, our key operating subsidiary in China. See “History and Corporate Structure” and “Appendix VII — Statutory and General Information” for a description of the Reorganization.

CPE completed the acquisition of Shandong Shengli and took over the cold-formed section steel business of Shandong Shengli on 29 December 2007. As this acquisition was recognized using the purchase method of accounting, the financial information for Shandong Shengli for the year ended 31 December 2006 and the period from 1 January to 28 December 2007 cannot be included in the Accountants’ Report of the Group for the period from 1 November 2007 to 30 June 2009. Thus, we have set out the financial information of Shengli Steel Pipe for the year ended 31 December 2006 and the period from 1 January 2007 to 28 December 2007 in a separate accountants’ report included as Appendix IB - Accountants’ Report of Shengli Steel Pipe to this Prospectus. Accordingly, the financial information of Shengli Steel Pipe for the period from 1 January 2006 to 28 December 2007 (the date prior to Shengli Steel Pipe’s sale of its equity interest in Shandong Shengli to CPE) and the financial information of the Group for the period from 1 November 2007 (the date of the incorporation of CPE) to 30 June 2009 have been presented separately.

After Shandong Shengli was acquired by CPE, Shandong Shengli, in turn, acquired certain assets and liabilities related to the SSAW pipe operations of Shengli Steel Pipe on 31 December 2007. Following these acquisitions, the Group assumed substantially all the Core Business of Shengli Steel Pipe, which collectively constitute our two business segments. Because a substantial majority of our current operations consists of the Core Business acquired from Shengli Steel Pipe, we include the accountants’ report of Shengli Steel Pipe for the year ended 31 December 2006 and the period from 1 January to 28 December 2007 as Appendix IB to this Prospectus.

The Company is an investment holding company and the ultimate holding company of Shandong Shengli. Throughout the Track Record Period, the major operating entities and the management of the Group, Shandong Shengli and Shengli Steel Pipe remained substantially the same. In addition, the Group and Shengli Steel Pipe as a group were also engaged in substantially the same principal business during the Track Record Period. Therefore, the financial information presented in this Prospectus can be used as a reference for our general performance even though the financial information was prepared for the separate accountants’ reports of the Group and Shengli Steel Pipe. However, you are advised that the financial statements in Appendix IA and Appendix IB are prepared for two separate entities from an accounting perspective and, therefore, we do not provide any discussion or analysis involving the direct comparison of the financial condition and results of operations of these two entities.

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Factors Affecting Our Results of Operations

Our results of operations and the period-to-period comparability of our financial results are affected by a number of factors, primarily including those set out below:

Demand for steel pipe products in China and globally

Demand for our products is strongly correlated with, among other things, the number and scale of ongoing and planned pipeline projects and the need to replace aging pipeline infrastructure. We expect the demand for our large-diameter SSAW pipes to increase as PRC oil and gas companies undertake large-scale pipeline projects to meet growing energy demand in China.

Our business growth will continue to be driven in significant part by demand from the PRC pipeline industry. We expect to continue to benefit from China's plans to allocate significant funds to pipeline infrastructure spending in the medium to long-term.

Expansion of capacity

Our sales volume increased significantly in recent years in line with growing demand for steel pipe products in China. In order to meet the delivery schedules under our contracts while maintaining the quality of our products, we must continue the expansion of our production capacity. We have invested substantially in the expansion of our capacity for the production of SSAW pipes by acquiring the assets of Shandong Haosen Spiral Pipe Company Limited in 2006 and by constructing two SSAW pipe production lines in 2008 to reach an annual production capacity of 540,000 tonnes of SSAW pipes as of 31 December 2008. The following table sets forth our estimated production capacity and utilization rates for SSAW pipes and cold-formed section steel for the periods indicated.

Products	Year ended 31 December			Six months ended 30 June
	2006	2007	2008	2009
SSAW pipes				
Utilization rate ⁽¹⁾	23.0% ⁽²⁾	58.2%	77.7%	84.9%
Production capacity ⁽³⁾ (tonnes)	305,000	320,000	356,667	270,000
Cold-formed section steel				
Utilization rate ⁽¹⁾	20.7%	46.1%	22.1%	37.3%
Production capacity ⁽³⁾ (tonnes)	18,333	56,250	60,000	30,000

(1) The utilization rate for each period is calculated by dividing actual output for the period by production capacity.

(2) Two production lines were acquired by Shengli Steel Pipe in August 2006 and the three remaining production lines underwent a four-month upgrade.

(3) The production capacity for each period is the weighted average capacity during the period.

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At various points during the Track Record Period, our SSAW pipe operations achieved high utilization rates for our production facilities, which motivated our decision to invest in additional production facilities to increase capacity. Fluctuations in utilization rates during the Track Record Period reflect a combination of our growing production volume, the market trend towards line pipe with larger diameters and the measures we took to expand production capacity.

We plan to continue expanding our production capacity by, among other measures, applying a portion of the Global Offering proceeds to the construction of additional production lines for SSAW pipes, as well as the construction of production lines for other types of welded steel pipes with high growth potential. The construction of new SSAW pipe production lines and LSAW pipe production lines, including the procurement of production equipment, takes approximately eight months and 18 months respectively. We believe that our expansion plans will enable us to meet the growth in demand we anticipate for steel pipe products and help us capture an increased share of the markets in which we operate. Our future results of operations will depend significantly on our ability to achieve our expansion plans.

Type of production arrangement

The revenue and cost of sales of one of our business segments, our SSAW pipe operations, are significantly affected by our customers' selection of the type of production arrangement, which determines whether our revenue is generated from sales of goods or processing fees. In arrangements where we sell SSAW pipes, in contrast with arrangements where we provide processing services, our revenue includes the cost of our raw materials. Cost of raw materials represents the largest component of our cost of sales. In sales of goods arrangements, we bear the risk of fluctuations in raw materials prices to the extent we are unable to pass on price fluctuations to customers. For example, we assume the risk of price fluctuations in raw materials for certain regional pipeline projects. Our gross profits are comparable under the two production arrangements, but the accounting for our revenue varies significantly.

In 2008, we changed our SSAW pipe operations from mainly providing process services to selling goods. The resulting increase in the proportion of sales of goods relative to our sales volume significantly increased our revenue and cost of sales, decreased our gross profit margins, but had a less material effect on our gross profit. For a given volume of SSAW pipes that we produce, we generate significantly higher revenue under the sales of goods arrangement than under the processing service arrangement because under the sales of goods arrangement we include the cost of raw material as part of the sales proceeds while under the processing service arrangement, we do not include cost of raw materials as part of the sales proceeds. Assuming our total sales volume and other production factors remain unchanged, we would have generated more revenue if our SSAW pipe sales were conducted

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solely as sales of goods than if the our sales were conducted solely as processing services. The table below sets forth the revenue and gross profit generated from SSAW pipes by type of production arrangement for the periods indicated:

	Core Business of Shengli Steel Pipe ⁽¹⁾						The Group ⁽¹⁾								
	Year ended 31 December 2006			Period from 1 January to 28 December 2007			Year ended 31 December 2008			Six months ended 30 June 2008			Six months ended 30 June 2009		
	Revenue	Gross profit	Gross margin	Revenue	Gross profit	Gross margin	Revenue	Gross profit	Gross margin	Revenue	Gross profit	Gross margin	Revenue	Gross profit	Gross margin
	(RMB'000)	(%)		(RMB'000)	(%)		(RMB'000)	(%)		(RMB'000)	(%)		(RMB'000)	(%)	
	(unaudited)														
SSAW pipes															
Sale of goods	38,285	932	2.4	59,723	16,027	26.8	892,358	67,064	7.5	385,860	24,909	6.5	1,601,986	79,684	5.0
Processing services	45,682	29,288	64.1	104,713	72,954	69.7	84,873	68,948	81.2	63,494	54,658	86.1	34,932	22,776	65.2
Anti-corrosion treatment	—	—	—	—	—	—	15,167	5,120	33.8	—	—	—	140,731	49,369	35.1
Total	83,967	30,220	36.0	164,436	88,981	54.1	992,398	141,132	14.2	449,354	79,567	17.7	1,777,649	151,829	8.5

- (1) Although the Group acquired substantially all the assets and liabilities of the Core Business of Shengli Steel Pipe as a going concern, their respective results of operations before and after the acquisitions are not directly comparable. This table contains financial information from the accountants' reports of two separate entities, which are included as Appendix IA and Appendix IB to this Prospectus.

Product mix

Our gross margins are substantially affected by our product mix. During the Track Record Period, we offered SSAW pipes and cold-formed section steel but plan to broaden our product offerings to include LSAW and ERW pipes, as well as other products for use in the oil and gas industry. Gross margins from sales of our SSAW pipes are higher than gross margins from sales of cold-formed section steel because there are fewer competitors who can offer alternative products for our SSAW pipes and our economies of scale are greater in our SSAW pipe operations.

Our cold-formed section steel operations, which commenced operations in 2006, were not profitable in the last four months of 2006 as we were still in the process of establishing our business and customer base. Although sales of cold-formed section steel increased, we did not generate a profit from this business segment in 2007 and 2008 due to unfavorable tax policies that abolished VAT export refunds for cold-formed section steel and the subsequent imposition of an export tariff in 2008. Export sales had historically constituted the significant majority of our cold-formed section steel sales, but we shifted our focus to the PRC market following these regulatory changes. Because we sold export grade cold-formed section steel from inventory at prevailing market prices in China, which are lower than export prices, our cold-formed section steel operations continued to generate a loss in the first half of 2009. In addition, the cold-formed section steel sold in the first half of 2009 were manufactured using steel coils that were purchased at higher prices in 2008.

As the profitability of our business segments differ significantly, our results of operations have been and will continue to be affected by our product mix.

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Acquisition of Core Business from Shengli Steel Pipe by Shandong Shengli

The Group acquired Shandong Shengli and took over the cold-formed section steel operations of Shandong Shengli on 29 December 2007. Shandong Shengli subsequently acquired the relevant assets of Shengli Steel Pipe's SSAW pipe business comprising the production facilities and business at Zibo and Dezhou (excluding land and buildings) and certain assets and liabilities relating to the SSAW pipe business of Shengli Steel Pipe. The Group, however, did not acquire from Shengli Steel Pipe (i) certain assets and liabilities that were not directly related to the SSAW pipe operations, (ii) bank balances and cash, finished goods, other receivables, tax payables and bank borrowings derived from the SSAW pipe operations, and (iii) land and building related to the SSAW pipe operations. Upon the effective date of the acquisition of the assets and liabilities on 31 December 2007, Shandong Shengli owned and operated the SSAW pipe operations that were previously owned and operated by Shengli Steel Pipe. See Note 26 of the Accountants' Report of Shengli Steel Pipe in Appendix IB to this Prospectus.

Had the Group acquired all of the assets and liabilities related to the SSAW pipe operations of Shengli Steel Pipe in the acquisition, its operating results and financial condition for the year ended 31 December 2008 would differ from those presented in the Accountants' Report in Appendix IA to this Prospectus. Because the Group did not acquire all of the assets and liabilities related to the SSAW pipe operations of Shengli Steel Pipe, the operating results and financial condition of Shengli Steel Pipe's Core Business and those of the Group are not directly comparable.

Taxation

Corporate income tax

Our results of operations is affected by our income tax rate and the preferential tax treatments to which we may be entitled. Before the New Income Tax Law, companies incorporated in China were generally subject to a 33% corporate income tax rate, which was lowered to 25% after the New Income Tax Law came into effect on 1 January 2008. Beginning from its first profitable year of operations, Shandong Shengli, our key operating subsidiary, became entitled to a two-year tax exemption followed by a three-year 50% tax reduction from corporate income tax under the transitional measures adopted in the New Income Tax Law.

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The following table sets forth the preferential tax rates of Shandong Shengli and Shengli Steel Pipe during the Track Record Period:

	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009E</u>	<u>2010E</u>	<u>2011E</u>	<u>2012E</u>
Shandong Shengli ⁽¹⁾⁽²⁾	— ⁽³⁾	— ⁽³⁾	0%	0%	12.5%	12.5%	12.5%
Shengli Steel Pipe ⁽⁴⁾	0%	33%	— ⁽⁵⁾	— ⁽⁵⁾	— ⁽⁵⁾	— ⁽⁵⁾	— ⁽⁵⁾

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- (1) Shandong Shengli was renamed from Rizhao Shengli in 2007.
 - (2) Shandong Shengli's preferential tax treatment commenced in 2008, which was its first profitable year.
 - (3) Shandong Shengli incurred losses in 2006 and 2007 and therefore the preferential tax treatment did not apply those two years.
 - (4) As a business that had reformed from a state-owned enterprise, Shengli Steel Pipe enjoyed a 0% income tax rate in 2006. Shengli Steel Pipe sold certain assets and liabilities related to its Core Business to the Group, which became effective on 29 December 2007 and 31 December 2007 for the cold-formed section steel operations and SSAW pipe operations, respectively.
 - (5) As our financial information does not include Shengli Steel Pipe after 1 January 2008, such tax rates may not be relevant and are not provided.

Value added tax and related tax rebate

Historically, we exported a significant majority of our cold-formed section steel. VAT payable for domestic sales is calculated as “output VAT” minus “input VAT”, both of which are levied at 17% absent any exceptions. We incur an input VAT at a rate of 17% on our cold-formed section steel operations. Export sales are exempted from output VAT and are, instead, eligible for tax rebates ranging from 0% to 17%, which are credited against the related input VAT already paid. In 2006, the PRC Government reduced the VAT export tax rebate on our export sales of cold-formed section steel to 13%, and then completely abolished VAT export rebates for cold-formed section steel in July 2007. As a result, we could not offset any part of the input VAT on our cold-formed section steel operations. Subsequently, we became subject to an additional 15% export tariff on our sales of cold-formed section steel from January to November 2008. As of the Latest Practicable Date, the VAT export rebate for our cold-formed section steel was reinstated at a rate of 9%. The PRC Government has in the past revised and in the future may continue to revise the tax policies and rebates for export sales of steel pipes from time to time to encourage or discourage export sales. The profitability of our export sales and results of operations will continue to depend significantly on China's export tax policies.

The amount of our VAT payable in each period is determined by the timing of our sales. Our VAT payable as of 30 June 2009 increased significantly from 31 December 2008 primarily because we incurred substantial VAT liabilities for SSAW pipes that were manufactured in 2008 but not shipped until 2009.

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Critical Accounting Policies and Estimates

We prepare our consolidated financial statements in conformity with IFRS, which requires us to make judgments, estimates and assumptions that affect figures reported in our consolidated financial statements. We continually evaluate these estimates and assumptions based on the most recently available information, our own historical experience and various other assumptions that we believe to be reasonable under the circumstances. Since the use of estimates is an integral component of the financial reporting process, actual results could differ from those estimates.

Critical accounting policies and estimates are the accounting policies and estimates that are the most important to the portrayal and understanding of our financial condition and/or result of operations and require our management's difficult, subjective and complex judgments that frequently require estimates about matters that are inherently uncertain. Many of these policies, estimates and related judgments are common in our industry, while others are specific to our business and operations. The following discusses the accounting policies applied during the preparation of our consolidated financial statements which we believe are most dependent on the application of these judgments and estimates.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes. There are no differences in the recognition of sales of different type of goods by us. Sales of goods are recognized when goods are delivered and title has passed, while service income is recognized when services are provided. For domestic sales, the title to a product is passed to customers when the product is received by customers and an acceptance form is signed. For overseas sales, the title to a product is passed in accordance with the shipment terms that are specified in each sales contract. Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Dividend income from investments is recognized when our rights to receive payment have been established.

Provision for warranty costs, if any, is based on historical trends in product defect rates and the expected material and labor costs to provide warranty services. We allow our SSAW pipe customers to withhold a portion of the contract amount on each purchase and sale as retention money. An amount equivalent to the retention money is recorded as a trade receivable until it is collected after the expiration of the warranty period. We do not offer warranties for cold-formed section steel. In case of new products, expert opinions and industry data are also taken into consideration in estimating the product warranty accruals. Provision is only made where a warranty claim is probable.

Our customers consign steel coils to us under our processing service contracts. To the extent that there are unused steel coils remaining after our production activities, the value of such surplus raw materials, as estimated by our management, is recorded as revenue.

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Estimated impairment of trade and other receivables

Trade and other receivables are initially measured at fair value, and are subsequently measured at amortized cost using the effective interest method. Appropriate allocations for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired.

The identification of bad and doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of trade receivables, prepayments and other receivables, and doubtful debt expenses in the year in which such estimate has been changed.

Estimated impairment of inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method. We assess periodically if the inventories have suffered any impairment. The identification of impairment of inventories requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of inventories and impairment loss in the year/period in which such estimate has been changed.

Description of Components of Results of Operations

Revenue

By segment

We generate revenue from two business segments, which are divided by our major products. During the Track Record Period, the Group and Shengli Steel Pipe generated a substantial majority of their respective revenue from the manufacture and sale of and provision of processing services for SSAW pipes, which are used primarily in high-pressure and long-distance oil and gas pipelines. In addition, the Group and Shengli Steel Pipe derived a small portion of revenue from the manufacture and sale of and provision of processing services for cold-formed section steel used in construction and manufacturing. In addition, the value of raw materials consigned to us by our customers based on the processing service contracts is accounted for as our revenue to the extent that there are surplus raw materials from our production activities.

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The table below sets forth the revenue attributable to each business segment and as a percentage of total revenue for the periods indicated:

	Core Business of Shengli Steel Pipe ⁽¹⁾				The Group ⁽¹⁾					
	Year ended 31 December 2006		Period from 1 January to 28 December 2007		Year ended 31 December 2008		Six months ended 30 June 2008		Six months ended 30 June 2009	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
SSAW pipe operations	83,967	92.2	164,436	69.2	992,398	92.7	449,354	91.1	1,777,649	98.0
Cold-formed section steel operations	7,149	7.8	73,108	30.8	78,349	7.3	44,136	8.9	35,550	2.0
Total	91,116	100.0	237,544	100.0	1,070,747	100.0	493,490	100.0	1,813,199	100.0

(1) Although the Group acquired substantially all the assets and liabilities of the Core Business of Shengli Steel Pipe as a going concern, their respective results of operations before and after the acquisitions are not directly comparable. This table contains financial information from the accountants' reports of two separate entities, which are included as Appendix IA and Appendix IB to this Prospectus.

By type of production arrangement

We generate revenue from the sale of goods or provision of processing services depending on the type of production arrangement agreed between our customers and us. In sales of goods, our selling prices include our raw material costs, which we generally pass on to customers. We generally provide anti-corrosion treatments under the sales of goods arrangement, which increases our gross profit margin. In transactions where we provide processing services, customers provide us the raw materials necessary for the manufacture of their order. The table below sets forth the revenue of the Group and Shengli Steel Pipe's Core Business by business segment:

	Core Business of Shengli Steel Pipe ⁽¹⁾				The Group ⁽¹⁾					
	Year ended 31 December 2006		Period from 1 January to 28 December 2007		Year ended 31 December 2008		Six months ended 30 June 2008		Six months ended 30 June 2009	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
SSAW pipe operations										
Sales of goods	38,285	42.0	59,723	25.1	892,358	83.4	385,860	78.2	1,601,986	88.4
Processing services	45,682	50.2	104,713	44.1	84,873	7.9	63,494	12.9	34,932	1.9
Anti-corrosion treatments	—	—	—	—	15,167	1.4	—	—	140,731	7.7
Subtotal	83,967	92.2	164,436	69.2	992,398	92.7	449,354	91.1	1,777,649	98.0
Cold-formed section steel operations										
Sales of goods	7,149	7.8	73,108	30.8	77,957	7.3	44,016	8.9	35,096	2.0
Processing services	0	0.0	0	0.0	392	0.0	120	0.0	454	0.0
Subtotal	7,149	7.8	73,108	30.8	78,349	7.3	44,136	8.9	35,550	2.0
Total	91,116	100.0	237,544	100.0	1,070,747	100.0	493,490	100.0	1,813,199	100.0

(1) Although the Group acquired substantially all the assets and liabilities of the Core Business of Shengli Steel Pipe as a going concern, their respective results of operations before and after the acquisitions are not directly comparable. This table contains financial information from the accountants' reports of two separate entities, which are included as Appendix IA and Appendix IB to this Prospectus.

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By region

During the Track Record Period, Shengli Steel Pipe generated a portion of its revenue from overseas sales outside China. These overseas sales consisted of sales of cold-formed section steel to customers in North America. We have not conducted any direct overseas sales of SSAW pipes. Although a portion of our SSAW pipes were installed in overseas and transnational oil and gas pipeline projects during the Track Record Period, those sales were classified as domestic sales because we determine the geographical market of our revenue based on the location of our customers, and we did not sell directly SSAW pipes to any overseas customers. During the year ended 31 December 2006 and the period from 1 January to 28 December 2007, Shengli Steel Pipe generated revenue from cold-formed section steel primarily through overseas sales. During the year ended 31 December 2008 and the six months ended 30 June 2009, our Group sold cold-formed section steel exclusively through domestic sales. See “— Management’s Discussion and Analysis of Financial Condition and Results of Operations — Factors affecting our results of operations — Taxation — Value added tax and related tax rebate”. The following table sets forth the domestic and overseas sales of the Group and Shengli Steel Pipe’s Core Business and each type of sales as a percentage of total revenue for the periods indicated:

	Core Business of Shengli Steel Pipe ⁽¹⁾				The Group ⁽¹⁾					
	Year ended 31 December 2006		Period from 1 January to 28 December 2007		Year ended 31 December 2008		Six months ended 30 June 2008		Six months ended 30 June 2009	
	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)	(RMB'000)	(%)
	(unaudited)									
SSAW pipe operations										
Domestic sales	83,967	92.2	164,436	69.2	992,398	92.7	449,354	91.1	1,777,649	98.0
Cold-formed section steel operations										
Domestic sales	0	0.0	3,467	1.5	78,349	7.3	44,136	8.9	35,550	2.0
Overseas sales	7,149	7.8	69,641	29.3	0	0.0	0	0.0	0	0.0
Subtotal	7,149	7.8	73,108	30.8	78,349	7.3	44,136	8.9	35,550	2.0
Total	<u>91,116</u>	<u>100.0</u>	<u>237,544</u>	<u>100.0</u>	<u>1,070,747</u>	<u>100.0</u>	<u>493,490</u>	<u>100.0</u>	<u>1,813,199</u>	<u>100.0</u>

- (1) Although the Group acquired substantially all the assets and liabilities of the Core Business of Shengli Steel Pipe as a going concern, their respective results of operations before and after the acquisitions are not directly comparable. This table contains financial information from the accountants’ reports of two separate entities, which are included as Appendix IA and Appendix IB to this Prospectus.

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By project

The revenue of our SSAW pipe operations can be broken down into regional pipeline sales and national pipeline sales depending on the specifications of the line pipes requested by pipeline operators. During the Track Record Period, we increasingly supplied more SSAW pipes to large-scale national pipeline projects and supplied a smaller percentage of our SSAW pipes to regional pipeline projects. National pipeline projects generally require SSAW pipes with larger diameters and higher steel grades than regional pipelines, but line pipe specifications vary substantially by project. We generally derive higher average selling prices from SSAW pipes with higher steel grades and larger diameters under both production arrangements because a higher level of technology is required to manufacture these pipes. The following table sets forth the SSAW pipe sales of the Group and Shengli Steel Pipe's Core Business by project type:

	Core Business of Shengli Steel Pipe ⁽¹⁾				The Group ⁽¹⁾					
	Year ended 31 December 2006		Period from 1 January to 28 December 2007		Year ended 31 December 2008		Six months ended 30 June 2008		Six months ended 30 June 2009	
	Sales volume (thousand Revenue	Sales volume (thousand Revenue	Sales volume (thousand Revenue	Sales volume (thousand Revenue	Sales volume (thousand Revenue	Sales volume (thousand Revenue	Sales volume (thousand Revenue	Sales volume (thousand Revenue	Sales volume (thousand Revenue	Sales volume (thousand Revenue
	tonnes/m ²)	tonnes/m ²)	tonnes/m ²)	tonnes/m ²)	tonnes/m ²)	tonnes/m ²)	tonnes/m ²)	tonnes/m ²)	tonnes/m ²)	tonnes/m ²)
	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)	(RMB'000)
SSAW pipe operations										
Regional pipelines	38,285	10	59,723	13	69,277	13	32,524	6	69,778	17
National pipelines	45,682	61	104,713	144	907,954	206	416,830	115	1,567,140	237
Subtotal	83,967	71	164,436	157	977,231	219	449,354	121	1,636,918	254
Anti-corrosion treatment	—	—	—	—	15,167	114	—	—	140,731	2,313
Total	83,967	—	164,436	—	992,398	—	449,354	—	1,777,649	—

(1) Although the Group acquired substantially all the assets and liabilities of the Core Business of Shengli Steel Pipe as a going concern, their respective results of operations before and after the acquisitions are not directly comparable. This table contains financial information from the accountants' reports of two separate entities, which are included as Appendix IA and Appendix IB to this Prospectus.

We expect the revenue of our Group to continue to reflect the grade and specifications of the line pipes requested by customers.

Cost of sales

Raw material costs represented the substantial majority of our total cost of sales in sales of goods arrangements. The costs of steel coils, the primary raw material for SSAW pipes and cold-formed section steel, have historically accounted for a significant portion of our raw materials costs. The remaining components of our raw material costs include welding wires, welding fluxes and other

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ancillary materials. In arrangements to provide processing services, our customers provide key raw materials, mainly steel coils, to us at their expense. As a result, the costs of the raw materials provided by our customers are not accounted for as cost of sales in the results of operations for our arrangements to provide processing services.

Labor costs consist primarily of wages, salaries and employee benefits for our production workers.

Other costs include manufacturing overheads, which mainly consist of electricity and water expenses, depreciation of property, plant and equipment associated with production, consumables and other indirect manufacturing costs.

Other income

Other income consists primarily of gains from sales of scrap materials and surplus materials, income from storage fees and service fees for quality inspection and logistics services. We record the revenue on sales of scrap materials to third parties as other income. When surplus materials are sold, we record as other income the portion of revenue derived from such sales that exceed our estimated value for the associated surplus materials, i.e., the gain on sales of surplus materials.

Other losses

Our other losses consist primarily of foreign exchange losses and production overhead expenses such as depreciation of our manufacturing facilities that was incurred while our production lines were undergoing maintenance.

Selling and distribution expenses

Selling and distribution expenses consist primarily of the salaries and benefits of sales and marketing personnel, commissions we paid to our distributors for overseas sales, transportation costs for our products that we bear under certain supply agreements and other expenses related to marketing activities.

Administrative expenses

Administrative expenses consist primarily of salaries and benefits for administrative and management staff, travel and office expenses, legal and professional fees, depreciation of non-production related assets, insurance costs, amortization of land use rights and tax expenses.

Finance costs

Finance costs consist primarily of interest expenses on bank loans.

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Income tax expenses

Income tax expenses represent the enterprise income tax at the statutory rates applicable to our assessable profit before taxation as determined under relevant laws and regulations, and the movement in deferred tax assets or liabilities recognized for the relevant period.

Results of Operations

Comprehensive income statement of the Group

The table below sets forth the comprehensive income statement information of the Group for the two months ended 31 December 2007, the year ended 31 December 2008 and the six months ended 30 June 2008 and 2009:

	Two months ended 31 December 2007 ⁽¹⁾	Year ended 31 December 2008 ⁽¹⁾	Six months ended 30 June 2008	Six months ended 30 June 2009
	(RMB'000)	(RMB'000)	(RMB'000) (unaudited)	(RMB'000)
Revenue	—	1,070,747	493,490	1,813,199
Cost of sales	—	(935,241)	(413,719)	(1,667,739)
Gross profit	—	135,506	79,771	145,460
Other income	141	36,141	18,397	19,130
Selling and distribution expenses	—	(6,020)	(2,416)	(5,849)
Administrative expenses	(12)	(16,830)	(7,611)	(12,586)
Finance costs	—	—	—	(1,275)
Profit before taxation	129	148,797	88,141	144,880
Income tax expenses	—	—	—	—
Profit for the year/period	129	148,797	88,141	144,880

- (1) These periods are not consistent in length; therefore, the financial information for each period is not comparable to that of the other. The financial information of the Group was prepared for the periods/year beginning or subsequent to 1 November 2007, being the incorporation date of our indirectly wholly owned subsidiary, CPE.

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Comprehensive income statement of Shengli Steel Pipe

The following table sets forth information relating to selected income and expense information attributable to the equity holders and minority interests of Shengli Steel Pipe from the comprehensive income statement of Shengli Steel Pipe for the periods indicated:

	Year ended 31 December 2006			Period from 1 January to 28 December 2007 ⁽¹⁾		
	Core Business	Non-core Business	Total	Core Business	Non-core Business	Total
	(RMB'000)					
Revenue	91,116	1,232	92,348	237,544	—	237,544
Cost of sales	(60,275)	(1,106)	(61,381)	(154,687)	—	(154,687)
Gross profit	30,841	126	30,967	82,857	—	82,857
Other income	3,438	—	3,438	9,678	—	9,678
Other losses	(2)	(351)	(353)	—	—	—
Selling and distribution expenses	(3,084)	(110)	(3,194)	(11,963)	—	(11,963)
Administrative expenses	(21,176)	(65)	(21,241)	(16,164)	(7,232) ⁽²⁾	(23,396)
Finance costs	(34)	—	(34)	(3,985)	—	(3,985)
Share of results of associates	—	(559)	(559)	—	(443)	(443)
Profit (loss) before taxation	9,983	(959)	9,024	60,423	(7,675)	52,748
Income tax expenses	—	(25)	(25)	(26,338)	—	(26,338)
Profit (loss) for the year/period and total comprehensive income for the year/period	<u>9,983</u>	<u>(984)</u>	<u>8,999</u>	<u>34,085</u>	<u>(7,675)</u>	<u>26,410</u>

(1) Shengli Steel Pipe sold substantially all assets and liabilities related to the Core Business to the Group in two transactions, the first of which became effective on 29 December 2007. However, the operating results of the Core Business during the last three days of 2007 are included in the period from 1 January to 28 December 2007 because the amounts were deemed not material to the Group's financial results for the period.

(2) The administrative expenses of Shengli Steel Pipe's Non-core Business for the period from 1 January 2007 to 28 December 2007 mainly consisted of the organization costs of its subsidiary, Shengda Chemical, which did not commence business until after 2007.

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The following discussion and information involve two separate entities: the Group and Shengli Steel Pipe. Although the operating results including revenue generators and cost items of these two entities during the Track Record Period were substantially the same, our Directors believe that they are not directly comparable. As such, the operating results of the Group for the year ended 31 December 2008 and the operating results of Shengli Steel Pipe for the year ended 31 December 2006 and the period from 1 January to 28 December 2007 are discussed and analyzed separately.

Operating results of the Group for the six months ended 30 June 2009 compared with the six months ended 30 June 2008

Revenue

Revenue of the Group increased by 267.4% from RMB493.5 million for the six months ended 30 June 2008 to RMB1,813.2 million for the six months ended 30 June 2009. The significant increase was primarily due to the substantial increase in sales of SSAW pipes, partly offset by the decrease in revenue from sales of cold-formed section steel.

The Group generated RMB1,777.6 million from its SSAW pipe operations for the six months ended 30 June 2009, representing a 295.5% increase from RMB449.4 million for the six months ended 30 June 2008. The substantial increase in SSAW pipe revenue was mainly due to (i) the shift to sales of goods arrangements in our SSAW pipe operations, (ii) the significant increase in sales volumes of SSAW pipes and (iii) the increase in the average selling price of the Group's SSAW pipes as a result of the introduction of newly developed products such as X80 SSAW pipes and corrosion-resistant SSAW pipes in the fourth quarter of 2008. The average selling price under sales of goods arrangements for our SSAW pipes increased from RMB7,190 per tonne during the six months ended 30 June 2008 to RMB7,888 per tonne during the six months ended 30 June 2009. The increase in the average selling price of our SSAW pipes was partly offset by a decrease in steel prices because we generally pass on these cost savings to our customers pursuant to our production and payment arrangements. The volume of SSAW pipes that the Group supplied increased substantially from approximately 121,438 tonnes for the six months ended 30 June 2008 to approximately 254,455 tonnes for the six months ended 30 June 2009 because the Group won large bids to supply SSAW pipes to the Second West-East Gas Pipeline and began delivering such products in November 2008.

The Group generated RMB35.6 million from its cold-formed section steel operations for the six months ended 30 June 2009, representing a 19.3% decrease from RMB44.1 million for the six months ended 30 June 2008, primarily due to a decrease in average selling prices caused by a decrease in steel prices in 2009.

For the six months ended 30 June 2008, the Group had internal sales of RMB4.8 million from its cold-formed section steel operations to its SSAW pipe operations. For the six months ended 30 June 2009, the Group had internal sales of RMB96,000 from its cold-formed section steel operations to its SSAW pipe operations.

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Cost of sales

The Group's cost of sales increased by 303.1% from RMB413.7 million for the six months ended 30 June 2008 to RMB1,667.7 million for the six months ended 30 June 2009, primarily due to (i) an increase in sales of goods as opposed to provision of processing services; and (ii) a substantial increase in raw material costs for SSAW pipes as a result of a significant increase in sales volumes of SSAW pipes. Labor costs also increased due to an increase in the headcount of direct workers and higher average compensation for employees. Other cost of sales increased for the six months ended 30 June 2009, compared with the six months ended 30 June 2008, due to the increased depreciation of property, plant and equipment that are used for the production of SSAW pipes.

Gross profit

As a result of the foregoing, the gross profit of the Group increased significantly from RMB79.8 million for the six months ended 30 June 2008 to RMB145.5 million for the six months ended 30 June 2009. However, the gross profit margin of the Group decreased from 16.2% for the six months ended 30 June 2008 to 8.0% for the six months ended 30 June 2009 primarily due to an increase in sales of goods relative to its total sales volume. Under sales of goods arrangements, the Group generates significantly higher revenue than from providing of processing services, but gross profit under the two arrangements are comparable. In the first half of 2008, the Group primarily provided processing services for pipeline projects with higher specification requirements, which increased its gross profit margins for the period. The Group's gross profit margin from processing services in the first half of 2009 decreased to 64.5% from 85.6% for the same period in 2008 because it began supplying SSAW pipes that did not have such high specification requirements, along with a decrease in gains from surplus materials. The decrease in gross profit margin was partly offset by the increased average selling price of SSAW pipes caused by the introduction of X80 SSAW pipes and corrosion-resistant SSAW pipes in the fourth quarter of 2008.

Other income

Other income of the Group increased moderately from RMB18.4 million for the six months ended 30 June 2008 to RMB19.1 million for the six months ended 30 June 2009 as a result of the addition of logistics service fees that the Group earned for loading SSAW pipes onto our customers' selected carriers and an increase in its gain on sales of scrap materials. The increase in other income was due to an increase in production volume, partly offset by a decrease in gain on sales of surplus materials due to a decrease in steel prices.

Selling and distribution expenses

Selling and distribution expenses of the Group increased from RMB2.4 million for the six months ended 30 June 2008 to RMB5.8 million for the six months ended 30 June 2009. The increase was mainly due to an increase in transportation costs as a result of increased sales in the first six months of 2009 compared with the same period in 2008.

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Administrative expenses

The Group's administrative expenses increased by 65.8% from RMB7.6 million for the six months ended 30 June 2008 to RMB12.6 million for the six months ended 30 June 2009. The increase in administrative expenses was a result of an increase in such expenses of CPE, an indirect subsidiary, and the fees and expenses relating to the Group's former plan to list in Singapore.

Finance costs

The Group incurred finance costs of RMB1.3 million for the six months ended 30 June 2009, which represented interest on bank borrowings of RMB50.0 million, which was drawn down on 30 December 2008 and payable within one year.

Income tax expenses

The Group incurred nil income tax expenses for the six months ended 30 June 2008 and 2009. As a foreign funded enterprise, the Group is eligible for certain tax holidays and concessions as well as a two-year exemption from PRC enterprise income tax beginning in 2008, which was its first profitable year, followed by a 50% reduction for the subsequent three years.

Profit for the period

As a result of the foregoing factors, the profit of the Group increased by RMB56.8 million from RMB88.1 million for the six months ended 30 June 2008 to RMB144.9 million for the six months ended 30 June 2009.

Operating results of the Group for the year ended 31 December 2008

Revenue

For the year ended 31 December 2008, the Group generated revenue of RMB1,070.7 million, of which RMB992.4 million was from its SSAW pipe operations and RMB78.3 million was from its cold-formed section steel operations, exclusive of internal sales.

Starting from 2008, the Group substantially changed its production arrangement with the CNPC Group from the provision of processing services to sales of goods, in which raw material costs borne by customers are included as part of the sales price and included in revenue. The corresponding amount is subsequently recorded as raw material costs in cost of sales. In addition, the Group's relatively high revenue for the year ended 31 December 2008 was a result of (i) high demand for SSAW pipes in China; (ii) commercial operation of two new production lines in Zibo that increased the Group's production capacity from 320,000 tonnes as of 31 December 2007 to 540,000 tonnes as of 31 December 2008; and (iii) improvements in production technology and the introduction of value-added products and services such as X80 SSAW pipes and anti-corrosion treatments, which supported the higher selling prices.

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For the year ended 31 December 2008, the Group derived all of its revenue of cold-formed section steel from domestic sales. Part of the Group's revenue for the year ended 31 December 2008 from the cold-formed section steel was from sales of the inventory that Shengli Steel Pipe manufactured in 2007.

For the year ended 31 December 2008, the Group had RMB7.5 million as internal sales from its cold-formed section steel operations to its SSAW pipe operations. The internal sales represented sales of cold-formed section steel that were used to construct our production facilities.

Cost of sales

For the year ended 31 December 2008, the Group incurred costs of RMB935.2 million, which mainly includes raw material costs, labor costs and other expenses. The Group incurred relatively high raw material costs in its operations because, starting from 2008, the Group changed its production arrangement with the CNPC Group from the provision of processing services to sales of goods, by which the Group recorded substantially higher raw materials costs. Large production volume of the Group's SSAW pipes also contributed to the high raw material costs. Labor costs of the Group's operations consist of direct labor expended on the production of its products. Other cost of sales mainly includes production overhead, such as depreciation of facilities.

Gross profit

For the year ended 31 December 2008, the Group's gross profit and gross profit margin were RMB135.5 million and 12.7%, respectively. The Group generated a gross profit of RMB141.1 million from its SSAW pipe operations, representing a gross profit margin of 14.2%. However, the Group generated a RMB5.6 million gross loss from its cold-formed section steel operations. Due to high market demand and limited supply, the Group is able to derive higher gross profits and gross profit margins from sales of SSAW pipe than from sales of cold-formed section steel. Gross profit margins for SSAW pipe sales also depend on the type of production arrangement under each purchase order. Gross profit margins from the provision of processing services are substantially higher than those from sales of goods.

Other income

Other income of the Group amounted to RMB36.1 million for the year ended 31 December 2008. Other income mainly includes gains from sales of scrap materials and surplus materials. The Group accounted for the profit it generated from sales of surplus raw materials consigned to it by customers based on processing service contracts as other income.

Selling and distribution expenses

Distribution expenses of the Group were RMB6.0 million for the year ended 31 December 2008, which primarily include the salaries and benefits of sales and marketing personnel and the expenses related to marketing activities. For the year ended 31 December 2008, the Group did not conduct any overseas sales, thus no commission expenses for distributors were incurred.

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Administrative expenses

Administrative expenses of the Group were RMB16.8 million for the year ended 31 December 2008, which primarily include salaries of indirect labor, insurance costs, salaries and benefits for management, legal and professional fees, depreciation of assets not related to production and tax expenses.

Income tax expenses

The Group had nil enterprise income tax expenses for the year ended 31 December 2008. As a foreign funded enterprise, the Group is eligible for certain tax holidays and concessions as well as a two-year exemption from PRC enterprise income tax beginning in 2008, which is our first profitable year, followed by a 50% reduction from enterprise income tax for the subsequent three years.

Profit for the year

As a result of the foregoing factors, the profit of the Group for the year ended 31 December 2008 was RMB148.8 million.

Operating results of Shengli Steel Pipe's Core Business for the period from 1 January to 28 December 2007 compared with operating results of Shengli Steel Pipe's Core Business for the year ended 31 December 2006

The operating results of Shengli Steel Pipe's Core Business for the year ended 31 December 2006 are comparable to the operating results of Shengli Steel Pipe's Core business for the period from 1 January to 28 December 2007 because the operating results of Shengli Steel Pipe's Core Business during the last three days of 2007 are included in this period as part of the comprehensive income statement of Shengli Steel Pipe.

Revenue

Revenue of Shengli Steel Pipe's Core Business increased by 160.7% from RMB91.1 million for the year ended 31 December 2006 to RMB237.5 million for the period from 1 January to 28 December 2007. The increase was primarily due to (i) the substantial increase in sales of SSAW pipes as well as processing services for SSAW pipes; and (ii) the substantial increase in sales of cold-formed section steel.

Shengli Steel Pipe generated RMB164.4 million from its SSAW pipe operations for the period from 1 January to 28 December 2007, representing a 95.7% increase from RMB84.0 million for the year ended 31 December 2006. The substantial increase in SSAW pipe revenue was mainly because of the increase in sales volumes of SSAW pipes and, to a limited extent, attributable to the increase in average selling price and processing fees. The volume of SSAW pipes that Shengli Steel Pipe supplied increased substantially from approximately 70,773 tonnes for the year ended 31 December 2006 to approximately 156,776 tonnes for the period from 1 January to 28 December 2007 because Shengli Steel Pipe's SSAW production lines were closed for four months to implement a major upgrade in the year ended 31 December 2006, during which Shengli Steel Pipe did not produce any

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SSAW pipes. In addition, no major pipeline projects were constructed in 2006 because PRC Government policies to increase pipeline spending under the 11th Five-year Plan had limited effect in 2006, which was the first year of the plan. For the period from 1 January to 28 December 2007, Shengli Steel Pipe successfully procured bids to supply SSAW pipes to a substantial number of new major oil and gas pipeline projects in China, such as the Sichuan Gas Pipeline, the Yunlin-Puyang-Jinan Gas Pipeline and the Second Shandong-Anhui Oil Pipeline. As a result of Shengli Steel Pipe's technological improvements and production line upgrades, it was able to produce more advanced SSAW pipes.

Shengli Steel Pipe generated RMB73.1 million from its cold-formed section steel operations for the period from 1 January to 28 December 2007, representing a significant increase from RMB7.1 million for the year ended 31 December 2006. The reason for this significant increase was because Shengli Steel Pipe's Rizhao facilities, which mainly produced cold-formed section steel, was in trial production and only operated during the last four months in 2006. In the second half of 2007, a change in VAT tax policies reduced the profitability of our export sales of cold-formed section steel. In response, we began directing our sales and marketing efforts for cold-formed section steel towards the domestic market and have conducted sales exclusively in China since 2008.

Cost of sales

The cost of sales of Shengli Steel Pipe's Core Business increased by 156.6% from RMB60.3 million for the year ended 31 December 2006 to RMB154.7million for the period from 1 January to 28 December 2007, primarily due to substantial increase in raw material costs in both business segments due to substantial increase in sales volume. Labor and other costs of Shengli Steel Pipe's Core Business also contributed to the increase in its cost of sales from the year ended 31 December 2006 to the period from 1 January to 28 December 2007.

The increase in raw material costs of Shengli Steel Pipe's Core Business was mainly caused by the increased sales of SSAW pipes and cold-formed section steel, partly offset by a decrease in the average selling prices of steel coils. Labor costs of Shengli Steel Pipe's Core Business also increased to a limited extent due to increased direct labor and an increase in average employee compensation. Other cost of sales mainly includes production overhead expenses, such as depreciation of facilities, which increased over the period due to increased depreciation expenses of property, plant and equipment used for the production of cold-formed section steel.

Gross profit

As a result of the foregoing, the gross profit of Shengli Steel Pipe's Core Business increased significantly from RMB30.8 million for the year ended 31 December 2006 to RMB82.9 million for the period from 1 January to 28 December 2007. The moderate increase in the gross profit margin of Shengli Steel Pipe's Core Business from 33.8% for the year ended 31 December 2006 to 34.9% for the period from 1 January to 28 December 2007 was due a significant increase in gross profit margins in its SSAW pipe operations from 36.0% for the year ended 31 December 2006 to 54.1% for the period from 1 January to 28 December 2007. Gross profit margins were partly offset by the commencement of Shengli Steel Pipe's sales of cold-formed section steel, which sustained a gross loss of RMB15.4 million.

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The profitability of Shengli Steel Pipe's SSAW pipe operations in the year ended 31 December 2006 was negatively affected by non-recurring factors such as a four-month suspension of production activities at certain production facilities to implement a technology upgrade. In addition, several national oil and gas projects were delayed in the same year. These two factors decreased Shengli Steel Pipe's overall sales volume, which lowered gross profit margins. Within its SSAW pipe operations, the gross profit margins on sales of SSAW pipe increased significantly to 26.8% in the period from 1 January to 28 December 2007 from 2.4% in the year ended 31 December 2006 because of the cost savings that Shengli Steel Pipe realized by using surplus material it gained from processing service contracts in 2006.

Other income

Other income attributable to Shengli Steel Pipe's Core Business increased from RMB3.4 million for the year ended 31 December 2006 to RMB9.7 million for the period from 1 January to 28 December 2007, mainly due to the increase in gains from sales of scrap materials. Shengli Steel Pipe sold more scrap materials from its SSAW operations for the period from 1 January to 28 December 2007 compared to the year ended 31 December 2006 due to increased production volume.

Other losses

Shengli Steel Pipe's Core Business sustained other losses of RMB2,000 for the year ended 31 December 2006 but did not sustain any other losses for the period from 1 January to 28 December 2007.

Selling and distribution expenses

Selling and distribution expenses of Shengli Steel Pipe's Core Business increased by RMB8.9 million from RMB3.1 million for the year ended 31 December 2006 to RMB12.0 million for the period from 1 January to 28 December 2007. The increase was mainly due to (i) substantial increase in transportation expenses in connection with overseas sales of cold-formed section steel, which were sold on free on board terms; and (ii) the commission paid to the distributors for overseas sales of cold-formed section steel for the period from 1 January to 28 December 2007.

Administrative expenses

Administrative expenses of Shengli Steel Pipe's Core Business decreased by 23.6% from RMB21.2 million for the year ended 31 December 2006 to RMB16.2 million for the period from 1 January to 28 December 2007. For the year ended 31 December 2006, Shengli Steel Pipe incurred a one-off fee for setting up the operations of Rizhao Shengli. In addition, payment of a one-time bonus to the employees of Shengli Steel Pipe in 2006 also contributed to higher administrative expenses in 2006 compared to 2007.

Finance costs

Finance costs of Shengli Steel Pipe were RMB4.0 million for the period from 1 January to 28 December 2007, representing interest expenses on bank loans. For the year ended 31 December 2006, Shengli Steel Pipe incurred RMB34,000 in interest expenses on a bank loan.

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Income tax expenses

Shengli Steel Pipe incurred RMB26.3 million as income tax expenses for the period from 1 January to 28 December 2007 and nil income tax expenses for the year ended 31 December 2006. As a company that had been privatized from a state-owned enterprise, Shengli Steel Pipe was eligible for a three-year exemption from income tax, which ended on 31 December 2006. Beginning from 1 January 2007, Shengli Steel Pipe became subject to a 33% income tax rate.

Profit for the year/period

As a result of the foregoing factors, the profit from Shengli Steel Pipe's Core Business increased by RMB24.1 million from RMB10.0 million for the year ended 31 December 2006 to RMB34.1 million for the period from 1 January to 28 December 2007.

Analysis of inventory, trade receivable and trade payable turnover

The following table sets forth the turnover days of inventories, trade receivables and trade payables of the Group and Shengli Steel Pipe's Core Business for the periods indicated:

	Core Business of Shengli Steel Pipe⁽¹⁾		The Group⁽¹⁾	
	Year ended 31 December 2006	Period from 1 January to 28 December 2007	Year ended 31 December 2008	Six months ended 30 June 2009
	(days)		(days)	
Average turnover days of inventories ⁽²⁾	272.9	163.9	174.6	64.3
Average turnover days of trade receivables ⁽³⁾	187.3	82.4	31.2	20.3
Average turnover days of trade payables ⁽⁴⁾	75.2	32.1	16.0	22.8

(1) Although the Group acquired substantially all the assets and liabilities of the Core Business of Shengli Steel Pipe as a going concern, their respective results of operations before and after the acquisitions are not directly comparable. This table contains financial information from the accountants' reports of two separate entities, which are included as Appendix IA and Appendix IB to this Prospectus.

(2) Average turnover days of inventories for a period is derived by dividing the average inventory, including allowance for inventory value decline and obsolescence, by cost of sales for the period and multiplying by 360 days for a 12-month period or by 180 days for a six-month period. Average inventory equals the sum of the inventory at the beginning of the period and inventory at the end of the period divided by two, except that average inventory for the year ended 31 December 2006 represents the inventory at year end.

(3) Average turnover days of trade receivables for a period is derived by dividing the average trade receivables by revenue for the period and multiplying by 360 days for a 12-month period or by 180 days for a six-month period. Average trade receivables equal the sum of the trade receivables at the beginning of the period and trade receivables at the end of the period divided by two, except that average trade receivables for the year ended 31 December 2006 represents the trade receivables at year end.

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- (4) Average turnover days of trade payables for a period is derived by dividing the average trade payable by cost of sales for the period and multiplying by 360 days for a 12-month period or by 180 days for a six-month period. Average trade payables equal the sum of the trade payables at the beginning of the period and trade payables at the end of the period divided by two, except that average trade payables for the year ended 31 December 2006 represents the trade payables at year end.

Inventories

Our inventory generally consists of raw materials used in our production, work-in-progress and finished products.

The Group's average turnover days of inventory for the year ended 31 December 2008 and the six months ended 30 June 2009 were 174.6 days and 64.3 days, respectively. The average inventory turnover days of Shengli Steel Pipe's Core Business for the year ended 31 December 2006 and the period from 1 January to 28 December 2007 were 272.9 days and 163.9 days, respectively. The inventory turnover days of the Group and Shengli Steel Pipe are relatively lengthy mainly because products are delivered in accordance with customers' schedules, which are determined by the progress of their pipeline projects, over which we do not have control. The following table sets forth the breakdown of the inventory of the Group and Shengli Steel Pipe as of the dates indicated:

	Core Business of Shengli Steel Pipe ⁽¹⁾		The Group ⁽¹⁾	
	As of 31 December 2006	As of 28 December 2007	As of 31 December 2008	As of 30 June 2009
	(RMB'000)		(RMB'000)	
Raw materials	32,191	46,345	315,797	271,777
Work-in-progress	1,600	—	895	16,648
Finished goods	11,908	48,775	495,434	91,023
Total	45,699	95,120	812,126	379,448

- (1) Although the Group acquired substantially all the assets and liabilities of the Core Business of Shengli Steel Pipe as a going concern, their respective results of operations before and after the acquisitions are not directly comparable. This table contains financial information from the accountants' reports of two separate entities, which are included as Appendix IA and Appendix IB to this Prospectus.

As of 31 December 2006 and 28 December 2007, Shengli Steel Pipe's Core Business had inventories of RMB45.7 million and RMB95.1 million, respectively. The increase in inventories from 31 December 2006 to 28 December 2007 was primarily a result of increased sales volumes of our SSAW pipes and cold-formed section steel.

As of 31 December 2008 and 30 June 2009, the Group had inventories of RMB812.1 million and RMB379.4 million, respectively. During the year ended 31 December 2008 and the six months ended 30 June 2009, we supplied significantly more oil and gas line pipes to the CNPC Group and other customers through sales of goods arrangements, as opposed to processing services, which incurred

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significant inventories because, under a contract to sell goods, we own the raw materials, work-in-progress and any undelivered finished goods in connection with the contract. Our inventories as of 30 June 2009 decreased from the balance on 31 December 2008 following the delivery of SSAW pipes, which substantially reduced our inventory of finished goods.

Trade receivables

Turnover days of the Group's trade receivables were 31.2 days and 20.3 days for the year ended 31 December 2008 and the six months ended 30 June 2009, respectively. Trade receivable turnover days of Shengli Steel Pipe's Core Business were 187.3 and 82.4 days for the year ended 31 December 2006 and the period from 1 January to 28 December 2007, respectively. Our credit policy did not change substantially during the Track Record Period. The improvement in the average turnover days of trade receivables was due to changes in the type of production arrangement, which increased the percentage of the Group's revenue generated from sales of goods, as opposed to the revenue generated from the provision of processing services. The Group entered into production arrangements with the CNPC Group whereby it began generating a large portion of its revenue from sales of goods. Under the sale of goods arrangement, the increase in the Group's revenue grew at a faster rate than the increase in its trade receivables because its trade receivables were partly offset by advance payments made by the CNPC Group for raw materials. See "Business — Sales and Marketing — Production arrangement and credit policy". As a result, the trade receivable turnover days during the Track Record Period decreased substantially.

Our trade receivables mainly represent the credit sales of our product to be paid by customers. We generally grant a 90-day credit period to our customers. In addition, we have adopted a series of policies and efforts to manage the collection of our trade receivables, such as imposing stringent credit standards, conducting credit checks and closely monitoring our overdue trade and bills receivables. The following table sets forth an aging analysis of trade receivables of the Group and Shengli Steel Pipe as of the dates indicated:

	Core Business of Shengli Steel Pipe ⁽¹⁾		The Group ⁽¹⁾	
	As of 31 December 2006	As of 28 December 2007	As of 31 December 2008	As of 30 June 2009
	(RMB'000)		(RMB'000)	
Outstanding balances with ages:				
Within 90 days	41,860	58,919	123,283	281,452
Over 90 days but within 1 year	2,207	—	1,224	2,197
Over 1 year	3,347	2,418	—	—
Total	47,414	61,337	124,507	283,649

(1) Although the Group acquired substantially all the assets and liabilities of the Core Business of Shengli Steel Pipe as a going concern, their respective results of operations before and after the acquisitions are not directly comparable. This table contains financial information from the accountants' reports of two separate entities, which are included as Appendix IA and Appendix IB to this Prospectus.

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Trade receivables of Shengli Steel Pipe's Core Business were RMB47.4 million as of 31 December 2006 and RMB61.3 million as of 28 December 2007. The increase in trade receivables of Shengli Steel Pipe's Core Business as of 31 December 2006 as compared to 28 December 2007 was generally a result of increased sales volumes of our SSAW pipes and cold-formed section steel during 2007.

The Group's trade receivables as of 31 December 2008 and 30 June 2009 was RMB124.5 million and RMB283.6 million, respectively. For the year ended 31 December 2008 and the six months ended 30 June 2009, we supplied a large number of oil and gas line pipes to the CNPC Group and other customers as sales of goods, as opposed to provision of processing services. As a result of the significant increase in revenue caused by the change in the type of production arrangement, we incurred significantly large trade receivables as of 31 December 2008 and 30 June 2009.

Trade payables

Turnover days of the Group's trade payables were 16.0 days and 22.8 days for the year ended 31 December 2008 and the six months ended 30 June 2009, respectively. Trade payable turnover days of Shengli Steel Pipe's Core Business were 75.2 days and 32.1 days for the year ended 31 December 2006 and the period from 1 January to 28 December 2007, respectively. The improvement in the average turnover days of trade payables was due to changes in the type of production arrangement, which increased the percentage of the revenue generated from sales of goods, as opposed to revenue from processing services. The Group entered into production arrangements with the CNPC Group whereby it began generating a large portion of its revenue from sales of goods. Under the sale of goods arrangements, the increase in the Group's cost of sales grew at a faster rate than the increase in its trade payables because its trade payables were partly offset by advance payments made by the CNPC Group for raw materials. See "Business — Sales and Marketing — Production arrangement and credit policy". As a result, the Group's trade payable turnover days decreased substantially.

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

	Core Business of Shengli Steel Pipe ⁽¹⁾		The Group ⁽¹⁾	
	As of 31 December 2006	As of 28 December 2007	As of 31 December 2008	As of 30 June 2009
	(RMB'000)		(RMB'000)	
Outstanding balances with ages:				
Within 90 days	4,497	12,320	27,276	289,292
Over 90 days but within 1 year	5,875	2,591	40,870	61,249
Over 1 year	2,225	59	—	3,272
Total	12,597	14,970	68,146	353,813

(1) Although the Group acquired substantially all the assets and liabilities of the Core Business of Shengli Steel Pipe as a going concern, their respective results of operations before and after the acquisitions are not directly comparable. This table contains financial information from the accountants' reports of two separate entities, which are included as Appendix IA and Appendix IB to this Prospectus.

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Trade payables of Shengli Steel Pipe's Core Business as of 31 December 2006 and 28 December 2007 were RMB12.6 million and RMB15.0 million, respectively. The increase in trade payables from 2006 to 2007 was generally a result of increased sales volume of our SSAW pipes and cold-formed section steel.

Trade payables of the Group as of 31 December 2008 and 30 June 2009 were RMB68.1 million and RMB353.8 million, respectively. For the year ended 31 December 2008 and the six months ended 30 June 2009, we supplied a large number of oil and gas line pipes to the CNPC Group and other customers on a basis of sales of goods, as opposed to provision of processing services. As a result, we assumed the responsibility to procure the raw materials for our production and incurred large trade payables and 30 June 2009.

Analysis of net current assets and liabilities

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

	Shengli Steel Pipe	The Group			
	As of 31 December 2006 (RMB'000)	As of 31 December 2007	As of 31 December 2008	As of 30 June 2009	As of 31 October 2009 (unaudited)
Current assets					
Inventories	45,699	76,267	812,126	379,448	274,997
Trade and other receivables	62,161	25,671	178,854	368,580	671,833
Amounts due from associates	22,929	—	—	—	—
Amount due from a related party	—	—	2,840	—	1,598
Prepaid lease payments	306	123	123	123	355
Bank balances and cash	28,002	926	80,796	78,378	50,333
Total current assets	<u>159,097</u>	<u>102,987</u>	<u>1,074,739</u>	<u>826,529</u>	<u>999,116</u>
Current liabilities					
Trade and other payables	56,835	49,307	829,542	497,261	594,880
Amounts due to related parties	—	61,405	275,308	213,734	793
Consideration payables	—	116,510	—	—	—
Bank borrowings	5,700	—	50,000	50,000	82,647
Total current liabilities	<u>62,535</u>	<u>227,222</u>	<u>1,154,850</u>	<u>760,995</u>	<u>678,320</u>
Net current assets (liabilities)	<u>96,562</u>	<u>(124,235)</u>	<u>(80,111)</u>	<u>65,534</u>	<u>320,796</u>

As of 31 December 2006, Shengli Steel Pipe had a net current asset position of RMB96.6 million. The Group had net current liabilities of RMB124.2 million and RMB80.1 million as of 31 December 2007 and 2008, respectively, but returned to a net current asset position of RMB65.5 million as of 30 June 2009. The Group's net current liability position as of 31 December 2007 was primarily the result of (i) consideration payables of RMB116.5 million due to Shengli Steel Pipe and Victory Trading,

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which represented the balance of the consideration for the acquisition of Shandong Shengli and the SSAW pipe business of Shengli Steel Pipe and (ii) an advance of RMB61.4 million from Shengli Steel pipe for general working capital purposes. The Group's net liability position as of 31 December 2008 was the result of (i) an increase of RMB75.4 million in the amount due to Shengli Steel Pipe, which represented advances for general working capital purposes, (ii) a loan of RMB138.0 million from Aceplus for working capital and business expansion purposes, and (iii) bank borrowings of RMB50.0 million. Our shift in the type of production arrangement to sales of goods in 2008 resulted in substantial increases in trade and other receivables as well as inventories, which primarily consisted of steel coils. These increases in raw material inventory were generally offset by corresponding increases in trade and other payables for such inventories. Our trade and other receivables balance as of 30 June 2009 increased by 106.1% from the balance as of 31 December 2008 despite our low average turnover days of 20.3 days for trade receivables. The significant increase in trade and other receivables was in line with our sales volume and revenue growth during 2009. Our revenue generated during the first six months of 2009 represented a 69.3% increase over total revenue generated in the year ended 31 December 2008. As a result, we achieved a net current asset position of RMB65.5 million as of 30 June 2009.

As of 31 October 2009, we had net current assets of RMB320.8 million. The Group's net current asset position was primarily the result of (i) an increase in trade receivables of RMB303.3 million, (ii) the capitalization of a loan of RMB138.0 million from Aceplus for Shares of the Company and (iii) the settlement of an amount due to Shengli Steel Pipe of approximately RMB74.9 million.

Cash flows

The following table sets forth a summary of the cash flows of the Group and Shengli Steel Pipe for the periods indicated:

	Shengli Steel Pipe ⁽¹⁾		The Group ⁽¹⁾		
	Year ended 31 December 2006 (RMB'000)	Period from 1 January to 28 December 2007 (RMB'000)	Year ended 31 December 2008 (RMB'000)	Six months ended 30 June 2008 (RMB'000) (unaudited)	Six months ended 30 June 2009 (RMB'000)
Cash and cash equivalents at beginning of the period/year	31,784	28,002	926	926	80,796
Net cash from/(used in) operating activities	30,052	(6,389)	(15,687)	(647)	73,988
Net cash from/(used in) investing activities	(39,534)	(34,338)	(222,564)	(49,548)	(11,599)
Net cash from/(used in) financing activities	5,700	37,255	318,121	59,920	(64,807)
Net increase/(decrease) in cash and cash equivalents	(3,782)	(3,472)	79,870	9,725	(2,418)
Cash and cash equivalents at end of the period/year	28,002	24,530	80,796	10,651	78,378

(1) The cash flow information for Shengli Steel Pipe and the Group are not comparable. This table contains financial information from the accountants' reports of two separate entities, which are included as Appendix IA and Appendix IB to this Prospectus.

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Cash from (used in) operating activities

For the six months ended 30 June 2009, the Group had net cash generated from operating activities of RMB74.0 million. Operating cash inflow before movements in working capital was RMB163.4 million, which consisted primarily of RMB144.9 million as profit before taxation and adjustments for depreciation of property, plant and equipment. Working capital adjustments primarily reflected (i) a decrease in trade and other payables of RMB328.1 million due to an increase in production volumes and change in the type of production arrangement with the CNPC Group, under which it made payments for our purchases of raw materials on our behalf, and (ii) an increase in trade and other receivables of RMB186.5 million due to the time lag between delivery of products and settlement. These negative adjustments were partly offset by a decrease in inventories of RMB426.5 million due to the delivery of SSAW pipes that reduced our inventory of finished goods.

For the year ended 31 December 2008, the Group had net cash used in operating activities of RMB15.7 million. Net cash of the Group used in operating activities for the year ended 31 December 2008 mainly reflected negative working capital adjustments, consisting of (i) an increase in inventories of RMB737.1 million due to an increase in production volume and change in the type of production arrangement with the CNPC Group, which substantially increased inventory of raw materials and (ii) an increase in trade and other receivables of RMB239.5 million due to the time lag between delivery of products and settlement. These adjustments were partly offset by (i) operating cash inflow before movements in working capital of RMB163.4 million, which consisted primarily of RMB148.8 million as profit before taxation and adjustments for depreciation of property, plant and equipment and amortization of intangible asset relating to the acquisition of Shengli Steel Pipe and (ii) an increase in trade and other payables of RMB797.5 million due to the increase in production volume and change in the type of production arrangement with the CNPC Group from the provision of processing services to sales of goods, which substantially increased our purchases of raw materials.

For the period from 1 January to 28 December 2007, Shengli Steel Pipe had net cash used in operating activities of RMB6.4 million. Shengli Steel Pipe's net cash used in operating activities for the period from 1 January to 28 December 2007 mainly reflected negative working capital adjustments, consisting an increase in inventories of RMB49.6 million due to commencement of business operations by Rizhao Shengli and an increase in trade and other receivables of RMB18.0 million due to increases in sales of SSAW pipes and cold-formed section steel. These adjustments were partly offset by (i) its operating cash inflow before movements in working capital of RMB64.4 million, which consisted of RMB52.7 million as profit before taxation as adjusted by income tax expenses recognized in profit or loss, depreciation of property, plant and equipment and impairment of goodwill and interest expenses and (ii) an increase in trade and other payables of RMB8.4 million due to an increase in production volume and sales for both the SSAW pipe and cold-formed section steel products.

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For the year ended 31 December 2006, Shengli Steel Pipe had net cash generated from operating activities of RMB30.1 million. Operating cash inflow before movements in working capital was RMB13.2 million, which consisted primarily of RMB9.0 million as profit before taxation and adjustments for depreciation of property, plant and equipment. Positive working capital adjustments primarily reflected a decrease in trade and other receivables of RMB30.5 million due to reduced prepayment for the production facilities and reduced production volume. This positive adjustment was partly offset by an increase in inventories of RMB15.3 million due to the trial production of Rizhao Shengli that commenced in the second half of 2006.

Cash used in investing activities

For the six months ended 30 June 2009, the Group had net cash used in investing activities of RMB11.6 million. Net cash of the Group used in investing activities for the six months ended 30 June 2009 mainly consisted of purchase of property, plant and equipment totaling RMB14.5 million for the production of SSAW pipes, slightly offset by interest received.

For the year ended 31 December 2008, the Group had net cash used in investing activities of RMB222.6 million. Net cash of the Group used in investing activities for the year ended 31 December 2008 mainly consisted of: (i) the construction of new SSAW pipe production lines and anti-corrosion coating lines and purchases of production equipment totaling RMB103.6 million; (ii) the acquisition of Shandong Shengli for RMB32.5 million; and the acquisition of Shengli Steel Pipe's Core Business for RMB84.0 million.

For the period from 1 January to 28 December 2007, Shengli Steel Pipe had net cash used in investing activities of RMB34.3 million. Shengli Steel Pipe's net cash used in investing activities for the period from 1 January to 28 December 2007 mainly consisted of: (i) the purchase of property, plant and equipment of RMB41.1 million, including the cost for Rizhao Shengli's production facilities, and deposit paid in respect of the SSAW pipe production lines that were constructed in 2008; and (ii) advance of loan receivables of RMB11.0 million, partly offset by the repayment of advances to associates of RMB19.3 million.

For the year ended 31 December 2006, Shengli Steel Pipe had net cash used in investing activities of RMB39.5 million. Shengli Steel Pipe's net cash used in investing activities for the year ended 31 December 2006 mainly consisted of: (i) the purchase of property, plant and equipment used in Rizhao Shengli and Shandong Shengli Dezhou Branch of RMB71.5 million; and (ii) an advance to an associate of RMB19.3 million partly offset by repayment of deposit for investment in an associate of RMB30.0 million and proceeds from the repayment of loan receivable of RMB20.0 million.

Cash from (used in) financing activities

For the six months ended 30 June 2009, the Group had net cash used in financing activities of RMB64.8 million, which was the repayment the Group made to Shengli Steel Pipe.

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For the year ended 31 December 2008, the Group had net cash generated from financing activities of RMB318.1 million. Net cash of the Group from financing activities for the year ended 31 December 2008 mainly consisted of: (i) an advance of RMB260.4 million from Shengli Steel Pipe to the Group for general working capital; (ii) a shareholder's loan of RMB138.0 million provided by Aceplus to CPE for the business expansion and general working capital of the Group; (iii) an advance of approximately RMB0.5 million from Mr. Zhang, a director of the Company, to the Group for general working capital; and (iv) proceeds from bank borrowings of RMB50.0 million, which were partially offset by repayment of RMB98.7 million to Shengli Steel Pipe and repayment of advances from staff of RMB32.1 million during the year.

For the period from 1 January to 28 December 2007, Shengli Steel Pipe had net cash generated from financing activities of RMB37.3 million. Shengli Steel Pipe's net cash from financing activities for the period from 1 January to 28 December 2007 mainly consisted of RMB113.4 million as proceeds received from bank borrowings, partly offset by repayment of bank borrowings of RMB89.3 million and dividends payments of RMB18.9 million.

For the year ended 31 December 2006, Shengli Steel Pipe had net cash generated from financing activities of RMB5.7 million from proceeds of bank borrowings.

Capital expenditures

We incurred capital expenditures for the acquisition of property, plant and equipment, the expansion of our production facilities and purchase of machinery for the manufacture of our steel pipe products. Capital expenditures during the historical periods were primarily related to property, plant and equipment.

The following table sets forth the capital expenditures of the Group and Shengli Steel Pipe during the Track Record Period:

	Core Business of Shengli Steel Pipe ⁽¹⁾		The Group ⁽¹⁾		
	Year ended 31 December		Year ended 31 December		Six months ended 30 June
	2006	2007	2007	2008	2009
	(RMB'000)		(RMB'000)		
Capital expenditure					
Purchase of property, plant and equipment ⁽¹⁾	61,031	30,471	—	129,810	10,354
Purchase of subsidiary ⁽²⁾	—	—	32,500	—	—
Purchase of business ⁽³⁾	—	—	84,010	—	—
Total	<u>61,031</u>	<u>30,471</u>	<u>116,150</u>	<u>129,810</u>	<u>10,354</u>

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- (1) Although the Group acquired substantially all the assets and liabilities of the Core Business of Shengli Steel Pipe as a going concern, their respective results of operations before and after the acquisitions are not directly comparable. This table contains financial information from the accountants' reports of two separate entities, which are included as Appendix IA and Appendix IB to this Prospectus.
- (2) For the year ended 31 December 2006, Shengli Steel Pipe constructed facilities for the production of cold-formed section steel. For the year ended 31 December 2007, Shengli Steel Pipe constructed facilities for the production of SSAW pipes and chemical products. For the year ended 31 December 2008, the Group constructed two new SSAW pipe production lines and two anti-corrosion coating lines.
- (3) On 29 December 2007, the Group acquired Shandong Shengli as its principal operating subsidiary.
- (4) On 31 December 2007, the Group acquired the business of the SSAW pipe operations and part of the assets and liabilities relating to the SSAW pipe business of Shengli Steel Pipe.

Indebtedness

Borrowings

The following table sets forth information of the Group's and Shengli Steel Pipe's bank borrowings as of the dates indicated:

	Core Business of Shengli Steel Pipe		The Group		
	As of 31 December 2006	As of 28 December 2007	As of 31 December 2008	As of 30 June 2009	As of 31 October 2009
	(RMB'000)		(RMB'000)		
			(unaudited)		
Short-term bank loans - unsecured	5,700	—	—	—	65,000
Short-term bank loan - guaranteed	—	29,800	50,000	50,000	—
Short-term bank loan - secured	—	—	—	—	15,000

All of the bank borrowings are denominated in Renminbi, the functional currency of the Group and Shengli Steel Pipe.

All of our bank borrowings are at fixed interest rates and repayable within one year. The following table sets forth the average effective annual interest rates of our bank borrowings as of the dates indicated:

	Shengli Steel Pipe		The Group		
	As of 31 December 2006	As of 28 December 2007	As of 31 December 2008	As of 30 June 2009	As of 31 October 2009
			(unaudited)		
Short-term bank loans - unsecured	7.25%	—	—	—	4.86%-5.31%
Short-term bank loan - guaranteed	—	5.67% to 7.60%	5.31%	5.31%	—
Short-term bank loan - secured	—	—	—	—	5.31%

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As of the Latest Practicable Date, we had banking facilities of RMB130.0 million, of which RMB80.0 million had been drawn down and RMB50.0 million remained unutilized.

As of 31 October 2009, being the latest practicable date for the purpose of this indebtedness statement in this Prospectus, the Group had outstanding unsecured short-term bank and other borrowings of approximately RMB67.6 million, secured short-term bank borrowings of RMB15 million and amounts due to related parties of approximately RMB0.8 million. Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, as of 31 October 2009, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptable credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

We confirm that: (a) there has not been any material change in our indebtedness since 31 October 2009; and (b) the Group is not likely to raise any material external debt financing in the near future outside our ordinary course of business.

Contingent liabilities

As of 31 October 2009, we did not have any outstanding loan capital, bank overdrafts, and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, or guarantees or other material contingent liabilities outstanding.

We further confirm that there has not been any material change in our contingent liabilities since 30 June 2009.

Commitments

Operating leases

We lease certain properties under an operating lease arrangement for a fixed rental, which is subject to adjustment every three years. Our future minimum operating lease payments under this non-cancelable operating lease which falls due as of the dates indicated are set forth below:

	Shengli Steel Pipe		The Group	
	As of 31 December 2006	As of 28 December 2007	As of 31 December 2008	As of 30 June 2009
	(RMB'000)		(RMB'000)	
Payment recognized as an expense				
Minimum lease payments	—	—	3,451	3,198
Non-cancelable operating lease commitments				
No longer than 1 year	—	—	3,451	6,400
Longer than 1 year and no longer than 5 years	—	—	10,353	9,600

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Capital commitments

As of 30 June 2009, the Group had nil capital commitments.

Off-balance Sheet Arrangements

As of 30 June 2009, we did not have any off-balance sheet arrangements.

Quantitative and Qualitative Disclosures about Market Risk

We are exposed to various types of market risks in the ordinary course of our business, including currency risk, interest rate risk and other price risk. We manage our exposure to these and other market risks through regular operating and financial activities.

Market risk

We have few transactions denominated in foreign currencies, hence, exposure to exchange rate fluctuations is limited. Our exposure to interest rate risk is also limited as the interest rates of our short-term bank borrowings are fixed. We do not hold or issue any derivative financial instruments to manage our exposure to interest rate and foreign exchange rate risk.

There has been no change to our exposure to market risk or the manner in which we manage and measure the risk.

Credit risk

Our exposure to credit risk refers to the risk that a counterparty will default on its contractual obligations and relates primarily to trade receivables. We have adopted a policy of only dealing with creditworthy counterparties. Our level of exposure to credit risk and the recoverability of each trade debt are monitored on an ongoing basis.

Our credit risk is concentrated as a significant majority of our revenue is generated from the CNPC Group and the Sinopec Group. As of 31 December 2008 and 30 June 2009, approximately 82.9% and 91.9% of our trade receivables, respectively, were due from our five largest customers and approximately 43.5% and 44.0% of our trade receivables, respectively, were from our largest customer.

Interest rate risk

Our exposure to market risk for changes in interest rates relates primarily to fluctuations in interest rates on our short-term debt and our ability to borrow further funds. Higher interest rates may adversely affect our revenue, profit from operations and net profit. We have not historically been exposed nor do we anticipate being exposed to material risks due to changes in interest rates on debt denominated in Renminbi, although our future interest income and interest disbursements may fluctuate in line with changes in interest rates on debt denominated in Renminbi.

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Liquidity risk

We maintain sufficient cash and cash equivalents. We finance our activities and liquidity through internally generated cash flows and minimize liquidity risk by keeping committed credit lines available. Our financial assets and financial liabilities are non-interest bearing, except for cash and bank balances and short-term bank loans.

Inflation risk

Inflation in China has not had a material impact on our results of operations in recent years. According to the National Bureau of Statistics of China, the change in the Consumer Price Index in China was 1.5%, 4.8% and 5.9% in 2006, 2007 and 2008, respectively.

Commodity price risk

We are also exposed to commodity price risk resulting from changes in the prices of our products and the cost of raw materials, mainly steel coil produced from third parties.

DISCLOSURE UNDER RULES 13.13 TO 13.19 OF THE HONG KONG LISTING RULES

Our Directors confirm that as of the Latest Practicable Date, there were no circumstances which would give rise to the disclosure requirements under Rules 13.13 to 13.19 of the Hong Kong Listing Rules had the Shares been listed on the Hong Kong Stock Exchange on that date.

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PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following is an illustration regarding to the unaudited pro forma adjusted net tangible assets of the Group attributable to the equity holders of the Company which has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 30 June 2009. This unaudited pro forma adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not provide a true picture of the financial positions of the Group had the Global Offering been completed as of 30 June 2009 or at any future dates.

	Audited combined net tangible assets of the Group attributable to the equity holders of the Company as of 30 June 2009 ⁽¹⁾	Estimated net proceeds from the Global Offering ⁽²⁾	Unaudited pro forma adjusted net tangible assets attributable to the equity holders of the Company	Unaudited pro forma adjusted net tangible assets per Share ⁽³⁾⁽⁴⁾	
	RMB'000	RMB'000	RMB'000	RMB	HK\$
Based on the Offer Price of HK\$1.81 for each Share	291,281	890,957	1,182,238	0.4926	0.5591
Based on the Offer Price of HK\$2.69 for each Share	291,281	1,342,127	1,633,408	0.6806	0.7725

- (1) The audited combined net tangible assets of the Group attributable to the equity holders of the Company as of 30 June 2009 was determined as follows:

	RMB'000
Audited combined net assets of the Group as of 30 June 2009 as shown in the "Accountants' Report of the Group" as set out in Appendix IA to this Prospectus	293,806
Less: Goodwill	2,525
 Audited combined net tangible assets of the Group attributable to the equity holders of the Company as of 30 June 2009	 291,281

- (2) The estimated net proceeds from the Global Offering are based on the Offer Shares and the Offer Price range of HK\$1.81 and HK\$2.69 per Share, after deduction of underwriting fees and related expenses payable by the Company but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that a total of 600,000,000 Shares are expected to be in issue pursuant to the Global Offering, taking no account of any additional income the Group may have earned from the estimated net proceeds from the Global Offering and any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option.

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- (4) The property interests were valued by Jones Lang LaSalle Sallmanns Limited and the valuation report in respect of which was set out in Appendix IV to this Prospectus. According to the valuation report, the property interests as of 30 September 2009 amounted to approximately RMB76,012,000. Comparing this amount with the unaudited net carrying value of the property interests as of 30 September 2009 of approximately RMB57,480,000, there was a surplus of RMB18,532,000. Had the property interests been stated at revaluation, additional annual depreciation of RMB488,000 will therefore be charged. The surplus on revaluation will not be reflected in the Group's consolidated financial statements in subsequent years as the Group has elected to state the property interests at cost model.

WORKING CAPITAL CONFIRMATION

We expect to fund our working capital needs with a combination of cash generated from operating activities, short-term bank loans and equity financing. Taking into account our cash generated from operating activities, the net proceeds of the Global Offering, our presently available credit facilities with our banks and financial institutions and cash and cash equivalents on hand, our Directors are of the opinion that we will have sufficient working capital for present requirements for at least the next 12 months from the date of publication of the Prospectus.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2009

Forecast consolidated profit after taxation⁽¹⁾⁽²⁾not less than RMB330 million

Unaudited pro forma forecast basic earnings per Share⁽³⁾approximately RMB0.1375
(approximately HK\$0.1561)

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- (1) The bases on which the above profit forecast for the year ending 31 December 2009 has been prepared are summarized in Appendix III to this Prospectus.
- (2) The forecast consolidated profit after taxation for the year ending 31 December 2009 prepared by our Directors is based on the audited combined financial statements of the Group for the six months ended 30 June 2009, the unaudited consolidated management accounts of the Group for the four months ended 31 October 2009 and a forecast of the consolidated results of the Group for the remaining two months ending 31 December 2009. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by the Group as summarized in the Accountants' Report of the Group as set out in Appendix IA to this Prospectus.
- (3) The calculation of the unaudited pro forma forecast basic earnings per Share is based on the forecast consolidated results of the Group for the year ending 31 December 2009, assuming the Global Offering had been completed on 1 January 2009 and a total of 2,400,000,000 Shares in issue during the entire period, taking no account of any additional income the Group may have earned from the estimated net proceeds from the Global Offering and any Shares which may be allotted and issued pursuant to the exercise of the Over-allotment Option.

DIVIDEND POLICY

After the completion of the Global Offering, our Shareholders will be entitled to receive dividends declared by the Company, if any are declared and payable. To date, the Company has not declared any dividends. There is no guarantee that dividends will be paid in the future. The declaration and payment of dividends will be subject to the discretion of our Directors in accordance with our Articles of Association and the amounts of dividends actually declared and paid will depend on,

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among other things, our future operations and earnings, financial condition, capital requirements and surplus, contractual restrictions, payments by subsidiaries of cash dividends to us, business opportunities and capital requirements, market conditions and other factors that our Directors deem relevant.

The shareholder of Shandong Shengli, namely CPE, resolved that the profit from its operations for the years ended 31 December 2008 and 2009 will be retained and will not be distributed.

RELATED PARTY TRANSACTIONS

The Group conducted related party transactions, including sales of SSAW pipes to Shengli Steel Pipe for resale purposes and payments of utility bills on the behalf of Shengli Coating, in 2008 and the six months ended 30 June 2009. In addition, the Group engaged Shengli Coating to carry out anti-corrosive work for its SSAW pipes prior to the installation of the Group's anti-corrosion coating lines in August 2008. Following the installation of its anti-corrosion coating lines in August 2008, the Group has conducted most of the anti-corrosion treatments for its SSAW pipes internally. However, following its recent production expansion in the second half of 2008, the Group may engage Shengli Coating from time to time to provide anti-corrosion treatments when the Group's anti-corrosion coating lines are at full capacity.

With respect to related parties transactions as set out in Note 31 of the Accountants' Report of the Group attached as Appendix IA to this Prospectus, our Directors are of the view that these transactions were conducted on normal commercial terms and entered into in our ordinary course of business.

DISTRIBUTABLE RESERVES

As the Company was incorporated on 3 July 2009, there were no reserves available for distribution to shareholders as of 30 June 2009.

PROPERTY INTERESTS

Jones Lang LaSalle Sallmanns Limited, an independent valuer, has valued our property interests as of September 30, 2009 at approximately RMB76.0 million. The text of its letter and valuation certificates are set out in Appendix IV to this Prospectus.

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The table below shows the reconciliation of the net book value of the relevant property interests as of 30 September 2009 to their fair value as of 30 September 2009 as stated in Appendix IV to this Prospectus:

	<u>RMB</u>
	<u>('000)</u>
Net book value of 30 June 2009	
— Property and plant	33,709
— Prepaid lease payments	<u>5,956</u>
	39,665
Movement for the period from 30 June 2009 to 30 September 2009	<u>17,815</u>
Net book value as of 30 September 2009	57,480
Valuation surplus as of 30 September 2009	<u>18,532</u>
Valuation amount as of 30 September 2009	<u><u>76,012</u></u>

NO MATERIAL ADVERSE CHANGE

Except as disclosed in “— Management’s Discussion and Analysis of Financial Condition and Results of Operations — Indebtedness” and “ — Dividend policy”, we confirm that there has been no material adverse change in our financial or trading position since 30 June 2009 (being the date to which the Group’s latest combined financial results were prepared, as set out in the Accountants’ Report of the Group in Appendix IA to this Prospectus).

FUTURE PLANS AND USE OF PROCEEDS

FUTURE PLANS

We intend to diversify our product offering to include LSAW and ERW pipes by expanding our capacity in the design and production of such pipes with the proceeds from the Global Offering. We plan to construct one production line with an annual production capacity for 200,000 tonnes of large-diameter LSAW pipes with thicker walls. We also plan to upgrade one of our cold-formed section steel production lines to an ERW pipe production line with an annual production capacity of 100,000 tonnes. The expected construction periods for the above new production lines vary from ten months to 18 months.

The LSAW and ERW pipes we manufacture in the future will share a similar customer base with our SSAW pipes. LSAW pipes are generally installed in large-diameter national oil and gas pipelines. ERW pipes are generally installed in the smaller-diameter oil and gas pipelines. We expect to compete with our existing competitors as well as certain regional suppliers of LSAW and ERW pipes in the domestic market. See “Business — Business Strategies” for a detailed description of the Group’s future plans.

USE OF PROCEEDS

We estimate that we will receive net proceeds of approximately HK\$1,267.4 million from the Global Offering, assuming that the Over-allotment Option is not exercised, after deducting the underwriting commissions and other estimated offering expenses payable by us and assuming the initial public Offer Price of HK\$2.25 per Share, being the mid-point of the indicative Offer Price range set forth on the cover page of this Prospectus.

We intend to use the proceeds from the Global Offering for the purposes and in the amounts set out below:

- approximately 57.0%, or HK\$737.7 million (RMB650.0 million), to expand our capacity in the design and production of LSAW pipes, with the majority of such amount to be utilized for the construction of one LSAW pipe production line and one anti-corrosion coating line and the purchase of production and testing equipment;
- approximately 38.6%, or HK\$499.4 million (RMB440.0 million), to expand our production capacity of SSAW pipes through the construction of four SSAW pipe production lines as well as two anti-corrosion coating lines to meet the growing demand for high-grade SSAW pipes;
- approximately 4.4%, or HK\$56.7 million (RMB50.0 million), to expand our capacity in the design and production of ERW pipes through the upgrade of one of our cold-formed section steel production facilities to an ERW pipe production line; and
- any remaining balance to be used for working capital and other general corporate purposes.

FUTURE PLANS AND USE OF PROCEEDS

To the extent that the net proceeds from the Global Offering are not immediately applied to the above purposes, we intend to deposit such proceeds into short-term deposits with financial institutions and/or invest in money market instruments.

The net proceeds that we estimate we would receive from subscriptions for additional Shares in the event the Over-allotment Option is exercised in full is approximately HK\$158.0 million and HK\$234.8 million (assuming the lowest and highest points of the indicative Offer Price range, respectively). In the event the Over-allotment Option is exercised in full, we intend to apply the additional proceeds to the above uses in the proportions stated above.

To the extent that the net proceeds are not sufficient to fund the uses set forth above, we intend to fund the balance with cash generated from our operations.

The Selling Shareholders will be selling a portion of their Shares in the Global Offering. The net proceeds of the Global Offering to the Selling Shareholders (after deducting underwriting commissions and estimated expenses and fees payable by the Selling Shareholders in connection with the Global Offering and assuming an Offer Price of HK\$2.25 per Share, being the midpoint of the indicative offer price range) will be approximately HK\$256.0 million, assuming the Over-allotment Option is not exercised. We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering.

We will not use any of the net proceeds of the Global Offering to fund activities that any U.S. person would be prohibited from undertaking under sanctions administered by OFAC.

UNDERWRITING

HONG KONG UNDERWRITERS

Sponsor and Lead Manager

Macquarie Capital Securities Limited

Co-Lead Managers

CIMB Securities (HK) Ltd.

Guotai Junan Securities (Hong Kong) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Public Offering, we are offering the Hong Kong Public Offer Shares for subscription by the public in Hong Kong at the Offer Price on, and subject to, the terms and conditions of this Prospectus and the Application Forms. Subject to the Listing Committee of the Hong Kong Stock Exchange granting listing of, and permission to deal in, the Shares in issue and to be issued as mentioned herein and to certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have agreed severally and not jointly to subscribe or procure subscribers to subscribe for the Hong Kong Public Offer Shares which are being offered but are not taken up under the Hong Kong Public Offering on the terms and conditions of this Prospectus, the Application Forms and the Hong Kong Underwriting Agreement.

The Hong Kong Underwriting Agreement is conditional upon and subject to the International Purchase Agreement having been signed and becoming unconditional.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Public Offer Shares under the Hong Kong Underwriting Agreement are subject to termination, if, at any time prior to 8:00 a.m. on the Listing Date:

- (a) there shall develop, occur, exist or come into effect:
 - (i) any new Law or regulation or any change or announcement or publication of a prospective change in existing Law or regulation, or any change or announcement or publication of a prospective change in the interpretation or application thereof by any court or other competent authority in or affecting Hong Kong, the PRC, the United States, United Kingdom, the European Union (or any member thereof), Japan or Singapore or other jurisdiction where any member of the Group is incorporated or has a business presence (each a “Relevant Jurisdiction”); or

UNDERWRITING

- (ii) any change or development or event or series of events likely to result in or represent a change, or a prospective change or development, in local, national, regional or international financial, political, military, industrial, economic, fiscal or market conditions (including, without limitation, conditions in stock, bond and credit markets, money and foreign exchange markets and inter-bank markets) in or affecting any Relevant Jurisdiction; or
- (iii) any trade or economic embargoes or sanctions, in whatever form and directly or indirectly, imposed or enforced by the United States or the European Union (or any member thereof) in or against the PRC; or
- (iv) any change or development involving a prospective change in Taxation or exchange controls, currency exchange rates or foreign investment regulations in any Relevant Jurisdiction adversely affecting an investment in the Shares; or
- (v) any event or series of events in the nature of force majeure (including, without limitation, acts of government, strikes, lock-outs, fire, explosion, flooding, civil commotion, acts of wars, outbreak or escalation of hostilities, acts of terrorism (whether or not responsibility has been claimed) or acts of God), calamity, crisis, outbreak of disease or epidemic, breakdown in computer or communication or telecommunication network or system in or affecting any Relevant Jurisdiction; or
- (vi) (A) any suspension or limitation on trading in shares or securities generally on the Hong Kong Stock Exchange, the New York Stock Exchange, the London Stock Exchange, the Shanghai Stock Exchange, the Tokyo Stock Exchange or (B) a general moratorium on commercial banking activities in any Relevant Jurisdiction declared by the relevant authorities, or a material disruption in commercial banking activities or foreign exchange trading or securities settlement or clearance services in or affecting any Relevant Jurisdiction; or
- (vii) any action, proceedings, investigation or enquiry brought or commenced or any sanction penalty or reprimand imposed or issued by any Government Authority or organization against any member of the Group or executive Director; or
- (viii) any matter, event or circumstance that would require the issue of a supplemental prospectus or other document to supplement any of the Prospectus or the Application Forms by the Company, whether pursuant to the Companies Ordinance; or
- (ix) any petition being presented or action taken or commenced for the winding-up or liquidation of any member of the Group or bankruptcy of any executive Director or Mr. Yan or any composition or arrangement being made or entered into by any member of the Group or executive Director or Mr. Yan with its or his creditors or any provisional liquidator, receiver or manager being appointed to take possession of all or any part of the assets or undertaking of any member of the Group or executive Director or Mr. Yan,

UNDERWRITING

and which, in any such case above individually or in the aggregate and in the sole opinion of the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters):

- (A) is or is likely to or will have a material adverse effect on the business, management, financial or trading position or prospects of the Group as a whole; or
 - (B) has or will have or is likely to have a material adverse effect on the success, marketability or pricing of the Global Offering or have a material adverse effect on the level of applications under the Hong Kong Public Offering or the level of interest under the International Offering; or
 - (C) is or will or is likely to make it inadvisable or inexpedient or impracticable for Hong Kong Public Offering and/or the Global Offering to proceed or to implement the Hong Kong Public Offering and/or the Global Offering; or
 - (D) makes it inadvisable or impracticable for any part of the Hong Kong Underwriting Agreement or the International Purchase Agreement or the Global Offering or the Hong Kong Public Offering (including underwriting) to be performed or implemented on the terms and in the manner contemplated by the Prospectus, or
- (b) there has come to the notice of the Sole Global Coordinator or any of the Hong Kong Underwriters:
- (i) any matter or circumstance that renders or could render any statement or information contained in any of the Prospectus, the Application Forms, the Formal Notice or any announcements in the agreed form issued by the Company in connection with the Hong Kong Public Offering (including any supplement or amendment thereto) was, has or may become untrue, incorrect or misleading in any material respect or that shows or suggests that any forecasts or expressions of opinion, intention or expectation contained in any of the Prospectus, the Application Forms, the Formal Notice are not or may not be fair and honest or based on reasonable assumptions; or
 - (ii) any matter or circumstance has arisen or has been discovered which would or might, had it arisen immediately before the date of the Prospectus and not having been disclosed in the Prospectus or the Application Forms, constitutes a material omission therefrom; or
 - (iii) any of the representations, warranties or confirmations given in the Hong Kong Underwriting Agreement is or any matter, event or circumstances that renders or could render any of the representations, warranties or confirmations given in the Hong Kong Underwriting Agreement (or if repeated at that time be) untrue, inaccurate, misleading or breached in any respect that is material in the context of the Global Offering; or
 - (iv) any event, act or omission which gives or may give rise to any material liability of the Company pursuant to the indemnities given by it under the Hong Kong Underwriting Agreement; or

UNDERWRITING

- (v) any breach by the Company or any of the Warrantors, the Selling Shareholders or the Controlling Shareholders or the Selling Shareholders of any of their respective obligations under the Hong Kong Underwriting Agreement or the International Purchase Agreement or any related ancillary agreements that is material in the context of the Global Offering; or
- (vi) any material adverse change or prospective material adverse change in the business, affairs, profits, properties, results of operations, financial or trading position or prospects of the Company or its Subsidiaries, as a whole; or
- (vii) approval by the Listing Committee of the Hong Kong Stock Exchange of the listing of, and permission to deal in, the Shares to be issued or sold under the Global Offering is refused or not granted on or before the date of approval of the listing, or if granted, the approval is subsequently withdrawn, qualified or withheld; or
- (viii) any material litigation or claim being threatened or instigated against the Company or any of its Subsidiaries; or
- (ix) any expert whose consent is required for the issue of the Prospectus with the inclusion of its reports, letters, summaries of valuations and/or legal opinion (as the case may be) and references to its name in the form and context in which it appears has withdrawn its consent to the issue of the Prospectus,

then the Sole Global Coordinator (for itself and on behalf of the Hong Kong Underwriters) may, in its sole discretion upon giving notice to the Company, terminate the Hong Kong Underwriting Agreement with immediate effect.

Undertakings to the Hong Kong Stock Exchange under the Hong Kong Listing Rules

By us:

We have undertaken to the Hong Kong Stock Exchange that no further Shares or securities convertible into our equity securities (whether or not of a class already listed) may be issued by us or form the subject of any agreement to such an issue by us within six months from the Listing Date (whether or not such issue of shares or our securities will be completed within six months from the Listing Date) without the prior consent of the Hong Kong Stock Exchange, except:

- (a) in the circumstances prescribed by Rule 10.08 of the Hong Kong Listing Rules; or
- (b) pursuant to the Global Offering and the Over-allotment Option.

UNDERWRITING

By the Controlling Shareholders:

The Controlling Shareholders, namely Mr. Yan and Aceplus, have undertaken to the Hong Kong Stock Exchange that, except pursuant to the Global Offering or the Over-allotment Option, he or it shall not and shall procure that the relevant register holder shall not:

- (a) at any time during the period commencing from the date of this Prospectus and ending on the date which is six months from the Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities of the Company in respect of which he or it is shown by this Prospectus to be the beneficial owner; or
- (b) at any time during the six months commencing on the date on which the period referred to in paragraph (a) above expires, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares or securities referred to in (a) above if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it would cease to be a controlling shareholder (as defined in the Hong Kong Listing Rules) of the Company.

The Controlling Shareholders, namely Mr. Yan and Aceplus, have also undertaken to the Hong Kong Stock Exchange and us that he or it will, within the period commencing on the date by reference to which disclosure of their shareholdings in the Company is made in this Prospectus and ending on the date which is 12 months after the Listing Date:

- (a) when any of them pledges or charges of any Shares beneficially owned any of them in favor of an authorized institution pursuant to Note (2) to Rule 10.07(2) of the Hong Kong Listing Rules, and the number of such Shares so pledged or charged; and
- (b) when any of them receive indications, whether verbal or written, from the pledgee or chargee that any of the pledged or charged Shares will be disposed of, immediately inform us in writing of such indications.

We will also inform the Hong Kong Stock Exchange as soon as we have been informed of the above matters (if any) by any of Mr. Yan or Aceplus of the Controlling Shareholders and disclose such matters by way of an announcement which is published in accordance with the Hong Kong Listing Rules as soon as possible.

Undertakings to the Underwriters

By us:

We have undertaken with the Sole Global Coordinator, the Sponsor and the Hong Kong Underwriters that except to the extent pursuant to the Global Offering, the Over-allotment Option or pursuant to options which may be granted under the Share Option Scheme, we will not, without the

UNDERWRITING

prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriters), at any time from the date of the Hong Kong Underwriting Agreement until the expiry of 6 months from the Listing Date:

- (i) (a) offer, accept subscription for, pledge, charge, allot, issue, sell, contract to allot, issue or sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, or repurchase, any of our share capital or other securities of the Group or any interest therein or any voting right or any other right attaching thereto (including but not limited to any securities convertible into or exercisable or exchangeable for or that represent the right to receive any such share capital or securities or any interest therein); or
- (b) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein or any voting right or any other right attaching thereto,

whether any of the foregoing transactions described in paragraph (i)(a) or (b) above is to be settled by delivery of our share capital or such other securities, in cash or otherwise or publicly disclose that the Company will or may enter into any transaction described above; and

- (ii) in the event of an issue or disposal as described in paragraph (i)(a) or (b) above of any Shares or any interest therein or any voting right or any other right attaching thereto or any of our securities during the six-month period after the expiry of the above-mentioned six-month period, it will take all reasonable steps to ensure that any such issue or disposal will not create a disorderly or false market for any Shares.

By the Controlling Shareholders:

Each of Mr. Yan and Aceplus has undertaken to the Sole Global Coordinator, the Sponsor, the Hong Kong Underwriters and the Company that, except to the extent pursuant to the Global Offering, the Over-allotment Option or the Stock Borrowing Agreement, he or it will not and will procure that none of his or its Associates or companies controlled by him or it or any nominee or trustee holding in trust for him or it shall, without the prior written consent of the Sole Global Coordinator (on behalf of the Hong Kong Underwriters):

- (a) in the period commencing from the date of the Hong Kong Underwriting Agreement until the expiry of six months from the Listing Date (the “First Six-month Period”), offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any share capital, debt capital or other securities of Aceplus or the Company or any interest or any voting right or any other right attaching thereto in either of Aceplus or the Company held by him or it as the case may be (including,

UNDERWRITING

but not limited to, any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such share capital or other securities of Aceplus or the Company or any interest therein) or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein or any voting right or any other right attaching thereto, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so; or

- (b) during the six months commencing on the date on which the First Six-month Period expires (the “Second Six-month Period”), offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any share capital, debt capital or other securities of Aceplus or the Company or any interest in either Aceplus or the Company held by him or it as the case may be or any voting right or any other right attaching thereto (including, but not limited to, any securities that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such share capital or other securities of Aceplus or the Company or any interest therein) or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of such share capital or any interest therein or any voting right or any other right attaching thereto, whether any of the foregoing transactions is to be settled by delivery of share capital or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so if, immediately following such transaction, Mr. Yan would hold not more than 50% of the total issued share capital of Aceplus or Aceplus would cease to be a controlling shareholder (as defined under the Hong Kong Listing Rules) of the Company; and

- (c) in the event of a disposal by Aceplus of any of the share capital or securities of the Company or any interest therein or any voting right or any other right attaching thereto during the Second Six-month Period, Aceplus will, and will procure that its Associates or companies controlled by it or any nominee or trustee holding in trust for it, will take all reasonable steps to ensure that any such disposal will not create a disorderly or false market for any Shares or other securities of the Company.

Each of Mr. Yan and Aceplus of the Controlling Shareholders has also undertaken to each of the Company, the Sole Global Coordinator, the Sponsor and the Hong Kong Underwriters that, within the period commencing on the date of the Prospectus and ending on the date which is 12 months after the Listing Date, he or it will:

- (a) if he or it pledges or charges or otherwise creates encumbrances over any Shares or securities of the Company or interests therein in respect of which it is the beneficial owner, whether directly or indirectly, immediately inform the Company, the Sponsor and the Sole Global Coordinator in writing of any such pledges or charges or encumbrances and the number of Shares or securities of the Company so pledged or charged or encumbered; and

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- (b) if he or it receives any indication, either verbal or written, from any pledgee or chargee or encumbrancer or such third party that any of the pledged, charged, encumbered Shares or other securities of the Company will be disposed of, immediately inform the Company, the Sponsor and the Sole Global Coordinator in writing of any such indication.

By the Selling Shareholders:

Each of the Selling Shareholders has severally (but not jointly and in respect of itself only) undertaken with the Sole Global Coordinator, the Sponsor and the Hong Kong Underwriters that except to the extent permitted under the Global Offering, the Over-allotment Option or pursuant to options which may be granted under the Share Option Scheme, it will not, without the prior written consent of the Sole Global Coordinator (on behalf of the Underwriters), at any time from the date of the Hong Kong Underwriting Agreement until 6 months from the Listing Date:

- (i) offer, pledge, charge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, lend or otherwise transfer or dispose of, either directly or indirectly, conditionally or unconditionally, any share capital, debt capital or other securities of the Company or any interest therein held by it or any voting right or any other right attaching thereto (including, but not limited to, any securities of the Company that are convertible into or exercisable or exchangeable for, or that represent the right to receive, any such share capital or other securities of the Company or any interest therein); or
- (ii) enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequences of ownership of such share capital or securities or any interest therein or any voting right or any other right attaching thereto,

whether any of the foregoing transactions is to be settled by delivery of our share capital or such other securities, in cash or otherwise, or offer to or agree to do any of the foregoing or announce any intention to do so.

International Offering

In connection with the International Offering, it is expected that we will, on or about 14 December 2009, shortly after determination of the Offer Price, enter into the International Purchase Agreement with the International Underwriters. Under the International Purchase Agreement, subject to the conditions set forth therein, the International Underwriters to be named therein would severally and not jointly agree to purchase the International Offering Shares or procure purchasers for the International Offering Shares. Potential investors shall be reminded that in the event that the International Purchase Agreement is not entered into, the Global Offering will not proceed.

Under the International Purchase Agreement, the Company and the Selling Shareholders intend to grant to the International Underwriters the Over-allotment Option, exercisable by the Sole Global Coordinator on behalf of the International Underwriters at the sole and absolute discretion of the Sole Global Coordinator within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering, to require the Company and the Selling Shareholders to allot and issue and to sell and

UNDERWRITING

transfer up to an aggregate of 108,000,000 Shares including 90,000,000 additional New Shares and 18,000,000 Sale Shares representing, in aggregate, 15% of the maximum number of Offer Shares initially available under the Global Offering. These Shares will be sold at the Offer Price and will be, among others, for the purpose of covering over-allocations in the International Offering, if any.

Commission and Expenses

We will pay to the Sole Global Coordinator (for itself and on behalf of the Underwriters) an underwriting commission at the rate of 3% of the aggregate Offer Price payable for the Offer Shares initially offered under the Global Offering, out of which the Underwriters will pay all (if any) sub-underwriting commissions.

We and the Selling Shareholders will pay to the Sole Global Coordinator (for itself and on behalf of the International Underwriters) an underwriter commission of 3% on the Offer Price of the International Offer Shares initially offered under the International Offering and, if the Over-allotment Option is exercised, additional Shares offered and sold pursuant to the exercise of the Over-allotment Option. In addition, we and the Selling Shareholders may, in our respective sole discretion, pay the Sole Global Coordinator an incentive fee of up to 0.5% of the Offer Price multiplied by the total number of Offer Shares.

Assuming an Offer Price of HK\$2.25 per Offer Share (being the midpoint of the stated Offer Price range of HK\$1.81 to HK\$2.69 per Offer Share), the aggregate commissions and fees, together with Hong Kong Stock Exchange listing fees, SFC transaction levy of 0.004%, Hong Kong Stock Exchange trading fee of 0.005%, legal and other professional fees and printing and other expenses relating to the Global Offering, are estimated to amount in aggregate to approximately HK\$96.6 million in total. For unsubscribed Hong Kong Public Offer Shares reallocated to the International Offering, we will pay an underwriting commission at the rate applicable to the International Offering and such commission will be paid to the International Underwriters (but not the Hong Kong Underwriters).

Indemnity

We have agreed to indemnify the Hong Kong Underwriters for certain losses which they may suffer, including losses arising from their performance of their obligations under the Hong Kong Underwriting Agreement and any breach by us of the Hong Kong Underwriting Agreement.

Underwriters' interest in the Group

Save for their respective obligations under the Hong Kong Underwriting Agreement and the International Purchase Agreement, none of the Underwriters has any shareholding interests in the Company or any of our subsidiaries or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any of our subsidiaries.

STRUCTURE OF THE GLOBAL OFFERING

THE GLOBAL OFFERING

This Prospectus is published in connection with the Hong Kong Public Offering as part of the Global Offering.

The Global Offering consists of (assuming the Over-allotment Option is not exercised):

- the Hong Kong Public Offering of an initial 72,000,000 New Shares (subject to adjustment as mentioned below) in Hong Kong as described below under “— The Hong Kong Public Offering”; and
- the International Offering of an initial 648,000,000 Shares (subject to adjustment as mentioned below), being 528,000,000 New Shares offered by the Company for subscription and 120,000,000 Sale Shares offered by the Selling Shareholders for sale, (a) in the United States to QIBs in reliance on Rule 144A or another exemption under the U.S. Securities Act; and (b) outside the United States in reliance on Regulation S.

Macquarie is the Sponsor of the Hong Kong Public Offering. Macquarie is the Sole Global Coordinator, Bookrunner and Lead Manager of the Global Offering.

Investors may apply for the Offer Shares under the Hong Kong Public Offering or indicate an interest, if qualified to do so, for the Offer Shares under the International Offering, but may not do both. The Hong Kong Public Offering is open to members of the public in Hong Kong as well as to institutional and professional investors. The International Offering will involve selective marketing of the Offer Shares to QIBs in the United States in reliance on Rule 144A, as well as to institutional and professional investors and other investors expected to have a sizeable demand for the Offer Shares in Hong Kong and other jurisdictions outside the United States in reliance on Regulation S. The International Underwriters are soliciting from prospective investors indications of interest in acquiring the Offer Shares in the International Offering. Prospective investors will be required to specify the number of Offer Shares under the International Offering they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building,” is expected to continue up to, and to cease on or before 14 December 2009.

The number of Offer Shares to be offered under the Hong Kong Public Offering and the International Offering respectively may be subject to reallocation as described in “— Pricing and Allocation”.

PRICING AND ALLOCATION

Pricing

The Offer Price is expected to be fixed by agreement between the Sole Global Coordinator (on behalf of the Underwriters) the Selling Shareholders and us on the Price Determination Date, when market demand for the Offer Shares will be determined. The Price Determination Date is expected to be on or around 14 December 2009 and, in any event, by 16 December 2009.

STRUCTURE OF THE GLOBAL OFFERING

The Offer Price will be not more than HK\$2.69 per Offer Share and is expected to be not less than HK\$1.81 per Offer Share, unless otherwise announced not later than the morning of the last day for lodging applications under the Hong Kong Public Offering, as explained below. Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the indicative offer price range stated in this Prospectus.

If, based on the level of interest expressed by prospective institutional, professional and other investors during the book-building process, the Sole Global Coordinator (on behalf of the Underwriters) considers it appropriate, the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may be reduced below that stated in this Prospectus at any time on or prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, we will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering on 14 December 2009, cause to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Stock Exchange at www.hkex.com.hk notices of the reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range. Upon issue of such a notice, the revised number of Offer Shares and/or Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Sole Global Coordinator (on behalf of the Underwriters) the Selling Shareholders and us, will be fixed within such revised Offer Price range. Such notice will also include confirmation or revision, as appropriate, of the working capital statement, the offering statistics as currently set out in the section headed "Summary" and any other financial information which may change as a result of such reduction.

Before submitting applications for Hong Kong Public Offer Shares, applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range may not be made until the day which is the last day for lodging applications under the Hong Kong Public Offering. Applicants under the Hong Kong Public Offering should note that in no circumstances can applications be withdrawn once submitted, even if the number of Offer Shares being offered under the Global Offering and/or the indicative Offer Price range is so reduced. Upon the issuance of such notice, the revised number of Offer Shares and/or the revised Offer Price range will be final and conclusive. The Offer Price, if agreed upon, will be fixed within such revised Offer Price range.

In the absence of any notice published in relation to the reduction in the Offer Price, the Offer Price, if agreed upon with the Group and the Sole Global Coordinator, will under no circumstances be set outside the Offer Price range as stated in this Prospectus and the number of Offer Shares will under no circumstances be fewer than the number as stated in this Prospectus.

If for any reason, the Offer Price is not agreed by 16 December 2009 between the Sole Global Coordinator (on behalf of the Underwriters) the Selling Shareholders and us, the Global Offering will not proceed and will lapse.

Allocation

The Offer Shares to be offered in the Hong Kong Public Offering and the International Offering may, in certain circumstances, be reallocated as between these offerings at the discretion of the Sole Global Coordinator.

STRUCTURE OF THE GLOBAL OFFERING

Allocation of the Offer Shares pursuant to the International Offering will be determined by the Sole Global Coordinator and will be based on a number of factors, including the level and timing of demand, total size of the relevant investor's invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further, and/or hold or sell the Offer Shares after the Listing. Such allocation may be made to professional, institutional and corporate investors and is intended to result in a distribution of our Shares on a basis which would lead to the establishment of a solid shareholder base to our benefit and our shareholders as a whole.

Allocation of Hong Kong Public Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Public Offer Shares validly applied for by applicants. Although the allocation of Hong Kong Public Offer Shares could, where appropriate, consist of balloting, which would mean that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Hong Kong Public Offer Shares.

The Offer Price for Offer Shares, results of applications, level of applications and the basis of allocations in the Hong Kong Public Offering, the level of indications of interest in the International Offering, and the basis of allocations of the Hong Kong Public Offer Shares are expected to be announced on 17 December 2009, through a variety of channels as described in the manner set out in "How To Apply For Hong Kong Public Offer Shares — I. Applying by Using a White or Yellow Application Form — Publication of Results".

Net Proceeds

The net proceeds from the issue of New Shares are estimated to be approximately HK\$1,267.4 million. The estimated net proceeds from the issue of New Shares are calculated assuming an Offer Price of HK\$2.25 per Share (being the midpoint of the stated Offer Price range of HK\$1.81 to HK\$2.69 per Share), after deduction of underwriting fees and estimated expenses payable by us in relation to the Global Offering and assuming the Over-allotment Option is not exercised.

If the Over-allotment Option is exercised in full, assuming an Offer Price of HK\$2.25 per Share, being the mid-point Offer Price, the Company would receive additional net proceeds (after deducting commissions and expenses attributable to the exercise of the Over-allotment Option) of approximately HK\$196.4 million.

We will not receive any of the proceeds from the sale of the Sale Shares by the Selling Shareholders in the Global Offering.

STRUCTURE OF THE GLOBAL OFFERING

CONDITIONS OF THE GLOBAL OFFERING

Acceptance of all applications for the Offer Shares pursuant to the Global Offering will be conditional on:

- (a) the Listing Committee of the Hong Kong Stock Exchange granting the listing of, and permission to deal in, the existing issued Shares, the Offer Shares to be issued pursuant to the Global Offering or otherwise described in the Prospectus (including any Shares which may be issued pursuant to the exercise of the Over-allotment Option and upon the exercise of any options which may be granted under the Share Option Scheme), and such listing and permission not subsequently having been revoked prior to the commencement of dealings in the Shares on the Hong Kong Stock Exchange;
- (b) the Offer Price having been duly agreed between us, the Selling Shareholders and the Sole Global Coordinator (on behalf of the Underwriters) and the execution and delivery of the price determination agreement on or before the Price Determination Date; and
- (c) the obligations of the Underwriters under each of the Hong Kong Underwriting Agreement and the International Purchase Agreement having become unconditional and not having been terminated in accordance with the terms of the respective agreements (unless and to the extent such conditions are duly waived in accordance with the terms thereof),

in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than the date which is 30 days after the date of this Prospectus.

If for any reason, the Offer Price is not agreed by 16 December 2009 between the Sole Global Coordinator (on behalf of the Underwriters), the Selling Shareholders and us, the Global Offering will not proceed and will lapse.

If the above conditions are not fulfilled or waived prior to the times and dates specified, the Global Offering will lapse and the Hong Kong Stock Exchange will be notified immediately. We will cause a notice of the lapse of the Hong Kong Public Offering to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and on the website of the Hong Kong Stock Exchange at www.hkex.com.hk on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Hong Kong Public Offer Shares”. In the meantime, the application monies will be held in separate bank account(s) with the receiving banker(s) or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong) (as amended).

The consummation of each of the Hong Kong Public Offering and the International Offering is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

STRUCTURE OF THE GLOBAL OFFERING

THE HONG KONG PUBLIC OFFERING

We are initially offering 72,000,000 Shares at the Offer Price, representing 10% of the total number of Shares initially available under the Global Offering, for subscription by the public in Hong Kong. Subject to adjustment as mentioned below, the Hong Kong Public Offer Shares will represent approximately 3% of our total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised. In Hong Kong, individual retail investors are expected to apply for Offer Shares through the Hong Kong Public Offering and individual retail investors, including individual investors in Hong Kong applying through banks and other institutions, seeking Offer Shares in the International Offering will not be allotted Offer Shares in the International Offering.

The Sole Global Coordinator (on behalf of the Underwriters) may require any investor who has been offered Shares under the International Offering, and who has made an application under the Hong Kong Public Offering to provide sufficient information to the Sole Global Coordinator so as to allow it to identify the relevant applications under the Hong Kong Public Offering and to ensure that it is excluded from any application for Shares under the Hong Kong Public Offering.

The Offer Price will be not more than HK\$2.69 and is expected to be not less than HK\$1.81. Applicants under the Hong Kong Public Offering are required to pay, on application, the maximum Offer Price of HK\$2.69 per Share plus 1% brokerage fee, 0.004% SFC transaction levy, and 0.005% Hong Kong Stock Exchange trading fee. If the Offer Price, as finally determined on the Price Determination Date, is lower than HK\$2.69, being the maximum Offer Price, we will refund the respective difference (including the brokerage fee, the SFC transaction levy, and the Hong Kong Stock Exchange trading fee attributable to the surplus application monies) to successful applicants, without interest. Further details are set out in “How to Apply for Hong Kong Public Offer Shares”.

For allocation purposes only, the 72,000,000 Shares initially being offered for subscription under the Hong Kong Public Offering will be divided equally into two pools: Pool A comprising 36,000,000 Hong Kong Public Offering Shares and Pool B comprising 36,000,000 Hong Kong Public Offer Shares, both of which are available on an equitable basis to successful applicants. All valid applications that have been received for Hong Kong Public Offer Shares with a total amount (excluding brokerage, SFC transaction levy, and the Hong Kong Stock Exchange trading fee) of HK\$5 million or below will fall into Pool A and all valid applications that have been received for Hong Kong Public Offer Shares with a total amount (excluding brokerage, SFC transaction levy, and Hong Kong Stock Exchange trading fee) of over HK\$5 million and up to the total value of Pool B, will fall into Pool B.

Applicants should be aware that applications in Pool A and Pool B are likely to receive different allocation ratios. If Hong Kong Public Offer Shares in one pool (but not both pools) are undersubscribed, the surplus Hong Kong Public Offer Shares will be transferred to the other pool to satisfy demand in that other pool and be allocated accordingly. Applicants can only receive an allocation of Hong Kong Public Offer Shares from either Pool A or Pool B but not from both pools. Multiple or suspected multiple applications and any application for more than 50% of the 72,000,000 Shares initially comprised in the Hong Kong Public Offering (that is, 36,000,000 Hong Kong Public Offer Shares) are liable to be rejected.

STRUCTURE OF THE GLOBAL OFFERING

The allocation of Offer Shares between the Hong Kong Public Offering and the International Offering is subject to adjustment. If the number of Shares validly applied for in the Hong Kong Public Offering represents (i) 15 times or more but less than 50 times, (ii) 50 times or more but less than 100 times, and (iii) 100 times or more, of the number of Offer Shares initially available under the Hong Kong Public Offering, the total number of Offer Shares available under the Hong Kong Public Offering will be increased to 216,000,000, 288,000,000 and 360,000,000 Offer Shares, respectively, representing 30% (in the case of (i)), 40% (in the case of (ii)) and 50% (in the case of (iii)), respectively, of the total number of Offer Shares initially available under the Global Offering (before any exercise of the Over-allotment Option). In such cases, the number of Offer Shares allocated in the International Offering will be correspondingly reduced, in such manner as the Sole Global Coordinator deems appropriate, and such additional Offer Shares will be allocated to Pool A and Pool B. In addition, the Sole Global Coordinator may in its discretion allocate Offer Shares from the International Offering to the Hong Kong Public Offering to satisfy valid applications under the Hong Kong Public Offering.

If the Hong Kong Public Offer Shares are not fully subscribed, the Sole Global Coordinator has the authority (but shall not be under any obligation) to reallocate all or any unsubscribed Hong Kong Public Offer Shares to the International Offering, in such proportions as the Sole Global Coordinator deems appropriate.

References in this Prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Hong Kong Public Offering.

THE INTERNATIONAL OFFERING

The number of Shares to be initially offered for subscription or sale under the International Offering will consist of (i) 528,000,000 New Shares offered by us for subscription; and (ii) 120,000,000 Sale Shares offered by the Selling Shareholders for purchase, representing approximately 90% of the total number of Offer Shares initially available under the Global Offering, subject to adjustment. The International Offering is subject to the Hong Kong Public Offering being unconditional. Subject to adjustment as mentioned herein, the International Offer Shares will represent approximately 27% of our total issued share capital immediately after completion of the Global Offering, assuming that the Over-allotment Option is not exercised.

Pursuant to the International Offering, the International Underwriters will conditionally place our Shares with QIBs in the United States in reliance on Rule 144A or another exemption from registration under the U.S. Securities Act, as well as with institutional and professional investors and other investors in Hong Kong and other jurisdictions outside the United States (within the meaning of Regulation S under the Securities Act) in reliance on Regulation S.

OVER-ALLOTMENT

The Company and the Selling Shareholders expect to grant the Over-allotment Option to the International Underwriters, exercisable by the Sole Global Coordinator on behalf of the International Underwriters, within 30 days from the last day for lodging of applications under the Hong Kong Public Offering. An announcement will be made in the event that the Over-allotment Option is exercised.

STRUCTURE OF THE GLOBAL OFFERING

Pursuant to the Over-allotment Option, the Sole Global Coordinator will have the right to require the Company to issue up to an aggregate of 90,000,000 additional New Shares and the Selling Shareholders to sell up to an aggregate of 18,000,000 additional Sale Shares, representing in aggregate 15% of the maximum number of the initial Offer Shares, at the Offer Price.

STABILIZATION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the underwriters may bid for, or purchase, the securities in the secondary market, during a specified period of time, to retard and, if possible, prevent, any decline in the market price of the securities below the offer price. In Hong Kong and certain other jurisdictions, the price at which stabilization is effected is not permitted to exceed the Offer Price.

In connection with the Global Offering, Macquarie, as stabilizing manager (the “Stabilizing Manager”), its affiliates or any person acting for it, on behalf of the Underwriters, may over-allocate or effect short sales or any other stabilizing transactions with a view to stabilizing or maintaining the market price of our Shares at a level higher than that which might otherwise prevail in the open market. Short sales involve the sale by the Stabilizing Manager of a greater number of Shares than the Underwriters are required to purchase in the Global Offering. “Covered” short sales are sales made in an amount not greater than the Over-allotment Option.

The Stabilizing Manager may close out any covered short position by either exercising the Over-allotment Option to purchase additional Shares or purchasing Shares in the open market. In determining the source of the Shares to close out the covered short position, the Stabilizing Manager will consider, among other things, the price of Shares in the open market as compared to the price at which they may purchase additional Shares pursuant to the Over-allotment Option. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the Shares while the Global Offering is in progress. Any market purchases of our Shares may be effected on any stock exchange, including the Hong Kong Stock Exchange, any over-the counter market or otherwise, provided that they are made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on the Stabilizing Manager or any person acting for it to conduct any such stabilizing activity, which if commenced, will be done at the absolute discretion of the Stabilizing Manager and may be discontinued at any time. Any such stabilizing activity is required to be brought to an end within 30 days of the last day for the lodging of applications under the Hong Kong Public Offering. The number of our Shares that may be over-allocated will not exceed the number of our Shares that may be issued or sold under the Over-allotment Option, namely, 108,000,000 Shares, which is 15% of the number of Offer Shares initially available under the Global Offering, in the event that the whole or part of the Over-allotment Option is exercised.

The Stabilizing Manager, its affiliates or any person acting for it may take all or any of the following stabilizing actions in Hong Kong during the stabilization period:

- (i) purchase, or agree to purchase, any of the Shares or offer or attempt to do so for the sole purpose of preventing or minimizing any reduction in the market price of the Shares;

STRUCTURE OF THE GLOBAL OFFERING

- (ii) in connection with any action described in paragraph (i) above:
 - (A) (1) over-allocate the Shares; or
 - (2) sell or agree to sell the Shares so as to establish a short position in them, for the sole purpose of preventing or minimizing any reduction in the market price of the Shares;
 - (B) exercise the Over-allotment Option and purchase or subscribe for or agree to purchase or subscribe for the Shares in order to close out any position established under paragraph (A) above;
 - (C) sell or agree to sell any of the Shares acquired by it in the course of the stabilizing action referred to in paragraph (i) above in order to liquidate any position that has been established by such action; or
 - (D) offer or attempt to do anything as described in paragraph (ii)(A)(2), (ii)(B) or (ii)(C) above.

Macquarie, its affiliates or any person acting for it, may, in connection with the stabilizing action, maintain a long position in the Shares, and there is no certainty as to the extent to which and the time period for which it will maintain such a position. Investors should be warned of the possible impact of any liquidation of the long position by the Sole Global Coordinator, its affiliates or any person acting for them, which may include a decline in the market price of the Shares.

Stabilization cannot be used to support the price of the Shares for longer than the stabilization period, which begins on the Listing Date and ends on the thirtieth day after the last day for lodging of application under the Hong Kong Public Offering. The stabilizing period is expected to end on 13 January 2010, after which an announcement will be made pursuant to section 9 and schedule 3 of the Securities and Futures (Price Stabilization) Rules made under the SFO. After this date, no further stabilizing action may be taken, demand for the Shares, and therefore then market price, could fall.

Any stabilizing action taken by the Stabilizing Manager, its affiliates or any person acting for it, may not necessarily result in the market price of our Shares staying at or above the Offer Price either during or after the stabilizing period. Stabilizing bids for or market purchases of our Shares by the Stabilizing Manager, or any person acting for it, may be made at a price at or below the Offer Price and therefore at or below the price paid for our Shares by purchasers.

STOCK BORROWING AGREEMENT

In order to facilitate the over-allocations in connection with the International Offering, the Stabilizing Manager may choose to borrow Shares from Aceplus pursuant to the Stock Borrowing Agreement. Pursuant to the Stock Borrowing Agreement, Aceplus will lend up to 108,000,000 Shares, representing 15% of the Offer Shares, to the Stabilizing Manager to cover over-allocations.

STRUCTURE OF THE GLOBAL OFFERING

The stock borrowing arrangement under the Stock Borrowing Agreement will comply with the requirements set out in Rule 10.07(3) of the Hong Kong Listing Rules such that it will not be subject to the restrictions of Rule 10.07(1) of the Hong Kong Listing Rules.

DEALING ARRANGEMENTS

Assuming that the Hong Kong Public Offering becomes unconditional at or before 8:00 a.m. in Hong Kong on 18 December 2009, it is expected that dealings in Shares on the Hong Kong Stock Exchange will commence at 9:30 a.m. on 18 December 2009.

UNDERWRITING ARRANGEMENTS

The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters under the terms of the Hong Kong Underwriting Agreement, subject to, among others, agreement on the Offer Price between the Sole Global Coordinator (on behalf of the Underwriters), the Selling Shareholders and us on the Price Determination Date.

We expect that we will, on or about 14 December 2009, shortly after determination of the Offer Price, enter into the International Purchase Agreement relating to the International Offering.

Underwriting arrangements, the Hong Kong Underwriting Agreement and the International Purchase Agreement are summarized in the section headed “Underwriting”.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

There are two ways to make an application for the Hong Kong Public Offer Shares. You may either (i) use a **white or yellow** Application Form; or (ii) apply online through the designated website of the White Form eIPO Service Provider, referred to herein as the **White Form eIPO** service (www.eipo.com.hk).

Except where you are a nominee and provide the required information in your application, you or your joint applicant(s) may not make more than one application (whether individually or jointly) by applying on a **white** and **yellow** Application Forms or applying online through **White Form eIPO** service.

I. APPLYING BY USING A WHITE OR YELLOW APPLICATION FORM

Which Application Form to Use

Use a **white** Application Form if you want the Hong Kong Public Offer Shares issued in your own name.

Use a **yellow** Application Form if you want the Hong Kong Public Offer Shares issued in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Hong Kong Public Offer Shares are not available to existing beneficial owners of Shares in the Group, the Directors or chief executive of the Group or any of our subsidiaries, or associates of any of them or United States persons (as defined in Regulation S) or persons who do not have a Hong Kong address.

Where to Collect the Application Forms

You can collect a **white** Application Form and a Prospectus during normal business hours from 9:00 a.m. on Wednesday, 9 December 2009 until 12:00 noon on Monday, 14 December 2009 from:

Any participant of The Stock Exchange of Hong Kong Limited

or

Macquarie Capital Securities Limited

Level 18, One International Finance Centre
1 Harbour View Street
Central
Hong Kong

or

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

CIMB Securities (HK) Ltd.

25th Floor, Central Tower
28 Queen's Road Central
Hong Kong

or

Guotai Junan Securities (Hong Kong) Limited

Room 2606, 26th Floor
Low Block, Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

or

any one of the following branches of The Hongkong and Shanghai Banking Corporation Limited:

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Hong Kong Office	Level 3, 1 Queen's Road Central
	Cityplaza Branch	Unit 065, Cityplaza I, Taikoo Shing
	Sheung Wan Branch	Shop A, G/F, Guangdong Investment Tower, 293-301 Des Voeux Road Central
	Hay Wah Building Branch	G/F, Hay Wah Bldg, 71-85B Hennessy Rd, Wan Chai
Kowloon	Kwun Tong Branch	No. 1, Yue Man Square, Kwun Tong
	Mong Kok Branch	L/G & U/G, 673 Nathan Road, Mong Kok
	Tin On Building Branch	777-779 Cheung Sha Wan Road
	Hung Hom Branch	G/F, Hung Hom Commercial Centre, 37-39 Ma Tau Wai Road, Hung Hom
New Territories	Tuen Mun Town Plaza Branch	Shop 1, UG/F, Shopping Arcade Phase II, Tuen Mun Town Plaza, Tuen Mun
	Sheung Shui Centre Branch	Shop 1024-1028 & 1030-1031, Level 1, Sheung Shui Centre, Sheung Shui

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

or any of the following branches of Industrial and Commercial Bank of China (Asia) Limited:

	<u>Branch Name</u>	<u>Address</u>
Hong Kong Island	Central Branch	1/F, 9 Queen's Road Central
	West Point Branch	242-244 Queen's Road West, Sai Ying Pun
	Quarry Bay Branch	G/F, 1036-1040 King's Road, Quarry Bay
Kowloon	Yaumatei Branch	542 Nathan Road, Yaumatei
	Mok Cheong Street Branch	12-14 Mok Cheong Street, Tokwawan
New Territories	Tsuen Wan Castle Peak Road Branch	G/F., 423-427 Castle Peak Road, Tsuen Wan
	Yuen Long Branch	G/F., 197-199 Castle Peak Road, Yuen Long
	Shatin Branch	Shop 22J, Level 3, Shatin Centre

You can collect a **yellow** Application Form and a Prospectus during normal business hours from 9:00 a.m. on Wednesday, 9 December 2009 until 12:00 noon on Monday, 14 December 2009 from:

- (1) The Depository Counter of HKSCC at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or
- (2) Your stockbrokers, who may have such Application Forms and this Prospectus available.

How to Complete the Application Form

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned by ordinary post together with the accompanying check(s) or banker's cashier order(s) to you (or the first-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

You should note that, by signing on the Application Form, you:

- **undertake** and **confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Offer Shares in the International Offering, nor otherwise participate in the International Offering;
- **agree** with the Group and each shareholder of the Group, and the Group agrees with each of our shareholders, to observe and comply with the Cayman Islands Companies Law and our Memorandum and Articles of Association;

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

- **agree** with the Group and each shareholder of the Group that the Shares in the Group are freely transferable by the holder thereof;
- **authorize** the Group to enter into a contract on your behalf with each of our Directors and officers, whereby each such Director and officer undertakes to observe and comply with his obligations to shareholders as stipulated in our Memorandum and Articles of Association;
- **agree** that the Group, the Sponsor, the Sole Global Coordinator, the Underwriters and any of their respective directors, officers, employees, agents or advisers and any other parties involved in the Global Offering are liable only for and that you have only relied upon, the information and representations contained in this Prospectus and any supplement to this Prospectus; and
- **agree** to disclose to the Group, our Hong Kong Share Registrar, the receiving banks, the Sole Global Coordinator, the Sponsor and their respective advisers and agents any personal data or other information which they require about you or the person(s) for whose benefit you have made the application.

In order for the **yellow** Application Form to be valid:

You, as the applicant, must complete the Application Form as indicated below and sign on the first page of the Application Form. Only written signatures will be accepted.

- (a) **If the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):**
 - (i) the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box in the Application Form.
- (b) **If the application is made by an individual CCASS Investor Participant:**
 - (i) the Application Form must contain the CCASS Investor Participant's name and Hong Kong Identity Card Number; and
 - (ii) the CCASS Investor Participant must insert its participant I.D. in the appropriate box in the Application Form.
- (c) **If the application is made by a joint individual CCASS Investor Participant:**
 - (i) the Application Form must contain all joint CCASS Investor Participants' names and Hong Kong Identity Card Numbers; and
 - (ii) the participant I.D. must be inserted in the appropriate box in the Application Form.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

(d) If the application is made by a corporate CCASS Investor Participant:

- (i) the Application Form must contain the CCASS Investor Participant's company name and Hong Kong Business Registration number; and
- (ii) the participant I.D. and company chop (bearing its company name) must be inserted in the appropriate box in the Application Form.

Incorrect or incomplete details of the CCASS Participant or the omission or inadequacy of participant I.D. or other similar matters may render the application invalid.

If your application is made through a duly authorized attorney, we and the Sole Global Coordinator as our agent may accept it at our discretion, and subject to any conditions we think fit, including evidence of the authority of your attorney. We and the Sole Global Coordinator in the capacity as our agent, will have full discretion to reject or accept any application, in full or in part, without assigning any reason.

Members of the Public — Time for Applying for Hong Kong Public Offer Shares

Completed **white** or **yellow** Application Forms, with payment attached, must be lodged by 12:00 noon on Monday, 14 December 2009 or, if the application lists are not open on that day, then by 12:00 noon on the next day the lists are open.

Your completed Application Form, with full payment in Hong Kong dollars attached, should be deposited in the special collection boxes provided at any of the branches of The Hongkong and Shanghai Banking Corporation Limited or Industrial and Commercial Bank of China (Asia) Limited listed under the section headed “— I. Applying by Using a White or Yellow Application Form — Where to Collect the Application Forms” above at the following times:

Wednesday, 9 December 2009 — 9:00 a.m. to 4:30 p.m.

Thursday, 10 December 2009 — 9:00 a.m. to 4:30 p.m.

Friday, 11 December 2009 — 9:00 a.m. to 4:30 p.m.

Saturday, 12 December 2009 — 9:00 a.m. to 1:00 p.m.

Monday, 14 December 2009 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, 14 December 2009.

Effect of Bad Weather on the Opening of the Application Lists

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning signal,

in force in Hong Kong at anytime between 9:00 a.m. and 12:00 noon on Monday, 14 December 2009. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warning signals in force in Hong Kong at anytime between 9:00 a.m. and 12:00 noon.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

If the application lists of the Hong Kong Public Offering do not open and close on Monday, 14 December 2009 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong on the other dates mentioned in the section headed “Expected Timetable” in this Prospectus, such dates mentioned in the section headed “Expected Timetable” in this Prospectus may be affected. An announcement will be made in such event.

Publication of Results

Announcement of level of applications in the Hong Kong Public Offering, the level of indications of interest in the International Offering and the basis of allotment of the Hong Kong Public Offer Shares will be published in South China Morning Post (in English) and Hong Kong Economic Times (in Chinese), on the Hong Kong Stock Exchange’s website at **www.hkex.com.hk** and on our Company’s website at **www.slogp.com** on or before Thursday, 17 December 2009.

The results of applications, including the Hong Kong Identity Card/ passport/ Hong Kong Business Registration numbers of successful applicants (where appropriate) under the Hong Kong Public Offering at the times and dates and in the manner specified below:

- Results of allocations for the Hong Kong Public Offering will be available from the Hong Kong Stock Exchange’s website at **www.hkex.com.hk** and our Company’s website at **www.slogp.com** from 9:00 a.m. on Thursday, 17 December 2009;
- Results of allocations for the Hong Kong Public Offering will be available from our designated results of allocations website at **www.iporeresults.com.hk** on a 24-hour basis from 8:00 a.m. on Thursday, 17 December 2009 to 12:00 midnight on Wednesday, 23 December 2009. The user will be required to key in the Hong Kong identity card/passport/Hong Kong business registration number provided in his/her/its application to search for his/her/its own allocation result;
- Results of allocations will be available from our Hong Kong Public Offering allocation results telephone enquiry line. Applicants may find out whether or not their applications have been successful and the number of Hong Kong Public Offer Shares allocated to them, if any, by calling 2862 8669 between 9:00 a.m. and 10:00 p.m. from Thursday, 17 December 2009 to Sunday, 20 December 2009; and
- Special allocation results booklets setting out the results of allocations will be available for inspection during opening hours of individual branches and sub-branches from Thursday, 17 December 2009 to Saturday, 19 December 2009 at all the receiving bank branches and sub-branches at the addresses set out in the section headed “— I. Applying by Using a White or Yellow Application Form — Where to Collect the Application Forms”.

Dispatch/Collection of Share Certificates/e-Refund Payment Instructions/Refund Checks

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the initial price per Offer Share (excluding brokerage, SFC transaction levy, and Hong Kong Stock Exchange trading fee thereon) paid on application, or if the conditions of the Global

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Offering are not fulfilled in accordance with the section headed “Structure of the Global Offering — Conditions of the Global Offering” or if any application is revoked or any allotment pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy, and Hong Kong Stock Exchange trading fee, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary document of title will be issued in respect of the Hong Kong Public Offer Shares. No receipt will be issued for sums paid on application. Subject as mentioned below, in due course, there will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- (a) (i) share certificate(s) for all the Hong Kong Public Offer Shares applied for, if the application is wholly successful; or (ii) share certificate(s) for the number of Hong Kong Public Offer Shares successfully applied for, if the application is partially successful (except for wholly successful and partially successful applicants on **yellow** Application Forms, whose share certificates will be deposited into CCASS as described below); and/or
- (b) refund check(s) crossed “Account Payee Only” in favor of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Public Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; or (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the initial price per Offer Share paid on application in the event that the Offer Price is less than the initial price per Offer Share paid on application, in each case including related brokerage at the rate of 1%, SFC transaction levy of 0.004%, and Hong Kong Stock Exchange trading fee of 0.005% but without interest.

Part of your Hong Kong Identity Card number/passport number or, if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund check, if any. Such data would also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund check. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund check.

Subject as mentioned below, refund checks for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and share certificates for successful applicants under **white** Application Forms are expected to be posted on or before Thursday, 17 December 2009. The right is reserved to retain any share certificates and any surplus application monies pending clearance of check(s).

If you apply using a white Application Form:

If you have applied for 1,000,000 Hong Kong Public Offer Shares or more and you have elected on your **white** Application Form to collect your refund check(s) (where applicable) and/or share

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

certificate(s) (where applicable) in person, you may collect your refund check(s) (where applicable) and/or share certificate(s) (where applicable) from our Hong Kong Share Registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Thursday, 17 December 2009.

If you are an individual, you must not authorize any other person to make collection on your behalf. If you are a corporate applicant, you must attend by your authorized representative bearing a letter of authorization from your corporation stamped with your company chop. Both individuals and authorized representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to Computershare Hong Kong Investor Services Limited.

If you do not collect your refund check(s) and share certificate(s) within the time period specified for collection, they will be dispatched thereafter to you by ordinary post to the address as specified in your Application Form at your own risk.

If you have applied for 1,000,000 Hong Kong Public Offer Shares or above and have not indicated on your Application Forms that you will collect your share certificate(s) (if any) and/or refund check(s) (if any) in person, or you have applied for less than 1,000,000 Hong Kong Public Offer Shares or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Global Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Global Offering" in this Prospectus, or if your application is revoked or any allotment pursuant thereto has become void, your share certificate(s) (where applicable) and/or refund check(s) (where applicable) in respect of the application monies or the appropriate parts thereof, together with the related brokerage, Hong Kong Stock Exchange trading fee, and SFC transaction levy, if any, (without interest) will be sent to the address on your Application Form on Thursday, 17 December 2009 by ordinary post and at your own risk.

Share certificates will only become valid certificates of title at 8:00 a.m. on Friday, 18 December 2009 provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in the section entitled "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for termination" has not been exercised.

If you apply using a yellow Application Form:

If you apply for Hong Kong Public Offer Shares using a **yellow** Application Form and your application is wholly or partially successful, your share certificates will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you in your Application Form at the close of business on Thursday, 17 December 2009 or under contingent situation, on any other date as shall be determined by HKSCC or HKSCC Nominees.

If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant), for Hong Kong Public Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Public Offer Shares allotted to you with that CCASS Participant.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

If you are applying as a CCASS Investor Participant, we expect to publish the results of CCASS Investor Participants' applications together with the results of the Hong Kong Public Offering in the manner described in "— I. Applying by Using a White or Yellow Application Form — Publication of Results" on Thursday, 17 December 2009. You should check the announcement to be released by us and report any discrepancies to HKSCC before 5:00 p.m. on Thursday, 17 December 2009 or such other date as shall be determined by HKSCC or HKSCC Nominees. You can also check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) immediately after the credit of the Hong Kong Public Offer Shares to your CCASS Investor Participant stock account, HKSCC will also make available to you an activity statement showing the number of Hong Kong Public Offer Shares credited to your stock account.

If you apply for 1,000,000 Hong Kong Public Offer Shares or more and you have elected on your **yellow** Application Form to collect your refund check (where applicable) in person, please follow the same instructions as those for **white** Application Form applicants as described above.

If you have applied for 1,000,000 Hong Kong Public Offer Shares or above and have not indicated on your Application Forms that you will collect your refund check(s) (if any) in person, or you have applied for less than 1,000,000 Hong Kong Public Offer Shares or if your application is rejected, not accepted or accepted in part only, or if the conditions of the Global Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions of the Global Offering" in this Prospectus, or if your application is revoked or any allotment pursuant thereto has become void, your refund check(s) (where applicable) in respect of the application monies or the appropriate portion thereof, together with the related brokerage, Hong Kong Stock Exchange trading fee, SFC transaction levy, if any, (without interest) will be sent to the address on your Application Form on Thursday, 17 December 2009 by ordinary post and at your own risk.

II. HOW TO APPLY THROUGH WHITE FORM eIPO

General

You may apply through **White Form eIPO** by submitting an application through the designated website at **www.eipo.com.hk**. If you apply through **White Form eIPO**, the Shares will be issued in your own name.

Detailed instructions for application through the **White Form eIPO** service are set out on the designated website at **www.eipo.com.hk**. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected by the designated White Form eIPO Service Provider and may not be submitted to the Group.

If you give electronic application instructions through the designated website at **www.eipo.com.hk**, you will have authorized the designated White Form eIPO Service Provider to apply on the terms and conditions set out in this Prospectus, as supplemented and amended by the terms and conditions applicable to the **White Form eIPO** service.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

In addition to the terms and conditions set out in this Prospectus, the designated White Form eIPO Service Provider may impose additional terms and conditions upon you for the use of the **White Form eIPO** service. Such terms and conditions are set out on the designated website at www.eipo.com.hk. You will be required to read, understand and agree to such terms and conditions in full prior to making any application.

By submitting an application to the designated White Form eIPO Service Provider through the **White Form eIPO** service, you are deemed to have authorized the designated White Form eIPO Service Provider to transfer the details of your application to the Group and our Hong Kong Share Registrar.

You may submit an application through the **White Form eIPO** service in respect of a minimum of 1,500 Hong Kong Public Offer Shares. Each electronic application instruction in respect of more than 1,500 Hong Kong Public Offer Shares must be in one of the numbers set out in the table in the Application Forms, or as otherwise specified on the designated website at www.eipo.com.hk.

You should give electronic application instructions through **White Form eIPO** at the times set out in the paragraph headed “Time for the public to apply through **White Form eIPO**” below.

You should make payment for your application made by **White Form eIPO** service in accordance with the methods and instructions set out in the designated website at www.eipo.com.hk. **If you do not make complete payment of the application monies (including related fees) on or before 12:00 noon on 14 December 2009, or such later time as described under the paragraph headed “Effect of Bad Weather on the Opening of the Application Lists” above, the designated White Form eIPO Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.eipo.com.hk.**

Once you have completed payment in respect of any **electronic application instruction** given by you or for your benefit to the designated White Form eIPO Service Provider to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular application reference number will not constitute an actual application.

Warning: The application for Hong Kong Public Offer Shares through the **White Form eIPO** service is only a facility provided by the designated White Form eIPO Service Provider to public investors. The Group, our Directors, the Sole Global Coordinator, the Bookrunner, the Sponsor, the Lead Manager and the Underwriters take no responsibility for such applications, and provide no assurance that applications through the **White Form eIPO** service will be submitted to the Group or that you will be allotted any Hong Kong Public Offer Shares.

Environmental Protection

The obvious advantage of **White Form eIPO** is to save the use of papers via the self-serviced and electronic application process. Computershare Hong Kong Investor Services Limited, being the

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

designated White Form eIPO Service Provider, will contribute HK\$2 per each “**SHENGLI OIL & GAS PIPE HOLDINGS LIMITED**” **White Form eIPO** application submitted via www.eipo.com.hk to support the funding of “Source of DongJiang — Hong Kong Forest” project initiated by Friends of the Earth (HK).

Please note that Internet services may have capacity limitations and/or be subject to service interruptions from time to time. To ensure that you can submit your applications through the **White Form eIPO** service, you are advised not to wait until the last day for submitting applications in the Hong Kong Public Offering to submit your electronic application instructions. In the event that you have problems connecting to the designated website for the **White Form eIPO** service, you should submit a **white** Application Form. However, once you have submitted electronic application instructions and completed payment in full using the application reference number provided to you on the designated website, you will be deemed to have made an actual application and should not submit a white Application Form. See the paragraph entitled “How Many Applications You May Make by Means of **White Form eIPO**” under this section.

Additional information

For the purposes of allocating Hong Kong Public Offer Shares, each applicant giving electronic application instructions through **White Form eIPO** service to the White Form eIPO Service Provider through the designated website at www.eipo.com.hk will be treated as an applicant.

If your payment of application monies is insufficient, or in excess of the required amount, having regard to the number of Offer Shares for which you have applied, or if your application is otherwise rejected by the designated White Form eIPO Service Provider, the designated White Form eIPO Service Provider may adopt alternative arrangements for the refund of monies to you. Please refer to the additional information provided by the designated White Form eIPO Service Provider on the designated website at www.eipo.com.hk.

Otherwise, any monies payable to you due to a refund for any of the reasons is set out below in the paragraph entitled “VII. Refund of Application Monies”.

Time for the public to apply through White Form eIPO

You may submit your application to the designated White Form eIPO Service Provider through the designated website at www.eipo.com.hk from 9:00 a.m. on Wednesday, 9 December 2009 until 11:30 a.m. on Monday, 14 December 2009 or such later time as described under the paragraph headed “Effects of Bad Weather on the Last Application Day” under this section below (24 hours daily, except on the last application day). The latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Monday, 14 December 2009, the last application day, or, if the application lists are not open on that day, then by the time and date stated in “Effect of Bad Weather on the Opening of the Application Lists” above.

You will not be permitted to submit your application to the designated White Form eIPO Service Provider through the designated website at www.eipo.com.hk after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained an application

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

reference number from the website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of application monies) until 12:00 noon on the last day for submitting applications, when the application lists close. If you do not make complete payment of the application monies (including any related fees) on or before 12:00 noon on Monday, 14 December 2009, or such later time as described under the paragraph headed “I. Applying by Using a White or Yellow Application Form — Effect of Bad Weather on the Opening of the Application Lists”, the designated White Form eIPO Service Provider will reject your application and your application monies will be returned to you in the manner described in the designated website at www.eipo.com.hk.

HOW MANY APPLICATIONS YOU MAY MAKE BY MEANS OF WHITE FORM eIPO

If you apply by means of **White Form eIPO**, once you complete payment in respect of any electronic application instruction given by you or for your benefit to the designated White Form eIPO Service Provider to make an application for Hong Kong Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an electronic application instruction under **White Form eIPO** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **White Form eIPO** service by giving electronic application instructions through the designated website at www.eipo.com.hk and completing payment in respect of such electronic application instructions, or of submitting one application through the **White Form eIPO** service and one or more applications by any other means, all of your applications are liable to be rejected.

If you are applying through White Form eIPO

If you apply for 1,000,000 Hong Kong Public Offer Shares or more through the **White Form eIPO** service by submitting an electronic application to the designated White Form eIPO Service Provider through the designated website www.eipo.com.hk and your application is wholly or partially successful, you may collect your Share certificate(s) (where applicable) in person from Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Thursday, 17 December 2009, or such other date as notified by the Group in the newspapers as the date of dispatch/collection of Share certificates/e-Refund payment instructions/refund checks.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider promptly thereafter by ordinary post and at your own risk.

If you apply for less than 1,000,000 Hong Kong Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider through the designated website at www.eipo.com.hk on Thursday, 17 December 2009 by ordinary post and at your own risk.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

If you apply through the **White Form eIPO** service and paid the application monies from a single bank account, refund monies (if any) will be despatched to the your application payment bank account in the form of e-Refund payment instructions. If you apply through **White Form eIPO** service and paid the application monies from multiple bank accounts, refund monies (if any) will be sent to the address specified in your application instructions to the designated White Form eIPO Service Provider promptly thereafter by ordinary post and at your own risk.

Please also note the additional information relating to refund of application monies overpaid, application money underpaid or applications rejected by the designated White Form eIPO Service Provider set out above in the paragraph entitled “Additional information” under “II. How to Apply Through **White Form eIPO**”.

III. HOW MANY APPLICATIONS MAY YOU MAKE

You may make more than one application for the Hong Kong Public Offer Shares only if you are a nominee, in which case you may lodge more than one Application Form in your own name on behalf of different beneficial owners. In the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code

for **each** beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

Otherwise, multiple applications are not allowed and will be rejected.

It will be a term and condition of all applications that by completing and delivering an Application Form or submitting an **electronic application instruction**, you:

- (if the application is made for your own benefit) warrant that the application made pursuant to the Application Form or **electronic application instruction** is the only application which will be made for your benefit on a **white** or **yellow** Application Form or by submitting an electronic application to the designated White Form eIPO Service Provider through **White Form eIPO** Service (www.eipo.com.hk);
- (if you are an agent for another person) warrant that reasonable enquiries have been made of that other person which confirm that this is the only application which will be made for the benefit of that other person on a **white** or **yellow** Application Form or by submitting an electronic application to the designated White Form eIPO Service Provider through **White Form eIPO** Service (www.eipo.com.hk), and that you are duly authorized to sign the Application Form or give **electronic application instruction** as that other person’s agent.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

All of your applications will be rejected as multiple applications if you, or you and your joint applicant(s) together:

- make more than one application (whether individually or jointly) on a **white** or **yellow** Application Form or to the designated White Form eIPO Service Provider through **White Form eIPO** service (www.eipo.com.hk); or
- both apply (whether individually or jointly) on one **white** Application Form and one **yellow** Application Form or on one **white** or **yellow** Application Form and to the designated White Form eIPO Service Provider through **White Form eIPO** service (www.eipo.com.hk); or
- apply on one **white** or **yellow** Application Form (whether individually or jointly) or to the designated White Form eIPO Service Provider through **White Form eIPO** service (www.eipo.com.hk) for more than 36,000,000 Hong Kong Public Offer Shares initially being offered for sale under the Hong Kong Public Offering as more particularly described in the section headed “Structure of the Global Offering — The Hong Kong Public Offering”; or
- have applied for or taken up, or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) International Offer Shares under the International Offering.

All of your applications will also be rejected as multiple applications if more than one application is made for **your benefit**. If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being made for your benefit.

“Unlisted company” means a company with no equity securities listed on the Hong Kong Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company; or
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

IV. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED HONG KONG PUBLIC OFFER SHARES

Full details of the circumstances in which you will not be allotted Hong Kong Public Offer Shares are set out in the notes attached to the Application Forms, and you should read them carefully. You should note in particular the following situations in which Hong Kong Public Offer Shares will not be allotted to you:

(a) If your application is revoked:

By completing and submitting an Application Form or submitting an **electronic application instruction** to the designated White Form eIPO Service Provider you agree that your application may not be revoked before 6 January 2010. Such agreement to take effect as a collateral contract with us and to become binding when you lodge your Application Form or submit your electronic application instruction to the designated White Form eIPO Service Provider. However, your application may be revoked on or before 6 January 2010 if a person responsible for this Prospectus under section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this Prospectus. This collateral contract will be in consideration of the Group agreeing that we will not offer any Hong Kong Public Offer Shares to any person on or before 14 December 2009 except by means of one of the procedures referred to in this Prospectus.

If any supplement to the Prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If applicant(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of the Prospectus as supplemented.

If your application has been accepted, it cannot be revoked. For this purpose, acceptance of applications will be constituted by notification in the announcement of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) Full discretion of the Group, the Sole Global Coordinator or our or their respective agents to reject or accept:

We, the Sole Global Coordinator, the designated White Form eIPO Service Provider (where applicable) or our or their respective agents have full discretion to reject or accept any application, or to accept only part of any application. No reasons have to be given for any rejection or acceptance.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

(c) Allotment of Hong Kong Public Offer Shares will be void under the following circumstances:

The allotment of Hong Kong Public Offer Shares to you or to HKSCC Nominees (if you apply by a **yellow** Application Form) will be void if the Listing Committee of the Hong Kong Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing of the application lists; or
- within a longer period of up to six weeks if the Listing Committee of the Hong Kong Stock Exchange notifies us of that longer period within three weeks of the closing date of the application lists.

(d) You will not receive any allotment if:

- you make multiple applications or you are suspected to have made multiple applications;
- you or the person whose benefits you apply for have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) International Offer Shares under the International Offering. By filling in any of the Application Forms or submitting electronic application instructions, you agree not to apply for or indicate an interest for International Offer Shares in the International Offering. Reasonable steps will be taken to identify and reject applications in the Hong Kong Public Offering from investors who have received International Offer Shares in the International Offering, and to identify and reject indications of interest in the International Offering from investors who have received Hong Kong Public Offer Shares in the Hong Kong Public Offering;
- your payment is not made correctly;
- you pay by check or banker's cashier order and the check or banker's cashier order is dishonored on its first presentation;
- your Application Form is not filled in correctly in accordance with the instruction as stated in the Application Form (if you apply by an Application Form);
- the Underwriting Agreements do not become unconditional;
- either of the Underwriting Agreements is terminated in accordance with its respective terms;
- your application is for more than 50% of the Hong Kong Public Offer Shares initially being offered under the Hong Kong Public Offering for subscription; or
- the Company believes that by accepting your application, this would violate the applicable securities or other laws, rules or regulations of the jurisdictions in which your application is completed and signed.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

You should also note that you may apply for Offer Shares under the Hong Kong Public Offering or indicate an interest for Offer Shares under the International Offering, but may not do both.

V. HOW MUCH ARE THE HONG KONG PUBLIC OFFER SHARES

The maximum offer price is HK\$2.69 per Hong Kong Public Offer Share. You must also pay brokerage of 1%, SFC transaction levy of 0.004%, and Hong Kong Stock Exchange trading fee of 0.005%. This means that for every board lot of 1,500 Hong Kong Public Offer Shares, you will pay HK\$4,075.71. The Application Forms have tables showing the exact amount payable for the numbers of Hong Kong Public Offer Shares that may be applied for.

You must pay the maximum offer price and related brokerage, SFC transaction levy, and the Hong Kong Stock Exchange trading fee in full when you apply for the Hong Kong Public Offer Shares. You must pay the amount payable upon application for Hong Kong Public Offer Shares by a check or a banker's cashier order in accordance with the terms set out in the Application Form or this Prospectus.

If your application is successful, brokerage is paid to Participants of the Hong Kong Stock Exchange or the Hong Kong Stock Exchange, the SFC transaction levy, and Hong Kong Stock Exchange trading fee are paid to the Hong Kong Stock Exchange (in the case of the SFC transaction levy collected by the Hong Kong Stock Exchange on behalf of the SFC).

VI. REFUND OF APPLICATION MONIES

If you do not receive any Hong Kong Public Offer Shares for any reason, we will refund your application monies, including related brokerage of 1%, SFC transaction levy of 0.004%, and Hong Kong Stock Exchange trading fee of 0.005%. No interest will be paid thereon.

If your application is accepted only in part, we will refund to you the appropriate portion of your application monies (including the related brokerage of 1%, SFC transaction levy of 0.004%, and Hong Kong Stock Exchange trading fee of 0.005%) without interest.

If the Offer Price as finally determined is less than the initial price per Hong Kong Public Offer Share (excluding brokerage, SFC transaction levy, and Hong Kong Stock Exchange trading fee thereon) paid on application, we will refund to you the surplus application monies, together with the related brokerage of 1%, SFC transaction levy of 0.004%, and Hong Kong Stock Exchange trading fee of 0.005%, without interest.

All such interest accrued prior to the date of dispatch of e-Refund payment instructions/refund checks will be retained for our benefit.

In a contingency situation involving a substantial over-application, at the discretion of us and the Sole Global Coordinator, checks for applications made on Application Forms for certain small denominations of Hong Kong Public Offer Shares (apart from successful applications) may not be cleared.

HOW TO APPLY FOR HONG KONG PUBLIC OFFER SHARES

Refund of your application monies (if any) is expected to be made on Thursday, 17 December 2009 in accordance with the various arrangements as described above.

VII. COMMENCEMENT OF DEALINGS IN THE SHARES

Dealings in the Shares on the Hong Kong Stock Exchange are expected to commence on Friday, 18 December 2009.

The Shares will be traded in board lots of 1,500 each. The stock code of the Shares is 1080.

VIII. SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Hong Kong Stock Exchange grants the listing of and permission to deal in the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between Participants of the Hong Kong Stock Exchange is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements will affect their rights and interests.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

The following is the text of a report, prepared for the purpose of incorporation in this Prospectus, received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants to the Company.

Deloitte.
德勤

德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

9 December 2009

The Directors
Shengli Oil & Gas Pipe Holdings Limited
Macquarie Capital Securities Limited

Dear Sirs,

We set out below our report on the financial information (the “Financial Information”) relating to Shengli Oil & Gas Pipe Holdings Limited (formerly known as Shengli Oil & Gas Pipe Holdings Ltd., the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) for the period from 1 November 2007 (the date of incorporation of CPE (as defined below)) to 31 December 2007, the year ended 31 December 2008 and the six months ended 30 June 2009 (the “Relevant Periods”), for inclusion in the prospectus of the Company dated 9 December 2009 (the “Prospectus”) in connection with the initial listing (the “Listing”) of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law Chapter 22 of the Cayman Islands on 3 July 2009. Pursuant to a group reorganization (the “Group Reorganization”), as more fully explained in the paragraph headed “Our Corporate Reorganization” in the Section “History and Corporate Structure” to the Prospectus, the Company became the holding company of the Group on 28 October 2009.

Particulars of the Company’s subsidiaries at the end of each respective reporting period and the date of this report are as follows:

Name of subsidiary	Place and date of incorporation/ registration and operation	Issued and fully paid share/ registered capital	Attributable equity interest held by the Company as at				Principal activities
			31 December		30 June	the date of this report	
			2007	2008			
Shengli (BVI) Ltd. (formerly known as Sinolion Equity II Ltd.) (“Shengli (BVI)”)	British Virgin Islands 30 October 2008	US\$1 of nil paid	N/A	N/A	N/A	100%	Investment holding

Directly held:

Name of subsidiary	Place and date of incorporation/ registration and operation	Issued and fully paid share/ registered capital	Attributable equity interest held by the Company as at				Principal activities
			31 December		30 June 2009	the date of this report	
			2007	2008			
<i>Indirectly held:</i>							
China Petro Equipment Holdings Pte Ltd. ("CPE")	The Republic of Singapore ("Singapore") 1 November 2007	S\$2	100%	100%	100%	100%	Investment holding
山東勝利鋼管有限公司 (Shandong Shengli Steel Pipe Co., Ltd., formerly known as 勝利鋼管(日照)有限公司, (Shengli Steel Pipe (Rizhao) Co., Ltd.)) [#] ("Shandong Shengli") (Note)	The People's Republic of China (the "PRC") 29 April 2005	RMB150,760,000	100%	100%	100%	100%	Manufacture, processing and sale of welded steel pipes for oil and gas pipelines and other construction and manufacturing applications

[#] The English name is for identification purpose only

Note: Wholly foreign owned enterprise with limited liability.

The Company and its subsidiaries have adopted 31 December as their financial year end date.

No audited financial statements have been prepared for the Company since its date of incorporation as it has not carried out any business, except for the transactions relating to the Group Reorganization. We have, however, reviewed all the relevant transactions of the Company since its date of incorporation.

No audited financial statements have been prepared for Shengli (BVI) since its date of incorporation as there is no such statutory requirement. The statutory financial statements of CPE for the period from 1 November 2007 (the date of incorporation) to 31 December 2008 to be audited by Deloitte & Touche LLP, Singapore still not yet issued. No audited financial statements have been prepared for CPE for the six months ended 30 June 2009 as there is no such statutory requirement. We have, however, reviewed all relevant transactions of Shengli (BVI) and CPE since their dates of incorporation.

The statutory financial statements of Shandong Shengli for the two years ended 31 December 2008 were audited by 山東仲泰有限責任會計師事務所 (Shandong Zhong Tai CPA Ltd.), a certified public accountants registered in the PRC. These statutory financial statements were prepared in accordance with the relevant accounting rules and financial regulations applicable to the enterprise registered in the PRC. No statutory financial statements for the six months ended 30 June 2009 were prepared for Shandong Shengli as there is no such statutory requirement.

For the purposes of this report, the directors of CPE, have prepared the consolidated financial statements of CPE and its subsidiary, Shandong Shengli, which was acquired by CPE on 29 December 2007 as further explained in note 28(a) to the Financial Information, for the period from 1 November 2007 (the date of incorporation of CPE) to 31 December 2007, the year ended 31 December 2008 and the six months ended 30 June 2009 in accordance with International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) (the “Underlying Financial Statements”). We have undertaken an independent audit on the Underlying Financial Statements in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 “Prospectuses and the Reporting Accountant” as recommended by the HKICPA.

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements, on the basis set out in note 2 of Section I below. No adjustments are considered necessary to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of CPE who approved their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibilities to compile the financial information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information, and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 2 of Section I below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2007, 31 December 2008 and 30 June 2009, and of the combined results and combined cash flows of the Group for the Relevant Periods.

The comparative combined statement of comprehensive income, combined statement of changes in equity and combined statement of cash flows of the Group for the six months ended 30 June 2008 together with the notes thereon have been extracted from CPE’s unaudited consolidated financial statements for the same period (the “30 June 2008 Financial Information”) which was prepared by the directors of CPE solely for the purpose of this report. We have reviewed the 30 June 2008 Financial Information 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. Our review of the 30 June 2008 Financial Information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion on the 30 June 2008 Financial Information. Based on our review, nothing has come to our attention that causes us to believe that the 30 June 2008 Financial Information is not prepared, in all material respects, in accordance with the accounting policies consistent with those used in the preparation of the Financial Information which conform with IFRSs.

I. FINANCIAL INFORMATION

COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	NOTES	For the period from 1 November 2007 to		Six months ended 30 June	
		31 December 2007	Year ended 31 December 2008	2008	2009
		RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Turnover	8	—	1,070,747	493,490	1,813,199
Cost of sales		—	(935,241)	(413,719)	(1,667,739)
Gross profit		—	135,506	79,771	145,460
Other income	9	141	36,141	18,397	19,130
Selling and distribution expenses		—	(6,020)	(2,416)	(5,849)
Administrative expenses		(12)	(16,830)	(7,611)	(12,586)
Finance costs	10	—	—	—	(1,275)
Profit before taxation	11	129	148,797	88,141	144,880
Income tax expenses	13	—	—	—	—
Profit for the period/year and total comprehensive income for the period/year		129	148,797	88,141	144,880
Earnings per share — basic (RMB cents)	15	0.01	16.53	9.79	16.10

COMBINED STATEMENTS OF FINANCIAL POSITION

	NOTES	As at 31 December		As at 30 June
		2007	2008	2009
		RMB'000	RMB'000	RMB'000
NON-CURRENT ASSETS				
Property, plant and equipment	16	102,218	221,093	220,389
Prepaid lease payments	17	6,017	5,894	5,833
Intangible asset	18	2,670	—	—
Goodwill	19	2,525	2,525	2,525
Deposits for acquisition of property, plant and equipment		11,409	—	—
		<u>124,839</u>	<u>229,512</u>	<u>228,747</u>
CURRENT ASSETS				
Inventories	20	76,267	812,126	379,448
Amount due from a related party	31(d)	—	2,840	—
Trade and other receivables	21	25,671	178,854	368,580
Prepaid lease payments	17	123	123	123
Bank balances and cash	22	926	80,796	78,378
		<u>102,987</u>	<u>1,074,739</u>	<u>826,529</u>
CURRENT LIABILITIES				
Trade and other payables	23	49,307	829,542	497,261
Amounts due to related parties	31(d)	61,405	275,308	213,734
Consideration payables	24	116,510	—	—
Bank borrowings	25	—	50,000	50,000
		<u>227,222</u>	<u>1,154,850</u>	<u>760,995</u>
NET CURRENT (LIABILITIES) ASSETS		<u>(124,235)</u>	<u>(80,111)</u>	<u>65,534</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>604</u>	<u>149,401</u>	<u>294,281</u>
CAPITAL AND RESERVES				
Paid-in capital/share capital	26	—	—	—
Reserves		<u>129</u>	<u>148,926</u>	<u>293,806</u>
TOTAL EQUITY		<u>129</u>	<u>148,926</u>	<u>293,806</u>
NON-CURRENT LIABILITIES				
Deferred tax liabilities	27	<u>475</u>	<u>475</u>	<u>475</u>
TOTAL EQUITY AND NON-CURRENT LIABILITIES		<u>604</u>	<u>149,401</u>	<u>294,281</u>

COMBINED STATEMENTS OF CHANGES IN EQUITY

	Paid-in capital/ share capital	Statutory surplus reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Capital contribution from equity shareholders	—	—	—	—
Total comprehensive income for the period from 1 November 2007 to 31 December 2007	—	—	129	129
At 31 December 2007 and 1 January 2008	—	—	129	129
Total comprehensive income for the year	—	—	148,797	148,797
At 31 December 2008 and 1 January 2009	—	—	148,926	148,926
Total comprehensive income for the period	—	—	144,880	144,880
Transfer (note)	—	9,685	(9,685)	—
At 30 June 2009	—	9,685	284,121	293,806
UNAUDITED				
At 1 January 2008	—	—	129	129
Total comprehensive income for the period	—	—	88,141	88,141
At 30 June 2008	—	—	88,270	88,270

Note: Statutory surplus reserve

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

COMBINED STATEMENTS OF CASH FLOW

NOTES	For the period from 1 November 2007 to		Year ended 31 December	
	31 December 2007	31 December 2008	2008	Six months ended 30 June 2009
	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
OPERATING ACTIVITIES				
Profit for the period/year	129	148,797	88,141	144,880
Adjustments for:				
Finance costs	—	—	—	1,275
Interest income	—	(149)	(10)	(101)
Write-down of inventories	—	1,272	—	6,186
Depreciation of property, plant and equipment	—	10,631	4,998	11,058
Amortization of intangible asset	—	2,670	2,289	—
Release of prepaid lease payments	—	123	43	61
Losses on disposals of property, plant and equipment	—	64	24	—
Discount on acquisition	28(a)	(141)	—	—
Operating cash flows before movements in working capital	(12)	163,408	95,485	163,359
(Increase) decrease in inventories	—	(737,131)	(131,398)	426,492
Increase in trade and other receivables	—	(239,505)	(146,500)	(186,493)
Increase (decrease) in trade and other payables	35	797,541	181,766	(328,095)
Cash generated from (used in) operations	23	(15,687)	(647)	75,263
Interest paid	—	—	—	(1,275)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	23	(15,687)	(647)	73,988
INVESTING ACTIVITIES				
Acquisition relating to Shandong Shengli Acquisition (as defined in note 28(a))	28(a)	903	(32,500)	—
Acquisition relating to Shengli Steel Pipe Acquisition (as defined in note 28(b))	28(b)	—	(84,010)	—
Interest received	—	149	10	101
(Advance to) repayment from a related party	—	(2,840)	—	2,840
Purchase of property, plant and equipment	—	(103,603)	(49,558)	(14,540)
Proceeds on disposals of property, plant and equipment	—	240	—	—
NET CASH FROM (USED IN) INVESTING ACTIVITIES	903	(222,564)	(49,548)	(11,599)

	For the period from 1 November 2007 to 31 December 2007	Year ended 31 December 2008	Six months ended 30 June	
	RMB'000	RMB'000	2008 RMB'000 (unaudited)	2009 RMB'000
FINANCING ACTIVITIES				
Advances from related parties	—	398,875	112,450	8,290
Proceeds received from bank borrowings	—	50,000	—	—
Repayment of advances from staff	—	(32,104)	(5,055)	—
Repayments to related parties	—	(98,650)	(47,475)	(73,097)
NET CASH FROM (USED IN) FINANCING ACTIVITIES	—	318,121	59,920	(64,807)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	926	79,870	9,725	(2,418)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD/YEAR	—	926	926	80,796
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR, represented by bank balances and cash	926	80,796	10,651	78,378

NOTES TO THE FINANCIAL INFORMATION**1. GENERAL**

The Company is a limited company incorporated in the Cayman Islands on 3 July 2009 and acts as an investment holding company.

The address of the registered office and the principal place of business of the Company are disclosed in the Section “Corporate Information” to the Prospectus.

The Financial Information of the Group is presented in Renminbi (“RMB”), the currency of the primary economic environment in which the principal subsidiaries of the Company operate (the functional currency of the Company and the principal subsidiaries).

The principal activities of the Group are manufacture, processing and sale of welded steel pipes for oil and gas pipelines and other construction and manufacturing applications.

2. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

CPE was incorporated on 1 November 2007 as a private limited company and was wholly owned by Aceplus Investments Limited (“Aceplus”). On 29 December 2007, CPE acquired Shandong Shengli which is engaged in cold-formed section steel operation. On 31 December 2007, Shandong Shengli acquired the spiral submerged arc welded pipe operation (“SSAW Pipes Business”) and the related assets and liabilities from 勝利鋼管有限公司 (Shengli Steel Pipe Co., Ltd., “Shengli Steel Pipe”). These two acquisitions are recognized by using the purchase accounting method and the details are explained further in notes 28(a) and 28(b), respectively.

After interspersing the Company and Shengli (BVI) between CPE and Aceplus, the Company became the holding company of the companies now comprising of the Group. The Financial Information of the Group has been prepared on the basis as if the Company had always been the holding company of the companies now comprising of the Group throughout the Relevant Periods.

The combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flow have been prepared as if the Company had been in existence and being the holding company of CPE throughout the Relevant Periods.

The combined statements of financial position of the Group as at 31 December 2007, 31 December 2008 and 30 June 2009 have been prepared to present the assets and liabilities of the companies now comprising of the Group as at the end of each of the reporting period as if the current group structure had been in existence at the end of those reporting periods.

3. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has consistently adopted all of the new and revised standards and interpretations issued by the IASB and the International Financial Reporting Interpretations Committee (“IFRIC”) of the IASB that are effective for financial year beginning on 1 January 2009 in the preparation of its Financial Information throughout the Relevant Periods.

At the date of this report, the IASB has issued the following new and revised International Accounting Standards ("IASs"), IFRSs and IFRICs which are not yet effective in respect of the Relevant Periods. The Group has not early adopted the following new and revised standards or interpretations that have been issued but are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs April 2009 ¹
IAS 24 (Revised)	Related Party Disclosures ⁶
IAS 27 (Revised)	Consolidated and Separate Financial Statements ²
IAS 32 (Amendment)	Classification of Rights Issues ³
IAS 39 (Amendment)	Eligible Hedged Items ²
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transaction ⁴
IFRS 3 (Revised)	Business Combinations ²
IFRS 5 (Amendments)	Amendments included in Improvements to IFRSs May 2008 ²
IFRS 9	Financial Instruments ⁷
IFRS 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁶
IFRIC 17	Distributions of Non-cash Assets to Owners ²
IFRIC 18	Transfers of Assets from Customers ⁵
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments ⁸

¹ Effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 February 2010

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

⁵ Effective for transfers on or after 1 July 2009

⁶ Effective for annual periods beginning on or after 1 January 2011

⁷ Effective for annual periods beginning on or after 1 January 2013

⁸ Effective for annual periods beginning on or after 1 July 2010

The adoption of IFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. IAS 27 (Revised) will affect the Group's accounting treatment for changes in the Group's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared under the historical cost basis as explained in the accounting policies set out below.

The Financial Information has been prepared in accordance with the following accounting policies which conform to IFRSs issued by the IASB. These policies have been consistently applied throughout the Relevant Periods. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

Basis of combination

The Financial Information incorporated the financial statements of the entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

All significant intra-group transactions, balances, income and expenses are eliminated on combination.

Business combinations

The acquisition of subsidiaries or business other than those under common control is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 "Business Combinations" are recognized at their fair values at the acquisition date.

Goodwill arising on acquisition of subsidiaries is recognized as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognized. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognized immediately in profit or loss.

Goodwill

Capitalized goodwill arising on acquisition of a business or subsidiary is presented separately in the combined statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial period/year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial period/year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the combined statement of comprehensive income. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalized is included in the determination of the profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognized when goods are delivered and title has passed.

Service income is recognized when the services are provided.

Rental income from leasing of premises is recognized on a straight-line basis over the term of the relevant lease.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognized in the combined statement of comprehensive income on a straight-line basis over the term of the relevant lease.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognized as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial information of the individual group entities, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of each reporting period.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss in the period in which they arise.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period/year. Taxable profit differs from profit as reported in the combined statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the Financial Information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalized as part of the cost of those assets. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to state-managed retirement benefits schemes are charged as expenses when employees have rendered service entitling them to the contributions.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for its intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the combined statement of comprehensive income in the year/period in which the item is derecognized.

Prepaid lease payments

Prepaid lease payments represent payments for leasehold land and are amortized over the lease terms on a straight-line basis. Prepaid lease payments which are to be amortized in the next twelve months or less are classified as current assets.

Intangible asset acquired in a business combination

Contract backlog

A contract backlog acquired in a business combination are identified and recognized separately from goodwill where it satisfies the definition of an intangible asset and its fair values can be measured reliably. The cost of contract backlog is its fair value at the acquisition date.

Subsequent to initial recognition, the amount will be credited to the combined statement of comprehensive income upon the completion of the relevant contracts.

Impairment of tangible and intangible assets other than goodwill (see accounting policy in respect of goodwill above)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognized on the combined statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from a related party and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate transaction costs and other premiums or discounts) through the expected life of the financial asset or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments of which interest income is included in other income.

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been impacted. The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit terms of the customers, observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognized in the combined statement of comprehensive income when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognized on an effective interest basis of which interest expense is included in finance costs.

Financial liabilities

Financial liabilities (including bank borrowings, amounts due to related parties, consideration payables and trade and other payables) are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

Equity instruments issued by a group entity are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

5. KEY SOURCE OF ESTIMATION

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Estimated impairment of inventories

The Group assesses periodically if the inventories have been suffered from any impairment in accordance with the accounting policy stated in note 4.

The identification of impairment of inventories requires the use of judgement and estimates of expected future cash inflows. Where the expectation is different from the original estimate, such difference will impact carrying value of inventories and impairment loss in the year/period in which such estimate has been changed. The directors of the Company are satisfied that this risk is minimal and adequate allowance for obsolete and slow moving inventories were provided.

(b) Estimated impairment of trade and other receivables

As explained in note 4, trade and other receivables are initially measured at fair value, and are subsequently measured at amortized cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired.

The identification of bad and doubtful debts requires the use of judgement and estimates of expected future cash inflows. Where the expectation is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debts expenses in the year/period in which such estimate has been changed. The directors of the Company are satisfied that this risk is minimal and no allowance for doubtful debts was provided during the Relevant Periods.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balances. The Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Group consists of bank borrowings, amounts due to related parties and equity attributable to equity holders of the Group, comprising share capital and retained profits as disclosed in the combined statements of financial position.

The directors of the Company review the capital structure regularly. The Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through new share issues as well as the issue of new debts or the redemption of existing debts.

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	As at 31 December		As at 30 June
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
<u>Financial assets:</u>			
Loans and receivables (including cash and cash equivalents)	<u>13,979</u>	<u>214,556</u>	<u>381,297</u>
<u>Financial liabilities:</u>			
Liabilities measured at amortized costs	<u>223,689</u>	<u>416,260</u>	<u>638,722</u>

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amount due from a related party, trade and other payables, amounts due to related parties, consideration payables, bank borrowings, bank balances and cash. Details of these financial instruments are disclosed in respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

The directors of the Company manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Group's overall strategy remains unchanged during the Relevant Periods.

(c) *Market risk*

The Group's activities expose it primarily to the market risks including interest risk (note 7(d)) and foreign currency risk (note 7(e)). There has been no change to the Group's exposure to these market risks or the manner in which it manages and measures the risks for the Relevant Periods.

(d) *Interest rate risk management*

The fair value interest rate risk of the Group relates primarily to fixed rate bank borrowings. The fixed-rate bank borrowings are mainly due within one year in which the fair value interest rate risk is considered to be minimal. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

(e) *Foreign currency risk management*

The Group undertakes certain transactions denominated in foreign currency, hence exposure to exchange rate fluctuations arises. The directors of the Company consider that the Group is not exposed to significant foreign currency risk as the majority of its transactions are denominated in RMB (the functional currency of the group entities). Hence, no sensitivity analysis to foreign currency risk is presented. The Group currently does not use any derivative contracts to hedge against its exposure to foreign currency risk. The Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate.

(f) *Credit risk management*

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2007, 31 December 2008 and 30 June 2009 in relation to each class of recognized financial assets is the carrying amounts of those assets as stated in the respective combined statement of financial position.

In order to minimize the credit risk, the directors of the Company have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the directors of the Company review the recoverability of each trade debt at the end of each of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risk as the Group's trade receivables as at 31 December 2007, 31 December 2008 and 30 June 2009 of approximately RMB8,896,000, RMB103,167,000 and RMB260,574,000, respectively, representing 91%, 83% and 92% of total trade receivables, respectively, were derived from a few major customers. In order to minimize the credit risk, the directors of the Company continuously monitor the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower exposure or even to recover the overdue debts. The Group has no significant concentration of credit risk on the remaining trade receivables, with exposure spread over a number of counterparties and customers.

The Group has concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on bank balances is limited because the majority of the counterparties are state-owned banks with good reputation or banks with good credit rating assigned by international credit-rating agencies and with good reputation.

(g) *Liquidity risk management*

Ultimate responsibility for liquidity risk rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities as at 31 December 2007, 31 December 2008 and 30 June 2009.

The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

	Weighted average interest rate	Less than 3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities					
As at 31 December 2007					
Trade and other payables	—	45,774	—	45,774	45,774
Consideration payables	—	116,510	—	116,510	116,510
Amounts due to related parties	—	61,405	—	61,405	61,405
		<u>223,689</u>	<u>—</u>	<u>223,689</u>	<u>223,689</u>
As at 31 December 2008					
Trade and other payables	—	90,952	—	90,952	90,952
Amounts due to related parties	—	275,308	—	275,308	275,308
Fixed interest rates borrowings	5.31	664	51,770	52,434	50,000
		<u>366,924</u>	<u>51,770</u>	<u>418,694</u>	<u>416,260</u>
As at 30 June 2009					
Trade and other payables	—	374,988	—	374,988	374,988
Amounts due to related parties	—	213,734	—	213,734	213,734
Fixed interest rates borrowings	5.31	664	50,495	51,159	50,000
		<u>589,386</u>	<u>50,495</u>	<u>639,881</u>	<u>638,722</u>

(h) Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using rates from observable current market transaction as input.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Financial Information approximate their fair values at the end of each respective reporting period.

8. TURNOVER AND SEGMENT INFORMATION

(a) Turnover

Turnover represents the net amounts received and receivable during the Relevant Periods for:

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

An analysis of the Group's turnover during the Relevant Periods is as follows:

	For the period from 1 November 2007 to 31 December 2007	Year ended 31 December 2008	Six months ended 30 June	
	RMB'000	RMB'000	2008	2009
			(unaudited)	
Revenue from				
- Sales of goods	—	985,482	429,876	1,777,813
- Provision of processing services	—	85,265	63,614	35,386
	—	<u>1,070,747</u>	<u>493,490</u>	<u>1,813,199</u>

(b) Segment information

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

These reportable segments form the basis on which the Group's chief decision maker makes decision about resource allocation and performance assessment. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

For the period from 1 November 2007 to 31 December 2007:

No segment revenue, results and other information was presented for the period from 1 November 2007 to 31 December 2007 as CPE just acquired Shandong Shengli on 29 December 2007. Before the acquisition of Shandong Shengli, CPE did not have any operating activity.

Combined statement of financial position

	SSAW Pipes Business	Cold-formed Section Steel Business	Total
	RMB'000	RMB'000	RMB'000
Segment assets	89,739	128,105	217,844
Unallocated assets			9,982
Total combined assets			<u>227,826</u>
Segment liabilities	8,253	8,189	16,442
Unallocated liabilities			211,255
Total combined liabilities			<u>227,697</u>

For the year ended 31 December 2008:

Combined statement of comprehensive income

	SSAW Pipes Business	Cold-formed Section Steel Business	Total	Eliminations	Combined
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover					
External sales	992,398	78,349	1,070,747	—	1,070,747
Internal sales	—	7,521	7,521	(7,521)	—
	<u>992,398</u>	<u>85,870</u>	<u>1,078,268</u>	<u>(7,521)</u>	<u>1,070,747</u>
Result					
Segment result	<u>158,117</u>	<u>(8,247)</u>	<u>149,870</u>	<u>—</u>	149,870
Interest income					149
Unallocated expenses					<u>(1,222)</u>
Profit before taxation					148,797
Income tax expenses					<u>—</u>
					<u>148,797</u>

Other information

	SSAW Pipes Business	Cold-formed Section Steel Business	Total	Unallocated items	Combined
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-cash Items:					
Additions of property, plant and equipment	126,433	3,364	129,797	13	129,810
Depreciation and amortization	8,865	4,435	13,300	1	13,301
Release of prepaid lease payments	—	123	123	—	123
Write-down of inventories	—	1,272	1,272	—	1,272
Losses on disposals of property, plant and equipment	64	—	64	—	64
	<u>64</u>	<u>—</u>	<u>64</u>	<u>—</u>	<u>64</u>

Combined statement of financial position

	SSAW Pipes Business	Cold-formed Section Steel Business	Total
	RMB'000	RMB'000	RMB'000
Segment assets	1,098,918	115,825	1,214,743
Unallocated assets			89,508
Total combined assets			<u>1,304,251</u>
Segment liabilities	738,395	82,307	820,702
Unallocated liabilities			334,623
Total combined liabilities			<u>1,155,325</u>

For the six months ended 30 June 2009:

Combined statement of comprehensive income

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

Other information

	SSAW Pipes Business	Cold-formed Section Steel Business	Total	Unallocated items	Combined
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-cash Items:					
Additions of property, plant and equipment	10,062	292	10,354	—	10,354
Depreciation and amortization	8,568	2,488	11,056	2	11,058
Release of prepaid lease payments	—	61	61	—	61
Write-down of inventories	<u>5,514</u>	<u>672</u>	<u>6,186</u>	<u>—</u>	<u>6,186</u>

Combined statement of financial position

	SSAW Pipes Business	Cold-formed Section Steel Business	Total
	RMB'000	RMB'000	RMB'000
Segment assets	867,182	107,276	974,458
Unallocated assets			80,818
Total combined assets			<u>1,055,276</u>
Segment liabilities	310,731	82,672	393,403
Unallocated liabilities			368,067
Total combined liabilities			<u>761,470</u>

For the six months ended 30 June 2008 (unaudited):

Combined statement of comprehensive income

	SSAW Pipes Business	Cold-formed Section Steel Business	Total	Eliminations	Combined
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover					
External sales	449,354	44,136	493,490	—	493,490
Internal sales	—	4,762	4,762	(4,762)	—
	<u>449,354</u>	<u>48,898</u>	<u>498,252</u>	<u>(4,762)</u>	<u>493,490</u>
Result					
Segment result	<u>89,625</u>	<u>(1,437)</u>	<u>88,188</u>	<u>—</u>	88,188
Interest income					10
Unallocated expenses					(57)
Profit before taxation					88,141
Income tax expenses					—
					<u>88,141</u>

Other information

	SSAW Pipes Business	Cold-formed Section Steel Business	Total	Unallocated items	Combined
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-cash Items:					
Depreciation and amortization	2,852	4,435	7,287	—	7,287
Losses on disposals of property, plant and equipment	24	—	24	—	24
Release of prepaid lease payments	—	43	43	—	43

All of the Group's revenue, profit before taxation, assets and liabilities were derived from and located in the PRC and therefore, no geographical segments are presented.

No revenue was generated for the period from 1 November 2007 to 31 December 2007. For the year ended 31 December 2008, revenue from one customer of the Group amounting to RMB763,829,000 had individually accounted for over 10% of the Group's total revenue. For the six months ended 30 June 2008 (unaudited), revenue from two customers of the Group amounting to RMB265,956,000 and RMB87,380,000, respectively had individually accounted for over 10% of the Group's total revenue. For the six months ended 30 June 2009, revenue from two customers of the Group amounting to RMB1,201,085,000 and RMB471,854,000, respectively had individually accounted for over 10% of the Group's total revenue. The revenue from these customers related to SSAW Pipes Business.

9. OTHER INCOME

	For the period from 1 November 2007 to 31 December 2007	Year ended 31 December 2008	Six months ended 30 June	
	RMB'000	RMB'000	2008 (unaudited)	2009
Other income comprises:				
Gain on sales of scrap materials	—	23,560	9,681	15,834
Gain on sales of surplus materials	—	9,548	8,553	42
Quality inspection service income	—	1,150	30	539
Loading service income	—	—	—	2,555
Rental income	—	1,163	—	—
Interest income	—	149	10	101
Exchange gains, net	—	—	—	59
Discount on acquisition (note 28(a))	141	—	—	—
Others	—	571	123	—
	<u>141</u>	<u>36,141</u>	<u>18,397</u>	<u>19,130</u>

10. FINANCE COSTS

	For the period from 1 November 2007 to 31 December 2007	Year ended 31 December 2008	Six months ended 30 June	
	RMB'000	RMB'000	2008 RMB'000 (unaudited)	2009 RMB'000
Finance costs comprise:				
Interest on bank borrowings wholly repayable within one year	—	—	—	1,275

11. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	For the period from 1 November 2007 to 31 December 2007	Year ended 31 December 2008	Six months ended 30 June	
	RMB'000	RMB'000	2008 RMB'000 (unaudited)	2009 RMB'000
Staff cost (including directors):				
- Salaries and wages	—	30,404	12,947	22,527
- Retirement benefit scheme contributions	—	1,905	960	1,474
	—	32,309	13,907	24,001
Depreciation and amortization:				
- Property, plant and equipment	—	10,631	4,998	11,058
- Intangible asset	—	2,670	2,289	—
	—	13,301	7,287	11,058
Release of prepaid lease payments	—	123	43	61
Cost of inventories recognized as an expense (note)	—	935,241	413,719	1,667,739
Exchange losses, net	—	797	333	—
Auditors' remuneration	—	224	49	569
Losses on disposals of property, plant and equipment	—	64	24	—

Note: Included in the cost of inventories recognized as an expense is an amount of nil, RMB1,272,000, nil and RMB6,186,000, for the period from 1 November 2007 to 31 December 2007, the year ended 31 December 2008, the six months ended 30 June 2008 (unaudited) and the six months ended 30 June 2009, respectively related to the write-down of inventories.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(i) Directors' emoluments

Details of the emoluments paid to directors of the Company for the Relevant Periods are as follows:

1 November 2007 to 31 December 2007			
Directors' fees	Retirement benefit scheme contributions	Other emoluments	Total
RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:			
Zhang Bizhuang	—	—	—
Wang Xu	—	—	—
Han Aizhi	—	—	—
Non-executive directors:			
Yan Tangfeng	—	—	—
Teo Yi-Dar	—	—	—
Ling Yong Wah	—	—	—
Independent non-executive directors:			
Huo Chunyong	—	—	—
Guo Changyu	—	—	—
Wong Wing Yee Jessie	—	—	—
—	—	—	—
—	—	—	—

Year ended 31 December 2008			
Directors' fees	Retirement benefit scheme contributions	Other emoluments	Total
RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:			
Zhang Bizhuang	20	12	170
Wang Xu	—	10	138
Han Aizhi	—	9	125
Non-executive directors:			
Yan Tangfeng	20	—	20
Teo Yi-Dar	20	—	20
Ling Yong Wah	20	—	20
Independent non-executive directors:			
Huo Chunyong	—	—	—
Guo Changyu	—	—	—
Wong Wing Yee Jessie	—	—	—
80	31	433	544

Six months ended 30 June 2009				
	Directors' fees	Retirement benefit scheme contributions	Other emoluments	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:				
Zhang Bizhuang	48	8	421	477
Wang Xu	—	8	76	84
Han Aizhi	—	7	74	81
Non-executive directors:				
Yan Tangfeng	76	—	—	76
Teo Yi-Dar	48	—	—	48
Ling Yong Wah	48	—	—	48
Independent non-executive directors:				
Huo Chunyong	—	—	—	—
Guo Changyu	—	—	—	—
Wong Wing Yee Jessie	—	—	—	—
	<u>220</u>	<u>23</u>	<u>571</u>	<u>814</u>

Six months ended 30 June 2008 (unaudited)				
	Directors' fees	Retirement benefit scheme contribution	Other emoluments	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive directors:				
Zhang Bizhuang	—	6	89	95
Wang Xu	—	5	72	77
Han Aizhi	—	5	59	64
Non-executive directors:				
Yan Tangfeng	—	—	—	—
Teo Yi-Dar	—	—	—	—
Ling Yong Wah	—	—	—	—
Independent non-executive directors:				
Huo Chunyong	—	—	—	—
Guo Changyu	—	—	—	—
Wong Wing Yee Jessie	—	—	—	—
	<u>—</u>	<u>16</u>	<u>220</u>	<u>236</u>

During the Relevant Periods, no remuneration was paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors has waived any remuneration during the Relevant Periods.

(ii) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, nil, 3, 3 and 3 were directors of the Company for the period from 1 November 2007 to 31 December 2007, the year ended 31 December 2008, the six months ended 30 June 2008 (unaudited) and the six months ended 30 June 2009, respectively, details of whose emoluments are included in the disclosures above.

The emoluments of the remaining 5, 2, 2 and 2 individuals during the Relevant Periods were as follows:

	For the period from 1 November 2007 to 31 December 2007	Year ended 31 December 2008	Six months ended 30 June	
	RMB'000	RMB'000	2008 (unaudited)	2009
Salaries and allowances	—	238	119	334
Performance related bonus	—	—	—	—
Retirement benefit scheme contributions	—	19	9	28
	<u>—</u>	<u>257</u>	<u>128</u>	<u>362</u>

The emoluments of the five highest paid individuals (others than directors) during the Relevant Periods were within HKD1,000,000.

During the Relevant Periods, no remuneration was paid by the Group to the five individuals with the highest emoluments in the Group as an inducement to join or upon joining the Group or as compensation for loss of office.

13. INCOME TAX EXPENSES

	For the period from 1 November 2007 to 31 December 2007	Year ended 31 December 2008	Six months ended 30 June	
	RMB'000	RMB'000	2008 (unaudited)	2009
Income tax expenses comprise:				
Current tax:				
PRC enterprise income tax ("EIT")	—	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>

The statutory tax rate of CPE is 18% for the year ended 31 December 2007, 31 December 2008, the six months ended 30 June 2008 (unaudited) and the six months ended 30 June 2009.

No provision for Singapore Income Tax has been made in the Financial Information as the income of the Group neither arising in nor derived from Singapore.

Prior to Shandong Shengli Acquisition, Shandong Shengli was a Sino-foreign investment company registered in Shandong Province, PRC and the statutory tax rate applicable to Shandong Shengli was 33%. Subsequent to the Shandong Shengli Acquisition on 29 December 2007, Shandong Shengli became a wholly foreign owned enterprise. Accordingly, Shandong Shengli is entitled to an exemption from income tax for the two years commencing from its first profit-making year of operations and thereafter, entitled to a 50% relief for the subsequent three years. Shandong Shengli has been entitled to and enjoyed the first exemption year in year 2008.

On 16 March 2007, the National People's Congress promulgated the Law of the People's Republic of China on Enterprise Income Tax (《中華人民共和國企業所得稅法》) (the "New EIT Law") by order No. 63 of the President of the PRC which is effective from 1 January 2008 and also on 6 December 2007, the State Council issued Implementation Regulation of the New EIT Law. Pursuant to the New EIT Law and Implementation Regulation, a single income tax rate of 25% was imposed for both domestic and foreign-invested enterprises and accordingly, the statutory tax rate applicable to Shandong Shengli changed to 25%. As Shandong Shengli was established prior to 16 March 2007 as a Sino-foreign investment company, it could still enjoy the exemption from income tax for the two years commencing from year 2008 and thereafter, entitled to a 50% relief for the subsequent three years.

The charge during the Relevant Periods can be reconciled to the profit before taxation per the combined statement of comprehensive incomes as follows:

	For the period from 1 November 2007 to 31 December 2007		Year ended 31 December 2008		Six months ended 30 June			
					2008		2009	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Profit before taxation	129		148,797		88,141		144,880	
Tax at the PRC enterprise income tax rate (note a)	43	33	37,199	25	22,035	25	36,220	25
Tax effect of income that are not taxable for tax purpose	(43)	(33)	—	—	—	—	—	—
Effect of expenses that are not deductible for tax purposes	—	—	398	—	23	—	463	—
Tax effect of tax loss not recognized	—	—	303	—	14	—	1,221	—
Effect of tax exemption	—	—	(37,900)	(25)	(22,072)	(25)	(37,904)	(25)
Withholding tax on retained profits to be distributed (note b)	—	—	—	—	—	—	—	—
	—		—		—		—	

Notes:

- (a) The PRC income tax rate represents the income tax rate applicable to Shandong Shengli of which the Group's principal operations are substantially based throughout the Relevant Periods.

- (b) In accordance to PRC tax circular (Guoshuihan [2008] 112) effective from 1 January 2008, PRC withholding income tax at the rate of 10% is applicable to dividends to be payable by the Company's PRC operating subsidiaries based on their profits generated from 2008 onwards to "non-resident" investors who do not have an establishment or place of business in the PRC. According to the "Agreement between the Government of the People's Republic of China and the Government of the Republic of Singapore for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income", where the Singapore resident company directly owns at least 25% of the capital of the PRC company, 5% dividend withholding tax rate is applicable.

At 31 December 2008 and 30 June 2009, the aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognized was RMB87 million and RMB197 million, respectively. No liability has been recognized in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and CPE, the shareholder of Shandong Shengli, the Group's principal operating subsidiary, has resolved that the profit from its operations for the two years ended 31 December 2009 will be retained and not be distributed. Therefore, it is probable that such differences will not reverse nor subject to withholding tax in the foreseeable future.

14. DIVIDENDS

No dividend has been paid or proposed by the Company or its subsidiaries during the Relevant Periods.

15. EARNINGS PER SHARE

The calculation of basic earnings per share for each of the Relevant Periods and the six months ended 30 June 2008 is based on the profit for the year/period attributable to equity holders of the Company for each of the Relevant Periods and the six months ended 30 June 2008 and on the basis of 900,000,000 shares of HK\$0.10 each in the Company issued and issuable, comprising 100,000 shares in issue as at the date of the Prospectus and 899,900,000 shares to be issued pursuant to the capitalization issue (the "Capitalization Issue") as if the shares had been in issue throughout the Relevant Periods. Further details of the Capitalization Issue are described in section headed "Further Information about the Group — Written resolutions of our Shareholders passed on 21 November 2009" in Appendix VII "Statutory and General Information" to the Prospectus.

There were no potential dilutive shares in existence during the Relevant Periods and the six months ended 30 June 2008 and therefore, no diluted earnings per share amounts have been presented.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST						
Additions relating to:						
- Shandong Shengli Acquisition	18,939	32,231	395	361	12,195	64,121
- Shengli Steel Pipe Acquisition	—	34,566	480	3,051	—	38,097
At 31 December 2007 and 1 January 2008	18,939	66,797	875	3,412	12,195	102,218
Additions	2,866	110,331	483	2,263	13,867	129,810
Transfer	10,735	15,327	—	—	(26,062)	—
Disposals	—	(330)	(5)	—	—	(335)
At 31 December 2008 and 1 January 2009	32,540	192,125	1,353	5,675	—	231,693
Additions	334	2,509	1,042	1,255	5,214	10,354
Transfer	2,232	2,598	—	—	(4,830)	—
Disposals	—	—	(2)	—	—	(2)
At 30 June 2009	35,106	197,232	2,393	6,930	384	242,045
ACCUMULATED DEPRECIATION						
For the period ended						
31 December 2007 and at 31 December 2007	—	—	—	—	—	—
Provided for the year	899	8,490	383	859	—	10,631
Elimination on disposals	—	(28)	(3)	—	—	(31)
At 31 December 2008 and 1 January 2009	899	8,462	380	859	—	10,600
Provided for the period	498	9,783	176	601	—	11,058
Elimination on disposals	—	—	(2)	—	—	(2)
At 30 June 2009	1,397	18,245	554	1,460	—	21,656
CARRYING VALUES						
At 31 December 2007	18,939	66,797	875	3,412	12,195	102,218
At 31 December 2008	31,641	183,663	973	4,816	—	221,093
At 30 June 2009	33,709	178,987	1,839	5,470	384	220,389

The above items of property, plant and equipment, other than construction in progress, after taking into account of their estimate residual values are depreciated on a straight-line basis at the following rates per annum:

Buildings	20 to 30 years
Plant and machinery	10 years
Furniture, fixtures and office equipment	4 to 5 years
Motor vehicles	6 years

17. PREPAID LEASE PAYMENTS

	<u>Land use right</u>
	<u>RMB'000</u>
COST	
Addition relating to Shandong Shengli Acquisition, balances at 31 December 2007, 31 December 2008 and 30 June 2009	6,140
RELEASE TO COMBINED STATEMENT OF COMPREHENSIVE INCOME	
Released for the period from 1 November 2007 to 31 December 2007 and balance at 31 December 2007	—
Released for the year ended 31 December 2008	123
At 31 December 2008	123
Released for the period At 30 June 2009	184
CARRYING VALUES	
At 31 December 2007	6,140
At 31 December 2008	6,017
At 30 June 2009	5,956

	<u>As at 31 December</u>		<u>As at 30 June</u>
	<u>2007</u>	<u>2008</u>	<u>2009</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Analyzed for reporting purposes as:			
- Non-current assets	6,017	5,894	5,833
- Current assets	123	123	123
	<u>6,140</u>	<u>6,017</u>	<u>5,956</u>

The amounts represent land use rights in respect of land situated in the PRC and held under medium-term leases. Land use rights are released on a straight-line basis over the relevant terms of the land use rights certificate.

18. INTANGIBLE ASSET

	<u>Contract backlog</u>
	RMB'000
COST	
Addition relating to Shengli Steel Pipe Acquisition during the period ended 31 December 2007 and as at 31 December 2007	2,670
De-recognition upon fulfillment of the sales contract	<u>(2,670)</u>
At 31 December 2008 and 30 June 2009	<u>—</u>
AMORTIZATION	
At 31 December 2007	—
Amortization for the year	(2,670)
De-recognition upon fulfillment of the sales contract	<u>2,670</u>
At 31 December 2008 and 30 June 2009	<u>—</u>
CARRYING VALUES	
At 31 December 2007	<u>2,670</u>
At 31 December 2008	<u>—</u>
At 30 June 2009	<u>—</u>

The amount represents the incomplete sales contract arising from Shengli Steel Pipe Acquisition (note 28(b)). The sales contract had been completed during the year 2008 and therefore was fully released to the combined statement of comprehensive income for the year ended 31 December 2008.

19. GOODWILL

	RMB'000
COST	
Arising on acquisition relating to Shengli Steel Pipe Acquisition (note 28(b)), balances at 31 December 2007, 31 December 2008 and 30 June 2009	<u>2,525</u>

For the purpose of impairment testing, goodwill has been allocated to a cash-generating unit, SSAW Pipes Business (the "CGU") as set out in note 28(b).

At 31 December 2007, 31 December 2008 and 30 June 2009, the directors of the Company determined that the CGU containing the goodwill had not suffered any impairment.

The basis of the recoverable amount of the above CGU and the major underlying assumptions are summarized below:

- The recoverable amount of the CGU has been determined based on value in use calculation.
- That calculation uses cash flow projections based on financial budgets approved by management covering a 5 year period and discount rate of 20%, 20% and 20% at 31 December 2007, 31 December 2008 and 30 June 2009, respectively. The cash flows beyond the five year period are extrapolated using a steady growth rate of 3%, 3% and 3% at the end of each of the respective reporting periods. This growth rate is based on the relevant industry growth forecasts and does not exceed the average long-term growth rate for the relevant industry.

- Other key assumption for the value in use calculation relate to the estimation of cash inflows/outflows which included budgeted sales and gross margin, such estimation is based on the CGU's past performance and management's expectations for the market development. The directors of the Company consider that any reasonably possible change in any of these assumptions would not cause the carrying amount of the CGU to exceed the corresponding recoverable amount.

20. INVENTORIES

	As at 31 December		As at 30 June
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Raw materials	35,938	315,797	271,777
Work-in-progress	—	895	16,648
Finished goods	<u>40,329</u>	<u>495,434</u>	<u>91,023</u>
	<u><u>76,267</u></u>	<u><u>812,126</u></u>	<u><u>379,448</u></u>

21. TRADE AND OTHER RECEIVABLES

	Notes	As at 31 December		As at 30 June
		2007	2008	2009
		RMB'000	RMB'000	RMB'000
Trade receivables	a			
- Related parties		—	6,286	—
- Non-related parties		<u>9,769</u>	<u>118,221</u>	<u>283,649</u>
		9,769	124,507	283,649
Notes receivable		<u>2,694</u>	<u>5,895</u>	<u>18,162</u>
		12,463	130,402	301,811
Advance to suppliers	b	5,902	47,934	65,661
Value added tax ("VAT") receivables	c	6,716	—	—
Deposit for tender		—	—	623
Others		<u>590</u>	<u>518</u>	<u>485</u>
		<u><u>25,671</u></u>	<u><u>178,854</u></u>	<u><u>368,580</u></u>

Balances with related parties are set out in note 31(c).

(a) Trade receivables

The Group's trade receivables as at 31 December 2007 were arising from Shandong Shengli Acquisition and Shengli Steel Pipe Acquisition. The trade receivable as at 31 December 2008 and 30 June 2009 comprise amounts receivable from the sales of goods and provision of processing services during the respective year/period.

No interest is charged on the trade receivables.

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

The Group generally allows an average credit period of 90 days to its trade customers. All of the notes receivable are within 90 days. The aged analysis of the Group's trade receivables as at the end of each of the reporting period are as follows:

	As at 31 December		As at 30 June
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Within 90 days	6,950	123,283	281,452
Over 90 days but within 1 year	2,819	1,224	2,197
	<u>9,769</u>	<u>124,507</u>	<u>283,649</u>

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

	As at 31 December		As at 30 June
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Over 90 days but within 1 year	<u>2,819</u>	<u>1,224</u>	<u>2,197</u>

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

The Group's trade and other receivables denominated in currencies other than functional currency of the relevant group entities were as follows:

	As at 31 December		As at 30 June
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Currency:			
USD	<u>9,111</u>	<u>—</u>	<u>—</u>

(b) Advance to suppliers

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

(c) VAT receivables

The Group's VAT receivables represent VAT-input to be deducted for future VAT-output.

22. BANK BALANCES AND CASH

The Group's bank balances carry market interest rate of 0.72%, 0.72% to 0.36% and 0.36% per annum for the period from 1 November 2007 to 31 December 2007, the year ended 31 December 2008 and the six months ended 30 June 2009, respectively.

The Group's bank balances and cash denominated in currencies other than functional currency of the relevant group entities were as follows:

	As at 31 December		As at 30 June
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
<u>Currency:</u>			
USD	8	32	26
SGD	15	533	495

The Group's bank balances and cash denominated in RMB are not a freely convertible currency in the international market. The remittance of RMB out of the PRC is subject to exchange restrictions imposed by the Government of the PRC.

23. TRADE AND OTHER PAYABLES

	Notes	As at 31 December		As at 30 June
		2007	2008	2009
		RMB'000	RMB'000	RMB'000
Trade payables	a			
- Related parties		—	2,903	1,777
- Non-related parties		8,924	65,243	352,036
		8,924	68,146	353,813
Receipt in advances from customers	b	2,807	732,614	19,435
Advances from staff	c	32,104	—	—
Payable on acquisition of property, plant and equipment		4,388	19,186	15,000
Other tax payables	d	726	5,976	102,838
Others	e	358	3,620	6,175
		49,307	829,542	497,261

Balances with related parties are set out in note 31(c).

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

The aged analysis of the Group's trade payables as at the end of each of the reporting period are as follows:

	As at 31 December		As at 30 June
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Within 3 months	6,274	27,276	289,292
Over 3 months but within 1 year	2,591	40,870	61,249
Over 1 year	59	—	3,272
	<u>8,924</u>	<u>68,146</u>	<u>353,813</u>

- (b) Receipt in advances from customers

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

- (c) Advances from staff

The amounts were interest-free, unsecured and were fully repaid during the year ended 31 December 2008.

- (d) Other tax payables

Included in the other tax payable is an amount of nil, RMB5,557,000 and RMB102,388,000 as at the end of each of the reporting period, respectively related to VAT payable.

- (e) Others

The amount represented utilities charges and other miscellaneous charges.

24. CONSIDERATION PAYABLES

	As at 31 December		As at 30 June
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Payables to:			
Shengli Steel Pipe	108,060	—	—
Victory Trading (defined in note 28(a))	8,450	—	—
	<u>116,510</u>	<u>—</u>	<u>—</u>

The amounts represent the outstanding purchase consideration relating to Shandong Shengli Acquisition (note 28(a)) and Shengli Steel Pipe Acquisition (note 28(b)), which were interest-free, unsecured and repayable before 31 August 2008. The amounts have been settled during the year ended 31 December 2008.

25. BANK BORROWINGS

	As at 31 December		As at 30 June
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Unsecured fixed-rate bank borrowings and is repayable:			
- within one year	—	50,000	50,000

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

	As at 31 December		As at 30 June
	2007	2008	2009
	Effective interest rates:		
Fixed-rate borrowings	N/A	5.31% per annum	5.31% per annum

The bank borrowings were guaranteed by a related party, Shengli Steel Pipe. The guarantees were fully released subsequent to 30 June 2009.

26. PAID-IN CAPITAL/SHARE CAPITAL

The balance as at 31 December 2007, 31 December 2008 and 30 June 2009 represents paid-in capital of CPE of SGD 2 (equivalent to RMB10).

27. DEFERRED TAX LIABILITIES

The following are the Group's deferred tax liabilities recognized and the movements thereon, during the Relevant Periods:

	Fair value adjustments on acquisition
	RMB'000
Addition arising on Shandong Shengli Acquisition during the period ended 31 December 2007 and balances at 31 December 2007, 31 December 2008 and 30 June 2009	475

28. BUSINESS COMBINATIONS

During the period from 1 January 2006 to 28 December 2007, prior to Shandong Shengli Acquisition and Shengli Steel Pipe Acquisition (the "Predecessor Track Record Periods"), Shengli Steel Pipe owned and operated the following businesses:

- (a) Cold-formed Section Steel Business through its 74% equity interest in a subsidiary, Shandong Shengli; and
- (b) SSAW Pipes Business.

The Cold-formed Section Steel Business and SSAW Pipes Business are collectively referred to as the "Core Business". Through the following transactions, Shengli Steel Pipe transferred its Core Business to CPE, details of which are set out in the paragraph headed "Our Corporate Reorganization" in the Section "History and Corporate Structure" to the Prospectus:

(a) *Acquisition of 100% equity interest in Shandong Shengli by CPE (the "Shandong Shengli Acquisition")*

CPE entered into an equity transfer agreement dated 25 December 2007 with Shengli Steel Pipe and Hong Kong Victory Trading Industry Co. Ltd. ("Victory Trading"), a third party, respectively, whereby CPE acquired from Shengli Steel Pipe and Victory Trading their approximately 74% and 26% equity interests in Shandong Shengli, respectively for cash considerations of approximately RMB24,050,000 and RMB8,450,000, respectively. Subsequent to this transaction completed on 29 December 2007, Shandong Shengli became a wholly owned subsidiary of CPE and accordingly, the Group owns and operates the Cold-formed Section Steel Business.

Details of net assets acquired relating to the Shandong Shengli Acquisition are as follows:

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	61,781	2,340	64,121
Prepaid lease payments	6,140	—	6,140
Inventories	46,468	—	46,468
Trade and other receivables	17,907	—	17,907
Bank balances and cash	903	—	903
Trade and other payables	(41,018)	—	(41,018)
Amount due to a related party	(61,405)	—	(61,405)
Deferred tax liabilities (note 27)	—	(475)	(475)
	<u>30,776</u>	<u>1,865</u>	32,641
Discount on acquisition			<u>(141)</u>
Total consideration recorded as payable which was settled during the year ended 31 December 2008			<u>32,500</u>
Cash inflow arising on acquisition			<u>903</u>

(b) Acquisition of SSAW Pipes Business and certain of the related assets and liabilities of Shengli Steel Pipe by Shandong Shengli (the "Shengli Steel Pipe Acquisition")

Pursuant to an asset transfer agreement dated 27 December 2007 entered into between Shandong Shengli and Shengli Steel Pipe, Shandong Shengli acquired SSAW Pipes Business and certain of the related assets and liabilities of Shengli Steel Pipe for a cash consideration of approximately RMB84,010,000. Subsequent to this transaction completed on 31 December 2007, the Group owns and operates the SSAW Pipes Business.

Details of net assets acquired relating to the Shengli Steel Pipe Acquisition are as follows:

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	RMB'000	RMB'000	RMB'000
Property, plant and equipment	36,357	1,740	38,097
Intangible asset — contract backlog (note 18)	—	2,670	2,670
Deposits for acquisition of property, plant and equipment	11,409	—	11,409
Inventories	25,432	4,367	29,799
Trade and other receivables	7,763	—	7,763
Trade and other payables	(8,253)	—	(8,253)
	<u>72,708</u>	<u>8,777</u>	81,485
Goodwill			<u>2,525</u>
Total consideration recorded as payable which was settled during the year ended 31 December 2008			<u>84,010</u>
Cash outflow arising on acquisition			<u>—</u>

The fair values in respect of the Shandong Shengli Acquisition and the Shengli Steel Pipe Acquisition were determined by the directors of the Company with reference to a valuation performed by an independent valuer.

Details of the revenue and results of the Core Business for the Predecessor Track Record Periods are set out in Appendix IB to the Prospectus.

29. OPERATING LEASES

The Group as lessee

	For the period from 1 November 2007 to 31 December 2007	Year ended 31 December 2008	Six months ended 30 June	
			2008	2009
	RMB'000	RMB'000	RMB'000 (unaudited)	RMB'000
Minimum lease payments paid under operating leases in the year/period	—	3,451	1,725	3,198

At the end of each of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	As at 31 December		As at 30 June
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Minimum lease payments paid under operating leases in the year/period			
- within one year	—	3,451	6,400
- one to five years	—	10,353	9,600
	—	13,804	16,000

Operating lease payments represent rentals payable by the Group for factory premises. Leases are negotiated for lease terms of 3 years.

30. RETIREMENT BENEFIT PLANS

The employees of the Group in the PRC/Singapore are members of a state-managed retirement benefits scheme operated by the PRC/Singapore government. The Group is required to contribute a specified percentage of its payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

The amounts of contributions made by the Group in respect of the retirement benefit scheme during each of the Relevant Periods are disclosed in note 11.

31. 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	Common directors
Zibo Shengli Coating Engineering Co., Ltd. ("Shengli Coating")	Associate of Shengli Steel Pipe
Shandong Shengda Chemical Co., Ltd. ("Shengda Chemical")	Subsidiary of Shengli Steel Pipe
Aceplus	Ultimate holding company
Zhang Bizhuang	Director

(b) Significant related party transactions

Save as disclosed in note 25 relating to a guarantee provided by Shengli Steel Pipe to the Group in relation to the Group's bank borrowings, the Group has the following transactions with related parties during the Relevant Periods:

	For the period from 1 November 2007 to 31 December 2007	Year ended 31 December 2008	Six months ended 30 June	
	RMB'000	RMB'000	2008	2009
			(unaudited)	
			RMB'000	RMB'000
Sales of goods and raw material to:				
- Shengli Steel Pipe	—	87,778	63,775	2,679
Utilities income received from:				
- Shengli Coating	—	2,466	658	798
Rental expense paid to <i>(note below)</i> :				
- Shengli Steel Pipe	—	3,451	1,725	3,198
Rental income received from:				
- Shengli Coating	—	188	—	—
Purchase of materials from <i>(note below)</i> :				
- Shengli Coating	—	13,099	—	804

Note: The directors represented that the above transactions will continue in the future after the Listing.

(c) Trade balances and other receivable with related parties

The Group has significant trade and other receivable with the following related parties as at 31 December 2007, 31 December 2008 and 30 June 2009:

	Notes	As at 31 December		As at 30 June
		2007	2008	2009
		RMB'000	RMB'000	RMB'000
Trade receivable:				
- Shengli Steel Pipe	i	—	6,098	—
- Shengli Coating	ii	—	188	—
		—	6,286	—
Other Receivable				
- Shengda Chemical	iii	—	267	—
		—	6,553	—
Trade payable:				
- Shengli Coating	ii	—	2,903	1,777

Notes:

- i. The amounts represent the outstanding trade balances between Shengli Steel Pipe and the Group as at 31 December 2007, 31 December 2008 and 30 June 2009 and details of the transactions with Shengli Steel Pipe during the Relevant Periods are set out in note 31(b) above.

During the year ended 31 December 2008 and the six months ended 30 June 2009, trade receivable from Shengli Steel Pipe amounting to approximately RMB 86,322,000 and RMB 3,134,000, respectively were settled through the non-trade current account with Shengli Steel Pipe and details of which are set out in note 31(d) below.

- ii. The amounts represent the outstanding trade balances between Shengli Coating and the Group as at 31 December 2007, 31 December 2008 and 30 June 2009 and details of the transactions with Shengli Coating during the Relevant Periods are set out in note 31(b) above. The amounts have been settled in accordance with the credit terms agreed with Shengli Coating.

- iii. The amount represented the miscellaneous charges paid on behalf of Shengda Chemical, which was interest-free and was fully repaid during the six months ended 30 June 2009.

(d) Non-trade balances with related parties

Saved as disclosed in note 24 relating to a payable to Shengli Steel Pipe, the Group has significant non-trade balances with the following related parties as at 31 December 2007, 31 December 2008 and 30 June 2009:

	Notes	As at 31 December		As at 30 June
		2007	2008	2009
		RMB'000	RMB'000	RMB'000
Amount due from:				
- Aceplus	i	—	2,840	—
Amounts due to:				
- Shengli Steel Pipe	ii	61,405	136,813	74,886
- Aceplus				
- Shareholder's loan	iii	—	138,000	138,000
- other non-trade balance	iv	—	—	403
		—	138,000	138,403
- Zhang Bizhuang	v	—	495	445
		61,405	275,308	213,734

Notes:

(i) The directors of the Company represented that the non-trade balance with Aceplus was advance from the Group to Aceplus during the year ended 31 December 2008 which was interest-free, unsecured and was repayable on demand. The amount was fully repaid during the six months ended 30 June 2009. The maximum amounts outstanding during the year ended 31 December 2008 and the six months ended 30 June 2009 were approximately RMB2,840,000 and RMB2,840,000, respectively.

(ii) The directors of the Company represented that the non-trade balance with Shengli Steel Pipe was advance from Shengli Steel Pipe to the Group for general working capital which was interest-free, unsecured and was repayable on demand.

During the year ended 31 December 2008 and the six months ended 30 June 2009, trade receivable from Shengli Steel Pipe amounting to approximately RMB 86,322,000 and RMB 3,134,000, respectively were settled through the non-trade current account with Shengli Steel Pipe and details of which are set out in note 31(c) above.

The outstanding amount as at 30 June 2009 was fully settled subsequent to 30 June 2009.

(iii) The directors of the Company represented that the shareholder's loan provided by Aceplus to CPE was for the business expansion and general working capital of the Group and details of which are set out in the paragraph headed "Shareholder Loan Provided by Aceplus to CPE" in the Section "History and Corporate Structure" to the Prospectus. The amount was interest-free, unsecured and was repayable on demand.

Pursuant to the deed of assumption dated 28 October 2009 and the supplementary share subscription agreement dated 28 October 2009 both entered among Aceplus, the Company and CPE, the shareholder's loan of RMB 138 million together with an advance of RMB 8.45 million provided by Aceplus to CPE as at 28 October 2009 (the shareholder's loan of RMB 138 million and the advance of RMB 8.45 million are hereinafter collectively referred to as the "Shareholder's Loans") were capitalized by the Company on 28 October 2009 with the Company issuing 100,000 shares of HK\$0.1 each in the Company to Aceplus and details of which are set out in the paragraph headed "Shareholder loan provided by Aceplus to CPE" in the Section "History and Corporate Structure" to the Prospectus.

(iv) The directors of the Company represented that the non-trade balance with Aceplus was advance from Aceplus to the Group for general working capital which was interest-free, unsecured and was repayable on demand. The outstanding amount as at 30 June 2009 was fully settled subsequent to 30 June 2009.

- (v) The directors of the Company represented that the non-trade balance with Zhang Bizhuang was advance from Zhang Bizhuang to the Group for general working capital which was interest-free, unsecured and was repayable on demand. The outstanding amount as at 30 June 2009 was fully settled subsequent to 30 June 2009.

(e) *Compensation of key management personnel*

The remuneration of directors and other members of key management during the Relevant Periods were as follows:

	For the period from 1 November 2007 to 31 December 2007	Year ended 31 December 2008	Six months ended 30 June	
	RMB'000	RMB'000	2008 RMB'000 (unaudited)	2009 RMB'000
Salaries and allowances	—	790	339	966
Performance related bonus	—	—	—	—
Retirement benefits scheme contributions	—	60	25	59
	—	850	364	1,025

Key management represents the directors and other senior management personnel disclosed in the Prospectus. The remuneration of key management is determined with reference to the performance to individuals and market trends.

32. CAPITAL COMMITMENTS

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

	As at 31 December		As at 30 June
	2007	2008	2009
	RMB'000	RMB'000	RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment:			
- contracted for but not provided in the combined financial information	47,680	—	—
- authorized but not contracted for	80,400	—	—

II. DIRECTORS' EMOLUMENTS

Saved as disclosed in this report, no other remuneration has been paid or is payable by the Company or any of its subsidiaries to the Company's directors in respect of the Relevant Periods.

Under the arrangement currently in force, the aggregate amount of the directors' fees and emoluments for the year ending 31 December 2009 is estimated to be approximately RMB 1.8 million.

III. SUBSEQUENT EVENTS

Subsequent to 30 June 2009, the following significant events took place:

1. Group Reorganization

In preparing for the listing of the Company's shares on the Stock Exchange, the companies now comprising of the Group underwent the Group Reorganization to rationalize the group structure. As a result of the Group Reorganization, the Company became the holding company of the Group on 28 October 2009. Details of the Group Reorganization are set out in the paragraph headed "Our Corporate Reorganization" in the Section "History and Corporate Structure" to the Prospectus.

2. Capitalization of Shareholder's Loans

As mentioned in note 31(d)(iii) to Section I, on 28 October 2009, the Shareholder's Loans of RMB 146.45 million were capitalized by the Company on 28 October 2009 with the Company issuing 100,000 shares of HK\$0.1 each in the Company to Aceplus.

3. In addition, on 21 November 2009, shareholders' resolutions of the Company were passed to approve the matters set out in the paragraph headed "Written resolutions of our Shareholders passed on 21 November 2009" in Appendix VII "Statutory and General Information" to the Prospectus.

IV. ULTIMATE HOLDING COMPANY

In the opinion of the directors, the Company's ultimate holding company is Aceplus, an investment holding company incorporated in the British Virgin Islands and beneficially owned by Mr. Yan Tangfeng.

V. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements of the Company or any of companies now comprising of the Group have been prepared in respect of any period subsequent to 30 June 2009.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

The following is the text of a report, prepared for the purpose of incorporation in this Prospectus, received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants to the Company.

Deloitte.
德勤

德勤·關黃陳方會計師行
香港金鐘道88號
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Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

9 December 2009

The Directors
Shengli Steel Pipe Co., Ltd.
Macquarie Capital Securities Limited

Dear Sirs,

We set out below our report on the financial information (the “Shengli Steel Pipe Financial Information”) relating to 勝利鋼管有限公司 (Shengli Steel Pipe Co., Ltd. (“Shengli Steel Pipe”)) and its subsidiaries (hereinafter collectively referred to as the “Shengli Steel Pipe Group”) for the year ended 31 December 2006 and the period from 1 January 2007 to 28 December 2007 (the date prior to the disposals of the Core Businesses (as defined in note 7)), (the “Predecessor Track Record Periods”), for inclusion in the prospectus of Shengli Oil & Gas Holdings Limited (formerly known as Shengli Oil & Gas Holdings Ltd.) dated 9 December 2009 (the “Prospectus”) in connection with the initial listing of the shares of Shengli Oil & Gas Holdings Ltd. on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

Shengli Steel Pipe was formerly known as 勝利油田油建指揮部製管廠 (Shengli Oilfield Construction Headquarter Steel Pipe Factory[#], “Shengli Factory”) which was established in 1972 as a factory unit under 油田建設指揮部 (Oilfield Construction Headquarter[#]) of the Government of the People’s Republic of China. In 1989, Shengli Factory changed its name to 勝利石油管理局鋼管廠 (Shengli Administration of Petroleum Steel Pipe Factory[#]). The name was subsequently changed to 勝利油田淄博製管有限公司 (Shengli Oilfield Zibo Pipe Co., Ltd.[#], “Shengli Oilfield Zibo Pipe”) in 1996 when it was incorporated as an independent legal entity and a state-owned enterprise. In 2004, Shengli Oilfield Zibo Pipe was converted from a state-owned enterprise to a privately owned enterprise. Details of which are more fully explained in the paragraph headed “Our History and Development” in the Section “History and Corporate Structure” to the Prospectus.

Particulars of the subsidiaries which were incorporated in the People's Republic of China (the "PRC") directly held by Shengli Steel Pipe at the end of each of the reporting period are as follows:

Name of companies	Paid-in and registered capital/date of incorporation	Attributable equity interest held by Shengli Steel Pipe at		Principal activities
		31 December 2006	28 December 2007	
山東勝利鋼管有限公司 (Shandong Shengli Steel Pipe Co., Ltd., formerly known as 勝利鋼管(日照)有限公司, (Shengli Steel Pipe (Rizhao) Co., Ltd.#) ("Shandong Shengli") (Note a)	RMB49,952,700 29 April 2005	74%	74%	Manufacture, processing and sale of welded steel pipes for oil and gas pipelines and other construction and manufacturing applications
山東勝達化工有限公司 (Shandong Shengda Chemical Co., Ltd.#) ("Shengda Chemical") (Note b)	RMB20,000,000 12 June 2006	30%	70%	Manufacture of chemical products

The English names are for identification purpose only

Notes:

- Sino-foreign investment company with limited liability
- Private limited liability company

Shengli Steel Pipe and its subsidiaries have adopted 31 December as their financial year end date.

The statutory financial statements of Shengli Steel Pipe and Shandong Shengli for the two years ended 31 December 2007 were audited by 山東仲泰有限責任會計師事務所 (Shandong Zhong Tai CPA Ltd.), a certified public accountants registered in the PRC. These statutory financial statements were prepared in accordance with the relevant accounting rules and financial regulations applicable to the enterprise registered in the PRC. No statutory financial statements of Shengda Chemical for the two years ended 31 December 2007 as there is no such statutory requirement.

For the purposes of this report, the directors of Shengli Steel Pipe have prepared consolidated financial statements of Shengli Steel Pipe and its subsidiaries for the year ended 31 December 2006 and the period from 1 January 2007 to 28 December 2007 (the date prior to the disposal of the Core Businesses), in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") (the "Shengli Steel Pipe Underlying Financial Statements"). We have undertaken an independent audit on the Shengli Steel Pipe Underlying Financial Statements in accordance with the Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). We have examined the Shengli Steel Pipe Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Shengli Steel Pipe Financial Information for the Predecessor Track Record Periods set out in this report has been prepared from the Shengli Steel Pipe Underlying Financial Statements. No adjustments are considered necessary to the Shengli Steel Pipe Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Shengli Steel Pipe Underlying Financial Statements are the responsibility of the directors of Shengli Steel Pipe who approved their issue. The directors of Shengli Oil & Gas Holdings Ltd. are responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Shengli Steel Pipe Financial Information set out in this report from the Shengli Steel Pipe Underlying Financial Statements, to form an independent opinion on the Shengli Steel Pipe Financial Information, and to report our opinion to you.

In our opinion, the Shengli Steel Pipe Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of Shengli Steel Pipe Group as at 31 December 2006 and 28 December 2007 and of the consolidated results and consolidated cash flows of Shengli Steel Pipe Group for the Predecessor Track Record Periods.

I. SHENGLI STEEL PIPE FINANCIAL INFORMATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	NOTES	Year ended 31 December 2006			For the period from 1 January 2007 to 28 December 2007		
		Discontinued operation - Core Business	Continuing operation - Non-core Business	Total	Discontinued operation - Core Business	Continuing operation - Non-core Business	Total
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	7	91,116	1,232	92,348	237,544	—	237,544
Cost of sales		(60,275)	(1,106)	(61,381)	(154,687)	—	(154,687)
Gross profit		30,841	126	30,967	82,857	—	82,857
Other income	8	3,438	—	3,438	9,678	—	9,678
Other losses	9	(2)	(351)	(353)	—	—	—
Selling and distribution expenses		(3,084)	(110)	(3,194)	(11,963)	—	(11,963)
Administrative expenses		(21,176)	(65)	(21,241)	(16,164)	(7,232)	(23,396)
Finance costs	10	(34)	—	(34)	(3,985)	—	(3,985)
Share of results of associates		—	(559)	(559)	—	(443)	(443)
Profit (loss) before taxation	11	9,983	(959)	9,024	60,423	(7,675)	52,748
Income tax expenses	13	—	(25)	(25)	(26,338)	—	(26,338)
Profit (loss) for the year/ period and total comprehensive income for the year/period		<u>9,983</u>	<u>(984)</u>	<u>8,999</u>	<u>34,085</u>	<u>(7,675)</u>	<u>26,410</u>
Attributable to:							
Equity holders of Shengli Steel Pipe				9,446			32,951
Minority interests				(447)			(6,541)
				<u>8,999</u>			<u>26,410</u>

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	NOTES	As at 31 December 2006 RMB'000	As at 28 December 2007 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	96,491	65,176
Prepaid lease payments	16	20,880	14,527
Interests in associates	17	9,905	7,723
		<u>127,276</u>	<u>87,426</u>
CURRENT ASSETS			
Inventories	18	45,699	23,481
Trade and other receivables	19	62,161	66,174
Amounts due from associates	29(b)	22,929	3,600
Prepaid lease payments	16	306	214
Bank balances and cash	20	28,002	23,627
		<u>159,097</u>	<u>117,096</u>
Assets classified as held for sale	26	—	214,160
		<u>159,097</u>	<u>331,256</u>
CURRENT LIABILITIES			
Trade and other payables	21	56,835	85,323
Bank borrowings	22	5,700	29,800
Tax liabilities		—	18,701
Dividend payable		—	17
		<u>62,535</u>	<u>133,841</u>
Liabilities associated with assets classified as held for sale	26	—	49,271
		<u>62,535</u>	<u>183,112</u>
NET CURRENT ASSETS		<u>96,562</u>	<u>148,144</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>223,838</u>	<u>235,570</u>
CAPITAL AND RESERVES			
Paid-in capital	23	79,898	79,898
Reserves		131,601	145,586
Equity attributable to the equity holders of Shengli Steel Pipe		<u>211,499</u>	<u>225,484</u>
Minority interests		<u>12,339</u>	<u>10,086</u>
		<u>223,838</u>	<u>235,570</u>

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to the equity holders of Shengli Steel Pipe						Total
	Paid-in capital	Capital reserves	Statutory surplus reserve	Retained earnings	Subtotal	Minority interests	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2006	79,898	1,760	6,055	114,340	202,053	12,892	214,945
Total comprehensive income (expense) for the year	—	—	—	9,446	9,446	(447)	8,999
Appropriations	—	—	9,196	(9,196)	—	—	—
Disposal of a subsidiary	—	—	—	—	—	(106)	(106)
At 31 December 2006 and 1 January 2007	79,898	1,760	15,251	114,590	211,499	12,339	223,838
Total comprehensive income (expense) for the period	—	—	—	32,951	32,951	(6,541)	26,410
Appropriations	—	—	3,564	(3,564)	—	—	—
Dividends	—	—	—	(18,966)	(18,966)	—	(18,966)
Acquisition of a subsidiary (note 24)	—	—	—	—	—	4,288	4,288
At 28 December 2007	79,898	1,760	18,815	125,011	225,484	10,086	235,570

Notes:

(a) *Capital reserves*

Capital reserves represent the difference between the registered capital and the funds contributed by the shareholders of Shengli Steel Pipe at the time when Shengli Steel Pipe was established.

(b) *Statutory surplus reserve*

As stipulated by the relevant laws and regulations for enterprises in the PRC, Shengli Steel Pipe and its PRC subsidiaries are required to maintain a statutory surplus reserve fund which is non-distributable. Appropriations to such reserve is made out of net profit after taxation of the statutory financial statements of Shengli Steel Pipe and its PRC subsidiaries while the amounts and allocation basis are decided by their board of directors annually. The statutory surplus reserve fund can be used to make up prior year losses, if any, and can be applied in conversion into capital by means of capitalization issue.

CONSOLIDATED STATEMENTS OF CASH FLOW

	NOTES	Year ended	For the period from
		31 December 2006	1 January 2007 to 28 December 2007
		RMB'000	RMB'000
OPERATING ACTIVITIES			
Profit before taxation		9,024	52,748
Adjustments for:			
Interest income		(1,119)	(500)
Finance costs		34	3,985
Loss on disposal of a subsidiary	25	351	—
Share of results of associates		559	443
Depreciation of property, plant and equipment		4,299	7,412
Release of prepaid lease payments		74	305
Losses on disposals of property, plant and equipment		—	9
Operating cash flows before movements in working capital		13,222	64,402
Increase in inventories		(15,308)	(49,580)
Decrease (increase) in trade and other receivables		30,472	(17,950)
Increase in trade and other payables		1,725	8,361
Cash from operations		30,111	5,233
Income tax paid		(25)	(7,637)
Interest paid		(34)	(3,985)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		30,052	(6,389)
INVESTING ACTIVITIES			
Interest received		1,119	500
Repayment of advances to associates		3,156	19,329
Advance to an associate		(19,329)	—
Investment in an associate		(3,000)	(3,000)
Acquisition of a subsidiary	24	—	112
Disposal of a subsidiary	25	(3)	—
Purchase of property, plant and equipment		(71,484)	(29,701)
Increase in deposits for acquisition of property, plant and equipment		—	(11,409)
Proceeds from repayment of loan receivables		20,000	—
Advance of loan receivables		—	(11,000)
Repayment of deposit for investment in an associate		30,000	—
Proceeds on disposals of property, plant and equipment		7	381
Dividend from an associate		—	450
NET CASH USED IN INVESTING ACTIVITIES		(39,534)	(34,338)

NOTES	Year ended	For the period from
	31 December 2006	1 January 2007 to 28 December 2007
	RMB'000	RMB'000
FINANCING ACTIVITIES		
Dividends paid	—	(18,949)
Proceeds received from bank borrowings	5,700	113,400
Repayment of bank borrowings	—	(89,300)
Advances from staff	—	32,104
NET CASH FROM FINANCING ACTIVITIES	<u>5,700</u>	<u>37,255</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS		
	(3,782)	(3,472)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR/PERIOD	<u>31,784</u>	<u>28,002</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD	<u>28,002</u>	<u>24,530</u>
CASH AND CASH EQUIVALENTS AT END OF THE YEAR/PERIOD, represented by		
Bank balances and cash	28,002	23,627
Bank balances and cash classified as assets held for sale	26(c) —	903
	<u>28,002</u>	<u>24,530</u>

NOTES TO THE SHENGLI STEEL PIPE FINANCIAL INFORMATION

1. GENERAL

Shengli Steel Pipe is a private limited liability company incorporated in the PRC. Both the address of the registered office and the principal place of business of Shengli Steel Pipe is West Side of Tiede Village, Zhongbu Town, Zhangdian District, Zibo City, Shandong Province (山東省淄博市張店區中埠鎮鐵冶村西), the PRC.

The Shengli Steel Pipe Financial Information is presented in Renminbi ("RMB"), the currency of the primary economic environment in which Shengli Steel Pipe and its subsidiaries operate.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Shengli Steel Pipe Group has consistently early adopted all of the new and revised standards and interpretations issued by the IASB and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are effective for financial year beginning on 1 January 2009 in the preparation of Shengli Steel Pipe Financial Information throughout the Predecessor Track Record Periods.

At the date of this report, the IASB has issued the following new and revised International Accounting Standards ("IASs"), IFRSs and IFRICs which are not yet effective in respect of the financial year beginning on 1 January 2009. The Shengli Steel Pipe Group has not early adopted the following new and revised standards or interpretations that have been issued but are not yet effective:

IFRSs (Amendments)	Improvements to IFRSs April 2009 ¹
IAS 24 (Revised)	Related Party Disclosures ⁶
IAS 27 (Revised)	Consolidated and Separate Financial Statements ²
IAS 32 (Amendment)	Classification of Rights Issues ³
IAS 39 (Amendment)	Eligible Hedged Items ²
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transaction ⁴
IFRS 3 (Revised)	Business Combinations ²
IFRS 5 (Amendments)	Amendments included in Improvements to IFRSs May 2008 ²
IFRS 9	Financial Instruments ⁷
IFRS 14 (Amendment)	Prepayments of a Minimum Funding Requirements ⁶
IFRIC 17	Distributions of Non-cash Assets to Owners ²
IFRIC 18	Transfers of Assets from Customers ⁵
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments ⁸

¹ Effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate

² Effective for annual periods beginning on or after 1 July 2009

³ Effective for annual periods beginning on or after 1 February 2010

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

⁵ Effective for transfers on or after 1 July 2009

⁶ Effective for annual periods beginning on or after 1 January 2011

⁷ Effective for annual periods beginning on or after 1 January 2013

⁸ Effective for annual periods beginning on or after 1 July 2010

The adoption of IFRS 3 (Revised) may affect the Shengli Steel Pipe Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. IAS 27 (Revised) will affect the Shengli Steel Pipe Group's accounting treatment for changes in the Shengli Steel Pipe Group's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Shengli Steel Pipe Financial Information has been prepared under the historical cost basis as explained in the accounting policies set out below.

The Shengli Steel Pipe Financial Information has been prepared in accordance with the following accounting policies which conform to IFRSs issued by the IASB. These policies have been consistently applied throughout the Predecessor Track Record Periods. In addition, the Shengli Steel Pipe Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and the Hong Kong Companies Ordinance.

Basis of consolidation

The Shengli Steel Pipe Financial Information incorporated the financial information of Shengli Steel Pipe and entities controlled by Shengli Steel Pipe (its subsidiaries). Control is achieved where Shengli Steel Pipe has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year/period are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial information of subsidiaries to bring their accounting policies into line with those used by Shengli Steel Pipe Group.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of subsidiaries are presented separately from Shengli Steel Pipe Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of Shengli Steel Pipe Group except to the extent that minority has a binding obligation and is able to make an additional investment to cover the losses.

Investments in associates

An associate is an entity over which Shengli Steel Pipe Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in this financial information using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in Shengli Steel Pipe's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of Shengli Steel Pipe's interest in that associate (which includes any long-term interests that, in substance, form part of Shengli Steel Pipe Group's net investment in the associate) are recognized only to the extent that Shengli Steel Pipe Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Where a group entity transacts with an associate of Shengli Steel Pipe Group, profits and losses are eliminated to the extent of Shengli Steel Pipe Group's interest in the relevant associate.

Non-current assets held for sale

Non-current assets or disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (or disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of goods is recognized when goods are delivered and title has passed.

Service income is recognized when the services are provided.

Dividend revenue from investments is recognized when the shareholder's right to receive payment has been established.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Foreign currencies

In preparing the financial information of the individual group entities, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the end of each reporting period.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are included in profit or loss in the period in which they arise.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Shengli Steel Pipe Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each of the reporting period.

Deferred tax is recognized on differences between the carrying amounts of assets and liabilities in the Shengli Steel Pipe Financial Information and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalized as part of the cost of those assets. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Retirement benefit costs

Payments to state-managed retirement benefits schemes are charged as expenses when employees have rendered service entitling them to the contributions.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Depreciation is provided to write off the cost of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognized impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of comprehensive income in the year/period in which the item is derecognized.

Prepaid lease payments

Prepaid lease payments represent payments for leasehold land and are amortized over the lease terms on a straight-line basis. Prepaid lease payments which are to be amortized in the next twelve months or less are classified as current assets.

Impairment of tangible assets

At the end of each of the reporting period, the Shengli Steel Pipe Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method.

Financial instruments

Financial assets and financial liabilities are recognized on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Shengli Steel Pipe Group's financial assets are classified into loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each of the reporting period subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from associates and bank balances and cash) are carried at amortized cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or, where appropriate, a shorter period.

Income is recognized on an effective interest basis for debt instruments of which interest income is included in other income.

Impairment of financial assets

Loans and receivables are assessed for indicators of impairment at the end of each of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been impacted. The objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Shengli Steel Pipe Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit terms of the customers, observable changes in national or local economic conditions that correlate with default on receivables.

An impairment loss is recognized in the consolidated statement of comprehensive income when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Shengli Steel Pipe Group after deducting all of its liabilities.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognized on an effective interest basis of which interest expense is included in finance costs.

Financial liabilities

Financial liabilities (including bank borrowings, dividends payable and trade and other payables) are subsequently measured at amortized cost, using the effective interest method.

Equity instruments

Equity instruments issued by a group entity are recorded at the proceeds received, net of direct issue costs.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Shengli Steel Pipe Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Financial liabilities are derecognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4. KEY SOURCE OF ESTIMATION

In the application of the Shengli Steel Pipe Group's accounting policies, which are described in note 3, the directors of Shengli Steel Pipe are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key sources of estimation uncertainty at the end of each reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) *Estimated impairment of inventories*

The Shengli Steel Pipe Group assesses periodically if the inventories have been suffered from any impairment in accordance with the accounting policy stated in note 3.

The identification of impairment of inventories requires the use of judgement and estimates of expected future cash inflows. Where the expectation is different from the original estimate, such difference will impact carrying value of inventories and impairment loss will be recognized in the year/period in which such estimate has been changed. The directors of Shengli Steel Pipe are satisfied that the risk is minimal and no allowance for obsolete and slow moving inventories was provided for the Predecessor Track Record Periods.

(b) *Estimated impairment of trade and other receivables*

As explained in note 3, trade and other receivables are initially measured at fair value, and are subsequently measured at amortized cost using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognized in profit or loss when there is objective evidence that the asset is impaired.

The identification of bad and doubtful debts requires the use of judgement and estimates of expected future cash inflows. Where the expectation is different from the original estimate, such difference will impact carrying value of trade and other receivables and doubtful debts expenses in the year/period in which such estimate has been changed. The directors of Shengli Steel Pipe are satisfied that this risk is minimal and no allowance for doubtful debts was provided for the Predecessor Track Record Periods.

5. CAPITAL RISK MANAGEMENT

The Shengli Steel Pipe Group manages its capital to ensure that the group entities will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balances. The Shengli Steel Pipe Group's overall strategy remains unchanged for the Predecessor Track Record Periods.

The capital structure of the Shengli Steel Pipe Group consists of bank borrowings and equity attributable to equity holders of the Shengli Steel Pipe Group, comprising registered capital, reserves and retained profits as disclosed in the consolidated statements of financial position.

The directors of Shengli Steel Pipe review the capital structure regularly. The Shengli Steel Pipe Group considers the cost of capital and the risks associated with each class of capital, and will balance its overall capital structure through the payment of dividends, new capital raising as well as the issue of new debts or the redemption of existing debts.

6. FINANCIAL INSTRUMENTS

(a) *Categories of financial instruments*

	<u>As at</u> <u>31 December 2006</u>	<u>As at</u> <u>28 December 2007</u>
	<u>RMB'000</u>	<u>RMB'000</u>
<u>Financial assets:</u>		
Loans and receivables (including cash and cash equivalents)	<u>106,976</u>	<u>108,454</u>
<u>Financial liabilities:</u>		
Liabilities measured at amortized costs	<u>59,336</u>	<u>120,907</u>

(b) *Financial risk management objectives and policies*

The Shengli Steel Pipe Group's major financial instruments include trade and other receivables, amounts due from associates, trade and other payables, dividend payable, bank borrowings and bank balances and cash. Details of these financial instruments are disclosed in respective notes.

The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below.

The directors of Shengli Steel Pipe manage and monitor these exposures to ensure appropriate measures are implemented on a timely and effective manner. The Shengli Steel Pipe Group's overall strategy remains unchanged for the Predecessor Track Record Periods.

(c) *Market risk*

The Shengli Steel Pipe Group's activities expose it primarily to the market risks including interest rate risk (see note 6 (d) below) and foreign currency risk (see note 6(e) below). There has been no change to the Shengli Steel Pipe Group's exposure to these market risks or the manner in which it manages and measures the risks for the Predecessor Track Record Periods.

(d) *Interest rate risk management*

The fair value interest rate risk of the Shengli Steel Pipe Group relates primarily to fixed-rate bank borrowings. The fixed-rate bank borrowings are mainly due within one year in which the fair value interest rate risk is considered to be minimal. The Shengli Steel Pipe Group does not have an interest rate hedging policy. However, the management monitors interest rate exposure.

(e) Foreign currency risk management

The Shengli Steel Pipe Group undertakes certain transactions denominated in foreign currency, hence exposure to exchange rate fluctuations arises. The directors of Shengli Steel Pipe consider that the Shengli Steel Pipe Group is not exposed to significant foreign currency risk as the majority of its transactions are denominated in RMB (the functional currency of the Shengli Steel Pipe group's entities). Hence, no sensitivity analysis to foreign currency risk is presented. The Shengli Steel Pipe Group does not use any derivative contracts to hedge against its exposure to foreign currency risk. The Shengli Steel Pipe Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate.

(f) Credit risk management

The Shengli Steel Pipe Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2006 and 28 December 2007 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the respective consolidated statement of financial position.

In order to minimize the credit risk, the directors of Shengli Steel Pipe have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the directors of Shengli Steel Pipe review the recoverability of each trade debt at the end of each of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of Shengli Steel Pipe consider that the Shengli Steel Pipe Group's credit risk is significantly reduced.

The Shengli Steel Pipe Group has concentration of credit risk as the Shengli Steel Pipe Group's trade receivables as at 31 December 2006 and 28 December 2007 of approximately RMB42,843,000 and RMB59,099,000, respectively, representing 90% and 96% of total trade receivables, respectively, were derived from a few major customers. In order to minimize the credit risk, the directors of Shengli Steel Pipe continuously monitor the level of exposure to ensure that follow-up actions and/or corrective actions are taken promptly to lower exposure or even to recover the overdue debts. The Shengli Steel Pipe Group has no significant concentration of credit risk for the remaining trade receivables, with exposure spread over a number of counterparties and customers.

The Shengli Steel Pipe Group has concentration of credit risk on liquid funds which are deposited with several banks. However, the credit risk on bank balances is limited because the majority of the counterparties are state-owned banks with good reputation or banks with good credit rating assigned by international credit-rating agencies and with good reputation.

(g) Liquidity risk management

Ultimate responsibility for liquidity risk rests with the board of directors of Shengli Steel Pipe, which has built an appropriate liquidity risk management framework for the management of the Shengli Steel Pipe Group's short, medium and long-term funding and liquidity management requirements. The Shengli Steel Pipe Group manages liquidity risk by maintaining adequate reserves by continuously monitoring forecast and actual cash flows.

The following tables detail the Shengli Steel Pipe Group's remaining contractual maturity for its non-derivative financial liabilities as at 31 December 2006 and 28 December 2007.

The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Shengli Steel Pipe Group can be required to pay. The tables include both interest and principal cash flows.

	Weighted average interest rate	Less than 3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities					
At 31 December 2006					
Trade and other payables	—	53,636	—	53,636	53,636
Fixed interest rates borrowings	7.25	5,786	—	5,786	5,700
		<u>59,422</u>	<u>—</u>	<u>59,422</u>	<u>59,336</u>
At 28 December 2007					
Trade and other payables	—	91,090	—	91,090	91,090
Dividend payable	—	—	17	17	17
Fixed interest rates borrowings	6.59	19,853	10,497	30,350	29,800
		<u>110,943</u>	<u>10,514</u>	<u>121,457</u>	<u>120,907</u>

(h) Fair value of financial instruments

The fair value of financial assets and financial liabilities, are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using rates from observable current market transaction as input.

The directors of Shengli Steel Pipe consider that the carrying amounts of financial assets and financial liabilities recorded at amortized cost in the Shengli Steel Pipe Financial Information approximate their fair values at the end of each of the reporting period.

7. TURNOVER, SEGMENT INFORMATION AND DISCONTINUED OPERATION

(a) Turnover

Turnover represents the net amounts received and receivable during the Predecessor Track Record Periods for:

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

An analysis of Shengli Steel Pipe Group's turnover during the Predecessor Track Record Periods is as follows:

	Year ended 31 December 2006			For the period from 1 January 2007 to 28 December 2007		
	Discontinued operation - Core Business	Continuing operation - Non-core Business	Total	Discontinued operation - Core Business	Continuing operation - Non-core Business	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from						
Sales of goods	45,434	1,232	46,666	132,831	—	132,831
Provision of processing services	45,682	—	45,682	104,713	—	104,713
	<u>91,116</u>	<u>1,232</u>	<u>92,348</u>	<u>237,544</u>	<u>—</u>	<u>237,544</u>

(b) Segment information

For the management purpose, the Shengli Steel Pipe Group has three reportable segments during the Predecessor Track Record Periods:

- (a) manufacture, processing and sales of cold-formed pipes for oil and gas pipelines business and other construction and manufacturing applications (the "Cold-formed Section Steel Business") through its 74% equity interest in a subsidiary, Shandong Shengli;
- (b) manufacture, processing and sales of spiral submerged arc welded pipe ("SSAW Pipes Business") for oil and gas pipelines business and other construction and manufacturing applications; and
- (c) manufacture and sale of chemical products (the "Chemical Products Business") that is unrelated to the Cold-formed Section Steel Business and the SSAW Pipes Business (the "Non-core Business").

These reportable segments form the basis on which the Shengli Steel Pipe's chief decision maker makes decision about resource allocation and performance assessment.

The Cold-formed Section Steel Business and the SSAW Pipes Business are collectively referred to as the "Core Business" and were accounted for as discontinued operation in this Shengli Steel Pipe Financial Information.

The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies. The Shengli Steel Pipe Group evaluates performance on the basis of profit or loss from operations before tax expense not including interest income, interest expense and share of results of associates.

For the year ended 31 December 2006:

Consolidated statement of comprehensive income

	Discontinued operation - Core Business			Continuing operation - Non-core Business	Total	Elimination	Consolidated
	SSAW Pipes Business	Cold-formed Section Steel Business	Total	Chemical Products Business			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Turnover							
External sales	83,967	7,149	91,116	1,232	92,348	—	92,348
Result							
Segment result	10,587	(1,689)	8,898	(49)	8,849	—	8,849
Interest income							1,119
Share of results of associates							(559)
Loss on disposal of a subsidiary							(351)
Finance costs							(34)
Profit before taxation							9,024
Income tax expenses							(25)
							8,999

Consolidated statement of financial position

	Core Business			Non-core Business	Consolidated
	SSAW Pipes Business	Cold-formed Section Steel Business	Total	Chemical Products Business	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	180,916	43,305	224,221	—	224,221
Interests in associates					9,905
Unallocated					52,247
Total consolidated assets					286,373
Segment liabilities	52,417	1,222	53,639	—	53,639
Unallocated					8,896
Total consolidated liabilities					62,535

Other information

	Core Business			Non-core Business	Unallocated items	Consolidated
	SSAW Pipes Business	Cold-formed Section Steel Business	Total	Chemical Products Business		
	RMB'000	RMB'000	RMB'000	RMB'000		
Additions of property, plant and equipment	29,544	31,487	61,031	77	—	61,108
Additions of prepaid lease payments	10,416	6,140	16,556	—	—	16,556
Depreciation and amortization	4,164	135	4,299	—	—	4,299
Release of prepaid lease payments	74	—	74	—	—	74

For the period from 1 January 2007 to 28 December 2007:

Consolidated statement of comprehensive income

	Discontinued operation - Core Business			Continuing operation - Non-core Business	Total	Elimination	Consolidated
	SSAW Pipes Business	Cold-formed Section Steel Business	Total	Chemical Products Business			
	RMB'000	RMB'000	RMB'000	RMB'000			
Turnover							
External sales	164,436	73,108	237,544	—	237,544	—	237,544
Result							
Segment result	79,340	(15,432)	63,908	(7,232)	56,676	—	56,676
Interest income							500
Share of results of associates							(443)
Finance costs							(3,985)
Profit before taxation							52,748
Income tax expenses							(26,338)
							26,410

Consolidated statement of financial position

	Core Business			Non-core Business	Consolidated
	SSAW Pipes Business	Cold-formed Section Steel Business	Total	Chemical Products Business	
	RMB'000	RMB'000	RMB'000	RMB'000	
Segment assets	<u>193,723</u>	<u>125,580</u>	<u>319,303</u>	<u>44,494</u>	363,797
Interests in associates					7,723
Unallocated					<u>47,162</u>
Total consolidated assets					<u>418,682</u>
Segment liabilities	<u>69,126</u>	<u>14,184</u>	<u>83,310</u>	<u>963</u>	84,273
Unallocated					<u>98,839</u>
Total consolidated liabilities					<u>183,112</u>

Other information

	Core Business			Non-core Business	Unallocated items	Consolidated
	SSAW Pipes Business	Cold-formed Section Steel Business	Total	Chemical Products Business		
	RMB'000	RMB'000	RMB'000	RMB'000		
Additions of property, plant and equipment	29,338	1,133	30,471	214	—	30,685
Depreciation and amortization	4,770	2,574	7,344	68	—	7,412
Release of prepaid lease payments	305	—	305	—	—	305
Losses on disposals of property, plant and equipment	<u>9</u>	<u>—</u>	<u>9</u>	<u>—</u>	<u>—</u>	<u>9</u>

Except for trade receivables of RMB9,111,000 as at 28 December 2007 which were derived from sales in the North America, all of the Shengli Steel Pipe Group's assets and liabilities were derived from and located in the PRC.

The following table provides an analysis of the Shengli Steel Pipe Group's sales by geographical market, irrespective of the origin of goods/services:

	Year ended 31 December 2006	For the period from 1 January 2007 to 28 December 2007
	RMB'000	RMB'000
PRC	85,199	167,903
North America	7,149	69,641
Total	<u>92,348</u>	<u>237,544</u>

For the year ended 31 December 2006, revenue from three customers of Shengli Steel Pipe Group amounting to RMB 20,208,000, RMB 17,406,000 and RMB 13,152,000, respectively had individually accounted for over 10% of the Shengli Steel Pipe Group's total revenue. The revenue from these customers related to SSAW Pipes Business. For the period from 1 January 2007 to 28 December 2007, revenue from two customers of the Shengli Steel Pipe Group amounting to RMB 57,431,000 (related to SSAW Pipes Business) and RMB 54,190,000 (related to Cold-formed Section Steel Business), respectively had individually accounted for over 10% of the Shengli Steel Pipe Group's total revenue.

8. OTHER INCOME

	Year ended 31 December 2006			For the period from 1 January 2007 to 28 December 2007		
	Discontinued operation - Core Business	Continuing operation - Non-core Business	Total	Discontinued operation - Core Business	Continuing operation - Non-core Business	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Other income comprises:						
Interest income	1,119	—	1,119	500	—	500
Net gain on sales of scrap materials	1,295	—	1,295	8,247	—	8,247
Others	1,024	—	1,024	931	—	931
	<u>3,438</u>	<u>—</u>	<u>3,438</u>	<u>9,678</u>	<u>—</u>	<u>9,678</u>

9. OTHERS LOSSES

	Year ended 31 December 2006			For the period from 1 January 2007 to 28 December 2007		
	Discontinued operation - Core Business	Continuing operation - Non-core Business	Total	Discontinued operation - Core Business	Continuing operation - Non-core Business	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Loss on disposal of a subsidiary (note 25)	—	351	351	—	—	—
Others	2	—	2	—	—	—
	<u>2</u>	<u>351</u>	<u>353</u>	<u>—</u>	<u>—</u>	<u>—</u>

10. FINANCE COSTS

	Year ended 31 December 2006			For the period from 1 January 2007 to 28 December 2007		
	Discontinued operation - Core Business	Continuing operation - Non-core Business	Total	Discontinued operation - Core Business	Continuing operation - Non-core Business	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Finance costs comprise:						
Interest on bank borrowings wholly repayable within one year	34	—	34	3,985	—	3,985
	<u>34</u>	<u>—</u>	<u>34</u>	<u>3,985</u>	<u>—</u>	<u>3,985</u>

11. PROFIT (LOSS) BEFORE TAXATION

Profit (loss) before taxation has been arrived at after charging:

	Year ended 31 December 2006			For the period from 1 January 2007 to 28 December 2007		
	Discontinued operation - Core Business	Continuing operation - Non-core Business	Total	Discontinued operation - Core Business	Continuing operation - Non-core Business	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Staff costs (including directors)						
- Salaries and wages	24,971	324	25,295	27,144	2,136	29,280
- Retirement benefit scheme contributions	1,513	10	1,523	1,603	26	1,629
	<u>26,484</u>	<u>334</u>	<u>26,818</u>	<u>28,747</u>	<u>2,162</u>	<u>30,909</u>
Depreciation and amortization:						
Property, plant and equipment	4,299	—	4,299	7,344	68	7,412
Cost of inventories recognized as an expense	60,275	1,106	61,381	154,687	—	154,687
Release of prepaid lease payments	74	—	74	305	—	305
Exchange (gains) losses, net	50	—	50	1,111	—	1,111
Auditors' remuneration	9	—	9	436	34	470
Losses on disposals of property, plant and equipment	—	—	—	9	—	9
	<u>—</u>	<u>—</u>	<u>—</u>	<u>9</u>	<u>—</u>	<u>9</u>

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(i) Directors' emoluments

Details of the emoluments paid to directors of Shengli Steel Pipe for the Predecessor Track Record Periods are as follows:

	Year ended 31 December 2006			
	Directors' fees	Retirement benefit scheme contributions	Other emoluments	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Discontinued operation				
- Core Business:				
Zhang Bizhuang	—	2	101	103
Wang Xu	—	2	90	92
Song Xichen	—	2	80	82
Wang Kunxian	—	2	85	87
Liu Yaohua	—	2	80	82
Zhang Xianping	—	2	60	62
Han Aizhi	—	2	76	78
Continuing operation				
- Non-core Business	—	—	—	—
	—	14	572	586

	For the period from 1 January 2007 to 28 December 2007			
	Directors' fees	Retirement benefit scheme contributions	Other emoluments	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Discontinued operation				
- Core Business:				
Zhang Bizhuang	—	3	89	92
Wang Xu	—	3	90	93
Song Xichen	—	3	63	66
Wang Kunxian	—	3	63	66
Liu Yaohua	—	3	73	76
Zhang Xianping	—	2	42	44
Han Aizhi	—	3	78	81
Continuing operation				
- Non-core Business	—	—	—	—
	—	20	498	518

During the Predecessor Track Record Periods, no remuneration was paid by Shengli Steel Pipe Group to the directors as an inducement to join or upon joining Shengli Steel Pipe Group or as compensation for loss of office. None of the directors has waived any remuneration during the Predecessor Track Record Periods.

(ii) *Employees' emoluments*

The five individuals with the highest emoluments in Shengli Steel Pipe Group are all directors of Shengli Steel Pipe for the year ended 31 December 2006 and for the period from 1 January 2007 to 28 December 2007.

During the Predecessor Track Record Periods, no remuneration was paid by Shengli Steel Pipe Group to the five individuals with the highest emoluments in Shengli Steel Pipe Group as an inducement to join or upon joining Shengli Steel Pipe Group or as compensation for loss of office.

13. INCOME TAX EXPENSES

Year ended 31 December 2006			For the period from 1 January 2007 to 28 December 2007		
Discontinued operation - Core Business	Continuing operation - Non-core Business	Total	Discontinued operation - Core Business	Continuing operation - Non-core Business	Total
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000

Income tax expenses comprise:

Current tax:

PRC enterprise income tax ("EIT")	—	25	25	26,338	—	26,338
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Shengli Steel Pipe and its subsidiaries established in the PRC are subject to EIT at the rates of 33% in accordance with the relevant laws and regulations in the PRC.

In 2004, Shengli Steel Pipe was converted from a state-owned enterprise to a private limited company. Thus Shengli Steel Pipe was approved by local tax authority to entitle tax exemption for the years from 2004 to 2006.

Shandong Shengli is a Sino-foreign investment company registered in Shandong Province, PRC. 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 incurred tax losses for the year ended 31 December 2006 and the period from 1 January 2007 to 28 December 2007.

Shengda Chemical is a domestic company with limited liability incorporated in Shandong Province, PRC. Shengda Chemical incurred tax losses for the year ended 31 December 2006 and the period from 1 January 2007 to 28 December 2007.

The income tax expenses during the Predecessor Track Record Periods can be reconciled to the profit (loss) before taxation per the consolidated statement of comprehensive incomes as follows:

	Year ended 31 December 2006			For the period from 1 January 2007 to 28 December 2007		
	Discontinued operation - Core Business	Continuing operation - Non-core Business	Total	Discontinued operation - Core Business	Continuing operation - Non-core Business	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Profit (loss) before taxation	9,983	(959)	9,024	60,423	(7,675)	52,748
Tax at the PRC income tax rate (note)	3,294	(316)	2,978	19,940	(2,533)	17,407
Tax effect of expenses that are not deductible for tax purpose	435	140	575	996	—	996
Tax effect of share of results of associates	—	184	184	—	147	147
Tax effect of tax losses not recognized	—	17	17	5,402	2,386	7,788
Effect of tax exemption	(3,729)	—	(3,729)	—	—	—
	—	25	25	26,338	—	26,338

Note: The PRC income tax rate represents the income tax rate of 33% applicable to all the entities within Shengli Steel Pipe Group.

14. DIVIDENDS

	Year ended 31 December 2006	For the period from 1 January 2007 to 28 December 2007
	RMB'000	RMB'000
Dividend declared for the year/period	—	18,966

The amounts represent dividend declared by Shengli Steel Pipe during the Predecessor Track Record Periods.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Core Business						
COST						
At 1 January 2006	15,192	25,241	589	1,904	1,579	44,505
Additions	16,340	12,233	585	318	31,555	61,031
Transfer	1,510	—	—	—	(1,510)	—
Disposals	—	(7)	(2)	—	—	(9)
At 31 December 2006 and 1 January 2007	33,042	37,467	1,172	2,222	31,624	105,527
Additions	8,379	18,146	353	2,479	1,114	30,471
Transfer	836	19,580	—	—	(20,416)	—
Disposals	—	(381)	(9)	(235)	—	(625)
Reclassified as held for sale (note 26(c))	(19,422)	(74,812)	(1,478)	(4,340)	(12,195)	(112,247)
At 28 December 2007	22,835	—	38	126	127	23,126
ACCUMULATED DEPRECIATION						
At 1 January 2006	735	3,538	163	303	—	4,739
Provided for the year	746	3,077	162	314	—	4,299
Disposals	—	(1)	(1)	—	—	(2)
At 31 December 2006 and 1 January 2007	1,481	6,614	324	617	—	9,036
Provided for the period	1,037	5,580	283	444	—	7,344
Disposals	—	(99)	(3)	(133)	—	(235)
Reclassified as held for sale (note 26(c))	(483)	(12,095)	(603)	(928)	—	(14,109)
At 28 December 2007	2,035	—	1	—	—	2,036
CARRYING VALUES						
At 31 December 2006	31,561	30,853	848	1,605	31,624	96,491
At 28 December 2007	20,800	—	37	126	127	21,090

	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Non-core Business						
COST						
At 1 January 2006	—	—	14	—	—	14
Additions	—	—	77	—	—	77
Disposal of a subsidiary	—	—	(91)	—	—	(91)
At 31 December 2006 and 1 January 2007	—	—	—	—	—	—
Acquired on acquisition of a subsidiary	—	101	112	426	43,301	43,940
Additions	—	—	—	—	214	214
Transfer	56	—	—	—	(56)	—
At 28 December 2007	56	101	112	426	43,459	44,154
ACCUMULATED DEPRECIATION						
At 1 January 2006	—	—	10	—	—	10
Disposal of a subsidiary	—	—	(10)	—	—	(10)
At 31 December 2006 and 1 January 2007	—	—	—	—	—	—
Provided for the period	3	7	26	32	—	68
At 28 December 2007	3	7	26	32	—	68
CARRYING VALUES						
At 31 December 2006	—	—	—	—	—	—
At 28 December 2007	53	94	86	394	43,459	44,086

	Buildings	Plant and machinery	Furniture, fixtures and office equipment	Motor vehicles	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total						
COST						
At 1 January 2006	15,192	25,241	603	1,904	1,579	44,519
Additions	16,340	12,233	662	318	31,555	61,108
Transfer	1,510	—	—	—	(1,510)	—
Disposal of a subsidiary	—	—	(91)	—	—	(91)
Disposals	—	(7)	(2)	—	—	(9)
At 31 December 2006 and 1 January 2007	33,042	37,467	1,172	2,222	31,624	105,527
Acquired on acquisition of a subsidiary	—	101	112	426	43,301	43,940
Additions	8,379	18,146	353	2,479	1,328	30,685
Transfer	892	19,580	—	—	(20,472)	—
Disposals	—	(381)	(9)	(235)	—	(625)
Reclassified as held for sale (note 26(c))	(19,422)	(74,812)	(1,478)	(4,340)	(12,195)	(112,247)
At 28 December 2007	22,891	101	150	552	43,586	67,280
ACCUMULATED DEPRECIATION						
At 1 January 2006	735	3,538	173	303	—	4,749
Provided for the year	746	3,077	162	314	—	4,299
Disposal of a subsidiary	—	—	(10)	—	—	(10)
Disposals	—	(1)	(1)	—	—	(2)
At 31 December 2006 and 1 January 2007	1,481	6,614	324	617	—	9,036
Provided for the period	1,040	5,587	309	476	—	7,412
Disposals	—	(99)	(3)	(133)	—	(235)
Reclassified as held for sale (note 26(c))	(483)	(12,095)	(603)	(928)	—	(14,109)
At 28 December 2007	2,038	7	27	32	—	2,104
CARRYING VALUES						
At 31 December 2006	31,561	30,853	848	1,605	31,624	96,491
At 28 December 2007	20,853	94	123	520	43,586	65,176

The above items of property, plant and equipment, other than construction in progress, are depreciated on a straight-line basis at the following rates per annum after taking into account of their estimate residual values:

Buildings	20 to 30 years
Plant and machinery	10 years
Furniture, fixtures and office equipment	4 to 5 years
Motor vehicles	6 years

16. PREPAID LEASE PAYMENTS

	Core Business	Non-core Business	Total
	RMB'000	RMB'000	RMB'000
COST			
At 1 January 2006	4,704	—	4,704
Additions	16,556	—	16,556
At 31 December 2006 and 1 January 2007	21,260	—	21,260
Reclassified as held for sale (note 26(c))	(6,250)	—	(6,250)
At 28 December 2007	15,010	—	15,010
RELEASE TO STATEMENT OF COMPREHENSIVE INCOME			
At 1 January 2006	—	—	—
Released to consolidated statement of comprehensive income during the year	74	—	74
At 31 December 2006 and 1 January 2007	74	—	74
Released to consolidated statement of comprehensive income during the period	305	—	305
Reclassified as held for sale (note 26(c))	(110)	—	(110)
At 28 December 2007	269	—	269
CARRYING VALUES			
At 31 December 2006	21,186	—	21,186
At 28 December 2007	14,741	—	14,741
Analyzed for reporting purposes as:			
At 31 December 2006			
- Non-current assets	20,880	—	20,880
- Current assets	306	—	306
	21,186	—	21,186
At 28 December 2007			
- Non-current assets	14,527	—	14,527
- Current assets	214	—	214
Retained assets	14,741	—	14,741

The amounts represent land use rights in respect of land situated in the PRC and held under medium-term leases. Land use rights are released on a straight-line basis over the relevant terms of the land use rights certificate.

17. INTERESTS IN ASSOCIATES

	As at 31 December 2006			As at 28 December 2007		
	Core Business	Non-core Business	Total	Core Business	Non-core Business	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Interests in associates:						
Unlisted investments in PRC, at cost	—	8,400	8,400	—	5,400	5,400
Share of post-acquisition profits, net of dividends received	—	1,505	1,505	—	2,323	2,323
	—	9,905	9,905	—	7,723	7,723

Particulars of Shengli Steel Pipe's directly held associates at the end of each of the reporting period are as follows:

Name of companies	Issued and fully paid registered capital	Attributable equity interest held by Shengli Steel Pipe at		Principal activities
		31 December 2006	28 December 2007	
Shengda Chemical	RMB20,000,000	30%	— (note)	Manufacture of chemical products
淄博勝利防腐工程有限公司 (Zibo Shengli Coating Engineering Co., Ltd. [#] , "Shengli Coating")	RMB12,000,000	45%	45%	Manufacture of anti-corrosion coating of pipes

[#] The English name is for identification purpose only

Note: During the period from 1 January 2007 to 28 December 2007, Shengli Steel Pipe acquired additional 40% equity interest in Shengda Chemical and subsequently, Shengda Chemical became a subsidiary of Shengli Steel Pipe, details of which are set out in note 24.

The summarized financial information in respect of the Shengli Steel Pipe Group's associates is set out below:

	As at 31 December 2006	As at 28 December 2007
	RMB'000	RMB'000
Total assets	55,854	35,802
Total liabilities	<u>27,761</u>	<u>18,639</u>
Net assets	<u>28,093</u>	<u>17,163</u>
Shengli Steel Pipe Group's share of net assets of associates	<u>9,905</u>	<u>7,723</u>
Revenue	<u>10,131</u>	<u>43,611</u>
Loss for the year/period	<u>(1,494)</u>	<u>(2,635)</u>
Shengli Steel Pipe Group's share of results of associates for the year/period	<u>(559)</u>	<u>(443)</u>

18. INVENTORIES

	As at 31 December 2006			As at 28 December 2007		
	Core Business	Non-core Business	Total	Core Business	Non-core Business	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	32,191	—	32,191	46,345	261	46,606
Work-in-progress	1,600	—	1,600	—	—	—
Finished goods	<u>11,908</u>	<u>—</u>	<u>11,908</u>	<u>48,775</u>	<u>—</u>	<u>48,775</u>
	45,699	—	45,699	95,120	261	95,381
Less: Assets classified held for sale (Note 26(c))	<u>—</u>	<u>—</u>	<u>—</u>	<u>(71,900)</u>	<u>—</u>	<u>(71,900)</u>
	<u>45,699</u>	<u>—</u>	<u>45,699</u>	<u>23,220</u>	<u>261</u>	<u>23,481</u>

19. TRADE AND OTHER RECEIVABLES

	As at 31 December 2006			As at 28 December 2007		
	Core Business	Non-core Business	Total	Core Business	Non-core Business	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade receivables (note a)	47,414	—	47,414	61,337	—	61,337
Notes receivable	3,499	—	3,499	2,774	—	2,774
	50,913	—	50,913	64,111	—	64,111
Advance to suppliers (note b)	6,116	—	6,116	4,804	—	4,804
Value added tax ("VAT") receivables (note c)	—	—	—	6,716	—	6,716
Loan receivable (note d)	—	—	—	11,000	—	11,000
Consideration receivable from disposal of a subsidiary (note 25)	—	1,316	1,316	—	1,316	1,316
Other receivables (note e)	3,816	—	3,816	3,748	149	3,897
	60,845	1,316	62,161	90,379	1,465	91,844
Less: Assets classified held for sales (Note 26(c))	—	—	—	(25,670)	—	(25,670)
	60,845	1,316	62,161	64,709	1,465	66,174

(a) Trade receivables

Shengli Steel Pipe Group's trade receivables at the end of each reporting period mainly comprise amounts receivable from the sales of goods and provision of processing services during the Predecessor Track Record Periods.

No interest is charged on the trade receivables.

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

The Shengli Steel Pipe Group generally allows an average credit period of 90 days to its trade customers. All of the notes receivable are within 90 days. The aged analysis of Shengli Steel Pipe Group's trade receivables as at the end of each reporting period are as follows:

	As at 31 December 2006			As at 28 December 2007		
	Core Business	Non-core Business	Total	Core Business	Non-core Business	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	41,860	—	41,860	58,919	—	58,919
Over 90 days but within 1 year	2,207	—	2,207	—	—	—
Over 1 year	3,347	—	3,347	2,418	—	2,418
	47,414	—	47,414	61,337	—	61,337

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

	As at 31 December 2006			As at 28 December 2007		
	Core Business	Non-core Business	Total	Core Business	Non-core Business	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Over 90 days but within 1 year	2,207	—	2,207	—	—	—
Over 1 year	3,347	—	3,347	2,418	—	2,418
	<u>5,554</u>	<u>—</u>	<u>5,554</u>	<u>2,418</u>	<u>—</u>	<u>2,418</u>

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

The Shengli Steel Pipe Group's trade receivables denominated in currencies other than the functional currency of the relevant group entities were as follows:

	As at 31 December 2006			As at 28 December 2007		
	Core Business	Non-core Business	Total	Core Business	Non-core Business	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
USD	<u>—</u>	<u>—</u>	<u>—</u>	<u>9,111</u>	<u>—</u>	<u>9,111</u>

- (b) The Shengli Steel Pipe Group's advance to suppliers mainly comprise deposits for purchase of raw materials.
- (c) The Shengli Steel Pipe Group's VAT receivables represent VAT-input to be deducted for future VAT-output.
- (d) The amount represented the loan receivables from banks, which were interest-free and were fully repaid during the year ended 31 December 2008.
- (e) The Shengli Steel Pipe Group's other receivables mainly represent interest receivables and advances to staff for daily business operations.

20. BANK BALANCES AND CASH

The Shengli Steel Pipe Group's bank balances carry market interest rate of 0.72% and 0.72% per annum during the year ended 31 December 2006 and the period from 1 January 2007 to 28 December 2007, respectively.

The Shengli Steel Pipe Group's bank balances and cash denominated in currencies other than functional currency of the relevant group entities were as follows:

	As at 31 December 2006			As at 28 December 2007		
	Core Business	Non-core Business	Total	Core Business	Non-core Business	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
USD	—	—	—	8	—	8

21. TRADE AND OTHER PAYABLES

	As at 31 December 2006			As at 28 December 2007		
	Core Business	Non-core Business	Total	Core Business	Non-core Business	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade payables (note a)	12,597	—	12,597	14,970	—	14,970
Payable on acquisition of property, plant and equipment	6,180	—	6,180	6,201	963	7,164
Advances from staff (note b)	—	—	—	32,104	—	32,104
Consideration payable for acquisition of a subsidiary (note 24)	—	—	—	—	8,000	8,000
Receipt in advance from customers (note c)	3	—	3	33,287	—	33,287
Payable to Shengli Oilfield Assets Administration Bureau (note d)	21,141	—	21,141	21,121	—	21,121
Bonus and welfare payable	9,901	—	9,901	2,148	—	2,148
Others taxes payable	3,196	—	3,196	10,217	—	10,217
Others (note e)	3,817	—	3,817	5,583	—	5,583
	56,835	—	56,835	125,631	8,963	134,594
Less: liability associated with assets classified held for sale (Note 26(c))	—	—	—	(49,271)	—	(49,271)
	56,835	—	56,835	76,360	8,963	85,323

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

The aged analysis of Shengli Steel Pipe Group's trade payables as at the end of each reporting period are as follows:

	As at 31 December 2006			As at 28 December 2007		
	Core Business	Non-core Business	Total	Core Business	Non-core Business	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Within 90 days	4,497	—	4,497	12,320	—	12,320
Over 90 days but within 1 year	5,875	—	5,875	2,591	—	2,591
Over 1 year	2,225	—	2,225	59	—	59
	<u>12,597</u>	<u>—</u>	<u>12,597</u>	<u>14,970</u>	<u>—</u>	<u>14,970</u>

- (b) The amount was interest-free, unsecured and was fully repaid during year ended 31 December 2008.
- (c) The Shengli Steel Pipe Group's receipt in advance from customers mainly comprise deposits for supply of goods to customers.
- (d) The amount represents miscellaneous expenses payable to 勝利油田管理局 (Shengli Oilfield Assets Administration Bureau), which is amount incurred prior to Shengli Steel Pipe's conversion from a state-owned company to a private company in June 2004.
- (e) The amounts represent utilities charges and other miscellaneous charges.

22. BANK BORROWINGS

	As at 31 December 2006			As at 28 December 2007		
	Core Business	Non-core Business	Total	Core Business	Non-core Business	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Unsecured fixed-rate bank borrowings and is repayable:						
- on demand or within one year	<u>5,700</u>	<u>—</u>	<u>5,700</u>	<u>29,800</u>	<u>—</u>	<u>29,800</u>

The range of effective interest rates (which are also equal to contracted interest rates) of Shengli Steel Pipe Group's bank borrowings are as follows:

	As at <u>31 December 2006</u>	As at <u>28 December 2007</u>
<u>Effective interest rates:</u>		
Fixed-rate borrowings	7.25%	5.67% to 7.60%

Among the unsecured bank borrowings as at 28 December 2007, an amount of RMB10,000,000 was guaranteed by 勝利油田高原石油裝備有限公司 (Shengli Oilfield Highland Petroleum Equipment Co., Ltd.), and an amount of RMB19,800,000 was guaranteed by 山東齊隆化工股份有限公司 (Shandong Qilong Chemical Co., Ltd.).

23. PAID-IN CAPITAL

	As at <u>31 December 2006</u>	As at <u>28 December 2007</u>
	<u>RMB'000</u>	<u>RMB'000</u>
Paid-in capital of Shengli Steel Pipe	<u>79,898</u>	<u>79,898</u>

The paid-in capital as at 31 December 2006 and 28 December 2007 represent registered capital of Shengli Pipe Steel.

24. ACQUISITION OF A SUBSIDIARY

In July 2006, Shengli Steel Pipe established Shengda Chemical with certain third parties with initial equity interest of 30%. On 13 June 2007, Shengli Steel Pipe acquired an additional 40% equity interest in Shengda Chemical for a consideration of RMB8,000,000. Accordingly, Shengda Chemical became a subsidiary of Shengli Steel Pipe. On the acquisition date, Shengda Chemical was still in the pre-operating stage and the acquisition was regarded as assets acquisition.

Details of the assets and liabilities of Shengda Chemical on acquisition date are as follows:

	RMB'000
Property, plant and equipment	43,940
Inventories	102
Trade and other receivables	733
Bank balances and cash	112
Trade and other payables	<u>(28,310)</u>
Net assets acquired	16,577
Less: Previously held equity interest in Shengda Chemical	(4,289)
Minority interests	<u>(4,288)</u>
Consideration payable and was settled during the year ended 31 December 2008	<u>8,000</u>
Cash and cash equivalent in Shengda Chemical acquired	<u>112</u>

25. DISPOSAL OF A SUBSIDIARY

In November 2006, Shengli Steel Pipe disposed of its entire 94% equity interest in a subsidiary, 淄博勝管經貿有限公司 (Zibo Sheng Guan Trading Co., Ltd.).

Details of the disposal are as follows:

	<u>Carrying value</u>
	RMB'000
Property, plant and equipment	81
Inventories	1
Trade and other receivables	1,736
Bank balances and cash	3
Trade and other payables	<u>(48)</u>
	1,773
Minority interests	<u>(106)</u>
	1,667
Loss on disposal	<u>(351)</u>
Total consideration recorded as receivable as at 31 December 2006 and 28 December 2007	<u>1,316</u>
Cash outflow arising on disposal	<u>(3)</u>

During the year ended 31 December 2006, Zibo Sheng Guan Trading Co., Ltd. incurred approximately RMB2 million net operating cash outflows and approximately RMB77,000 cash outflows in respect of investing activities prior to the disposal.

26. SUBSEQUENT EVENTS

Through the following transactions, Shengli Steel Pipe disposed of its Core Business to China Petro Equipments Holdings Pte Ltd. ("CPE") on 29 December 2007 and 31 December 2007 (the "Disposals"), respectively, details of which are set out in the paragraph headed "Our Corporate Reorganization" in the Section "History and Corporate Structure" to the Prospectus:

- (a) Disposal of 74% equity interest in Shandong Shengli to CPE

Shengli Steel Pipe entered into an equity transfer agreement dated 25 December 2007 with CPE and Hong Kong Victory Trading Industry Co. Ltd. ("Victory Trading"), a third party, respectively, whereby CPE acquired from Shengli Steel Pipe and Victory Trading their approximately 74% and 26% equity interests in Shandong Shengli, respectively, for cash considerations of approximately RMB24,050,000 and RMB8,450,000, respectively. Upon the completion of this disposal on 29 December 2007, Shandong Shengli became a wholly owned subsidiary of CPE which then owns and operates the Cold-formed Section Steel Business.

Details of net assets disposed of are as follows:

	<u>Carrying value</u>
	<u>RMB'000</u>
Property, plant and equipment	61,781
Prepaid lease payments	6,140
Inventories	46,468
Trade and other receivables	17,907
Bank balances and cash	903
Amount due to Shengli Steel Pipe	(61,405)
Trade and other payables	<u>(41,018)</u>
	30,776
Minority interests	<u>(7,967)</u>
	<u>22,809</u>

- (b) Disposal of SSAW Pipes Business and certain of related assets and liabilities to Shandong Shengli

Pursuant to an asset transfer agreement dated 27 December 2007 entered into between Shandong Shengli and Shengli Steel Pipe, Shengli Steel Pipe disposed of its SSAW Pipes Business and certain of assets and liabilities which are directly related to the production and operation of the SSAW Pipes Business to Shandong Shengli for a cash consideration of approximately RMB84,010,000. Shengli Steel Pipe retained some of the assets and liabilities, such as bank balances and cash, factory premises and office buildings, inventories, other receivables, tax payables and bank borrowings of the SSAW Pipe Business (the "Retained Core Business Assets/Liabilities"). Upon the completion of this disposal on 31 December 2007, Shandong Shengli then owns and operates the SSAW Pipes Business.

Details of the assets and liabilities of SSAW Pipes Business and certain of related assets and liabilities disposed of to CPE are as follows:

	<u>Carrying value</u>
	RMB'000
Property, plant and equipment	36,357
Deposits for acquisition of property, plant and equipment	11,409
Inventories	25,432
Trade and other receivables	7,763
Trade and other payables	<u>(8,253)</u>
Carrying value of net assets disposed of	<u><u>72,708</u></u>

Details of the Retained Core Business Assets/Liabilities are as follows:

	<u>Carrying value</u>
	RMB'000
Property, plant and equipment	21,090
Prepaid lease payments	14,741
Inventories	23,220
Trade and other receivables	64,709
Amount due from Shandong Shengli	61,405
Bank balance and cash	19,551
Trade and other payables	(76,360)
Tax liabilities	(18,701)
Bank borrowings	(29,800)
Dividend payable	<u>(17)</u>
Carrying value of the Retained Core Business Assets/Liabilities	<u><u>79,838</u></u>

- (c) Upon the completion of the Disposals, Shengli Steel Pipe owns and operates the Non-core Business and while Shandong Shengli owns and operates the Core Business.

Details of the assets classified as held for sale, liabilities associated with assets classified as held for sale, Retained Core Business Assets/Liabilities and assets and liabilities of Non-core Business Assets/Liabilities as at 28 December 2007 are as following:

	Core Business						Consolidated
	SSAW Pipes Business	Cold-formed Section Steel Business	Sub-total of assets held for sale/liabilities associated with assets classified as held for sale	Retained Core Business Assets/Liabilities	Total	Non-core Business Assets/Liabilities	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Assets:							
Property, plant and equipment	36,357	61,781	98,138	21,090	119,228	44,086	163,314
Prepaid lease payments	—	6,140	6,140	14,741	20,881	—	20,881
Interests in associates	—	—	—	—	—	7,723	7,723
Deposits for acquisition of property, plant and equipment	11,409	—	11,409	—	11,409	—	11,409
Inventories	25,432	46,468	71,900	23,220	95,120	261	95,381
Trade and other receivable	7,763	17,907	25,670	64,709	90,379	1,465	91,844
Amounts due from associates	—	—	—	—	—	3,600	3,600
Bank balances and cash	—	903	903	19,551	20,454	4,076	24,530
	<u>80,961</u>	<u>133,199</u>	<u>214,160</u>	<u>143,311</u>	<u>357,471</u>	<u>61,211</u>	<u>418,682</u>
Liabilities:							
Trade and other payables	(8,253)	(41,018)	(49,271)	(76,360)	(125,631)	(8,963)	(134,594)
Bank Borrowings	—	—	—	(29,800)	(29,800)	—	(29,800)
Tax liabilities	—	—	—	(18,701)	(18,701)	—	(18,701)
Dividend payable	—	—	—	(17)	(17)	—	(17)
	<u>(8,253)</u>	<u>(41,018)</u>	<u>(49,271)</u>	<u>(124,878)</u>	<u>(174,149)</u>	<u>(8,963)</u>	<u>(183,112)</u>
Inter-group balance	—	(61,405)	(61,405)	61,405	—	—	—
Net assets	<u>72,708</u>	<u>30,776</u>	<u>103,484</u>	<u>79,838</u>	<u>183,322</u>	<u>52,248</u>	<u>235,570</u>

27. CAPITAL COMMITMENTS

At the end of each reporting period, Shengli Steel Pipe Group had the following capital commitments:

	As at 31 December 2006			As at 28 December 2007		
	Core Businesses	Non-core Business	Total	Core Businesses	Non-core Business	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment:						
- contracted for but not provided in the Shengli Steel Pipe Financial Information	—	735	735	47,680	—	47,680
- authorized but not contracted for	—	—	—	80,400	—	80,400

28. RETIREMENT BENEFIT PLANS

The employees of the Shengli Steel Pipe Group in the PRC are members of a state-managed retirement benefits scheme operated by the PRC government. The Shengli Steel Pipe Group is required to contribute a specified percentage of its payroll costs to the retirement benefits scheme to fund the benefits. The only obligation of the Shengli Steel Pipe Group with respect to the retirement benefits scheme is to make the specified contributions under the scheme.

The amounts of contributions made by the Shengli Steel Pipe Group in respect of the retirement benefit scheme during the Predecessor Track Record Periods are disclosed in note 11.

29. RELATED PARTY TRANSACTIONS

(a) *Related parties of Shengli Steel Pipe Group*

The directors of Shengli Steel Pipe consider that the following entities are related parties of Shengli Steel Pipe Group:

Name of related party	Relationships with Shengli Steel Pipe
Shenda Chemical	Associate
Shengli Coating	Associate

(b) Balances with related parties

The Shengli Steel Pipe Group has significant non-trade balances with the following related parties as at 31 December 2006 and 28 December 2007:

	As at 31 December 2006			As at 28 December 2007		
	Core Businesses	Non-core Business	Total	Core Businesses	Non-core Business	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Amounts due from:						
- Shenda Chemical	19,329	—	19,329	—	—	—
- Shengli Coating	3,600	—	3,600	3,600	—	3,600
	<u>22,929</u>	<u>—</u>	<u>22,929</u>	<u>3,600</u>	<u>—</u>	<u>3,600</u>

The amounts were non-trade nature, interest-free and unsecured, and have no fixed repayment term.

(c) Compensation of key management personnel

Save as disclosed in note 12 for directors' emoluments, no compensation was made to other key management personnel of the Shengli Steel Pipe Group during the Predecessor Track Record Period.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
 Hong Kong

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

The information set forth in this appendix does not form part of the Accountants' Report on the financial information of the Group for the period from 1 November 2007 to 31 December 2007, the year ended 31 December 2008 and the six months ended 30 June 2009 prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, as set forth in Appendix IA to this Prospectus, and is included herein for information only.

The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this Prospectus and the "Accountants' Report of the Group" set forth in Appendix IA to this Prospectus.

A. UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

The following unaudited pro forma forecast basic earnings per Share for the year ending 31 December 2009 has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Global Offering as if it had taken place on 1 January 2009. This unaudited pro forma forecast basic earnings per Share has been prepared for illustrative purposes only and because of its nature, it may not give a true picture of financial results of the Group following the Global Offering.

For the year ending 31 December 2009

Forecast consolidated profit after taxation (*notes 1 and 2*)not less than RMB330 million

Unaudited pro forma forecast basic earnings per Share (*note 3*).approximately RMB0.1375
(approximately HK\$0.1561)

Notes:

- (1) The forecast consolidated profit after taxation for the year ending 31 December 2009 is extracted from the section headed "Financial Information — Profit forecast for the Year Ending 31 December 2009" in this Prospectus. The bases on which the above profit forecast for the year ending 31 December 2009 has been prepared are summarized in Appendix III to this Prospectus.
- (2) The forecast consolidated profit after taxation for the year ending 31 December 2009 prepared by our Directors is based on the audited combined financial statements of the Group for the six months ended 30 June 2009, the unaudited consolidated management accounts of the Group for the four months ended 31 October 2009 and a forecast of the consolidated results of the Group for the remaining two months ending 31 December 2009. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by our Company as summarized in the "Accountants' Report of the Group" as set out in Appendix IA to this Prospectus.
- (3) The calculation of the unaudited pro forma forecast basic earnings per Share is based on the forecast consolidated results of our Company for the year ending 31 December 2009, assuming the Global Offering had been completed on 1 January 2009 and a total of 2,400,000,000 Shares in issue during the entire period, taking no account of any additional income the Group may have earned from the estimated net proceeds from the Global Offering and any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

B. UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS PER SHARE

The following unaudited pro forma adjusted net tangible assets per share prepared in accordance with Rule 4.29 of the Hong Kong Listing Rules is for illustration purpose only, and is set out here to illustrate the effect of the Global Offering on the adjusted combined net tangible assets of the Group as of 30 June 2009, as if they had taken place on such date.

The unaudited pro forma adjusted net tangible assets has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the consolidated net tangible assets of the Group attributable to the equity holders of the Company following the Global Offering. It is prepared based on the audited combined net assets of the Group attributable to the equity holders of the Company as of 30 June 2009 as shown in the “Accountants’ Report of the Group” as set out in Appendix IA to this Prospectus and adjusted as described below. The unaudited pro forma adjusted net tangible assets does not form part of the Accountants’ Report of the Group.

	Audited combined net tangible assets of the Group attributable to equity holders of the Company as of 30 June 2009⁽¹⁾	Estimated net proceeds from the Global Offering⁽²⁾	Unaudited pro forma adjusted net tangible assets attributable to the equity holders of the Company	Unaudited pro forma adjusted net tangible assets per Share⁽³⁾	
	RMB’000	RMB’000	RMB’000	RMB	HK\$
Based on the Offer Price of HK\$1.81 for each Share	291,281	890,957	1,182,238	0.4926	0.5591
Based on the Offer Price of HK\$2.69 for each Share	291,281	1,342,127	1,633,408	0.6806	0.7725

Notes:

- (1) The audited combined net tangible assets of the Group attributable to the equity holders of the Company as of 30 June 2009 was determined as follows:

	RMB’000
Audited combined net assets of the Group as of 30 June 2009 as shown in the “Accountants’ Report of the Group” as set out in Appendix IA to this Prospectus	293,806
Less: Goodwill	<u>2,525</u>
Audited combined net tangible assets of the Group attributable to the equity holders of the Company as of 30 June 2009	<u><u>291,281</u></u>

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (2) The estimated net proceeds from the Global Offering are based on the Offer Shares and the Offer Price range of HK\$1.81 and HK\$2.69 per Share, after deduction of underwriting fees and related expenses payable by the Company but takes no account of any Shares which may be issued upon the exercise of the Over-allotment Option.
- (3) The unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis that a total of 600,000,000 Shares are expected to be in issue pursuant to the Global Offering, taking no account of any additional income the Group may have earned from the estimated net proceeds from the Global Offering and any Shares which may fall to be allotted and issued pursuant to the exercise of the Over-allotment Option.
- (4) The property interests of the Group were valued by Jones Lang LaSalle Sallmanns Limited and the valuation report in respect of which was set out in Appendix IV to this Prospectus. According to the valuation report, the property interests of the Group as of 30 September 2009 amounted to approximately RMB76,012,000. Comparing this amount with the unaudited net carrying value of the property interests of the Group as of 30 September 2009 of approximately RMB57,480,000, there was a surplus of RMB18,532,000. Had the property interests been stated at revaluation, additional annual depreciation of RMB488,000 will therefore be charged. The surplus on revaluation will not be reflected in the Group's consolidated financial statements in subsequent years as the Group has elected to state the property interests at cost model.

C. REPORT FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION RELATING TO THE UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE AND UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS PER SHARE

The following is the text of report, prepared for the purpose of incorporation in this Prospectus, received from our reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong.

Deloitte.
德勤

德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF SHENGLI OIL & GAS PIPE HOLDINGS LIMITED

We report on the unaudited pro forma financial information of Shengli Oil & Gas Pipe Holdings Limited (formerly known as Shengli Oil & Gas Pipe Holdings Ltd., the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) (the “Unaudited Pro Forma Financial Information”), which has been prepared by the directors of the Company for illustrative purpose only, to provide information about how the global offering might have affected the financial information presented, for inclusion in Appendix II to the Prospectus dated 9 December 2009 (the “Prospectus”). The basis of preparation of the Unaudited Pro Forma Financial Information is set out on pages II-1 to II-3 to the Prospectus.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Rule 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

It is our responsibility to form an opinion, as required by Rule 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rule 4.29(1) of the Listing Rules.

Our work has not been carried out in accordance with the auditing standards or other standards and practices generally accepted in the United States of America or auditing standards of the Public Company Accounting Oversight Board (United States) and accordingly should not be relied upon as if it has been carried out in accordance with those standards.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in future and may not be indicative of:

- the financial position of the Group as at 30 June 2009 or any future date; or
- the forecast earnings per share of the Group for the year ending 31 December 2009 or any future period.

Opinion

In our opinion:

- a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Rules 4.29(1) of the Listing Rules.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

9 December 2009

The forecast of our consolidated profit attributable to the equity owners of the Company for the year ending 31 December 2009 is set out in the paragraph headed “Profit Forecast for the Year Ending 31 December 2009” in the section headed “Financial Information” in this Prospectus.

(1) BASES AND ASSUMPTIONS

The forecast of our consolidated profit attributable to the owners of the Company for the year ending 31 December 2009 prepared by our Directors is based on the combined audited accounts of our Group for the six months ended 30 June 2009, the unaudited consolidated management accounts of our Group for the four months ended 31 October 2009 and a forecast of the consolidated results of our Group for the remaining two months ending 31 December 2009. The forecast has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by us as summarized in the Accountants’ Report of the Group, the text of which is set out in Appendix IA to this Prospectus and is based on the following principal assumptions:

- (a) there will be no material changes in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal or economic conditions in Hong Kong, the PRC or any other places in which any member of our Group currently operates or which may have a material adverse effect on our Group’s income;
- (b) there will be no material changes in the bases or rates of taxation or duties applicable to our activities in Hong Kong, in the PRC, or any other place in which we operate or in which any member of our Group is incorporated or registered; and
- (c) there will be no material adverse changes in the inflation rate, foreign currency exchange rates and interest rates from those currently prevailing.

(2) LETTERS

Set out below are texts of letters received by our Directors from (i) Deloitte Touche Tohmatsu, our auditors and reporting accountants, and (ii) the Sole Sponsor prepared for the purpose of incorporation in this Prospectus in connection with the forecast of our consolidated profit attributable to the equity owners of the Company for the year ending 31 December 2009.

(i) *Letter from Deloitte Touche Tohmatsu*

Deloitte.
德勤

德勤·關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

9 December 2009

The Directors
Shengli Oil & Gas Pipe Holdings Limited
Macquarie Capital Securities Limited

Dear Sirs,

Shengli Oil & Gas Pipe Holdings Limited (formerly known as Shengli Oil & Gas Holdings Ltd., the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”)

We have reviewed the accounting policies adopted and calculations made in arriving at the forecast of the consolidated profit of the Group attributable to the equity holders of the Company for the year ending 31 December 2009 (the “Forecast”), for which the directors of the Company are solely responsible, as set out in the Prospectus dated 9 December 2009 issued by the Company (the “Prospectus”). The Forecast is prepared based on the audited combined results of the Group for the six months ended 30 June 2009, the consolidated results shown in the unaudited consolidated management accounts of the Group for the four months ended 31 October 2009, and a forecast of the consolidated results for the remaining two months of the financial year ending 31 December 2009.

In our opinion, the Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the directors of the Company as set out in part 1 of Appendix III of the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our accountants’ report on the financial information of the Group for the period from 1 November 2007 to 31 December 2007, the year ended 31 December 2008 and the six months period ended 30 June 2009 as set out in Appendix 1A to the Prospectus.

Yours faithfully,

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

(ii) *Letter from the Sole Sponsor*



9 December 2009

The Board of Directors
Shengli Oil & Gas Pipe Holdings Limited

Dear Sirs,

We refer to the forecast of the consolidated profit attributable to the owners of Shengli Oil & Gas Pipe Holdings Limited (the “Company”) for the year ending 31 December 2009 (the “Profit Forecast”) as set out under the paragraph headed “Profit Forecast for the Year Ending 31 December 2009” in the section headed “Financial Information” in the Prospectus of the Company dated 9 December 2009 (the “Prospectus”).

The Profit Forecast, for which you as the directors of the Company (the “Directors”) are solely responsible, has been prepared based on the audited combined results of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”) for the six months ended 30 June 2009, the consolidated results shown in the unaudited management accounts of the Group for the four months ended 31 October 2009 and a forecast of the consolidated results of the Group for the remaining two months of the financial year ending 31 December 2009.

We have discussed with you the bases and assumptions upon which the Profit Forecast has been made. We have also considered the letter dated 9 December 2009 addressed to yourselves and ourselves from Deloitte Touche Tohmatsu regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the foregoing, the bases and assumptions made by you and the accounting policies and calculations adopted by you and reviewed by Deloitte Touche Tohmatsu, we are of the opinion that the Profit Forecast, for which you as the Directors are solely responsible, has been made after due and careful enquiry and consideration.

Yours faithfully,
For and on behalf of
Macquarie Capital Securities Limited

Debora Cheng
Managing Director

Raymond Sun
Managing Director

The following is the text of a letter, summary of values and valuation certificates, prepared for the purpose of incorporation in this Prospectus received from Jones Lang LaSalle Sallmanns Limited, an independent valuer, in connection with its valuation as at 30 September 2009 of the property interests of the Group.



Jones Lang LaSalle Sallmanns Limited
17/F Dorset House Taikoo Place
979 King's Road Quarry Bay Hong Kong
tel +852 2169 6000 fax +852 2169 6001
Licence No: C-030171

9 December 2009

The Board of Directors
Shengli Oil & Gas Pipe Holdings Limited
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Dear Sirs,

In accordance with your instructions to value the properties in which Shengli Oil & Gas Pipe Holdings Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") have interests in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital values of the property interests as at 30 September 2009 (the "date of valuation").

Our valuation of the property interests represents the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently, and without compulsion".

Due to the nature of the buildings and structures of the property interests in Group I and the particular location in which they are situated, there are unlikely to be relevant market comparable sales readily available, the property interest has therefore been valued on the basis of their depreciated replacement cost.

Depreciated replacement cost is defined as "the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization". It is based on an estimate of the market value for the existing use of the land, plus the current cost of replacement (reproduction) of the improvements, less deductions for physical deterioration and all relevant forms of obsolescence and optimization. The depreciated replacement cost of the property interest is subject to adequate potential profitability of the concerned business.

We have attributed no commercial value to the property interest in Group II, which is leased by the Group, due either to the short-term nature of the lease or the prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rent.

Our valuation has been made on the assumption that the seller sells the property interests in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the values of the property interests.

No allowance has been made in our report for any charge, mortgage or amount owing on any of the property interests valued nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature, which could affect their values.

In valuing the property interests, we have complied with all requirements contained in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; the RICS Valuation Standards (6th Edition) published by the Royal Institution of Chartered Surveyors; and the HKIS Valuation Standards on Properties (1st Edition 2005) published by the Hong Kong Institute of Surveyors.

We have relied to a very considerable extent on the information given by the Group and have accepted advice given to us on such matters as tenure, planning approvals, statutory notices, easements, particulars of occupancy, lettings, and all other relevant matters.

We have been shown copies of various title documents including State-owned Land Use Rights Certificates, Building Ownership Certificates and official plans relating to the property interests and have made relevant enquiries. Where possible, we have examined the original documents to verify the existing title to the property interests in the PRC and any material encumbrance that might be attached to the property interests or any tenancy amendment. We have relied considerably on the advice given by the Company's PRC legal advisers — Tian Yuan Law Firm, concerning the validity of the property interests in the PRC.

We have not carried out detailed measurements to verify the correctness of the areas in respect of the properties but have assumed that the areas shown on the title documents and official site plans handed to us are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the properties. However, we have not carried out investigation to determine the suitability of the ground conditions and services for any development thereon. Our valuation has been prepared on the assumption that these aspects are satisfactory. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defect. No tests were carried out on any of the services.

We have no reason to doubt the truth and accuracy of the information provided to us by the Group. We have also sought confirmation from the Group that no material factors have been omitted from the information supplied. We consider that we have been provided with sufficient information to arrive an informed view, and we have no reason to suspect that any material information has been withheld.

Unless otherwise stated, all monetary figures stated in this report are in Renminbi (RMB).

Our valuation is summarized below and the valuation certificates are attached.

Yours faithfully,
for and on behalf of
Jones Lang LaSalle Sallmanns Limited
Paul L. Brown
B.Sc. FRICS FHKIS
Director

Note: Paul L. Brown is a Chartered Surveyor who has 26 years' experience in the valuation of properties in the PRC and 29 years of property valuation experience in Hong Kong, the United Kingdom and the Asia-Pacific region.

SUMMARY OF VALUES

Group I - Property interests held and occupied by the Group in the PRC

No. Property	Capital value in existing state as at 30 September 2009 RMB
1. A parcel of land, 4 buildings and various ancillary structures located at the western side of Xining Road and the southern side of Shanghai Road Economic Development Zone Rizhao City Shandong Province The PRC	42,187,000
2. A parcel of land, 10 buildings and various ancillary structures located at Middle Section of Yuanzheng Road Hengyuan Economic Development Zone Linyi County Dezhou City Shandong Province The PRC	33,825,000
Sub-total:	<u><u>76,012,000</u></u>

Group II - Property interest leased and occupied by the Group in the PRC

No. Property	Capital value in existing state as at 30 September 2009 RMB
3. 3 parcels of land, 17 buildings and a railway line located at the western side of Tieye Village Zhongbu Town Zhangdian District Zibo City Shandong Province The PRC	No commercial value
Sub-total:	<u><u>Nil</u></u>
Grand total:	<u><u>76,012,000</u></u>

VALUATION CERTIFICATE

Group I - Property interests held and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2009 RMB
1.	A parcel of land, 4 buildings and various ancillary structures located at the western side of Xining Road and the southern side of Shanghai Road Economic Development Zone Rizhao City Shandong Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 66,606.61 sq.m. and 4 buildings and various ancillary structures which were completed in 2006 and 2007.</p> <p>The buildings and structures mainly include an industrial building, an office building, a residential building, a warehouse, roads and walls.</p> <p>3 buildings and part of a warehouse of the property with a total gross floor area of approximately 18,829.77 sq.m. are erected on the land of the property and the remaining part of the warehouse with a gross floor area of approximately 5,485.90 sq.m. is erected on the land adjoining the site of the property.</p> <p>The land use rights of the property have been granted for a term of 50 years expiring on 11 June 2056 for industrial use.</p>	The property is currently occupied by the Group for production, office and ancillary purposes.	42,187,000

Notes:

- Shandong Shengli Steel Pipe Co., Ltd. ("Shandong Shengli") is a wholly-owned subsidiary of the Company.
- Pursuant to a State-owned Land Use Rights Grant Contract dated 12 June 2006, the land use rights of a parcel of land with a site area of approximately 66,606.61 sq.m. were contracted to be granted to Shandong Shengli for a term of 50 years expiring on 11 June 2056 for industrial use. The land premium was RMB11,323,124.
- Pursuant to a State-owned Land Use Rights Certificate - Ri Kai Guo Yong (2009) Di No. 39, the land use rights of a parcel of land with a site area of approximately 66,606.61 sq.m. have been granted to Shandong Shengli for a term of 50 years expiring on 11 June 2056 for industrial use.
- Pursuant to 4 Building Ownership Certificates - Ri Fang Quan Zheng Shi Zi Di Nos. 20090428036, 20090428038, 20090428040 and 20090910033, 3 buildings and part of a warehouse of the property with a total gross floor area of approximately 18,829.77 sq.m. are owned by Shandong Shengli.
- In the valuation of this property, we have attributed no commercial value to the remaining part of the warehouse with a gross floor area of approximately 5,485.90 sq.m. which has not obtained any proper title certificate. However, for reference purpose, we are of the opinion that the depreciated replacement cost of it (excluding the land element) as at the date of valuation would be RMB5,212,000 assuming all relevant title certificates had been obtained and it could be freely transferred.

6. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
- a. the land use rights of the property are legally owned by Shandong Shengli and can be legally transferred, leased, mortgaged or otherwise disposed of by Shandong Shengli during the term stipulated in the aforesaid State-owned Land Use Rights Certificate;
 - b. the building ownership rights of the buildings mentioned in note 4 are legally owned by Shandong Shengli and the buildings can be legally occupied and used, transferred, leased, mortgaged or otherwise disposed of by Shandong Shengli;
 - c. Pursuant to 2 Mortgage Contracts entered into between Shandong Shengli and Industrial and Commercial Bank of China Limited Zibo Branch (the "Bank"), 3 buildings and part of a warehouse with a total gross floor area of approximately 18,829.77 sq.m. and a parcel of land with a site area of approximately 66,606.61 sq.m. of the property are subject to two separate mortgages in favour of the Bank as security for two loans at an amount of RMB15,000,000; and
 - d. Shandong Shengli has no legal rights to construct part of the building mentioned in note 5 and may be requested by the relevant government administrative authorities to demolish it.

VALUATION CERTIFICATE

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2009 RMB
2.	A parcel of land, 10 buildings and various ancillary structures located at Middle Section of Yuanzheng Road Hengyuan Economic Development Zone Linyi County Dezhou City Shandong Province The PRC	<p>The property comprises a parcel of land with a site area of approximately 117,332.55 sq.m. and 10 buildings and various ancillary structures erected thereon, which were completed in 2004.</p> <p>The buildings have a total gross floor area of approximately 15,233.73 sq.m.</p> <p>The buildings and structures mainly include an industrial building, an office building, a residential building, a warehouse, roads and gates.</p> <p>The land use rights of the property have been granted for a term of 50 years expiring on 26 September 2056 for industrial use.</p>	The property is currently occupied by the Group for production, office and ancillary purposes.	33,825,000

Notes:

1. Shandong Shengli Steel Pipe Co., Ltd. ("Shandong Shengli") is a wholly-owned subsidiary of the Company.
2. Pursuant to a State-owned Land Use Rights Grant Contract dated 26 September 2006, the land use rights of a parcel of land with a site area of approximately 117,332.55 sq.m. were contracted to be granted to Shandong Shengli Dezhou Branch for a term of 50 years expiring on 26 September 2056 for industrial use. The land premium was RMB11,263,924.
3. Pursuant to a State-owned Land Use Rights Certificate - Lin Guo Yong (2009) Di No. 0833, the land use rights of a parcel of land with a site area of approximately 117,332.55 sq.m. have been granted to Shandong Shengli Dezhou Branch for a term of 50 years expiring on 26 September 2056 for industrial use.
4. Pursuant to 10 Building Ownership Certificates - Lu Lin Fang Quan Zheng Cheng Zi Di Nos. 27169 to 27178, 10 buildings with a total gross floor area of approximately 15,233.73 sq.m. are owned by Shandong Shengli Dezhou Branch.
5. We have been provided with a legal opinion regarding the property interest by the Company's PRC legal advisers, which contains, *inter alia*, the following:
 - a. the land use rights of the property are legally owned by Shandong Shengli and can be legally transferred, leased, mortgaged or otherwise disposed of by Shandong Shengli during the term stipulated in the aforesaid State-owned Land Use Rights Certificate;
 - b. the building ownership rights of the buildings of the property are legally owned by Shandong Shengli and the buildings can be legally occupied and used, transferred, leased, mortgaged or otherwise disposed of by Shandong Shengli; and
 - c. the property is not subject to guarantee, mortgage or other third party interests.

VALUATION CERTIFICATE

Group II - Property interest leased and occupied by the Group in the PRC

No.	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2009 <i>RMB</i>
3.	3 parcels of land, 17 buildings and a railway line located at the western side of Tieye Village Zhongbu Town Zhangdian District Zibo City Shandong Province The PRC	<p>The property comprises 3 parcels of land and 16 buildings and a railway line erected thereon which were completed in various stages between 1974 and 2000. (the "Leased Property")</p> <p>The 3 parcels of land have a total site area of approximately 193,412.78 sq.m. and the 16 buildings have a total gross floor area of approximately 54,578.51 sq.m. The railway line is 1,100 meters in length.</p> <p>The property also includes a building erected on the land of the property with a gross floor area of approximately 7,632.4 sq.m. which was constructed by Shandong Shengli and completed in 2008.</p> <p>The Leased Property is leased to Shandong Shengli from Shengli Steel Pipe Co., Ltd., a connected party, for a term of 20 years expiring on 31 December 2028, at an annual rent of RMB6,400,000 for the first 3 years.</p>	The property is currently occupied by the Group for production, office and storage purposes.	No commercial value

Notes:

- Shandong Shengli Steel Pipe Co., Ltd. ("Shandong Shengli") is a wholly-owned subsidiary of the Company.
- Pursuant to a Tenancy Agreement entered into between Shandong Shengli and Shengli Steel Pipe Co., Ltd. ("Shengli Steel Pipe"), 3 parcels of land with a total site area of approximately 193,412.78 sq.m., 16 buildings with a total gross floor area of approximately 54,578.51 sq.m. and a railway line erected thereon were rented to Shandong Shengli from Shengli Steel Pipe for a term of 20 years expiring on 31 December 2028 at an annual rent of RMB6,400,000 for the first 3 years, exclusive of water, electricity, gas, communications and other charges for industrial use and the rents in the following years are subject to adjustment according to the then market rent. Moreover, Shandong Shengli has the pre-emptive right to purchase the property if a sale of the Leased Property is contemplated.
- Pursuant to 3 State-owned Land Use Rights Certificates - Zi Guo Yong (2006) Di Nos. A00153, A00154 and A00156, the land use rights of the property have been granted to Shengli Steel Pipe for a term of 50 years expiring on 26 December 2055 for industrial use.
- Pursuant to 8 Building Ownership Certificates - Zi Bo Shi Fang Quan Zheng Zhang Dian Qu Zi Di Nos. 02-1018451, 02-1018454, 02-1018456, 02-1021393 to 02-1021395, 02-1021398 and 01-104760, 16 buildings of the Leased Property with a total gross floor area of approximately 54,578.51 sq.m. are owned by Shengli Steel Pipe.
- For the building constructed by Shandong Shengli with a gross floor area of approximately 7,632.4 sq.m., Shandong Shengli has not obtained any Building Ownership Certificate.

6. We have been provided with a legal opinion on the legality of the Tenancy Agreement to the property issued by the Company's PRC legal advisers, which contains, *inter alia*, the following:
- a. the Leased Property can be legally leased to Shandong Shengli for production and operation use;
 - b. the Tenancy Agreement is legal, valid and binding and Shandong Shengli can use the Leased Property according to the Tenancy Agreement;
 - c. Shengli Steel Pipe and Shandong Shengli had completed the registration procedure regarding the Tenancy Agreement; and
 - d. Shandong Shengli is not the owner of the land use rights mentioned in note 3, and has no right to construct the building with a gross floor area of approximately 7,632.4 sq.m. mentioned in note 5 on the land. Therefore, Shandong Shengli may be requested by the relevant government administrative authorities to demolish the building.

The following discussion is a summary of certain anticipated tax consequences of the operations of the Group and of an investment in the Shares under Hong Kong tax laws, Cayman Islands tax laws, Singapore tax laws and PRC income tax laws. The discussion does not deal with all possible tax consequences relating to our operations or to an investment in the Shares. In particular, the discussion does not address the tax consequences under state, local and other (e.g. non-Hong Kong, non-Cayman Islands, non-Singapore and non-Chinese) tax laws. Accordingly, each prospective investor should consult his or her tax adviser regarding the tax consequences of an investment in the Shares. The discussion is based upon law and relevant interpretations thereof in effect as of the Latest Practicable Date, all of which are subject to change.

TAXATION OF OUR SHAREHOLDERS

Taxation of Dividends

Hong Kong

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

Cayman Islands

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits or income.

Profits Tax

Hong Kong

Hong Kong does not currently levy any tax on capital gains. However, trading gains from the sale of shares by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 16.5% on corporations and at a maximum rate of 15% on individuals.

Trading gains from sales of shares effected on the Hong Kong Stock Exchange will be considered to be derived from or arise in Hong Kong. Thus, trading gains from sales of shares effected on the Hong Kong Stock Exchange realized by persons carrying on a business of trading or dealing in securities in Hong Kong will be chargeable to Hong Kong profits tax.

Cayman Islands

The Cayman Islands currently levy no taxes on individuals or corporations based upon capital gains or appreciations.

Stamp Duty**Hong Kong**

The sale and purchase of shares are subject to Hong Kong stamp duty payable by both the seller and the buyer. Hong Kong stamp duty is payable at the rate of 0.2% (of which 0.1% is payable by the seller and 0.1% is payable by the purchaser) on the higher of the consideration paid or the value of the shares being sold. In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of shares which is required to be registered on a register or branch register maintained in Hong Kong.

If one of the parties to the sale is a non-resident of Hong Kong and does not pay the required stamp duty, the unpaid duty will be assessed on the instrument of transfer (if any), and the transferee will be liable for payment of such duty.

Cayman Islands

No stamp duty is payable in the Cayman Islands on the transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

Estate Duty**Hong Kong**

The Revenue (Abolition of Estate Duty) Ordinance 2005 came into effect on 11 February 2006 in Hong Kong. No Hong Kong estate duty is payable in respect of holders of the shares whose deaths occur on or after 11 February 2006.

Cayman Islands

There is no taxation in the nature of inheritance tax or estate duty in the Cayman Islands.

TAXATION OF THE GROUP***Taxation of the Group in the PRC*****PRC Enterprise Income Tax**

PRC enterprise income tax is calculated based on taxable income determined under PRC accounting principles. In accordance with the former Income Tax Law of PRC for Foreign Invested Enterprises and Foreign Enterprises (the “Former Income Tax Law”) (中華人民共和國外商投資企業和外國企業所得稅法) and its implementing rules which were annulled as of 1 January 2008, foreign invested enterprises incorporated in the PRC were generally subject to an enterprise income tax rate of 33.0% (30.0% of state income tax plus 3.0% local income tax) prior to 1 January 2008. The Former Income Tax Law and the related implementing rules provide certain favorable tax treatments to foreign invested enterprises. Production-oriented foreign invested enterprises, which are scheduled to operate

for a period of ten years or more, are entitled to exemption from income tax for two years commencing from the first profit-making year and 50% reduction of income tax for the subsequent three years. In certain special areas such as coastal open economic areas, special economic zones and economic and technology development zones, foreign invested enterprises were entitled to reduced tax rates, namely: (1) in coastal open economic zones, the tax rate applicable to production-oriented foreign invested enterprises was 24%; (2) in special economic zones, the rate was 15%; and (3) the tax rate applicable to certified high and new technology enterprises incorporated and operated in economic and technology development zones determined by the State Council was 15%.

On 16 March 2007, the National People's Congress adopted the New Income Tax Law (中華人民共和國企業所得稅法). The implementing rules for the New Income Tax Law were issued by the State Council on 6 December 2007. The implementing rules and the New Income Tax Law became effective on 1 January 2008. The New Income Tax Law adopts a uniform tax rate of 25% for all enterprises (including foreign invested enterprises) and revokes the former tax exemption, reduction and preferential treatments applicable to foreign invested enterprises. The New Income Tax Law also provides for transitional measures for enterprises established prior to the promulgation of the New Income Tax Law and eligible for lower tax rate preferential treatment in accordance with the then prevailing tax laws, and administrative regulations. These enterprises will gradually become subject to the new, unified tax rate over a five-year period from 1 January 2008; enterprises eligible for regular tax reductions or exemptions may continue to enjoy tax preferential treatments after the implementation of the New Income Tax Law and until their preferential treatments expire. The preferential treatment period for enterprises which have not enjoyed any preferential treatments for the reason of not having made any profits, however, shall be deemed as starting from 1 January 2008. In addition, under the New Income Tax Law, the exemption to the 20% withholding tax on dividends distributed by foreign invested enterprises to their foreign investors under the former tax laws may no longer be available. Generally, if a foreign company has no institution or establishment inside China, or if its income has no actual connection to its institution or establishment inside the territory of China, it shall pay tax on the incomes derived from inside China at a tax rate of 10%.

The State Council issued a Notice on Implementing Transitional Measures for Enterprise Income Tax (國務院關於實施企業所得稅過渡優惠政策的通知) (the "Notice") on 26 December 2007. The Notice sets out the detailed implementing rules for Article 57 of the New Income Tax Law. In accordance with the Notice, the enterprises that have been approved to enjoy a low tax rate prior to the promulgation of the New Income Tax Law will be eligible for a five-year transition period beginning 1 January 2008, during which the tax rate will be increased incrementally to the 25% unified tax rate set out in the New Income Tax Law. From 1 January 2008, for the enterprises whose applicable tax rate was 15% before the promulgation of the New Income Tax Law, their tax rate will be increased to 18% for the year 2008, 20% for 2009, 22% for 2010, 24% for 2011 and 25% for 2012. For the enterprises whose applicable tax rate was 24%, their tax rate will be changed to 25% from 1 January 2008.

PRC Value-Added Tax (VAT)

Pursuant to the Provisional Regulation of PRC on VAT (中華人民共和國增值稅暫行條例) and its implementing rules, all entities and individuals that are engaged in the sale of goods, the provision of repairs and replacement services and the importation of goods in China are generally required to pay VAT at a rate of 17% of the gross sales proceeds received except for certain designated goods with VAT at a rate of 13%, less any deductible VAT already paid or borne by the taxpayer. Furthermore, when exporting goods, the exporter is entitled to refund all of VAT that it has already paid or borne.

Business Tax

Under the Provisional Regulations on Business Tax of the PRC (中華人民共和國營業稅暫行條例) which took effect on 1 January 1994 and have been amended on 10 November 2008 and the provisional implementation rules (中華人民共和國營業稅暫行條例實施細則) which took effect on 25 December 1993 and annulled on 1 January 1997, and newly promulgated on 18 December 2008 with effectiveness as of 1 January 2009, business tax is levied on all enterprises that provide “taxable services”. These include the assignment or transfer of intangible assets, the sale of immovable property and leasing of immovable properties in the PRC. The rates range from 3% to 20% depending on the type of services provided. The assignment of intangible assets, the sale of buildings and other attachments to the land and leasing of property attract a tax rate of 5% of gross revenue generated from the relevant transactions of the enterprise. Enterprises are required to pay the business tax to the relevant local tax authorities where the enterprises derived their taxable income.

Dividends From Our PRC Operations

The principal regulations governing distribution of dividends of foreign holding companies include the Foreign-funded Enterprises Law (外資企業法) as amended in 2000 and the Foreign-funded Enterprises Law Implementation Rules (外資企業法實施細則) as amended in 2001, and the Company Law (公司法) as amended in 2005.

Under these regulations, foreign-funded enterprises in China may pay dividends only out of their accumulated profits, if any, determined in accordance with PRC Accounting Standards and Accounting Regulations. In addition, foreign-funded enterprises in China are required to allocate at least 10% of their respective accumulated profits each year, if any, to fund certain reserve funds unless these reserves have reached 50% of the registered capital of the enterprises. These reserves are not distributable as cash dividends.

Under the previous PRC tax laws, regulations and rulings, dividends from our operations in the PRC paid to us by our operating subsidiaries established in the PRC were exempt from any PRC withholding or income tax prior to 1 January 2008. Nevertheless, according to the New Income Tax Law, such dividends may be subject to the PRC Enterprise Income Tax.

Taxation of the Group in Hong Kong

We do not consider that any of our income or the income of our Group is derived from or arises in Hong Kong for the purposes of Hong Kong taxation. We will therefore not be subject to Hong Kong taxation.

Taxation of the Group in the Cayman Islands

Pursuant to section 6 of the Tax Concessions Law (1999 Revision) of the Cayman Islands, the Company has obtained an undertaking from the Governor in Cabinet:

- (a) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits or income or gains or appreciation shall apply to the Company or its operations; and
- (b) in addition, that no tax to be levied on profits, income gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable by the Company:
 - (i) on or in respect of the shares, debentures or other obligations of the Company; or
 - (ii) by way of withholding in whole or in part of any relevant payment as defined in Section 6(3) of the Tax Concession Law (1999 Revision).

The undertaking is for a period of twenty years from 11 March 2008.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

Taxation of the Group in Singapore**Income Tax*****General***

Both resident and non-resident Singapore companies are subject to tax on income accruing in or derive from Singapore and on foreign-sourced income received or deemed received in Singapore, subject to certain exceptions.

Foreign-sourced income in the form of branch profits, dividends and service income received or deemed received in Singapore by a Singapore resident company shall be exempt from tax provided the following conditions are met:

- such income has been subject to tax in the foreign jurisdiction from which such income is received;
- at the time such income is received in Singapore, the headline rate of corporate tax of the foreign jurisdiction from which such income is received is at least 15%; and
- the Comptroller of Income Tax is satisfied that the tax exemption would be beneficial to the Singapore resident company.

All individuals, resident or non-resident, are subject to tax on income accruing in or derived from Singapore, subject to certain exceptions such as certain investment income. All foreign-sourced income received in Singapore by a Singapore resident individual (except where such income is received through a partnership in Singapore) on or after 1 January 2004 will be exempt from tax.

Non-resident individuals are not subject to tax on foreign-sourced income received in Singapore.

A company is tax resident in Singapore if the control and management of its business is exercised in Singapore. An individual is tax resident in Singapore if he resides in Singapore (except for temporary absence from Singapore) or if he is physically present or exercises an employment (other than as a director of a company) for 183 days or more during the calendar year preceding the year of assessment.

Tax Rates

The corporate tax rate in Singapore is currently 17%, with effect from the Year of Assessment 2010, with partial exemptions for the first S\$300,000 of chargeable income.

Currently, a Singapore tax resident individual is subject to tax at progressive rates, ranging from 0% to 20%. A non-resident individual is taxed at 20% in respect of director's fees, consultation fees and all other income accruing in or derived from Singapore. However, in respect of Singapore employment income, he may be taxed at a flat rate of 15%, subject to certain conditions.

Dividend Distributions

Singapore introduced the one-tier corporate tax system on 1 January 2003. Under the one-tier corporate tax system, the tax payable on normal chargeable income by Singapore resident companies would constitute a final tax. Dividends payable by resident companies on the one-tier corporate tax system would be tax exempt in the hands of its shareholders. Such dividends are referred to as tax exempt (one-tier) dividends.

There is no withholding tax on dividends paid to non-Singapore tax resident shareholders. Foreign shareholders are advised to consult their own tax advisers in respect of the tax laws of their respective countries of residence and the applicability of any double taxation agreement that their country of residence may have with Singapore.

Gains on Disposal of Shares

Singapore currently does not impose tax on capital gains. However, there are no specific laws or regulations which deal with the characterization of capital gains. In general, certain gains may be construed to be revenue in nature and subject to income tax where they are derived from activities which the Comptroller of Income Tax regards as constituting a trade or business carried on in Singapore.

Profits arising from the disposal of the Company's Shares would not generally be taxable in Singapore unless the seller is deemed to be dealing or trading in shares in Singapore, in which case, the gains on sale would be taxable as revenue profits.

Estate Duty

No estate duty will be leviable in respect of deaths occurring on or after 15 February 2008.

Goods and Services Tax ("GST")

The sale of the Shares by a GST-registered investor belonging in Singapore to another person belonging in Singapore is an exempt supply not subject to GST. Generally, any GST directly or indirectly incurred by the investor in respect of this exempt supply will become an additional cost to the investor.

Where the Shares are sold by a GST-registered investor to a person belonging to a country other than Singapore, the sale is subject to GST at zero-rate. Any GST incurred by the investor in the making of this sale, if the same is a supply in the course or furtherance of a business, is claimable as a refund from the Comptroller of GST.

Services such as brokerage, handling and clearing services rendered by a GST-registered person to an investor belonging in Singapore in connection with the investor's purchase, sale or holding of the Shares will be subject to GST at the standard rate (currently at 7%). Similar services rendered to an investor belonging outside Singapore would generally be subject to GST at zero-rate.

PRC LAWS AND REGULATIONS CONCERNING FOREIGN EXCHANGE CONTROL

The foreign exchange control system of China has experienced a number of reforms and the current system contains three major regulatory laws and regulations since 1993.

The PBOC, as authorized by the State Council, promulgated the Announcement Concerning Further Reforming the Foreign Exchange Control System (中國人民銀行關於進一步改革外匯管理體制的公告) on 28 December 1993, which was brought into force on 1 January 1994. The Regulations

of the People's Republic of China on the Management of Foreign Exchanges (中華人民共和國外匯管理條例) promulgated by the State Council, implemented on 1 April 1996 and currently amended on 5 August 2008, apply to the receipts, payments or business activities in China that are transacted in foreign currencies by domestic institutions, individuals, foreign representative offices and individuals visiting China. The Regulation on Control of Foreign Exchange Settlements, Sales and Payments (結匯、售匯及付匯管理規定) issued by PBOC on 20 June 1996 and implemented on 1 July 1996 governs the foreign exchange settlements, purchases, foreign exchange account openings and payments to foreign countries that are incurred in China by domestic institutions, individual residents, foreign representative offices in China and individuals visiting China.

PBOC publicizes the exchange rates between RMB and other major foreign currencies on each business day. The exchange rates are determined by reference to the preceding day's trading prices of RMB against major foreign currencies on the inter-bank foreign exchange market. In general and unless special immunity is obtained, all organizations and individuals in China shall sell their exchange income to designated banks, but foreign-funded enterprises are permitted to retain a certain percentage of their exchange income, to be deposited in a foreign exchange bank account opened in designated banks. In addition, exchange income arising from loans from foreign institutions or from issuance of shares or bonds valued in foreign currencies need not be sold to designated banks but shall be deposited in designated foreign exchange accounts with designated banks. Capital foreign exchange must be deposited in foreign exchange accounts opened with designated banks.

At present, the PRC Government is gradually loosening its control over foreign exchange purchases. Any Chinese enterprise in need of foreign currencies in their day-to-day business activities, trade and non-trade operations, import business and payment of foreign debts may purchase foreign currencies from designated banks, provided that they submit the required appropriate supporting documents.

In addition, if foreign-funded enterprises are in need of foreign currencies for distributing dividends, capital bonuses or profits to foreign investors, the amount so needed after payment of the appropriate dividend tax may be drawn from the enterprises' foreign exchange accounts maintained with designated banks. If the foreign currency in such an account is insufficient, the foreign-funded enterprise may apply to the government authority in charge for purchasing the necessary amount of foreign currency from a designated bank to cover the deficiency.

Although the foreign exchange control over transactions under current accounts has decreased, enterprises shall obtain approval from the SAFE before they accept foreign-currency loans, provide foreign currency guarantees, make investments in foreign countries or carry out any other capital account transactions involving the purchase of foreign currencies.

In foreign exchange transactions, designated banks may freely determine applicable exchange rates based on the rates publicized by PBOC and subject to certain governmental restrictions.

On 21 October 2005, the SAFE issued the SAFE Notice No. 75, which became effective as of 1 November 2005. According to the SAFE Notice No. 75, prior registration with the local SAFE branch is required for PRC residents to establish or to control an offshore company for the purposes

of financing that offshore company with assets or equity interests in an onshore enterprise located in the PRC. An amendment to registration or filing with the local SAFE branch by such PRC resident is also required for the injection of equity interests or assets of an onshore enterprise in the offshore company or overseas funds raised by such offshore company, or any other material change involving a change in the capital of the offshore company.

Moreover, the SAFE Notice No. 75 applies retroactively. As a result, PRC residents who have established or acquired control of offshore companies that have made onshore investments in the PRC in the past are required to complete the relevant registration procedures with the local SAFE branch by 31 March 2006. Under the relevant rules, failure to comply with the registration procedures set forth in the SAFE Notice No. 75 may result in restrictions being imposed on the foreign exchange activities of the relevant onshore company, including the increase of its registered capital, the payment of dividends and other distributions to its offshore parent or affiliate and the capital inflow from the offshore entity, and may also subject relevant PRC residents to penalties under PRC foreign exchange administration regulations. PRC residents who control the Group from time to time are required to register with the SAFE in connection with their investments in us.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 3 July 2009 under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Memorandum of Association (the “Memorandum”) and the Articles of Association (the “Articles”) comprise its constitution.

1. MEMORANDUM OF ASSOCIATION

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the Shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

2. ARTICLES OF ASSOCIATION

The Articles were adopted on 21 November 2009. The following is a summary of certain provisions of the Articles.

(a) Directors

(i) Power to allot and issue shares

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or any class of shares, any share may be issued with or have attached thereto such rights, or such restrictions, whether as regards dividend, voting, return of capital or otherwise, as the Company may from time to time by ordinary resolution determine (or, in the absence of any such determination or so far as the same may not make specific provision, as the Directors may determine) and any shares may be issued on terms that they are liable to be redeemed either at the option of the Company or at the option of the holder. The Directors may issue warrants to subscribe for any class of shares or securities of the Company on such terms as they may from time to time determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of any Designated Stock Exchange (as defined in the Articles), all unissued shares in the Company shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and generally on such terms they shall in their absolute discretion think fit, but so that no shares shall be issued at a discount.

Neither the Company nor the Board shall be obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the Board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

(ii) *Power to dispose of the assets of the Company or any subsidiary*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries although the Directors may exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

(iii) *Compensation or payments for loss of office*

Payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

(iv) *Loans and the giving of security for loans to Directors*

There are provisions in the Articles prohibiting the making of loans to Directors.

(v) *Financial assistance to purchase shares of the Company or its holdings company*

Subject to compliance with the rules and regulations of the Designated Stock Exchange (as defined in the Articles) and any other relevant regulatory authority, the Company may give financial assistance for the purpose of or in connection with a purchase made or to be made by person of any shares in the Company.

(vi) Disclosure of interests in contracts with the Company or any of its subsidiaries

A Director may hold any other office or place of profit with the Company (except that of an auditor) in conjunction with his office of Director for such period and upon such terms as the Directors may determine, and may be paid such extra remuneration therefor (whether by way of salary, commission, participation in profits or otherwise) as the Directors may determine. A Director may be or become a director or other officer of, or be otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profit or other benefit received by him as a director or officer of or from his interest in such other company. The Directors may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as they think fit, including the exercise thereof in favour of any resolution appointing the Directors or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company. A Director shall not vote or be counted in the quorum on any resolution of the Directors concerning his own appointment or the appointment of any of his associates as the holder of any office or place of profit with the Company or any other company in which the Company is interested (including the arrangement or variation of the terms thereof, or the termination thereof).

Subject to the Companies Law and the provisions of the Articles, no Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor will any contract with regard thereto or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realized by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. If to the knowledge of a Director, he or any of his associates, is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company, he must declare the nature of his or, as the case may be, his associate(s)' interest at the meeting of the Directors at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest or that of his associates then exists, or in any other case at the first meeting of the Directors after he knows that he or his associate(s) is or has become so interested.

Save as otherwise provided by the Articles, a Director may not vote (nor be counted in the quorum for the voting) on any resolution of the Directors approving any contract or arrangement in which he or any of his associate(s) is materially interested, and if he does so his vote will not be counted, but this prohibition will not apply to any of the following matters, namely:

- (aa) any contract or arrangement for the giving to the Director or his associate(s) of any security or indemnity in respect of money lent by him or any of them or obligations undertaken by him or any of his associates at the request of or for the benefit of the Company or any of its subsidiaries;

- (bb) any contract or arrangement for the giving by the Company of any security to a third party in respect of a debt or obligation of the Company or its subsidiaries for which the Director or his associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of the shares, debentures or other securities of or by the Company or any company which the Company may promote or be interested in for subscription or purchase where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub underwriting of the offer;
- (dd) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;
- (ee) any contract or arrangement concerning any company in which he or his associate(s) is/are interested directly or indirectly whether as an officer or an executive or a member, or in which the Director or his associates owns 5% or more of the issued Shares or voting rights of any class of shares of such company (or of any third company through which his interest or that of any of his associates is derived); and
- (ff) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

(vii) *Remuneration*

The Directors shall be entitled to receive by way of ordinary remuneration for their services such sum as is from time to time determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. The Directors shall also be entitled to be repaid all travelling, hotel and other expenses reasonably incurred by them respectively in or about the performance of their duties as Directors, including their expenses of travelling to and from Directors' meetings, committee meetings or general meetings, or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who performs any special or extra services to or at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be arranged. Notwithstanding the foregoing the remuneration of the managing director, joint managing director, deputy managing director or an executive Director or a Director appointed to any other office in the management of the Company may be fixed from time to time by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration may be in addition to or in lieu of his ordinary remuneration as a Director.

The Board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex-Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex-employees of the Company and their dependents or any class or classes of such persons.

The Board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex-employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex-employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the Board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

(viii) *Retirement, appointment and removal*

At each annual general meeting, one third of the Directors for the time being (or if their number is not three or a multiple of three, then the number nearest to but not less than one third) will retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. The Directors to retire in every year will be those who have been longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

A Director is not required to retire upon reaching any particular age.

The Directors are entitled to attend and speak at all general meetings.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for breach of any contract of service between him and the Company). Subject to the statutes and the provisions of the Articles, the Company may from time to time in general meeting by ordinary resolution elect any person to be a Director either to fill a casual vacancy or as an additional Director. In addition, the Directors may appoint any person to be a Director either to fill a casual vacancy or as an additional Director but so that the number of Directors so appointed shall not exceed the maximum number determined from time to time by the members in general meeting. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re election at the meeting.

The Directors may from time to time appoint one or more of its body to be managing director, joint managing director, deputy managing director or executive director of the Company all or any of the powers of the Directors that they may think fit, provided that the exercise of all powers by such Director shall be subject to such regulations and restrictions as the Directors may from time to time make and impose. The Directors may delegate any of their powers to committees consisting of such member or members of their body and such other persons as they think fit, and they may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed shall in the exercise of the powers so delegated conform to any regulations that may from time to time be imposed upon it by the Directors.

(ix) *Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets (present and future) and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

Note: The provisions summarized above, in common with the Articles in general, may be varied with the sanction of a special resolution of the Company.

(x) *Qualification shares*

Directors of the Company are not required under the Articles to hold any qualification shares.

(xi) *Indemnity to Directors*

The Articles contain provisions that provide indemnity to, among other persons, the Directors from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of their duty or supposed duty in their respective offices or trusts, except such (if any) as they shall incur or sustain through their own fraud or dishonesty.

(b) Alterations to constitutive documents

The memorandum of association of the Company may be altered by the Company in general meeting. The Articles may also be amended by the Company in general meeting. As more fully described in paragraph 3 below, the Articles provide that, subject to certain exceptions, a special resolution is required to alter the Memorandum, to approve any alteration to the Articles and to change the name of the Company.

(c) Alterations of capital

The Company may from time to time by ordinary resolution:

- (i) increase its share capital;
- (ii) consolidate and divide all or any of its share capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach without prejudice to any special rights previously conferred on the holders of existing shares attach thereto respectively any preferential, deferred, qualified or special rights, privileges or conditions as the Company in general meeting or as the directors determine;
- (iv) cancel any shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the shares so cancelled;
- (v) sub divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any shares are sub divided may determine that, as between the holders of the shares resulting from such sub division, one or more of the shares may have any such preferred or other special rights over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the Company has power to attach to unissued or new shares; and
- (vi) cancel any shares which, at the date of passing of the resolution, have not been taken, or agreed to be taken, by any person, and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may subject to the provision of the Company Law by special resolution reduce its issued share capital, any capital redemption reserve fund or other undistributable reserve in any manner authorized and subject to any conditions prescribed by law.

(d) Variation of rights of existing shares or classes of shares

If at any time the capital is divided into different classes of shares, all or any of the special rights (unless otherwise provided for by the terms of issue of that class) attached to any class may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, save as to the provisions regarding the quorum of meetings, as to which see paragraph 2(s) below.

The special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

(e) Special resolutions — majority required

A special resolution of the Company must be passed by a majority of not less than three fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their respective duly authorized representatives, or by proxy, at a general meeting of which notice of not less than 21 clear days' and not less than ten (10) clear business days, specifying the intention to propose the resolution as a special resolution, has been duly given. Provided that if permitted by the rules of the Designated Stock Exchange (as defined in the Articles), except in the case of an annual general meeting, if it is so agreed by a majority in number of the members having a right to attend and vote at such meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right, (or, in the case of an annual general meeting, by all members) a resolution may be proposed and passed as a special resolution at a meeting of which notice of less than 21 clear days' and less than ten (10) clear business days has been given.

A copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorized representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles.

(f) Voting rights

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of shares, at any general meeting on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy shall have one vote for every share of which he is the holder which is fully paid or credited as fully paid (but so that no amount paid or credited as paid on a share in advance of calls or instalments is treated for the foregoing purposes as paid on the share). Where the Company has knowledge that any member

is, under the Listing Rules (as defined in the Articles), required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member (whether by way of proxy or, as the case may be, corporate representative) in contravention of such requirement or restriction shall not be counted. On a poll, a member entitled to more than one vote need not use all his votes or cast all his votes in the same way.

At any general meeting a resolution put to the vote of the meeting shall be decided by way of a poll.

Where a shareholder is a clearing house (as defined in the Articles) or a nominee of a clearing house, it may authorize such persons as it thinks fit to act as its representatives at any meeting of the Company or at any meeting of any class of shareholders provided that the authorization shall specify the number and class of shares in respect of which each such representative is so authorized. Each person so authorized under the provisions of the Articles shall be entitled to exercise the same rights and powers as if such person was the registered holder of the shares of the Company held by the clearing house (or its nominees) in respect of the number and class of shares specified in the relevant authorization.

(g) Requirements for annual general meetings

An annual general meeting must be held once in every year and within not more than 15 months after the last preceding annual general meeting or a period of eighteen (18) months from the date of adoption of the Articles unless a longer period would not infringe the rules of the Designated Stock Exchange (as defined in the Articles) at such time and place as may be determined by the Board.

(h) Accounts and audit

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.

The accounting records shall be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorized by the board or the Company in general meeting.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions the Articles; however, subject to compliance with all applicable laws, including the rules of the Designated Stock Exchange (as defined in the Articles), the Company may send to such

persons summarized financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarized financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

Auditors shall be appointed and the terms and tenure of such appointment and their duties at all times regulated in accordance with the provisions of the Articles. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor shall be submitted to the members in general meeting. The generally accepted auditing standards referred to herein may be those of a country or jurisdiction other than the Cayman Islands. If so, the financial statements and the report of the auditor should disclose this fact and name such country or jurisdiction.

(i) Notices of meetings and business to be conducted thereat

An annual general meeting shall be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days and any extraordinary general meeting at which the passing of a special resolution is to be considered shall be called by notice of not less than twenty one (21) clear days and not less than ten (10) clear business days. All other extraordinary general meetings may be called by notice of not less than fourteen (14) clear days and not less than ten (10) clear business days. The notice shall specify the place, the day and the hour of meeting and particulars of resolutions to be considered at the meeting and, in case of special business, the general nature of that business.

(j) Transfer of shares

All transfers of shares must be effected by transfer in writing in the usual or common form or such form prescribed by the Designated Stock Exchange (as defined in the Articles) or in any other form acceptable to the Board and may be under hand only or, if the transferor or transferee is a clearing house or its nominee(s), by hand, by machine imprinted signature or by such other means of execution as the Directors may approve from time to time; and an instrument of transfer must be executed by or on behalf of the transferor and by or on behalf of the transferee and the transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect thereof.

The Directors may, in their absolute discretion, at any time and from time to time transfer or agree to transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

Unless the Directors otherwise agree, no shares on the principal register shall be transferred to any branch register nor shall shares on any branch register be transferred to the principal register or any other register. All transfers and other documents of title must be lodged for registration and registered, in the case of shares on a branch register, at the relevant registration office and, in the case of shares on the principal register, at the transfer office for that register.

The Directors may in their absolute discretion and without assigning any reason therefor, refuse to register any transfer of any shares (not being fully paid shares) to a person of whom they do not approve and they may refuse to register the transfer of any shares (not being fully paid shares) on which the Company has a lien. The Directors may also refuse to register a transfer of shares (whether fully paid or not) in favour of more than four persons jointly or any share issued under any share option scheme for employees upon which a restriction on transfer imposed thereby shall subsist, or where the transfer is to an infant or a person of unsound mind or under other legal disability. If the Directors refuse to register a transfer, they must within two months after the date on which the transfer was lodged with the Company send to the transferor and transferee notice of the refusal and (if the shares concerned are fully paid shares) the reasons(s) for such refusal.

The Directors may, if applicable, decline to recognize an instrument of transfer unless the instrument of transfer is properly stamped, is in respect of only one class of share and is lodged at the relevant registration or registered office accompanied by the relevant share certificate(s) and such other evidence as they may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may, on giving notice by advertisement in a relevant newspaper, and where applicable, any other newspapers in accordance with the requirements of the Designated Stock Exchange (as defined in the Articles), be suspended at such times and for such periods as the Directors may from time to time determine and either generally or in respect of any class of shares. The register of members shall not be closed for periods exceeding in the whole 30 days in any year.

(k) Power for the Company to purchase its own shares

The Articles provide that the power of the Company to purchase or otherwise acquire its shares is exercisable by the Directors upon such terms and conditions as they think fit subject to the conditions prescribed by the Companies Law and to any applicable requirements of the Designated Stock Exchange (as defined in the Articles).

(l) Power of any subsidiary to own securities in the Company

There are no provisions in the Articles relating to ownership of securities in the Company by a subsidiary.

(m) Dividends and other methods of distribution

Subject to the Companies Law, the Company in general meeting may declare dividends in any currency but no dividend may exceed the amount recommended by the Directors. The Company may also make a distribution out of share premium account subject to the provisions of the Companies Law.

Unless and to the extent that the rights attached to any shares or the terms of issue thereof otherwise provide, all dividends will be apportioned and paid pro rata according to the amounts paid or credited as paid on the shares during any portion or portions of the period in respect of which the dividend is paid. No amount paid on a share in advance of calls will for this purpose be treated as paid on the shares. The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may deduct from any dividend or bonus payable to any member all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid, provided that the members entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that the members entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid in lieu of the whole or such part of the dividend as the Directors may think fit.

The Company may also upon the recommendation of the Directors by an ordinary resolution resolve in respect of any particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid without offering any right to members to elect to receive such dividend in cash in lieu of such allotment.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared the Directors may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the Directors for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends, bonuses or other distributions or proceeds as aforesaid unclaimed for six years after having been declared may be forfeited by the Directors and, upon such forfeiture, shall revert to the Company.

(n) Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company or a meeting of the holders of any class of shares in the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him to vote on his behalf at a general meeting of the Company or at a class meeting. At any general meeting, votes may be given either personally (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy. Proxies need not be members of the Company.

A proxy shall be entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise as if it were an individual member.

(o) Corporate representatives

A corporate member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint any person or persons as its representative to attend and vote on its behalf. A corporate member represented by its representative is deemed to be present in person at the relevant meeting and its representative may vote on a poll on any resolution put at such meeting.

(p) Calls on shares and forfeiture of shares

Subject to the Articles and the terms of allotment, the Directors may from time to time make such calls as it may think fit upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times. A call may be made payable either in one sum or by instalments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding 20% per annum as the Directors shall fix from the day appointed for the payment thereof to the time of actual payment, but the Directors may waive payment of such interest wholly or in part. The Directors may, if they think fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the money uncalled and unpaid or instalments payable upon any shares held by him, and in respect of all or any of the monies so advanced the Company may pay interest at such rate (if any) not exceeding 20% per annum as the Directors may decide.

If a member fails to pay any call or instalment of a call on the day appointed for payment thereof, the Directors may, at any time thereafter during such time as any part of the call or instalment remains unpaid, serve a notice on him requiring payment of so much of the call or instalment as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment. The notice will name a further day (not earlier than the expiration of fourteen days from the date of the notice) on or before which the payment required by the notice is to be made, and it will also name the place where payment is to be made. The notice shall also state that, in the event of non payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all moneys which, at the date of forfeiture, were payable by him to the Company in respect of the shares together with (if the Directors shall in their discretion so require) interest thereon from the date of forfeiture until payment at such rate not exceeding 20% per annum as the Board may prescribe.

(q) Inspection of register of members

Pursuant to the Articles the register and branch register of members shall be open to inspection for at least two (2) hours on every business day by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the Registration Office (as defined in the Articles), unless the register is closed in accordance with the Articles.

(r) Inspection of register of Directors

There are no provisions in the Articles relating to the inspection of the register of Directors and Officers of the Company, since the register is not open to inspection (as to which see paragraph 4(k) below).

(s) Quorum for meetings and separate class meetings

For all purposes the quorum for a general meeting shall be two members present in person and entitled to vote (or, in the case of a member being a corporation, by its duly authorized representative) or by proxy and entitled to vote. In respect of a separate class meeting convened to sanction the modification of class rights, the necessary quorum shall not be less than two persons holding or representing by proxy one third in nominal value of the issued shares of that class and, where such meeting is adjourned for want of quorum, the quorum for the adjourned meeting shall be any two members present in person and entitled to vote or by proxy (whatever the number of shares held by them).

(t) Rights of the minorities in relation to fraud or oppression

There are no provisions in the Articles relating to rights of minority members in relation to fraud or oppression. However, certain remedies are available to members of the Company under Cayman Islands Company(s) Law as summarized in paragraph 4(e) below.

(u) Procedures on liquidation

A resolution for a court or voluntary winding up of the Company must be passed by way of a special resolution.

If the Company shall be wound up, the surplus assets remaining after payment to all creditors are to be divided among the members in proportion to the capital paid up on the shares held by them respectively, and if such surplus assets shall be insufficient to repay the whole of the paid up capital, they are to be distributed so that, as nearly as may be, the losses shall be borne by the members in proportion to the capital paid up on the shares held by them respectively, all subject to the rights of any shares issued on special terms and conditions.

If the Company shall be wound up (whether the liquidation is voluntary or by the court), the liquidator may, with the sanction of a special resolution, divide among the members in specie or kind the whole or any part of the assets of the Company and whether the assets consist of property of one kind or properties of different kinds and the liquidator may, for such purposes, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division is to be carried out as between the members or different classes of members and the members within each class. The liquidator may, with the like sanction, vest any one or more class or classes of property and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like sanction, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like sanction, shall think fit, but so that no member shall be compelled to accept any shares or other assets upon which there is a liability.

(v) Untraceable members

Pursuant to the Articles, the Company may sell any of the shares of a member who is untraceable if (i) all cheques or warrants in respect of dividends of the shares in question (being not less than three in total number) for any sum payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) upon the expiry of the 12 year period, the Company has not during that time received any indication of the existence of the member; and (iii) the Company has caused an advertisement to be published in accordance with the rules of the Designated Stock Exchange (as defined in the Articles) giving notice of its intention to sell such shares and a period of three (3) months, or such shorter period as may be permitted by the Designated Stock Exchange (as defined in the Articles), has elapsed since the date of such advertisement and the Designated Stock Exchange (as defined in the Articles) has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds, it shall become indebted to the former member of the Company for an amount equal to such net proceeds.

(w) Subscription Right Reserve

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of

such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

3. VARIATION OF MEMORANDUM AND ARTICLES OF ASSOCIATION

Subject to the rights of the Company set out in paragraph 2(c) above to amend its capital by ordinary resolution, the Memorandum may be altered by the Company by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the memorandum of association (subject as provided above) or the Articles or to change the name of the Company. For these purposes, a resolution is a special resolution if it has been passed by a majority of not less than three-fourths of the votes cast by such members of the Company as, being entitled to do so, vote in person or, in the case of such members as are corporations, by their respective duly authorized representatives or, where proxies are allowed, by proxy at a general meeting of which notice of not less than 21 clear days and not less than ten (10) clear business days specifying the intention to propose the resolution as a special resolution has been duly given. Except in the case of an annual general meeting, the requirement of not less than 21 clear days' notice and not less than ten (10) clear business days notice may be waived by a majority in number of the members having the right to attend and vote at the relevant meeting, being a majority together holding not less than 95% in nominal value of the shares giving that right.

4. CAYMAN ISLANDS COMPANY LAW

The Company is incorporated in the Cayman Islands and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of the Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

(a) Share capital

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount or value of the premiums on those shares shall be transferred to an account, to be called the "share premium account". The share premium account may be applied by a company subject to the provisions of its memorandum and articles of association in such manner as the company may from time to time determine including, but without limitation:

- (i) in paying distributions or dividends to members;
- (ii) in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares;
- (iii) in redeeming or purchasing its shares as provided in the Companies Law;

- (iv) in writing off
 - (aa) the preliminary expenses of the company; or
 - (bb) the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; or
- (v) in providing for the premium payable on redemption of any shares or of any debentures of the company.

No dividend or distribution may be paid to members out of the share premium account unless immediately following the date of the proposed payment, the company is able to pay its debts as they fall due in the ordinary course of business.

A company may issue preference shares and redeemable preference shares.

The Companies Law does not contain any express provisions dealing with the variation of rights of holders of different classes of shares.

(b) Financial assistance to purchase shares of a company or its holding company

There is no statutory restriction in the Cayman Islands against the provision of financial assistance for the purchase, subscription or other acquisition of its shares, though on English common law principles, the directors have a duty to act in good faith for a proper purpose in the best interests of the company, and moreover, there are restrictions on any act which amounts to a reduction of capital. Accordingly, it may, depending on the circumstances be legitimate for the directors to authorize the provision by a company of financial assistance for the purchase, subscription or other acquisition of its own shares, or the shares of its holding company.

(c) Redemption and Purchase of shares and warrants by a company and its subsidiaries

A company may, if authorized by its articles of associations issue redeemable shares and, purchase its own shares, including any redeemable shares. Purchases and redemptions may only be effected out of the profits of the company or out of the proceeds of a fresh issue of shares made for the purpose, or, if so authorized by its articles of association and subject to the provisions of the Companies Law, out of capital. Any premium payable on a redemption or purchase over the par value of the shares to be purchased must be provided for out of profits of the company or out of the company's share premium account, or, if so authorized by its articles of association and subject to the provisions of the Companies Law, out of capital. Any purchase by a company of its own shares may be authorized by its directors or otherwise by or in accordance with the provisions of its articles. A payment out of capital for a redemption or purchase of a company's own shares is not lawful unless immediately following the date of the proposed payment the company is able to pay its debts as they fall due in the ordinary course of business. The shares so purchased or redeemed will be treated as cancelled and the company's issued, but not its authorized, capital will be diminished accordingly.

A company is not prohibited from purchasing and may purchase its own subscription warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and in certain circumstances, may acquire such shares. A company, whether a subsidiary or a holding company, may only purchase its own shares for cancellation if it is authorized to do so in its articles of association.

(d) Dividends and distributions

A company may not pay a dividend, or make a distribution out of share premium account unless immediately following the date on which the payment is proposed to be made, the company is able to pay its debts as they fall due in the ordinary course of business.

(e) Protection of minorities

The Cayman Islands courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of a company to challenge (a) an act which is ultra vires the company or illegal (b) an act which constitutes a fraud against the minority and the wrong doers are themselves in control of the company, or (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of company (not being a bank) having a share capital divided into shares, the court may, on the application of members holding not less than one-fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the court shall direct.

Any shareholder of a company may petition the court which may make a winding up order if the court is of the opinion that it is just and equitable that the company shall be wound up.

Generally, claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the memorandum and articles of association of the company.

(f) Management

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary is required, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.

(g) Accounting and auditing requirements

The Companies Law requires a company to cause proper records of accounts to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company and (iii) the assets and liabilities of the company. A company is required to keep such books of account as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

(h) Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

(i) Taxation

There are no income, corporation, capital gains or other taxes in effect in the Cayman Islands on the basis of the present legislation. As an exempted company, the Company has received from the Governor-in-Counsel of the Cayman Islands pursuant to the Tax Concessions Law (1999 Revision) of the Cayman Islands, an undertaking that in the event of any change to the foregoing, the Company, for a period of 20 years from the date of the grant of the undertaking, will not be chargeable to tax in the Cayman Islands on its income or its capital gains arising in the Caymans Islands or elsewhere and that dividends of the Company will be payable without deductions of Cayman Islands tax. No capital or stamp duties are levied in the Cayman Islands on the issue, transfer or redemption of Shares.

(j) Stamp duty

Certain documents (which do not include contract, notes for the sale and purchase of, or instruments of transfer of, shares in Cayman Islands companies) are subject to stamp duty which is generally calculated on an ad valorem basis.

(k) Inspection of corporate records

Neither the members of a company nor the general public have the right to inspect the register of directors and officers, the minutes, accounts or, in the case of any exempted company, the register of members. The register of mortgages and charges must be kept at the registered office of the company and must be open to inspection by any creditor or member at all reasonable times.

Members of the public have no right to inspect the constitutive documents of a company but the memorandum and articles of association must be forwarded to any member of the company upon request. If no articles of association have been registered with the Registrar of Companies, each member has the right to receive copies of special resolutions of members upon request upon payment of a nominal fee.

The location of the registered office of a company is available to the general public upon request to the Registrar of Companies.

(1) **Winding up**

A company may be wound up by the Cayman Islands court on application presented by the company itself, its creditors or its contributors. The Cayman Islands court also has authority to order winding up in a number of specified circumstances including where it is, in the opinion of the Cayman Islands court, just and equitable that such company be wound up.

A company may be wound up voluntarily when the members so resolve in general meeting, or, in the case of a limited duration company, when the period fixed for the duration of the company by its memorandum or articles of association expires, or the event occurs on the occurrence of which the memorandum of association provides that the company is to be dissolved. In the case of a voluntary winding up, such company is obliged to cease to carry on its business from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above. Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval.

For the purpose of conducting the proceedings in winding up a company and assisting the Court, there may be appointed one or more than one person to be called an official liquidator or official liquidators; and the Court may appoint to such office such qualified person or persons, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court shall declare whether any act hereby required or authorized to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court. A person shall be qualified to accept an appointment as an official liquidator if he is duly qualified in terms of the Insolvency Practitioners Regulations. A foreign practitioner may be appointed to act jointly with a qualified insolvency practitioner.

In the case of a members' voluntary winding up of a company, the company in general meeting must appoint one or more liquidators for the purpose of winding up the affairs of the company and distributing its assets. A declaration of solvency must be signed by all the directors of a company being voluntarily wound up within twenty-eight (28) days of the commencement of the liquidation, failing which, its liquidator must apply to Court for an order that the liquidation continue under the supervision of the Court.

Upon the appointment of a liquidator, the responsibility for the company's affairs rests entirely in his hands and no future executive action may be carried out without his approval. A liquidator's duties are to collect the assets of the company (including the amount (if any) due from the contributories), settle the list of creditors and, subject to the rights of preferred and secured creditors

and to any subordination agreements or rights of set-off or netting of claims, discharge the company's liability to them (*pari passu* if insufficient assets exist to discharge the liabilities in full) and to settle the list of contributories (shareholders) and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

As soon as the affairs of the company are fully wound up, the liquidator must make up an account of the winding up, showing how the winding up has been conducted and the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. At least twenty-one (21) days before the final meeting, the liquidator shall send a notice specifying the time, place and object of the meeting to each contributory in any manner authorized by the company's articles of association and published in the Gazette in the Cayman Islands.

5. GENERAL

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarizing certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the paragraph headed "Documents available for inspection" in Appendix VIII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE GROUP**1. Incorporation**

The Company was incorporated in the Cayman Islands under the Cayman Islands Companies Law as an exempted company with limited liability on 3 July 2009. The Company has been registered as a non-Hong Kong company under Part XI of the Companies Ordinance and our principal place of business in Hong Kong is at 43rd Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong. Mr. Lo Wah Wai of Duplex C, 19 & 20/F, Tower 1, The Astrid, No. 180 Argyle Street, Ma Tau Wai, Kowloon, Hong Kong has been appointed as the authorized representative of the Company for the acceptance of service of process and notices in Hong Kong. The Company changed its name from Shengli Oil & Gas Pipe Holdings Ltd. to Shengli Oil & Gas Pipe Holdings Limited 勝利油氣管道控股有限公司 on 17 September 2009.

As the Company is incorporated in the Cayman Islands, it operates subject to the relevant law of the Cayman Islands and its constitution which comprises a memorandum of association and an articles of association. A summary of the relevant aspects of the Cayman Islands Companies Law and certain provisions of Articles of Association is set out in Appendix VI to this Prospectus.

2. Changes in share capital of the Company

- (a) As of the date of incorporation of the Company, its authorized share capital was HK\$380,000 divided into 3,800,000 Shares of HK\$0.1 each. On the same date, one Share of HK\$0.1 of the Company was allotted and issued nil paid to Codan Trust Company (Cayman) Limited, which was subsequently transferred to Mr. Yan Tangfeng.
- (b) On 23 September 2009, Mr. Yan Tangfeng transferred his 100% shareholding in Shengli (BVI) to the Company in consideration of the Company crediting as fully paid the one nil paid Share held by him and issuing one Share, credited as fully paid, to him.
- (c) On 24 September 2009, Mr. Yan Tangfeng transferred two Shares in the Company to Aceplus in consideration of Aceplus issuing two shares in its share capital to him.
- (d) On 28 October 2009, Aceplus transferred two shares in the share capital of CPE to Shengli (BVI) in consideration of the Company issuing 99,998 Shares, credited as fully paid, to Aceplus.
- (e) On 28 October 2009, 100,000 Shares were issued (credited as fully paid) to Aceplus for the capitalization of shareholder's loans of RMB146.45 million owed by the Company to Aceplus.
- (f) On 28 October 2009, Aceplus transferred 18,072 Shares to SEAVI Advent Equity V (A) and 12,048 Shares to Apollo Asia pursuant to the exchange of the loan facility under the Exchangeable Loan Agreement (as amended by the relevant supplemental agreements).

Immediately following completion of the Global Offering, the Capitalization Issue and the sale of Sale Shares and assuming that the Over-allotment Option is not exercised, the authorized share capital of the Company will be HK\$500,000,000 divided into 5,000,000,000 Shares, of which 2,400,000,000 Shares will be issued fully paid or credited as fully paid, and 2,600,000,000 Shares will remain unissued. Other than pursuant to the general mandate to issue Shares referred to in the paragraph headed “Written resolutions of our Shareholders passed on 21 November 2009” in this Appendix and pursuant to the Share Option Scheme, we do not have any present intention to issue any of the authorized but unissued share capital of the Company and, without prior approval of our Shareholders in general meeting, no issue of Shares will be made which would effectively alter the control of the Company.

Save as disclosed in this Prospectus, there has been no alteration in the Company’s share capital since its incorporation.

3. Changes in share capital of our Subsidiaries

The following alterations in the share capital or registered capital of our Subsidiaries took place within the two years immediately preceding the date of this Prospectus:

Shandong Shengli

- (a) Pursuant to an equity transfer agreement dated 25 December 2007, supplemented by two supplemental equity transfer agreements dated 20 March 2008, Shengli Steel Pipe transferred 74% equity interest in Shandong Shengli to CPE at the consideration of RMB24.05 million.
- (b) Pursuant to an equity transfer agreement dated 25 December 2007, supplemented by a supplemental equity transfer agreement dated 20 March 2008, Victory Trading transferred 26% equity interest in Shandong Shengli to CPE at the consideration of RMB8.45 million.
- (c) The registered capital of Shandong Shengli was increased from RMB50 million to RMB70 million on 1 April 2008.
- (d) The registered capital of Shandong Shengli was further increased from RMB70 million to RMB152 million on 12 August 2008.

CPE

- (e) On 2 July 2008, Mr. Yang Jun transferred two shares to Aceplus for a consideration of Singapore dollars 2.0.
- (f) On 28 October 2009, Aceplus transferred two shares to Shengli (BVI) in consideration of the Company issuing 99,998 Shares, credited as fully paid, to Aceplus.

Shengli (BVI)

- (g) On 30 October 2008, Shengli (BVI) was incorporated as a limited liability company in BVI and one share of US\$1.00 par value was issued and allotted to Mr. Yan Tangfeng.
- (h) On 23 September 2009, Mr. Yan Tangfeng transferred his 100% shareholding in Shengli (BVI) to the Company in consideration of the Company crediting as fully paid the one nil paid Share held by him and issuing one Share, credited as fully paid, to Mr. Yan Tangfeng.

Save as set out above and in the paragraph headed “Corporate Reorganization and Share Transfer after the Corporate Reorganization” in this Appendix, there has been no alteration in the share capital of any of the Subsidiaries of the Company within the two years immediately preceding the date of this Prospectus.

4. Written resolutions of our Shareholders passed on 21 November 2009

Pursuant to the written resolutions of all shareholders entitled to vote at general meetings of the Company, which were passed on 21 November 2009:

- (a) the authorized share capital of the Company was increased from HK\$380,000 to HK\$500,000,000 by the creation of 4,996,200,000 Shares of HK\$0.1 each which rank pari passu in all respects with the Shares in issue as at the date of passing of this written resolution;
- (b) conditional on the share premium account of the Company being credited as a result of the Global Offering, the sum of HK\$179,980,000 be capitalized and be applied in paying up in full at par 1,799,800,000 Shares for allotment and issue to the Shareholders whose names were on the register of members of the Company as at the close of business on 12 December 2009 and the Shares to be allotted and issued pursuant to this resolution shall rank pari passu in all respects with the existing issued Shares;
- (c) conditional on (i) the Listing Committee of the Hong Kong Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued (pursuant to the Global Offering, the Capitalization Issue, the Over-allotment Option and the Share Option Scheme) as mentioned in the Prospectus; and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any condition(s) by the Sole Global Coordinator (on behalf of the Underwriters)) and the Underwriting Agreements not being terminated in accordance with their terms or otherwise:
 - (i) the Global Offering and the Over-allotment Option were approved and our Directors were authorized to allot and issue the Offer Shares and the Shares as may be required to be allotted and issued upon the exercise of the Over-allotment Option on and subject to the terms and conditions stated in this Prospectus and in the relevant application forms;

- (ii) the rules of the Share Option Scheme were approved and adopted, and our Directors or any committee thereof established by the Board were authorized, at their sole discretion, to: (i) administer the Share Option Scheme; (ii) modify/amend the Share Option Scheme from time to time as requested by the Hong Kong Stock Exchange; (iii) grant options to subscribe for Shares under the Share Option Scheme up to the limits referred to in the Share Option Scheme; (iv) allot, issue and deal with Shares pursuant to the exercise of any option which may be granted under the Share Option Scheme; (v) make application at the appropriate time or times to the Hong Kong Stock Exchange for the listing of, and permission to deal in, any Shares or any part thereof that may hereafter from time to time be issued and allotted pursuant to the exercise of the options granted under the Share Option Scheme; and (vi) take all such actions as they consider necessary, desirable or expedient to implement or give effect to the Share Option Scheme;
- (d) a general unconditional mandate was given to our Directors to exercise all the powers of the Company to allot, issue and deal with (including the power to make an offer or agreement, or grant securities which would or might require Shares to be allotted and issued), otherwise than by way of Rights Issue, or pursuant to any scrip dividend schemes or similar arrangements providing for the allotment and issue of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or pursuant to the issue of Shares upon the exercise of any subscription rights attached to any warrants of the Company or pursuant to the exercise of options which may be granted under the Share Option Scheme or any other option scheme(s) or similar arrangement for the time being adopted for the grant or issue to directors and/or officers and/or employees of the Group or rights to acquire Shares or pursuant to a specific authority granted by the Shareholders in general meeting, the Shares with an aggregate nominal amount not exceeding 20% of the aggregate nominal amount of the share capital of the Company in issue immediately following completion of the Global Offering and the Capitalization Issue but before any exercise of the Over-allotment Option;

For the purpose of this paragraph, “Rights Issue” means an offer of shares in the Company, or offer or issue of warrants, options or other securities giving rights to subscribe for shares open for a period fixed by our Directors to holders of shares in the Company on the register on a fixed record date in proportion to their holdings of shares (subject to such exclusion or other arrangements as our Directors may deem necessary or expedient in relation to fractional entitlements, or having regard to any restrictions or obligations under the laws of, or the requirements of, or the expense or delay which may be involved in determining the existence or extent of any restrictions or obligations under the laws of, or the requirements of, any jurisdiction applicable to the Company, or any recognized regulatory body or any stock exchange applicable to the Company);

- (e) a general unconditional mandate was given to our Directors to exercise all powers of the Company to repurchase on the Hong Kong Stock Exchange, or on any other stock exchange on which the securities of the Company may be listed and which is recognized by the SFC and the Hong Kong Stock Exchange for this purpose, such number of Shares with an aggregate nominal value not exceeding 10% of the aggregate nominal amount of the share

capital of the Company in issue immediately following completion of the Global Offering and the Capitalization Issue but before the exercise of the Over-allotment Option;

- (f) the extension of the general mandate to allot, issue and deal with Shares as mentioned in paragraph (d) above by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by our Directors pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company pursuant to paragraph (e) above, provided that such extended amount shall not exceed 10% of the aggregate of the total nominal value of the share capital of the Company in issue immediately following the Global Offering and the Capitalization Issue but before the exercise of the Over-allotment Option was approved; and
- (g) the adoption of the Articles of Association.

Each of the general mandates referred to in paragraphs (d), (e) and (f) above will remain in effect until whichever is the earliest of:

- (1) the conclusion of our next annual general meeting, unless renewed by an ordinary resolution of our Shareholders in a general meeting, either unconditionally or subject to conditions;
- (2) the expiration of the period within which we are required by any applicable law or the Articles of Association to hold our next annual general meeting; or
- (3) the time when such mandate is varied or revoked by an ordinary resolution of our Shareholders in a general meeting.

5. Repurchase of our Shares

This section includes information relating to the repurchases of securities, including information required by the Hong Kong Stock Exchange to be included in this Prospectus concerning such repurchase.

(1) Provisions of the Hong Kong Listing Rules

The Hong Kong Listing Rules permit companies whose primary listing is on the Hong Kong Stock Exchange to repurchase their securities on the Hong Kong Stock Exchange subject to certain restrictions, the most important restrictions are summarized below:

(i) Shareholders' approval

All proposed repurchases of Shares must be approved in advance by an ordinary resolution of the Shareholders in a general meeting, either by way of general mandate or by specific approval in relation to a particular transaction.

Pursuant to the written resolutions passed on 21 November 2009 by all our Shareholders, a general unconditional mandate (the “Repurchase Mandate”) was given to our Directors to exercise all powers of the Company to repurchase Shares (Shares which may be listed on the Hong Kong Stock Exchange) with a total nominal value of not more than 10% of the aggregate nominal value of our share capital in issue or to be issued immediately following the completion of the Global Offering and the Capitalization Issue but before the exercise of the Over-allotment Option, details of which have been described above in the paragraph headed “Written resolutions of our Shareholders passed on 21 November 2009”.

(ii) *Source of funds*

Any repurchases of Shares by us must be paid out of funds legally available for the purpose in accordance with our Articles of Association, the Hong Kong Listing Rules and the Cayman Islands Companies Law. We are not permitted to repurchase our Shares on the Hong Kong Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Hong Kong Stock Exchange from time to time.

(iii) *Shares to be repurchased*

The Hong Kong Listing Rules provide that the Shares which are proposed to be repurchased by us must be fully-paid up.

(2) *Reasons for repurchases*

Our Directors believe that it is in the best interests of the Group and our shareholders for our Directors to have general authority from the Shareholders to enable them to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net asset value per Share and/or earnings per Share and will only be made where our Directors believe that such repurchases will benefit the Group and our Shareholders as a whole.

(3) *Funding of repurchases*

In repurchasing Shares, we may only apply funds legally available for such purpose in accordance with the Articles of Association, the Hong Kong Listing Rules and the applicable laws and regulations of the Cayman Islands.

On the basis of the Group’s current financial position as disclosed in this Prospectus and taking into account its current working capital position, our Directors consider that, if the Repurchase Mandate is exercised in full, it might have a material adverse effect on our working capital and/or gearing position as compared with the position disclosed in this Prospectus. However, our Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on our working capital requirements or the gearing levels which in the opinion of our Directors are from time to time appropriate for us.

(4) General

None of our Directors nor, to the best of their knowledge having made all reasonable enquiries, any of their Associates currently intends to sell any Shares to us.

Our Directors have undertaken to the Hong Kong Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Hong Kong Listing Rules and the applicable laws and regulations of the Cayman Islands.

If, as a result of any repurchase of Shares, a shareholder's proportionate interest in the voting rights in the general meeting of the Company is increased, such increase will be treated as an acquisition for the purposes of the Hong Kong Code on Takeovers and Mergers (the "Takeovers Code"). Accordingly, a shareholder or a group of shareholders acting in concert could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with rule 26 of the Takeovers Code. Save as aforesaid, our Directors are not aware of any consequences which would arise under the Takeovers Code as a consequence of any repurchases pursuant to the Repurchase Mandate.

We have not made any repurchases of our own securities in the past six months.

No connected person has notified us that he/she has a present intention to sell Shares to us, or has undertaken not to do so, if the Repurchase Mandate is exercised.

B. CORPORATE REORGANIZATION AND SHARE TRANSFER AFTER THE CORPORATE REORGANIZATION**1. Corporate Reorganization**

The Corporate Reorganization which was effected in preparation for the Listing, whereby the Company became the holding company of the Group, included the following major steps:

- (a) CPE entered into an equity transfer agreement dated 25 December 2007 (as supplemented by supplemental equity transfer agreements dated 20 March 2008) respectively with Shengli Steel Pipe and Victory Trading to acquire from them their entire interests in Shandong Shengli (formerly known as Rizhao Shengli), representing approximately 74% and 26% of the registered capital of Shandong Shengli respectively, for considerations of RMB24.05 million and RMB8.45 million.
- (b) Shandong Shengli entered into an asset transfer agreement dated 27 December 2007 (as supplemented by a supplemental asset transfer agreement dated 25 June 2008) with Shengli Steel Pipe to acquire from Shengli Steel Pipe the relevant assets comprising mainly the production facilities at Zibo and Dezhou, Shandong Province (excluding land and buildings) and part of the liabilities relating to the SSAW pipe manufacturing business of Shengli Steel Pipe for a consideration of RMB84.01 million.

- (c) On 3 July 2009, the Company was incorporated under the laws of the Cayman Islands as an exempted company and the Company allotted and issued one nil paid Share to Codan Trust Company (Cayman) Limited. The Share was transferred to Mr. Yan Tangfeng on the same date.
- (d) On 23 September 2009, Mr. Yan Tangfeng and the Company entered into a sale and purchase agreement, pursuant to which Mr. Yan Tangfeng transferred his entire shareholding in Shengli (BVI) to the Company in consideration of the Company crediting as fully paid the one nil paid Share held by him and issuing one Share, credited as fully paid, to him.
- (e) On 24 September 2009, Aceplus and Mr. Yan Tangfeng entered into a sale and purchase agreement, pursuant to which Mr. Yan Tangfeng transferred two Shares in the Company to Aceplus in consideration of Aceplus issuing two shares in its share capital to Mr. Yan Tangfeng.
- (f) Aceplus, the Company and Shengli (BVI) entered into a sale and purchase agreement dated 24 September 2009 and a supplemental sale and purchase agreement dated 28 October 2009, pursuant to which Aceplus transferred two shares in the share capital of CPE to Shengli (BVI) in consideration of the Company issuing 99,998 Shares, credited as fully paid, to Aceplus.
- (g) CPE, Aceplus, SEAVI Advent Equity V (A), Apollo Asia, Mr. Yan Tangfeng, Mr. Zhang Bizhuang, the Company and Shengli (BVI) entered into a supplemental agreement dated 24 September 2009, a second supplemental agreement dated 28 October 2009 and a third supplemental agreement dated 30 November 2009 to exchange the principal sum of the loan facility granted to Aceplus pursuant to the Exchangeable Loan Agreement into Shares of the Company held by Aceplus.
- (h) Pursuant to a subscription agreement dated 24 September 2009 between Aceplus and CPE, a deed of assumption dated 28 October 2009 and a supplemental agreement dated 28 October 2009 between Aceplus, the Company and CPE, the Company capitalized a shareholder's loan of RMB146.45 million it owed to Aceplus by issuing, credited as fully paid, 100,000 Shares to Aceplus.
- (i) Conditional on the share premium account of the Company being credited as a result of the Global Offering, the sum of HK\$179,980,000 will be capitalized and apply in paying up in full at par HK\$0.1, 1,799,800,000 Shares for allotment and issue to existing Shareholders of the Company and such Shares to be allotted and issued shall rank pari passu in all respects with the then existing issued Shares of the Company.

C. FURTHER INFORMATION ABOUT OUR BUSINESS**1. Summary of the Material Contracts**

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by the Group within the two years preceding the date of this Prospectus and are or may be material:

- (a) an equity transfer agreement in Chinese dated 25 December 2007, as supplemented by two supplemental equity transfer agreements in Chinese dated 20 March 2008, entered into between CPE and Shengli Steel Pipe, pursuant to which CPE acquired 74% equity interest in Shandong Shengli from Shengli Steel Pipe for a consideration of RMB24.05 million;
- (b) an equity transfer agreement in Chinese dated 25 December 2007, as supplemented by a supplemental equity transfer agreement in Chinese dated 20 March 2008, entered into between CPE and Victory Trading, pursuant to which CPE acquired 26% equity interest in Shandong Shengli from Victory Trading for a consideration of RMB8.45 million;
- (c) an asset transfer agreement in Chinese dated 27 December 2007, as supplemented by a supplemental asset transfer agreement in Chinese dated 25 June 2008, entered into between Shandong Shengli and Shengli Steel Pipe pursuant to which Shandong Shengli acquired the relevant assets comprising mainly the production facilities at Zibo and Dezhou, Shandong Province (excluding land and buildings) and part of the liabilities relating to the steel pipe manufacturing business of Shengli Steel Pipe for a consideration of RMB84.01 million;
- (d) an exchangeable loan agreement dated 8 July 2008 entered into among Apollo Asia, SEAVI Advent Equity V (A), Aceplus, CPE, Mr. Yan Tangfeng and Mr. Zhang Bizhuang (the “Exchangeable Loan Agreement”), pursuant to which Aceplus obtained loans from Apollo Asia and SEAVI Advent Equity V (A) with an aggregate amount of approximately RMB138 million which, subject to certain conditions, could be exchanged into shares of CPE held by Aceplus;
- (e) a shareholders loan agreement dated 28 October 2008 entered into between Aceplus and CPE (the “Shareholders Loan Agreement”), pursuant to which Aceplus granted a shareholder loan with the principal amount of RMB138 million to CPE;
- (f) a rectification agreement to the Exchangeable Loan Agreement dated 26 July 2009 entered into among Apollo Asia, SEAVI Advent Equity V (A), Aceplus, CPE, Mr. Yan Tangfeng and Mr. Zhang Bizhuang, pursuant to which certain terms and conditions of the Exchangeable Loan Agreement regarding exchange of the loan facility into shares of CPE were amended;
- (g) a rectification agreement to the Shareholders Loan Agreement dated 26 July 2009 entered into between Aceplus and CPE, pursuant to which certain terms and conditions of the Shareholders Loan Agreement regarding repayment were amended;

- (h) a sale and purchase agreement dated 23 September 2009 entered into between Mr. Yan Tangfeng and the Company in relation to the transfer of the entire issued capital of Shengli (BVI) to the Company;
- (i) a share subscription agreement dated 24 September 2009 entered into between Aceplus and CPE, pursuant to which CPE issued one share to Aceplus for the capitalization of a shareholder's loan of RMB138 million;
- (j) a sale and purchase agreement dated 24 September 2009 entered into among Aceplus, Shengli (BVI) and the Company in relation to the transfer of the entire issued capital of CPE to Shengli (BVI);
- (k) a supplemental agreement dated 24 September 2009 entered into among Apollo Asia, SEAVI Advent Equity V (A), Aceplus, CPE, Mr. Yan Tangfeng, Mr. Zhang Bizhuang, the Company and Shengli (BVI), pursuant to which certain terms and conditions of the Exchangeable Loan Agreement were amended;
- (l) a supplemental sale and purchase agreement dated 28 October 2009 entered into among Aceplus, Shengli (BVI) and the Company to amend the terms of the sale and purchase agreement dated 24 September 2009 in relation to the transfer of the entire issued capital of CPE to Shengli (BVI);
- (m) a deed of assumption dated 28 October 2009 entered into among Aceplus, the Company and CPE in relation to the assumption by the Company of the shareholder's loans in the amount of RMB146.45 million provided by Aceplus to CPE;
- (n) a supplemental share subscription agreement dated 28 October 2009 entered into among Aceplus, the Company and CPE to amend the terms of the share subscription agreement dated 24 September 2009 in relation to the capitalization of the shareholder's loans in the amount of RMB146.45 million;
- (o) a second supplemental agreement dated 28 October 2009 entered into among Apollo Asia, SEAVI Advent Equity V (A), Aceplus, CPE, Mr. Yan Tangfeng, Mr. Zhang Bizhuang, the Company and Shengli (BVI), pursuant to which certain terms and conditions of the supplemental agreement dated 24 September 2009 were further amended;
- (p) a third supplemental agreement dated 30 November 2009 entered into among Apollo Asia, SEAVI Advent Equity V (A), Aceplus, CPE, Mr. Yan Tangfeng, Mr. Zhang Bizhuang, the Company and Shengli (BVI), pursuant to which certain terms and conditions of the Exchangeable Loan Agreement (as amended by a supplemental agreement dated 24 September 2009 and a second supplemental agreement dated 28 October 2009) and the supplemental agreement dated 24 September 2009 (as amended by a second supplemental agreement dated 28 October 2009) were further amended;
- (q) a non-competition deed in Chinese dated 21 November 2009 entered into by the Controlling Shareholders in favour of our Company, details of which are disclosed in the section headed "Relationship with the Controlling Shareholders";

- (r) a deed of indemnity dated 3 December 2009 entered into between the Controlling Shareholders and the Company for itself and as trustee for its Subsidiaries under which the Controlling Shareholders provided certain indemnities in favour of the Group containing, among others, the indemnities referred to under the sub-paragraph headed “Tax indemnity” under the paragraph headed “Other Information” in this Appendix; and
- (s) the Hong Kong Underwriting Agreement.

2. Intellectual Property Rights of the Group



Patents

As at the Latest Practicable Date, we have registered the following patents:

Type	Place of application	Patent number	Effective period
Utility model	PRC	ZL200820027559.3	From 5 September 2008 to 4 September 2018
Utility model	PRC	ZL200820027560.6	From 5 September 2008 to 4 September 2018

Trademarks

As at the Latest Practicable Date, we have applied for the registration of the following trademarks:

Trademark	Place of application	Class	Application number	Application date
	Hong Kong	6	301413972	26 August 2009
	Hong Kong	6	301415213	27 August 2009

3. Further information about our PRC establishment

Shandong Shengli

(i) nature of the company:	Wholly foreign-owned enterprise
(ii) term of business operation:	12 years commencing from 29 April 2005 and expiring on 28 April 2017
(iii) total amount of investment:	RMB152,000,000
(iv) registered capital:	RMB152,000,000 (<i>Note 1</i>)
(v) attributable interest of the Company:	100%
(vi) scope of business:	Manufacture and sales of SSAW pipes, LSAW pipes and cold-formed section steel

Note:

- (1) The current paid-up registered capital of Shandong Shengli is RMB 150,760,000. The outstanding registered capital shall be fully paid within two years since 12 August 2008 pursuant to the articles of association of Shandong Shengli and relevant PRC laws and regulations.

D. FURTHER INFORMATION ABOUT THE DIRECTORS

1. Directors' service contracts

Each of our Directors has entered into a service contract or an appointment letter (as the case may be) with us for an initial fixed term of three years commencing from the Listing Date and will continue thereafter until terminated by (i) in case of Executive Directors, not less than three months' notice in writing served by either party on the other, or (ii) in cases of Non-Executive Directors and Independent Non-Executive Directors, not less than one month's notice in writing served by the Non-Executive Directors and Independent Non-Executive Directors.

Each of our Directors is entitled to the respective basic salary under their respective service contracts or appointment letters set out below. Each of the Executive Directors is also entitled to a discretionary bonus, provided that the aggregate amount of the bonuses payable to all our Executive Directors in respect of any financial year may not exceed 5% of our audited consolidated or combined net profit (after taxation and minority interests and payment of such bonuses but excluding extraordinary and exceptional items) in respect of that financial year. An Executive Director may not vote on any resolution of our Directors regarding the increment of annual salary and the amount of the discretionary bonus payable to him.

The current basic annual salaries of our Directors under the current service contracts or appointment letters with the Company are as follows:

Name	Annual Amount
Mr. Zhang Bizhuang	HK\$1,000,000
Mr. Wang Xu	HK\$700,000
Ms. Han Aizhi	HK\$700,000
Mr. Yan Tangfeng	HK\$200,000
Mr. Teo Yi-Dar	HK\$200,000
Mr. Ling Yong Wah	HK\$200,000
Mr. Huo Chunyong	HK\$200,000
Mr. Guo Changyu	HK\$200,000
Ms. Wong Wing Yee Jessie	HK\$200,000

Save as aforesaid, none of our Directors has or is proposed to have a service contract or an appointment letter (as the case may be) with us or any of our subsidiaries (other than contracts expiring or determinable by the employer within one year without the payment of compensation (other than statutory compensation)).

We have not entered into any service contract with our Directors which is for a duration that may exceed three years or which is not determine by us within one year without payment of compensation (other than statutory compensation).

2. Directors' remuneration during the Track Record Period

For the financial year ended 31 December 2008 and the six months ended 30 June 2009, the aggregate of the remuneration paid and benefits in kind granted to our Directors by us and our Subsidiaries was RMB544,000 and RMB814,000, respectively.

Save as disclosed in this Prospectus, no other emoluments have been paid or are payable, in respect of the three financial years ended 31 December 2008 and the six months ended 30 June 2009 by us to our Directors.

Under the arrangements currently in force, we estimate that the aggregate remuneration payable to, and benefits in kind receivable by, our Directors (including discretionary bonus) for the year ending 31 December 2009 will be approximately RMB1.8 million.

E. DISCLOSURE OF INTERESTS**1. Disclosure of Interests**

- (a) *Interests and short positions of our Directors in our share capital and our associated corporations following the Global Offering, the Capitalization Issue and the sale of the Sale Shares*

Immediately following completion of the Global Offering, the Capitalization Issue and the sale of the Sale Shares and taking no account of any Shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, the interests or short positions of our Directors and the chief executive in our Shares, underlying Shares and debentures and our associated corporations, within the meaning of Part XV of the SFO which will have to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be recorded in the register referred to therein or which will be required to be notified to us and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Hong Kong Listing Rules, will be as follows:

Interests and short positions in our Shares, underlying shares and debentures and our associated corporations:

Long Positions in the Company

<u>Name of Director</u>	<u>Nature of Interest</u>	<u>Number of Shares</u>	<u>Approximate percentage of interest in the Company</u>
Mr. Yan Tangfeng ⁽¹⁾	Corporate Interest	1,445,064,000	60.211%

Note:

- (1) Mr. Yan Tangfeng owns the entire issued share capital of Aceplus and is deemed under the SFO to be interested in 1,445,064,000 Shares held by Aceplus.

- (b) *Interests and short positions discloseable under Divisions 2 and 3 of Part XV of the SFO*

Immediately following completion of the Global Offering, the Capitalization Issue and the sale of Sale Shares and taking no account of any shares which may be allotted and issued pursuant to the Share Option Scheme or the exercise of the Over-allotment Option, in addition to the interests disclosed under paragraph (a) above, so far as our Directors are aware, the following persons are expected to have interests or short positions in our shares or underlying shares which are required to be disclosed to the provisions of Divisions 2 and 3 of Part XV of the SFO or, are expected to be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

Interests and short positions in our shares and underlying shares:

Name	Capacity/ Nature of interest	Number of Shares	Approximate percentage of shareholding
Aceplus ⁽¹⁾	Beneficial Owner	1,445,064,000	60.211%
SEAVI Advent Equity V (A)	Beneficial Owner	140,961,600	5.873%
SEAVI Advent Corporation Ltd. ⁽²⁾	Interest in a controlled corporation	140,961,600	5.873%

Note:

- (1) The entire issued share capital of Aceplus is owned by Mr. Yan Tangfeng, our Non-Executive Director.
- (2) SEAVI Advent Equity V (A) is a special purpose vehicle for investment holding. Pursuant to a management agreement entered into between SEAVI Advent Corporation Ltd. (“SEAVI Advent Corporation”) and SEAVI Advent Equity V (A), SEAVI Advent Corporation has agreed to act as the investment manager of SEAVI Advent Equity V (A), in particular to make investment decision on behalf of SEAVI Advent Equity V (A). Under such agreement, when exercising the voting rights in general meetings of the relevant company in which SEAVI Advent Equity V (A) has invested, SEAVI Advent Corporation is empowered to make the voting decisions and to instruct the directors of SEAVI Advent Equity V (A) to vote accordingly. As a result, SEAVI Advent Corporation is deemed to be interested in all the Shares held by SEAVI Advent Equity V (A).

2. Disclaimers

Save as disclosed in this Prospectus:

- (a) none of our Directors nor any of the parties listed in the section headed “Other Information — Consents of experts” of this Appendix is interested in the promotion of the Company, or in any assets which have been, within the two years immediately preceding the date of this Prospectus, acquired or disposed of by or leased to the Company or any of its Subsidiaries, or are proposed to be acquired or disposed of by or leased to the Company or any of its Subsidiaries;
- (b) none of our Directors nor any of the parties listed in the section headed “Other Information — Consents of experts” of this Appendix is materially interested in any contract or arrangement subsisting at the date of this Prospectus which is significant in relation to our business; and
- (c) none of our Directors or their Associates or the existing Shareholders (who, to the knowledge of our Directors, owns more than 5% of our issued share capital) has any interest in any of the five largest customers or the five largest suppliers of the Group.

F. SHARE OPTION SCHEME

The following is a summary of principal terms of the Share Option Scheme conditionally approved by a resolution of all the Shareholders passed on 21 November 2009 and adopted by a resolution of the Board on 21 November 2009 (the “Adoption Date”). The terms of the Share Option Scheme are in compliance with the provisions of Chapter 17 of the Hong Kong Listing Rules.

1. Purpose

The purpose of the Share Option Scheme is to give the Eligible Persons (as mentioned in the following paragraph) an opportunity to have a personal stake in the Company and help motivate them to optimize their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of Executives (as defined below), to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

2. Conditions of the Share Option Scheme

The Share Option Scheme shall come into effect on the date on which the following conditions are fulfilled:

- (a) subject to (b) and (c) below, the approval of all the Shareholders of the Company for the adoption of the Share Option Scheme;
- (b) the approval of the Hong Kong Stock Exchange for the listing of and permission to deal in, a maximum of 240,000,000 Shares to be allotted and issued pursuant to the exercise of the Options in accordance with the terms and conditions of the Share Option Scheme; and
- (c) the commencement of dealing of the Shares on the Main Board of the Hong Kong Stock Exchange on the Listing Date.

3. Who may join

The Board may, at its absolute discretion, offer options (“Options”) to subscribe for such number of Shares in accordance with the terms set out in the Share Option Scheme to:

- (a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group (“Executive”), any full-time or part-time employee, or a person for the time being seconded to work full-time or part-time for any member of the Group (“Employee”);
- (b) a director or proposed director (including an independent non-executive director) of any member of the Group;

- (c) a direct or indirect shareholder of any member of the Group;
- (d) a supplier of goods or services to any member of the Group;
- (e) a customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group;
- (f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and
- (g) an associate of any of the persons referred to in paragraphs (a) to (c) above.

(the persons referred above are the “**Eligible Persons**”)

4. **Maximum number of Shares**

The maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the Shares in issue as of the Listing Date, excluding Shares which may fall to be issued upon the exercise of the Over-allotment Option (the “Scheme Mandate Limit”) provided that:

- (a) The Company may at any time as the Board may think fit seek approval from our Shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company shall not exceed 10% of the Shares in issue as of the date of approval by Shareholders in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the Share Option Scheme and any other schemes of the Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other schemes of the Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. The Company shall send to our Shareholders a circular containing the details and information required under the Hong Kong Listing Rules.
- (b) The Company may seek separate approval from our Shareholders in general meeting for granting Options beyond the Scheme Mandate Limit, provided that the Options in excess of the Scheme Mandate Limit are granted only to the Eligible Person specified by the Company before such approval is obtained. The Company shall issue a circular to our Shareholders containing the details and information required under the Hong Kong Listing Rules.
- (c) The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Group shall not exceed 30% of the Company’s issued share capital from time to time. No options may be granted under the Share Option Scheme and any other share option scheme of the Company if this will result in such limit being exceeded.

5. Maximum entitlement of each participant

No Option may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Options granted and to be granted to that person in any 12 month period exceeds 1% of the Company's issued share capital from time to time. Where any further grant of Options to such an Eligible Person would result in the Shares issued and to be issued upon exercise of all Options granted and to be granted to such Eligible Person (including exercised, cancelled and outstanding Options) in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be separately approved by the shareholders of the Company in general meeting with such Eligible Person and his associates abstaining from voting. The Company shall send a circular to our Shareholders disclosing the identity of the Eligible Person, the number and terms of the Options to be granted (and Options previously granted) to such Eligible Person, and containing the details and information required under the Hong Kong Listing Rules. The number and terms (including the subscription price) of the Options to be granted to such Eligible Person must be fixed before the approval of the Company's Shareholders and the date of the Board meeting proposing such grant shall be taken as the offer date for the purpose of calculating the subscription price of those Options.

6. Offer and grant of Options

Subject to the terms of the Share Option Scheme, the Board shall be entitled at any time within ten years from the Adoption Date to offer the grant of an Option to any Eligible Person as the Board may in its absolute discretion select to subscribe at the subscription price for such number of Shares as the Board may (subject to the terms of the Share Option Scheme) determine (provided the same shall be a board lot for dealing in the Shares on the Hong Kong Stock Exchange or an integral multiple thereof).

7. Granting Options to connected persons

Subject to the terms in the Share Option Scheme, only insofar as and for so long as the Hong Kong Listing Rules require, where any offer of an Option is proposed to be made to a director, chief executive or a Substantial Shareholder of the Company or any of their respective Associates, such offer must first be approved by the Independent Non-executive Directors of the Company (excluding the Independent Non-executive Director who or whose Associates is the grantee of an Option).

Where any grant of Options to a substantial shareholder (as defined in the Hong Kong Listing Rules) or an independent non-executive Director of the Company, or any of their respective associates, would result in the securities issued and to be issued upon exercise of all Options already granted and to be granted (including Options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% of the relevant class of securities in issue; and
- (b) (where the securities are listed on the Hong Kong Stock Exchange), having an aggregate value, based on the closing price of the securities at the date of each grant, in excess of HK\$5 million,

such further grant of Options must be approved by Shareholders of the Company (voting by way of a poll). The Company shall send a circular to Shareholders containing the information required under the Hong Kong Listing Rules. All connected persons of the Company must abstain from voting in favour at such general meeting.

Approval from the Shareholders of the Company is required for any change in the terms of Options granted to a participant who is a Substantial Shareholder or an Independent Non-executive Director of the Company, or any of their respective Associates.

8. Offer period and number accepted

An offer of the grant of an Option shall remain open for acceptance by the Eligible Person concerned for a period of 28 days from the offer date provided that no such grant of an Option may be accepted after the expiry of the effective period of the Share Option Scheme. An Option shall be deemed to have been granted and accepted by the Eligible Person and to have taken effect when the duplicate offer letter comprising acceptance of the offer of the Option duly signed by the Grantee together with a remittance in favour of the Company of HK\$1 by way of consideration for the grant thereof is received by the Company on or before the date upon which an offer of an Option must be accepted by the relevant Eligible Person, being a date not later than 28 days after the Offer Date (the "Acceptant Date"). Such remittance shall in no circumstances be refundable.

Any offer of the grant of an Option may be accepted in respect of less than the number of Shares in respect of which it is offered provided that it is accepted in respect of board lots for dealing in Shares on the Hong Kong Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer letter comprising acceptance of the offer of the Option. To the extent that the offer of the grant of an Option is not accepted by the Acceptance Date, it will be deemed to have been irrevocably declined.

9. Restriction on the time of grant of Options

The Board shall not grant any Option under the Share Option Scheme after a price sensitive development has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Hong Kong Listing Rules. In particular, no Option shall be granted during the period commencing two months immediately preceding the earlier of the date of the Board meeting (as such date is first notified to the Hong Kong Stock Exchange in accordance with the Hong Kong Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or any other interim period (whether or not required under the Hong Kong Listing Rules) and the deadline for the Company to publish an announcement of its results for any year or half-year under the Hong Kong Listing Rules, or quarterly or any other interim period (whether or not required under the Hong Kong Listing Rules), and ending on the date of the results announcements.

10. Minimum holding period, vesting and performance target

Subject to the provisions of the Hong Kong Listing Rules, the Board may in its absolute discretion when offering the grant of an Option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the Share Option Scheme as the Board may think fit (to be stated in the letter containing the offer of the grant of the Option) including (without prejudice to the generality of the foregoing) qualifying and/or continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by the Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period before the right to exercise the Option in respect of all or any of the Shares shall vest provided that such terms or conditions shall not be inconsistent with any other terms or conditions of the Share Option Scheme. For the avoidance of doubt, subject to such terms and conditions as the Board may determine as aforesaid (including such terms and conditions in relation to their vesting, exercise or otherwise) there is no minimum period for which an Option must be held before it can be exercised and no performance target which need to be achieved by the grantee before the Option can be exercised.

11. Amount payable for Options

The amount payable on acceptance of an Option is HK\$1.

12. Subscription price

The subscription price in respect of any particular Option shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option (and shall be stated in the letter containing the offer of the grant of the Option) but the subscription price shall not be less than whichever is the highest of:

- (a) the nominal value of a Share;
- (b) the closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotations sheet on the offer date; and
- (c) the average closing price of a Share as stated in the Hong Kong Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date.

13. Exercise of Option

- (i) An Option shall be exercised in whole or in part (but if in part only, in respect of a board lot or any integral multiple thereof) within the Option Period in the manner as set out in this Share Option Scheme by the grantee (or his legal personal representative(s)) by giving notice in writing to the Company stating that the Option is thereby exercised and specifying the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given. Within 30 days after receipt of the notice and, where appropriate, receipt of a certificate from our auditors pursuant to the Share Option

Scheme, the Company shall accordingly allot and issue the relevant number of Shares to the grantee (or his legal personal representative(s)) credited as fully paid with effect from (but excluding) the relevant exercise date and issue to the Grantee (or his legal personal representative(s)) share certificate(s) in respect of the Shares so allotted.

- (ii) The exercise of any Option may be subject to a vesting schedule to be determined by the Board in its absolute discretion, which shall be specified in the offer letter.
- (iii) The exercise of any Option shall be subject to the members of the Company in general meeting approving any necessary increase in the authorized share capital of the Company.
- (iv) Subject as hereinafter provided:
 - (a) in the event that the grantee dies or becomes permanently disabled before exercising an Option (or exercising it in full), he (or his legal representative(s)) may exercise the Option up to the Grantee's entitlement (to the extent not already exercised) within a period of 12 months following his death or permanent disability or such longer period as the Board may determine;
 - (b) in the event that the grantee ceases to be an Executive for any reason (including his employing company ceasing to be a member of the Group) other than his death, permanent disability, retirement pursuant to such retirement scheme applicable to the Group at the relevant time or the transfer of his employment to an affiliate company or the termination of his employment with the relevant member of the Group by resignation or termination on the ground of misconduct, the Option (to the extent not already exercised) shall lapse on the date of cessation of such employment and not be exercisable unless the Board otherwise determines in which event the Option (or such remaining part thereof) shall be exercisable within such period as the Board may in its absolute discretion determine following the date of such cessation;
 - (c) if a general offer is made to all holders of Shares and such offer becomes or is declared unconditional (in the case of a takeover offer) or is approved by the requisite majorities at the relevant meetings of shareholders of the Company (in the case of a scheme of arrangement), the Grantee shall be entitled to exercise the Option (to the extent not already exercised) at any time (in the case of a takeover offer) within one month after the date on which the offer becomes or is declared unconditional or (in the case of a scheme of arrangement) prior to such time and date as shall be notified by the Company;
 - (d) if a compromise or arrangement between the Company and its members or creditors is proposed for the purpose of or in connection with a scheme for the reconstruction of the Company or its amalgamation with any other company, the Company shall give notice thereof to the Grantees who have Options unexercised at the same time as it

dispatches notices to all members or creditors of the Company summoning the meeting to consider such a compromise or arrangement and thereupon each Grantee (or his legal representatives or receiver) may until the expiry of the earlier of:

- (i) the Option Period (in respect of any particular Option, the period commencing immediately after the business day on which the Option is deemed to be granted and accepted in accordance with the Share Option Scheme and expiring on a date to be determined and notified by our Directors to each Grantee provided that such period shall not exceed the period of ten years from the date of the grant of a particular Option but subject to the provisions for early termination thereof contained in the Share Option Scheme);
- (ii) the period of two months from the date of such notice; or
- (iii) the date on which such compromise or arrangement is sanctioned by the court,

exercise in whole or in part his Option.

- (e) in the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall on the same date as or soon after it dispatches such notice to each member of the Company give notice thereof to all Grantees and thereupon, each Grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options at any time not later than two business days prior to the proposed general meeting of the Company by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon the Company shall as soon as possible and, in any event, no later than the business day (as defined in the Hong Kong Listing Rules) immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the Grantee credited as fully paid.

14. Ranking of Shares

The Shares to be allotted upon the exercise of an Option will be subject to all the provisions of the articles of association and the laws of the Cayman Islands from time to time and shall rank *pari passu* in all respects with the then existing fully paid Shares in issue on the allotment date or, if that date falls on a day when the register of members of the Company is closed, the first date of the re-opening of the register of members, and accordingly will entitle the holders to participate in all dividends or other distributions paid or made on or after the allotment date or, if that date falls on a day when the register of members of the Company is closed, the first day of the re-opening of the register of members, other than any dividend or other distribution previously declared or recommended or resolved to be paid or made if the record date therefore shall be before the allotment date.

Share issued upon the exercise of an Option shall not carry rights until the registration of the Grantee (or any other person) as the holder thereof.

15. Life of Share Option Scheme

Subject to the terms of this Scheme, the Share Option Scheme shall be valid and effective for a period of ten years from the date on which it becomes unconditional, after which no further options will be granted or offered but the provisions of the Share Option Scheme shall remain in full force and effect to the extent necessary to give effect to the exercise of any subsisting Options granted prior to the expiry of the ten-year period or otherwise as may be required in accordance with the provisions of the Share Option Scheme.

16. Lapse of Share Option Scheme

An Option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

- (a) the expiry of the Option Period;
- (b) the expiry of any of the period referred to paragraphs related to exercise of Option;
- (c) subject to the period mentioned in paragraph headed “Share Option Scheme — Exercise of Option” in this section, the date of the commencement of the winding-up of the Company;
- (d) there is an unsatisfied judgement, order or award outstanding against the grantee or our Board has reason to believe that the grantee is unable to pay or to have no reasonable prospect of being able to pay his/its debts; or
- (e) a bankruptcy order has been made against any director or shareholder of the Grantee (being a corporation) in any jurisdiction.

No compensation shall be payable upon the lapse of any Option, provided that our Board shall be entitled in its discretion to pay such compensation to the Grantee in such manner as it may consider appropriate in any particular case.

17. Adjustment

In the event of any alteration to the capital structure of the Company while any Option remains exercisable, whether by way of capitalization of profits or reserves, rights issue, consolidation, reclassification, reconstruction, sub-division or reduction of the share capital of the Company, the Board may, if it considers the same to be appropriate, direct that adjustments be made to:

- (a) the maximum number of Shares subject to the Share Option Scheme; and/or
- (b) the aggregate number of Shares subject to the Option so far as unexercised; and/or

- (c) the subscription price of each outstanding Option.

Where the Board determines that such adjustments are appropriate (other than an adjustment arising from a capitalization issue), the auditors appointed by the Company shall certify in writing to the Board that any such adjustments are in their opinion fair and reasonable, provided that:

- (a) any such adjustments shall be made on the basis that the aggregate Subscription Price payable by the Grantee on the full exercise of any Option shall remain as nearly as practicable the same as (but shall not be greater than) as it was before such event;
- (b) no such adjustments shall be made the effect of which would be to enable a Share to be issued at less than its nominal value;
- (c) any such adjustments shall be made in accordance with the provisions as stipulated under Chapter 17 of the Hong Kong Listing Rules and supplementary guidance on the interpretation of the Hong Kong Listing Rules issued by the Hong Kong Stock Exchange from time to time; and
- (d) the issue of securities as consideration in a transaction shall not be regarded as a circumstance requiring any such adjustments.

18. Cancellation of Options not exercised

The Board shall be entitled for the following causes to cancel any Option in whole or in part by giving notice in writing to the Grantee stating that such Option is thereby cancelled with effect from the date specified in such notice (the “Cancellation Date”):

- (a) the Grantee commits or permits or attempts to commit or permit a breach of the restriction on transferability of Option or any terms or conditions attached to the grant of the Option;
- (b) the Grantee makes a written request to the Board for the Option to be cancelled; or
- (c) if the Grantee has, in the opinion of the Board, conducted himself in any manner whatsoever to the detriment of or prejudicial to the interests of the Company or its subsidiary.

The Option shall be deemed to have been cancelled with effect from the Cancellation Date in respect of any part of the Option which has not been exercised as of the Cancellation Date. No compensation shall be payable upon any such cancellation, provided that the Board shall be entitled in its discretion to pay such compensation to the Grantee in such manner as it may consider appropriate in any particular case.

19. Termination

The Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme. Upon termination of the Share Option Scheme as aforesaid, no further Options shall be offered but the provisions of the Share Option Scheme shall remain in force and effect in all other respects. All Options granted prior to such termination and not then exercised shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme.

20. Transferability

The Option shall be personal to the Grantee and shall not be assignable and no Grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any Option or attempt so to do (save that the Grantee may nominate a nominee in whose name the Shares issued pursuant to the Scheme may be registered), except with the prior written consent of the Board from time to time. Any breach of the foregoing shall entitle the Company to cancel any outstanding Option or part thereof granted to such Grantee.

21. Amendment

The Share Option Scheme may be altered in any respect by a resolution of the Board except that the following shall not be carried out except with the prior sanction of an ordinary resolution of the shareholders of the Company in general meeting, provided always that the amended terms of the Scheme shall comply with the applicable requirements of the Hong Kong Listing Rules: (i) any material alteration to its terms and conditions or any change to the terms of Options granted (except where the alterations take effect under the existing terms of the Scheme); (ii) any alteration to the provisions of the Scheme in relation to the matters set out in Rule 17.03 of the Hong Kong Listing Rules to the advantage of Grantee; and (iii) any alteration to the aforesaid termination provisions.

G. OTHER INFORMATION**1. Tax indemnity**

Our Controlling Shareholders have, under a deed of indemnity referred to in paragraph (r) of the sub-section headed “Summary of the Material Contracts” in this Appendix, given joint and several indemnities to the Company for itself and as trustee for its Subsidiaries in connection with, among other things, (a) any taxation liability which might be payable by any member of the Group arising on the death of any person on or before the date on which the obligations of the Underwriters under the Underwriting Agreement become unconditional (the “Unconditional Date”); (b) any taxation liability which might be payable by any member of the Group in respect of any income, profits or gains earned, accrued, or received on or before the Unconditional Date; or (b) any taxation liability of the Group that arises after the Unconditional Date as a result of an act, omission or transaction by a person other than the Group or the Company and which taxation liability falls upon the relevant member of the Group as a result of its having been in the same group for tax purposes as that person at any time before the Unconditional Date; and (c) all costs and expenses which are incurred by the Company or any other member of the Group in connection with, among others, paragraphs (a) and (b) above or in any legal proceedings related thereto.

Our Controlling Shareholders will however, not be liable under the deed of indemnity for taxation to the extent that:

- specific provision or reserve has been made for such tax liability in the audited accounts of the Company as at 30 June 2009; or

- the taxation liability arises or is increased as a result only of a retrospective change in law or a retrospective increase in tax rates coming into force after the Unconditional Date; or
- the taxation liability would not have arisen but for any voluntary act of any member of the Group after the Unconditional Date which the relevant member of the Group ought reasonably to have known would give rise to such taxation liability but excluding any act:
 - (i) carried out pursuant to a legally binding obligation of any member of the Group entered into or incurred on or before the date on which the Global Offering becomes unconditional; or
 - (ii) pursuant to an obligation imposed by any law, regulation or requirement having the force of law; or
 - (iii) taking place with the written approval of any of the Controlling Shareholders or pursuant to the Global Offering or any document executed pursuant to the Global Offering; or
 - (iv) occurring in the ordinary course of business of the Group.
- the taxation liability arises in the ordinary course of business of the Group after 30 June 2009 up to and including the date on which the Hong Kong Public Offer becomes unconditional.

Our Directors have been advised that no material liability for estate duty is likely to fall on the Company or any of its Subsidiaries under the laws of Hong Kong, the Cayman Islands, the British Virgin Islands and the PRC, being jurisdictions in which one or more of the companies comprising the Group were incorporated.

2. **Litigation**

As at the Latest Practicable Date, neither we nor any of our Subsidiaries are/is engaged in any litigation, arbitration or claim of material importance, and no litigation, arbitration or claim of material importance is known to our Directors to be pending or threatened by or against us, that would have a material adverse effect on our results of operations or financial condition.

3. **Preliminary Expenses**

Our estimated preliminary expenses are approximately US\$3,800 and have been paid by us.

4. **Sponsor**

The Sponsor made an application on our behalf to the Listing Committee of the Hong Kong Stock Exchange for listing of, and permission to deal in, the Shares in issue as mentioned herein, Shares to

be issued pursuant to the Capitalization Issue and any Shares falling to be issued pursuant to the exercise of the Over-allotment Option and, the Shares that may be issued upon the exercise of options that may be granted under the Share Option Scheme. All necessary arrangements have been made to enable such Shares to be admitted into CCASS.

5. No Material Adverse Change

Our Directors confirm that there has been no material adverse change in our financial or trading position or prospects since 30 June 2009 (being the date to which our latest audited combined financial statements were made up).

6. Binding Effect

This Prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance so far as applicable.

7. Miscellaneous

(1) Save as disclosed in this Prospectus:

- (a) within the two years immediately preceding the date of this Prospectus, no share or loan capital of the Company or any of its Subsidiaries has been issued or agreed to be issued fully or partly paid either for cash or for a consideration other than cash;
- (b) no share or loan capital of the Company or any of its Subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;
- (c) neither the Company nor any of its Subsidiaries have issued or agreed to issue any founder shares, management shares or deferred shares;
- (d) within the two years immediately preceding the date of this Prospectus, no commissions, discounts, brokerage or other special terms have been granted in connection with the issue or sale of any shares or loan capital of any member of the Group;
- (e) within the two years preceding the date of this Prospectus, no commission has been paid or payable (except commissions to the Underwriters) for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any Shares in the Company;
- (f) none of the equity and debt securities of the Company is listed or dealt with in any other stock exchange nor is any listing or permission to deal being or proposed to be sought; and
- (g) we have no outstanding convertible debt securities.

- (2) There has not been any interruption in the business of the Group which may have or have had a significant effect on the financial position of the Group in the twelve (12) months immediately preceding the date of this Prospectus.

8. Qualifications of experts

The following are the qualifications of the experts who have given opinion or advice which are contained in this Prospectus:

Name	Qualification
Macquarie Capital Securities Limited	Licensed under the SFO for Type 1 (dealing in securities), Type 4 (advising on securities) and Type 6 (advising on corporate financing) as defined under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Tian Yuan Law Firm	PRC legal advisers to the Company
WongPartnership LLP	Singapore legal advisers to the Company
Jones Lang LaSalle Sallmanns Limited	Property valuer

9. Consents of experts

Each of Macquarie Capital Securities Limited, Deloitte Touche Tohmatsu, Conyers Dill & Pearman, Tian Yuan Law Firm, WongPartnership LLP and Jones Lang LaSalle Sallmanns Limited has given and has not withdrawn their respective consent to the issue of this Prospectus with the inclusion of its report and/or letter and/or summary of valuations and/or legal opinion (as the case may be) and references to its name included in the form and context in which it respectively appears.

None of the experts named above has any shareholding interests in the Company or any of its Subsidiaries or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any of its Subsidiaries.

10. Bilingual Prospectus

The English language and Chinese language versions of this Prospectus are being published separately in reliance upon the exemption provide by section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

11. Particulars of the Selling Shareholders in the Global Offering

<u>Name</u>	<u>Description</u>	<u>Registered office</u>	<u>Number of Sale Shares (assuming no exercise of Over-allotment Option)</u>	<u>Number of Sale Shares (assuming full exercise of the Over-allotment Option)</u>
Aceplus Investments Limited	Corporation	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	83,856,000	96,434,400

Aceplus is a limited liability company incorporated in the BVI wholly owned by Mr. Yan Tangfeng, our Controlling Shareholder.

SEAVI Advent Equity V (A) Ltd.	Corporation	P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands	21,686,400	24,939,360
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SEAVI Advent Equity V (A) Ltd. is a limited liability company incorporated in the BVI on 29 August 2007. It is an investment holding vehicle managed by SEAVI Advent Corporation Ltd.

Apollo Asia Opportunity Master Fund, L.P.	Corporation	Walker House, Mary Street, George Town, Grand Cayman KY1-9002, Cayman Islands	14,457,600	16,626,240
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Apollo Asia Opportunity Master Fund, L.P. is an exempted limited partnership established in the Cayman Islands managed by Apollo Asia Management, L.P.

**APPENDIX VIII DOCUMENTS DELIVERED TO THE REGISTRAR OF
COMPANIES AND AVAILABLE FOR INSPECTION**

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this Prospectus delivered to the Registrar of Companies in Hong Kong for registration were copies of the **white**, **yellow** and **green** Application Forms, the written consents referred to in the paragraph headed “Consents of experts” in Appendix VII, copies of the material contracts referred to in the paragraph headed “Summary of the Material Contracts” in Appendix VII and statement of particulars of the Selling Shareholders.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Orrick, Herrington & Sutcliffe at 43rd Floor, Gloucester Tower, The Landmark, 15 Queen’s Road Central, Hong Kong during normal business hours from 9:00 a.m. to 5:00 p.m. up to and including 24 December 2009:

- (1) the Memorandum and the Articles of the Company;
- (2) the Accountants’ Report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendices IA and 1B to this Prospectus;
- (3) the audited financial statements of the companies now comprising the Group for each of the three years ended 31 December 2008 and the six months ended 30 June 2009;
- (4) the letters relating to the unaudited pro forma financial information, the texts of which are set out in Appendix II to this Prospectus;
- (5) the letters relating to the profit forecast, the texts of which are set out in Appendix III to this Prospectus;
- (6) the letter, summary of values and valuation certificates relating to the property interests of the Group prepared by Jones Lang LaSalle Sallmanns Limited, the texts of which are set out in Appendix IV to this Prospectus;
- (7) the material contracts referred to in the paragraph headed “Summary of the Material Contracts” in Appendix VII to this Prospectus;
- (8) the service contracts or appointment letters (as the case may be) with our Directors, referred to in the paragraph headed “Directors’ service contracts” in Appendix VII to this Prospectus;
- (9) the letter prepared by Conyers Dill & Pearman summarizing certain aspects of Cayman Islands Companies Law referred to in Appendix VI to this Prospectus;
- (10) the written consents referred to in the paragraph headed “Consents of experts” in Appendix VII to this Prospectus;

- (11) the legal opinions prepared by Tian Yuan Law Firm, our legal adviser as to the PRC laws, in respect of certain aspects of the Group and the property interests of the Group;
- (12) the Cayman Islands Companies Law;
- (13) the statement of particulars of the Selling Shareholders including their names, addresses and description; and
- (14) the rules of the Share Option Scheme.

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

