



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

(Incorporated in the Cayman Islands with limited liability)
Stock Code: 1080

Annual Report
2009



Corporate Profile

SHENGLI OIL & GAS PIPE HOLDINGS LIMITED

(the “Company”) is one of the largest oil and gas line pipe manufacturers in China. We focus on the designing, manufacturing, value-added processing and servicing of spiral submerged arc welded pipes (“SSAW pipes”), that are used to transport crude oil, refined petroleum products, natural gas and other related products.



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Corporate Information



BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Bizhuang (*Chief Executive Officer*)
Mr. Wang Xu
Ms. Han Aizhi

Non-executive Directors

Mr. Yan Tangfeng (*Chairman*)
Mr. Teo Yi-Dar
Mr. Ling Yong Wah
Mr. Ong Kar Loon
(*alternate Director to Mr. Ling Yong Wah*)

Independent non-executive Directors

Mr. Huo Chunyong
Mr. Guo Changyu
Ms. Wong Wing Yee Jessie

AUDIT COMMITTEE

Ms. Wong Wing Yee Jessie (*Chairman*)
Mr. Huo Chunyong
Mr. Teo Yi-Dar

REMUNERATION COMMITTEE

Mr. Yan Tangfeng (*Chairman*)
Ms. Wong Wing Yee Jessie
Mr. Huo Chunyong

NOMINATION COMMITTEE

Mr. Zhang Bizhuang (*Chairman*)
Mr. Guo Changyu
Mr. Huo Chunyong

COMPANY SECRETARY

Mr. Lo Wah Wai, *HKICPA, AICPA*

AUTHORISED REPRESENTATIVES

Ms. Han Aizhi
Mr. Lo Wah Wai, *HKICPA, AICPA*

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

PRINCIPAL BANKERS

Industrial & Commercial Bank of China
Bank of China Zibo Branch

LEGAL ADVISER

Orrick, Herrington & Sutcliffe

COMPLIANCE ADVISER

SBI E2-Capital (HK) Limited

AUDITORS

Deloitte Touche Tohmatsu

SHARE REGISTRARS

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (Cayman) Limited

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited

LISTING EXCHANGE INFORMATION

Place of Listing

Main Board

The Stock Exchange of Hong Kong Limited

Stock Code

1080

COMPANY WEBSITE

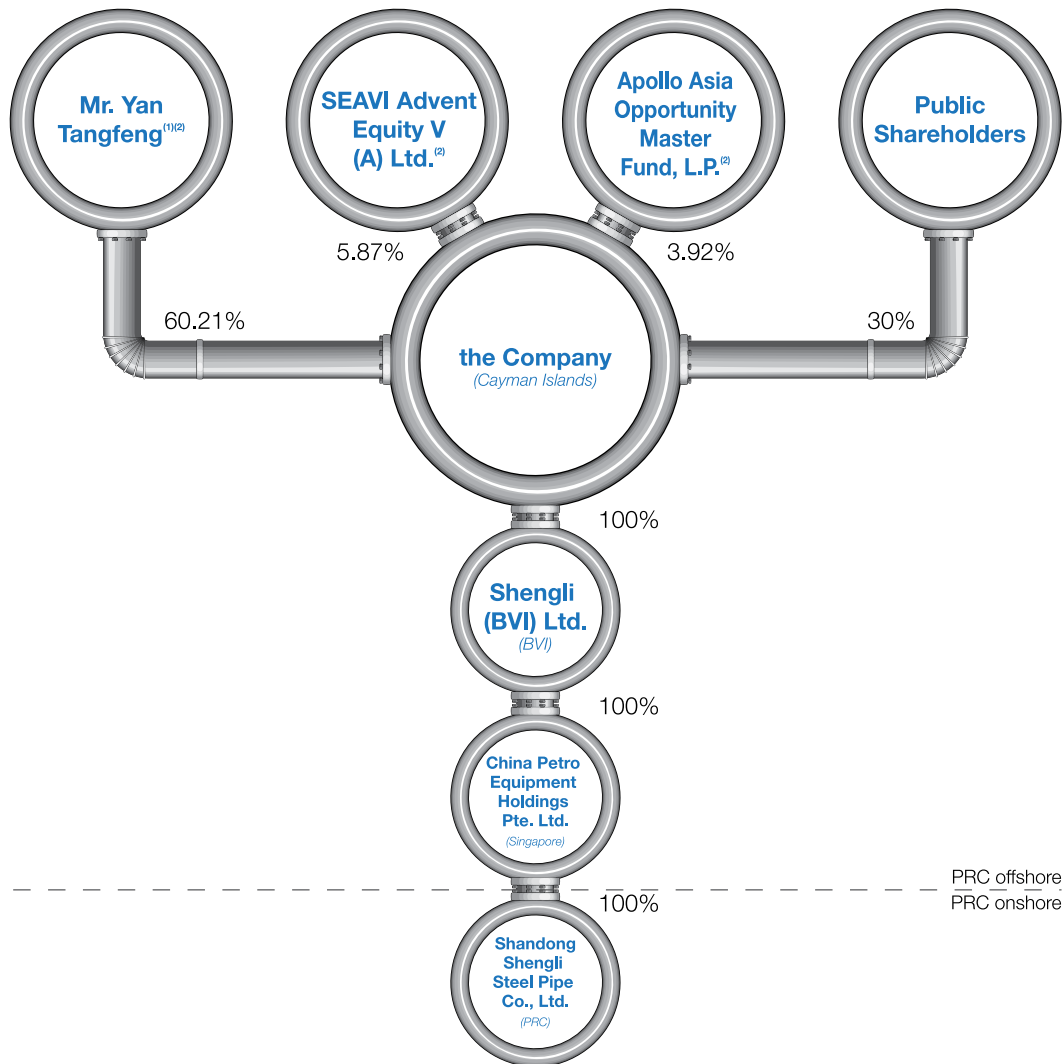
www.slogp.com

Corporate Profile

We are one of the largest oil and gas line pipe manufacturers in China. We focus on the designing, manufacturing, value-added processing and servicing of spiral submerged arc welded pipes (“SSAW pipes”), that are used to transport crude oil, refined petroleum products, natural gas and other related products.

Following our recent expansion, we led the People's Republic of China (the “PRC”) industry in terms of production capacity and the number of production lines for SSAW pipes as of 31 December 2009. 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.

As at 31 December 2009, the corporate structure of our Company and its subsidiaries (the “Group”) was as follows:

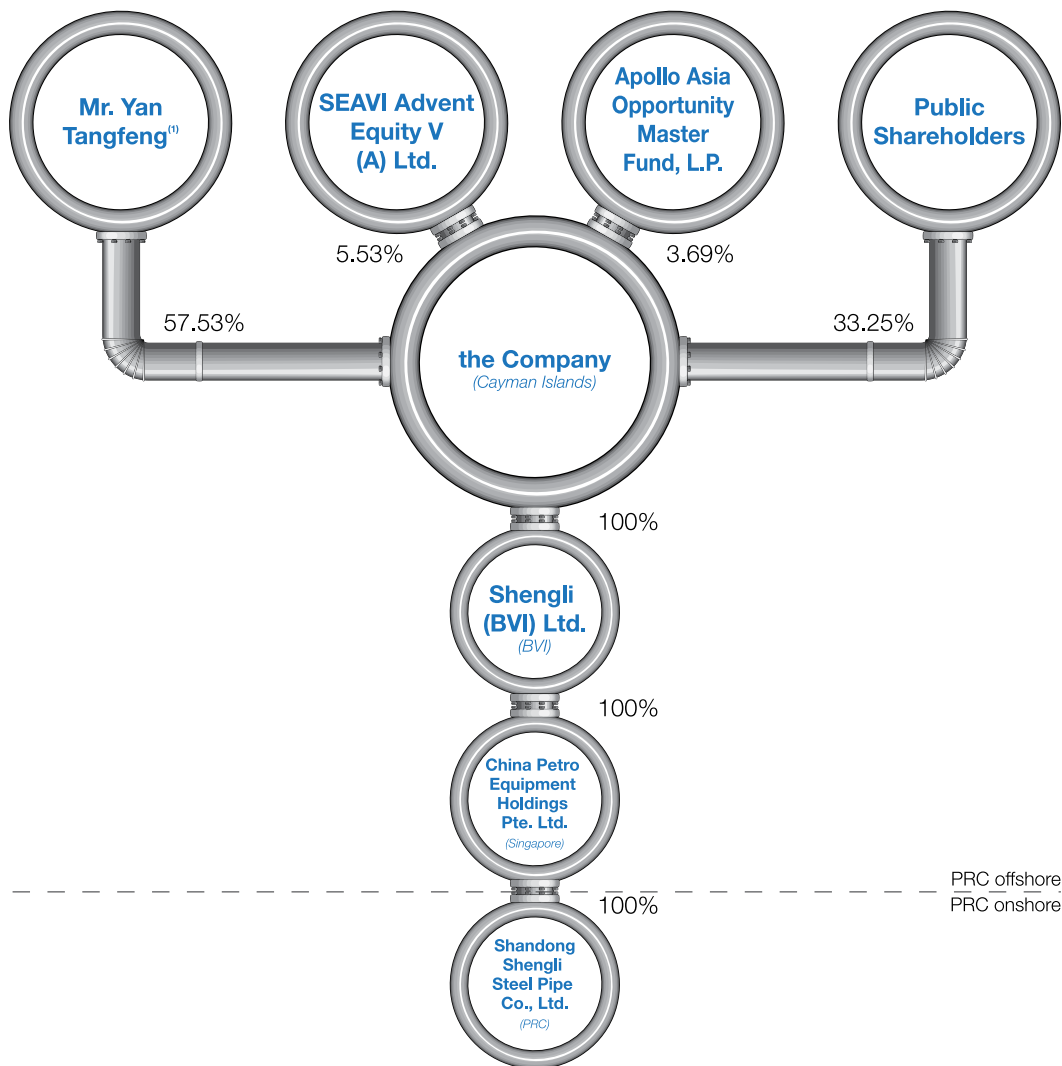


Notes:

- (1) Mr. Yan Tangfeng holds his equity interest in the Company through his wholly-owned investment vehicle Aceplus Investments Limited.
- (2) The Company's shares commenced trading on the Main Board of The Stock Exchange of Hong Kong Limited on 18 December 2009. As part of the Global Offering of the Company, Aceplus Investments Limited, SEAVI Advent Equity V (A) Ltd. and Apollo Asia Opportunity Master Fund, L.P., together with the Company, granted an over-allotment option to the underwriters of the Company's Global Offering pursuant to which they may be required to sell and issue additional Shares. The over-allotment option was exercised on 13 January 2010 and please refer to the corporate structure of the Company after exercise of the over-allotment option on next page.

Corporate Profile

After the exercise of over-allotment option on 13 January 2010, the corporate structure of the Group was as follows:



Notes:

- (1) Mr. Yan Tangfeng holds his equity interest in the Company through his wholly-owned investment vehicle Aceplus Investments Limited.

Financial Summary

CONSOLIDATED/COMBINED STATEMENTS OF COMPREHENSIVE INCOME

	Year ended 31 December		For the period from 1 November 2007 to 31 December 2007
	2009 RMB'000	2008 RMB'000	2007 RMB'000
Turnover	2,999,092	1,070,747	—
Cost of sales	(2,657,043)	(935,241)	—
Gross profit	342,049	135,506	—
Other income	51,356	36,141	141
Selling and distribution expenses	(16,515)	(6,020)	—
Administrative expenses	(37,951)	(16,830)	(12)
Finance costs	(3,051)	—	—
Profit before taxation	335,888	148,797	129
Income tax expenses	—	—	—
Profit for the year/period and total comprehensive income for the year/period	335,888	148,797	129

SELECTED STATEMENTS OF FINANCIAL POSITION INFORMATION

	As at 31 December		
	2009 RMB'000	2008 RMB'000	2007 RMB'000
Total assets	2,167,961	1,304,251	227,826
Total liabilities	437,552	1,155,325	227,697
Total equity	1,730,409	148,926	129

Notes:

- The Company was incorporated in the Cayman Islands on 3 July 2009 and became the holding company of the Group on 28 October 2009 as a result of the Group Reorganization as set out in the Prospectus dated 9 December 2009 issued by the Company.
- The results of the Group for period from 1 November 2007 to 31 December 2007 and each of the two years ended 31 December 2009 and the assets and liabilities of the Group as at 31 December 2007, 31 December 2008 and 31 December 2009 have been prepared on a combined basis as if the Group structure had been in existence throughout the periods concerned. The financial information of the Group for the two months ended 31 December 2007 and for the year ended 31 December 2008 have been extracted from the Prospectus.

Chief Executive Officer's Statement



Zhang Bizhuang *Chief Executive Officer*

To the Shareholders,

I would like to extend my sincere thanks to all of you for supporting the Company. On behalf of the board of directors (the "Board") of Shengli Oil & Gas Pipe Holdings Limited (the "Company"), I am pleased to present to you the audited results for the year ended 31 December 2009.

In 2009, governments and companies of all nations have eventually emerged from the shadow of financial crisis and the economies have also slowly recovered. To the Company, 2009 is of indelible meaning.

UNDERGO REFORMATION AND RESTRUCTURING STEP INTO INTERNATIONAL CAPITAL MARKET

In 1972, the predecessor of the Company, Shengli Oilfield Construction Headquarter Steel Pipe Factory, was established. After walking along the long way of merger, acquisition and restructuring throughout the past years, the Company was successfully listed on the Stock Exchange of Hong Kong Limited on 18 December 2009, realizing the goal of stepping into the international capital market. I, on behalf of the management, would like to extend my gratitude to the shareholders again for trusting us and choosing our shares in such a turbulent and obscure market condition.

“ 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. ”

In 2009, the economy of China showed signs of slowing down domestically while it was facing continuous external trading competition. Nonetheless, despite the tortuous road of development, the Company still recorded growth in both revenue and net profit under the concerted efforts of our staff. For the year ended 31 December 2009, the Company's revenue was approximately RMB2,999.1 million (2008: RMB1,070.7 million), representing a growth of 180.1% as compared with last year. Profit for the year ended 31 December 2009 amounted to RMB335.9 million (2008: RMB148.8 million), which represented a 125.7% increase as compared with last year.

FOCUS ON PRODUCT DEVELOPMENT AND COPE WITH DOMESTIC AND OVERSEAS DEMAND

The Company focuses on the designing, manufacturing, value-added processing and services of SSAW pipes for the transportation of crude oil, refined petroleum products, natural gas and other related products. Meanwhile, in order to foster the Company's competitive strengths, in addition to SSAW pipes products, we also produce a wide variety of cold-formed section steel using our steel piping and welding technologies and equipment, so as to increase our market share and expand the streams of revenue.

Our production facilities are located in Zibo, Rizhao and Dezhou in Shandong Province with an aggregate GFA of 65,809.92 m². As of 31 December 2009, our annual production capacity for SSAW pipes and cold-formed section steel were 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. The Company is one of the largest oil and gas line pipe manufacturers in China. We strongly believe that the

Chief Executive Officer's Statement



The Group's **net profit** for the years ended 31 December 2009 and 31 December 2008 were **RMB335.9 million** and **RMB148.8 million**.

Company is capable of coping with increasing demands from both overseas and domestic customers with our expanding annual production capacity.

In respect of the domestic market, over 90% of our SSAW pipes were supplied to national oil and gas pipeline projects in China. Our main customers for SSAW pipes are the group companies within CNPC and Sinopec group and their joint ventures, which are the largest oil and gas companies in China. CNPC and Sinopec collectively operate substantially all of China's onshore oil and gas pipelines. The total revenue generated from the above two major customers accounted for 90.3% of the total revenue of our Company in 2009.

In respect of overseas market, although we have not established any overseas sales office, about 6.5% of our SSAW pipes have been installed in overseas projects. One of the major customers of the Company, China Petroleum Technology Development Co., has installed parts of our SSAW pipes in their overseas and transnational pipeline projects in countries such as Kazakhstan and Uzbekistan.

ACTIVELY RESEARCH AND DEVELOP PRODUCTS, IMPROVE PRODUCTION TECHNOLOGY AND PROCESS SO AS TO MAINTAIN LONG-TERM COMPETITIVENESS

We believe enhancing product research and development is crucial to the maintenance of our long-term competitiveness. In 2009, we concentrated our 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 managed to enhance product quality, increase productivity and achieve cost-efficiency. We received various awards, including the “High Advanced Technologies Enterprise Award” issued by the Department of Science and Technology of Shandong Province and the “Shandong Famous Brand” issued by Shandong Province Famous Brand Strategy Promotion Committee, Shandong Bureau of Quality and Technical Supervision in recognition of our advanced technology. We have entered into strategic cooperation agreements with each of China Petroleum Technology Development Co., China Petroleum Materials and Equipment (Group) Corporation and Sinopec to exchange technology knowledge and pledged our support to conduct trial production of pipeline-related products developed by these strategic partners. We have also engaged in collaborative research efforts with the China University of Petroleum to improve our manufacturing techniques and enhance our products quality.

LOOKING FORWARD: TO BECOME A LEADER IN THE GLOBAL LINE PIPE INDUSTRY

We believe that oil and natural gas are strategic resources with an irreplaceable status now and in the future. Under the global economic recovery, oil demand will continue to increase. Together with the policies of “West-East gas pipeline” and industry integration, the development of oil industry and related equipment and line pipe industry will stand to benefit.

Being one of the largest producers of oil and gas line pipes, 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 footprints.

Between 2006 and 2009, the compound annual growth rate of sales volume of our SSAW pipes is 90.1%. The market demand for SSAW pipes is expected to continue to grow and therefore we plan to further expand our production capacity. An additional production capacity of 460,000 tonnes for SSAW pipes will be completed in 2010, so as to meet the increasing demand for oil and gas pipeline and expand our market share. Meanwhile, in order to capture available opportunities, the Company will strengthen the research

and development of new products and technology to diversify our product offerings, as we believe our future success depends on our continual ability to introduce new products to meet demands of the market.

EXPLORE LSAW AND ERW PIPE MARKETS

To complement our strong growth in the SSAW pipe products in the past, the Company plans to invest in a LSAW pipe production line with an annual production capacity of 200,000 tonnes as well as one anti-corrosion production line with a capacity of 2.4 million m². We will extend the application of our current production facilities, technological and industry knowledge as well as management skills to provide another high value LSAW product to our major customers and also increase our competitiveness as a supplier. We also plan to upgrade a production line of cold-formed section steel, so that such facilities can be reconfigured into an ERW pipe production line with a capacity of 100,000 tonnes. Meanwhile, we will expand the sales of goods to international markets such as the U.S. and Canada.

APPRECIATE YOUR SUPPORT AND COMMITTED TO ACHIEVING THE GOAL

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

Mr. Zhang Bizhuang
Chief Executive Officer

16 April 2010



Management Discussion and Analysis



Revenue of the Group **increased** by **180.1%**
from RMB1,070.7 million in 2008 to
RMB2,999.1 million in 2009

Management Discussion and Analysis

BUSINESS REVIEW

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

SSAW Pipes Business

Despite being the world's second highest energy consumer, China is far behind other countries in respect of infrastructure construction. In 2009, China's oil and gas consumption only accounted for about 50% of the consumption of the U.S., while its total pipeline length was less than 10% to that of the U.S. Compared with developed countries, the development of oil and gas pipeline infrastructure of China obviously lags behind its energy consumption growth. This relatively underdeveloped state suggests that pipeline related business is in a rapid growth stage.

Extensive networks of long-distance pipelines are necessary as China's oil and gas reserves are predominately located in western China.

The major product of the Company, SSAW pipes, are especially suitable for installing in oil and gas pipelines to transport crude oil, petroleum products and natural gas due to their tolerance to high temperature and pressure and their impact strength. According to Tubular Goods Research Center of CNPC ("TGRC"), 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. From these figures, it can be seen that the demand and development potential for SSAW pipes are tremendous.

The Company has 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 (Kazakhstan-China Oil Pipeline) and China's first transnational natural gas

pipeline (Centra Asia-China Natural Gas Pipeline). Meanwhile, the Company is the only privately owned SSAW pipes provider among the few approved suppliers to China's major oil and gas companies. Our major customers, CNPC and Sinopec, accounting for over 90.3% of the Group's turnover for year 2009. As of 31 December 2009, the Company's SSAW pipes formed approximately 15,000 km of the world's major oil and gas pipelines, of which 93.5% have been installed domestically and 6.5% have been installed overseas.

For the year ended 31 December 2009, turnover from the sales of SSAW pipes was RMB2,600.3 million, accounting for 89.1% of the total turnover of SSAW pipes business, representing a 191.4% increase over the same period last year. Turnover from processing services of SSAW pipes decreased by RMB16.3 million from last year to RMB68.6 million, accounting for 2.4% of the total turnover of SSAW pipes business, whereas turnover from anti-corrosion treatments of SSAW pipes was RMB249.3 million, accounting for 8.5% of the total turnover of SSAW pipes business, representing a 1,543.62% increase over the same period last year.

The utilisation rate for SSAW pipes increased from 77.7% in 2008 to 83.7% in 2009.

Cold-formed Section Steel

In addition to the major business of SSAW pipes, the Company also utilizes welding technologies and different equipment to produce cold-formed section steel. Cold-formed section steel allows the shaping of steel at room temperature without the application of heat, resulting in less waste material. It is one of the major materials used in modern construction. Our cold-formed section steel is mainly used in the construction industry and the manufacture of trucks and containers.

In order to effectively make use of the production facilities and to increase the diversity of products, the production lines of the Company can be reconfigured to manufacture square and rectangular

tubes, round steel pipes as well as other cold-formed section steel. At present, the Company has three cold-formed section steel production lines with an annual production capacity of 60,000 tonnes.

During 2007, 95.3% of the Company's cold-formed section steel was exported. However, due to the changes in tax policy, the Company has adjusted its sales strategy and focused on the local market. Given the lower market price in China than the export price, the operation of cold-formed section steel had recorded loss in the past. Last year, all countries have gradually started to emerge from the clouds of financial tsunami and China's economic development, especially, continues to grow in a stable and rapid pace. The increase in national infrastructure construction also led to the improvement in sales of cold-formed section steel in the second half of 2009.

For the year ended 31 December 2009, turnover from the sales of cold-formed section steel was RMB80.4 million, accounting for 99.4% of the total turnover of cold-formed section steel, representing a 3.2% increase over the same period last year, whereas income from processing services of cold-formed section steel increased 24.1% from last year to RMB0.5 million, accounting for 0.6% of the total turnover of cold-formed section steel.

Prospect

China is currently in the stage of rapid growth. Large diameter line pipes have been used in national oil and gas pipelines to increase transportation efficiency, generating additional business for line pipe manufacturers.

Small and medium-sized cities and rural areas in China generally have limited access to piped gas. However, the rapid urbanization of China will substantially increase the demand for piped gas. Besides, the PRC Government has been promoting the consumption of gas instead of other energy sources and aims to increase national gas consumption levels to 8% of overall energy

consumption in China within the next ten years. The national and lateral pipelines in China will experience rapid growth in the next five years. According to the estimates stated 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.

As one of the largest oil and gas line pipe manufacturers in China, the Company has initiated the construction of two SSAW pipes production lines with a total annual capacity of 100,000 tonnes, which are expected to be completed in the first half of 2010. The Company also intends to construct another two SSAW pipes production lines with more advanced precision technology and with a total annual capacity of 360,000 tonnes, as well as two anti-corrosion production lines with a total annual capacity of 4.8 million sq.m., in order to meet the continuously rising demand. At the same time, the Company will strive to diversify its products by expanding its capacity in the design and production of LSAW pipes and ERW pipes. The Company plans to construct one production line with an annual production capacity of 200,000 tonnes to produce large-diameter LSAW pipes with thicker walls, which are generally installed in large-diameter national oil and gas pipelines. The Company also plans to upgrade our existing cold-formed section steel production lines into an ERW pipe production line with an annual production capacity of 100,000 tonnes, which are generally installed in small-diameter oil and gas pipelines. The expected construction periods for the above new production lines vary from ten to 18 months and will share a similar customer base with that relating to SSAW pipes.

Moreover, with the competitive advantages of its branding, technology, product quality, strong management as well as strong financial resources, the Company is seeking rapid growth through strategic alliances, joint venture and acquisition.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

Revenue of the Group increased by 180.1% from RMB1,070.7 million for the year ended 31 December 2008 to RMB2,999.1 million for the year ended 31 December 2009. The significant increase was primarily due to the substantial increase in sales of SSAW pipes.

The Group generated RMB2,918.2 million from its SSAW pipe operations for the year ended 31 December 2009, representing a 194.1% increase from RMB992.4 million for the year ended 31 December 2008. The substantial increase in SSAW pipe revenue was mainly due to (i) increase in the production as a result of introduction of two new SSAW production lines and two anti-corrosion lines; (ii) increase in sales orders and consequently increase in sales volume from 219,110 tonnes in 2008 to 486,273 tonnes in 2009. At the same time, the Group's anti-corrosion processing revenue increased by RMB234.1 million in 2008 to RMB249.3 million in 2009; (iii) the shift to sales of goods arrangements in the SSAW pipe operations. In 2009, the Group delivered 379,000 tonnes of pipes under sales of goods arrangement, as opposed to 122,000 tonnes in 2008. The volume of SSAW pipes that the Group supplied increased substantially from approximately 219,110 tonnes in 2008 to approximately 486,273 tonnes in 2009 because the Group won major bids to supply SSAW pipes to the Second West-East Gas Pipeline and began delivering such products in November 2008. In addition, the increased sales orders from Central Asia-China Natural Gas Pipeline and Yulin — Puyang — Jinan Gas Pipeline also contributed to the increase in the Group's revenue.

The Group generated RMB80.9 million from its cold-formed section steel operations in 2009, representing a 3.3% increase from RMB78.3 million in 2008, primarily due to the Group's gradual opening up of the local market and the establishment of good relationships with the Group's customers.

Cost of sales

The Group's cost of sales increased by 184.1% from RMB935.2 million in 2008 to RMB2,657.0 million in 2009, primarily due to (i) increase in production and sales volume due to increase in production capacity (ii) an increase in sales of goods as opposed to provision of processing services; and labour costs also increased due to an increase in the headcount of direct workers and higher average compensation for employees. Other cost of sales that increased in 2009, as compared with 2008, was largely due to the increased factory rental and 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 RMB135.5 million in 2008 to RMB342.0 million in 2009. However, the gross profit margin of the Group decreased from 12.7% in 2008 to 11.4% in 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 the provision of processing services, but gross profit under the two arrangements are comparable. In 2009, sales of goods contributed to 61.4% (2008: 47.5%) of gross profit of SSAW pipe operation, which was then followed by anti-corrosion treatment of 25.9% (2008: 3.6%), the remaining of 12.7% (2008: 48.9%) of gross profit was derived from provision of processing services.

Other income

Other income of the Group increased from RMB36.1 million in 2008 to RMB51.4 million in 2009 as a result of an increase in gain on sales of scrap materials. The increase in gain on sales of scrap materials 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.



We focus on the designing, manufacturing, value-added processing and servicing of spiral submerged arc welded pipes, or SSAW pipes, that are used to transport crude oil, refined petroleum products, natural gas and other related products.

Selling and distribution expenses

Selling and distribution expenses of the Group increased from RMB6.0 million in 2008 to RMB16.5 million in 2009. The increase was mainly due to an increase in transportation costs as a result of increase in certain sales contracts under which the Group would bear the transportation costs. However, the Group had factored such costs in the selling price.

Administrative expenses

The Group's administrative expenses increased by 126.2% from RMB16.8 million in 2008 to RMB38.0 million in 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 2009 listing in Hong Kong.

Finance costs

The Group incurred finance costs of RMB3.1 million in 2009, which represented interest on bank and other borrowings, which were payable within one year.

Income tax expenses

The Group incurred nil income tax expenses for 2008 and 2009. As a foreign invested enterprise, the Group is eligible for certain tax holidays and concessions 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.





540,000 tonnes

With seven SSAW pipe production lines that have a collective annual production capacity for 540,000 tonnes of oil and gas line pipes

Management Discussion and Analysis

Profit for the year

As a result of the foregoing factors, the profit of the Group increased by RMB187.1 million from RMB148.8 million in 2008 to RMB335.9 million in 2009.

Analysis of inventory, trade receivable and trade payable turnover

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

	Year ended 31 December 2009 (Days)	Year ended 31 December 2008 (Days)
Average turnover days of inventories	72.3	174.6
Average turnover days of trade receivables	33.0	31.2
Average turnover days of trade payables	20.5	16.0

Cooperation

We achieve success by remaining sharply focused on execution excellence.



Our SSAW pipes are the predominant type of line pipes used in high-pressure oil and gas pipelines in China.

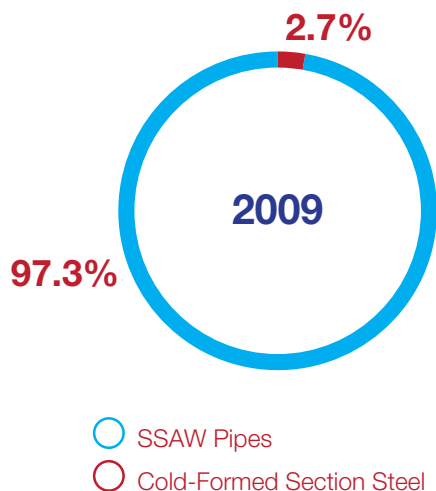
Inventories

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 2009 and 2008 were 72.3 days and 174.6 days, respectively. The following table sets forth the breakdown of the inventory of the Group as of the dates indicated:

	Year ended 31 December 2009 (RMB'000)	Year ended 31 December 2008 (RMB'000)
Raw materials	117,795	315,797
Work-in-progress	7,897	895
Finished goods	129,906	495,434
Total	255,598	812,126

As of 31 December 2009 and 31 December 2008, the Group had inventories of RMB255.6 million and RMB812.1 million, respectively. During the years ended 31 December 2008 and 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 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 31 December 2009 decreased from the balance on 31 December 2008 following the delivery of SSAW pipes, which substantially reduced our inventory of finished goods.

Total Turnover



Trade receivables

Turnover days of the Group's trade receivables were 33.0 days and 31.2 days for the years ended 31 December 2009 and 31 December 2008, respectively. Our credit policy did not change substantially.

Our trade receivables mainly represent the credit sales of our product to be paid by customers.

Management Discussion and Analysis

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 aged analysis of trade receivables of the Group as of the dates indicated:

	Year ended 31 December 2009 (RMB'000)	Year ended 31 December 2008 (RMB'000)
Outstanding balance with ages:		
Within 90 days	401,014	123,283
Over 90 days but within 1 year	23,708	1,224
Over 1 year	54	—
Total	424,776	124,507

The Group's trade receivables as of 31 December 2009 and 31 December 2008 was RMB424.8 million and RMB124.5 million, respectively. In the fourth quarter of 2009 and 2008, we supplied more oil and gas line pipes to the CNPC Group and other customers as sales of goods, as opposed to provision of processing services. As a result, we incurred significantly large trade receivables as of 31 December 2009 and 31 December 2008.

Trade payables

Turnover days of the Group's trade payables were 20.5 days and 16.0 days for the year ended 31 December 2009 and 31 December 2008, respectively.

Payment for most of our raw materials and components are due within 90 days of delivery and acceptance. The following table sets forth an aged analysis of trade payables of the Group as of the dates indicated:

	Year ended 31 December 2009 (RMB'000)	Year ended 31 December 2008 (RMB'000)
Outstanding balance with ages		
Within 90 days	180,741	27,276
Over 90 days but within 1 year	44,651	40,870
Over 1 year	9,130	—
Total	234,522	68,146

Trade payables of the Group as of 31 December 2009 and 31 December 2008 were RMB234.5 million and RMB68.1 million, respectively. In 2008 and 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. The increase in the trade payables in 2009 as compared to 2008 was largely due to an increase in purchases from China Petroleum Materials and Equipment Corporation for the Second West-East Gas Pipeline and other projects.

Analysis of net current assets and liabilities

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

	Year ended 31 December 2009 (RMB'000)	Year ended 31 December 2008 (RMB'000)
Current assets		
Inventories	255,598	812,126
Trade and other receivables	488,997	178,854
Amounts due from related parties	4,389	2,840
Prepaid lease payments	355	123
Bank balances and cash	1,168,293	80,796
Total current assets	1,917,632	1,074,739
Current liabilities		
Trade and other payables	350,019	829,542
Amounts due to related parties	—	275,308
Bank and other borrowings	87,058	50,000
Total current liabilities	437,077	1,154,850
Net current assets (liabilities)	1,480,555	(80,111)

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 trade and other receivables balance as of 31 December 2009 increased by 173.4% from the balance as of 31 December 2008. The significant increase in trade and other receivables was in line with our sales volume and revenue growth during

2009. Our revenue generated in 2009 represented a 180.1% increase over total revenue generated in 2008.

As of 31 December 2009, we had net current assets of RMB1,480.6 million. The Group's net current asset position was primarily the result of (i) an increase in bank balance and cash of RMB1,087.5 million mainly from proceed of IPO, (ii) the capitalization of a loan of RMB146.5 million from Aceplus for Shares of the Company and (iii) the settlement of amounts due to other related parties.

Management Discussion and Analysis

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:

	Year ended 31 December 2009 (RMB'000)	Year ended 31 December 2008 (RMB'000)
Capital expenditure		
Purchase of property, plant and equipment	32,098	129,810

Indebtedness

Borrowings

The following table sets forth information of the Group's bank and other borrowings:

	Year ended 31 December 2009 RMB'000	Year ended 31 December 2008 RMB'000
Bank borrowings due within one year:		
— Secured	15,000	—
— Unsecured	65,000	50,000
Unsecured other borrowing due within one year	7,058	—
	87,058	50,000

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

	Effective interest rate per annum 2009 %	2008 %
Effective interest rates:		
Fixed-rate bank and other borrowings	4.86% to 5.31%	5.31%

As at 31 December 2008, bank borrowings amounting to RMB50,000,000 were guaranteed by a related party, Shengli Steel Pipe. The guarantees were fully released during the year ended 31 December 2009.

As at 31 December 2009, the Group's bank borrowings amounting to RMB15,000,000 (2008: Nil) were secured by the Group's property, plant and equipment and land use rights, which had carrying amounts at 31 December 2009 of approximately RMB27,385,000 (2008: Nil) and RMB5,894,000 (2008: Nil), respectively.

The following discussion should be read along with the financial information and its notes of the Group, which were included in this report.

Financial management and treasury policy

As at 31 December 2009, saved for the net proceeds from the Share Offer, our Group's turnover, expenses, assets and liabilities were substantially denominated in Renminbi ("RMB"). Our Directors consider currently our Group has limited foreign currency exposure and has not entered into any hedging arrangement, we would closely monitor the foreign currency movement.

As at 31 December 2009, the net proceeds we obtained from initial public offering was approximately RMB1,098.5 million, such amount had not been utilized as at 31 December 2009. As at 31 December 2009, the proceeds from the Share Offer that were not already used for the intended purposes had been placed with a financial institution in Hong Kong. After the exercise of over-allotment option on 13 January 2010, the net proceeds amounted to RMB168.2 million. We intend to apply the proceeds in same manner as we disclosed in the prospectus.

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

Liquidity and financial resources

As of 31 December 2009, cash and bank balances of the Group amounted to approximately RMB1,168.3 million (2008: approximately RMB80.8 million).

As of 31 December 2009, the Group had bank and other borrowings of approximately RMB87.1 million (2008: RMB50 million), among which RMB15 million was secured by the Group's property, plant and equipment and land use rights.

The gearing ratio is defined as net debt (represented by borrowings net of time deposits and bank balances and cash) divided by shareholders equity. As at 31 December 2009, the Group is in a strong financial position with a net cash position amounting to RMB1,081.2 million (2008: RMB30.8 million). Accordingly, no gearing ratio is presented.

Charges and contingent liabilities

Other than the secured bank borrowings mentioned above, as at 31 December 2009, the Group had no other charges on its assets nor any material contingent liabilities.

Foreign exchange risk

For year 2009, none of the Group's sales were denominated in U.S. dollars or other foreign currencies. The Group did not utilize any forward contracts or other means to hedge its foreign currency exposure; however, the management will closely monitor the exchange rate fluctuations to ensure sufficient precautionary measures against any adverse impacts are in place.

Employment and remuneration policy

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

As at 31 December 2009, the Group employed a work force of 1,030 (including Directors) in Singapore, Hong Kong and in China. The total salaries and related costs (including the Directors' fees) for the year ended 31 December 2009 amounted to approximately RMB48.7 million (2008: RMB32.3 million).

DIVIDENDS

The Directors recommend the payment of dividends of RMB0.0176 per share (equivalent to HKD0.02 per share) for the year ended 31 December 2009 (2008: nil).

Team Work

We create profits through efficient execution,
continuous improvement and innovation in products.



- 1. Mr. Wang Kunxian
- 2. Mr. Lee Pin Kwan
- 3. Ms. Han Aizhi
- 4. Mr. Zhang Bizhuang
- 5. Mr. Wang Xu
- 6. Ms. Zhao Hui
- 7. Mr. Liu Yaohua

Biographical Details of Directors and Senior Management

DIRECTORS AND SENIOR MANAGEMENT

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. He is the director of one of the subsidiaries in the Group. 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.

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

Biographical Details of Directors and Senior Management

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 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 the directors of two subsidiaries of the Group. 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 39, 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 which are China Yuanbang Property Holdings Limited, K Plas Holdings Limited, Sin Heng Heavy Machinery Limited and Yangzijiang Shipbuilding (Holdings) Ltd.

Mr. Teo graduated from the National University of Singapore ("NUS") with a bachelor 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.

Mr. Ling Yong Wah, aged 44, 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

Biographical Details of Directors and Senior Management

companies for acquisition and corporate matters of the company. Mr. Ling is a non-executive Director of China Sunshin Chemical Holdings Ltd. since March 2007, and an independent director of Frencken Group Limited and EDMI 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 SEAMI 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 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 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).

Biographical Details of Directors and Senior Management

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.

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 audit 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 Institution 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.

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.

Report of the Directors

The Directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2009.

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

The Company is a limited liability company incorporated in the Cayman Islands and its principal place of business in Hong Kong is 43rd Floor, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries of the Company are set out in note 31 to the financial statements.

DIVIDENDS

The Directors recommend the payment of dividends of RMB0.0176 per share (equivalent to HKD0.02 per share) for the year ended 31 December 2009 (2008: nil).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 11 June 2010 to 18 June 2010 (both dates inclusive) during which period no transfer of Shares will be effected. In order to qualify for the proposed final dividend and to attend and vote at the AGM, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Shop 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 10 June 2010.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for approximately 92.1% (2008: 86.0%) of the total sales. The top five suppliers accounted for approximately 97.0% (2008: 44.9%) of the total purchases for the year. In addition, the Group's largest customer accounted for approximately 70.8% (2008: 81.1%) of the total sales and the Group's largest supplier accounted for approximately 81.0% (2008: 27.7%) of the total purchases for the year.

At no time during the year have the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

FINANCIAL STATEMENTS

The result of the Group for the year ended 31 December 2009 and the state of the Company's and the Group's affairs as at 31 December 2009 are set out in the financial statements on pages 51 to 53.

DISTRIBUTABLE RESERVE

The Company's reserves available for distribution represent the share premium, contributed surplus and profit which in aggregate amounted to RMB1,020.5 million as at 31 December 2009.

The Directors recommend the payment of dividends of RMB0.0176 per share (equivalent to HKD0.02 per share) for the year ended 31 December 2009 (2008: nil).

FIXED ASSETS

Details of movements in fixed assets during the financial year are set out in note 16 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 25 to the financial statements.

DIRECTORS

The Directors during the financial year and up to the date of this report were:

Executive Directors

Mr. Zhang Bizhuang (*Chief Executive Officer*) (appointed on 3 July 2009)

Mr. Wang Xu (appointed on 22 July 2009)

Ms. Han Aizhi (appointed on 22 July 2009)

Non-executive Directors

Mr. Yan Tangfeng (*Chairman*) (appointed on 3 July 2009)

Mr. Teo Yi-Dar (appointed on 22 July 2009)

Mr. Ling Yong Wah (appointed on 22 July 2009)

Mr. Ong Kar Loon (*alternate Director to Mr. Ling Yong Wah*) (appointed on 22 July 2009)

Independent non-executive Directors

Mr. Huo Chunyong (appointed on 22 July 2009)

Mr. Guo Changyu (appointed on 22 July 2009)

Ms. Wong Wing Yee Jessie (appointed on 22 July 2009)

Pursuant to Article 84(1) of the Articles of Association of the Company, at each annual general meeting one-third of the Directors for the time being shall retire from office by rotation.

By virtue of Article 83(3) of the Articles of Association the Company, all Directors of the Company namely Mr. Zhang Bizhuang, Mr. Wang Xu, Ms. Han Aizhi, Mr. Yan Tangfeng, Mr. Teo Yi-Dar, Mr. Ling Yong Wah, Mr. Huo Chunyong, Mr. Guo Changyu and Ms. Wong Wing Yee Jessie, except for Mr. Ong Kar Loon (being the alternate Director to Mr. Ling Yong Wah) shall hold office only until the forthcoming annual general meeting and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

Report of the Directors

Each of the Directors has entered into a service contract or an appointment letter with the Company for an initial term of three years commencing from the date of listing of the Company (the "Listing Date") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company has received, from each of the independent non-executive directors, an annual confirmation of independent pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company considers all of the independent non-executive directors are independent.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2009, the interests or short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as follows:

(i) Interests in issued shares and underlying shares

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Yan Tangfeng	Held by controlled corporation ⁽¹⁾	1,445,064,000	60.21%
		12,578,400 ⁽²⁾	0.52%
		(Short position)	

Note:

- (1) Aceplus Investments Limited held 60.21% issued shares in the Company. Mr. Yan Tangfeng owned the entire issued share capital of Aceplus Investments Limited and is deemed under the SFO to be interested in such shares.
- (2) The short position was as a result of Aceplus Investments Limited, together with other parties, granting an over-allotment option to the underwriters of the Global Offering of the Company.

(ii) Interests in underlying shares and debentures of the Company

Save as disclosed above, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Save as disclosed above, at no time during the year was the Company, or any of its holding companies, its subsidiaries or its fellow subsidiaries a party to any arrangement to enable the Directors and chief executives of the Company (including their spouses and children under 18 years of age) to hold any interest or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations (with the meaning of Part XV of the SFO).

SHARE OPTION SCHEME

The Company adopted a Share Option Scheme on 21 November 2009. 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.

Participants referred below are the "Eligible Persons" under the Share Option Scheme include:

- (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;
- (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 (as defined under the Listing Rules) of any of the persons referred to in paragraphs (a) to (c) above.

Report of the Directors

The principal terms of the Share Option Scheme are summarised as follows:

The Share Option Scheme was adopted for a period of 10 years commencing from 21 November 2009 and will remain in force until 20 November 2019. 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.

The offer of a grant of share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK\$1.0 in total by the grantee. The exercise period of the share options granted is determined by the directors of the Company, and commences after a certain vesting period and ends on the date which is not later than 10 years from the date of offer of the share options.

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 Stock Exchange's daily quotations sheet on the offer date; and
- (c) the average closing price of a Share as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the offer date.

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 i.e. 240,000,000 Shares (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 rules governing the listing of securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "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 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.

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.

There is no Options outstanding, granted, exercised, cancelled and lapsed during the year ended 31 December 2009.

Report of the Directors

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2009, the following persons (other than Directors or chief executives of the Company) were interested in 5% or more of the issued share capital of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules on the Stock Exchange:

Name of shareholder	Capacity	Number of issued ordinary shares/ underlying shares held	Percentage of the issued share capital of the Company
Aceplus Investments Limited	Beneficial owner	1,445,064,000	60.21%
Macquaire Group Limited	Security interest in shares of the corporation	179,013,000	7.45%
		108,000,000 (Short Position)	4.50%
SEAVI Advent Equity V (A) Ltd.	Beneficial owner	140,961,600	5.87%
SEAVI Advent Corporation Ltd. (Note)	Interest in a controlled corporation	140,961,600	5.87%

Note: SEAVI Advent Equity V (A) Ltd. 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) Ltd., SEAVI Advent Corporation has agreed to act as the investment manager of SEAVI Advent Equity V (A) Ltd., in particular to make investment decision on behalf of SEAVI Advent Equity V (A) Ltd.. Under such agreement, when exercising the voting rights in general meetings of the relevant company in which SEAVI Advent Equity V (A) Ltd. has invested, SEAVI Advent Corporation is empowered to make the voting decisions and to instruct the directors of SEAVI Advent Equity V (A) Ltd. 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) Ltd..

Save as disclosed above, as at 31 December 2009, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors as at the date of this annual report, the Company had maintained the public float as required under the Listing Rules.

DIRECTORS' INTERESTS IN CONTRACTS

No contract of significance to which the Company, its holding companies, or any of its subsidiaries was a party, and in which a Director had a material interest, subsisted at the end of the year or at any time during the year.

LIQUIDITY AND FINANCIAL RESOURCES

As of 31 December 2009, cash and bank balances of the Group amounted to approximately RMB1,168.3 million (2008: approximately RMB80.8 million).

As of 31 December 2009, the Group had bank and other borrowings of approximately RMB87.1 million (2008: RMB50 million), among which RMB15 million was secured by the Group's property, plant and equipment and land use rights.

The gearing ratio is defined as net debt (represented by borrowings net of time deposits and bank balances and cash) divided by shareholders equity. As at 31 December 2009, the Group is in a strong financial position with a net cash position amounting to RMB1,081.2 million (2008: RMB30.8 million). Accordingly, no gearing ratio is presented.

CHARGES AND CONTINGENT LIABILITIES

Other than the secured bank borrowings mentioned above, as at 31 December 2009, the Group had no other charges on its assets nor any material contingent liabilities.

FOREIGN EXCHANGE RISK

For year 2009, none of the Group's sales were denominated in U.S. dollars or other foreign currencies. The Group did not utilize any forward contracts or other means to hedge its foreign currency exposure; however, the management will closely monitor the exchange rate fluctuations to ensure sufficient precautionary measures against any adverse impacts are in place.

HUMAN RESOURCES

As at 31 December 2009, the Group employed 1,030 employees. The emolument policy of the employees of the Group is determined on the basis of their merit, qualifications and competence. The Company adopted the Share Option Scheme to provide incentive to its senior management and employees and please refer to the paragraphs headed "Share Option Scheme" in this annual report for details of such scheme.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past three financial periods is set out in the financial highlight section on page 7 of the annual report.

RETIREMENT SCHEMES

Particulars of employee retirement schemes of the Group are set out in note 4 to the financial statements.

Report of the Directors

CONTINUING CONNECTED TRANSACTION

Certain related party transactions as disclosed in note 29 to the financial statements also constituted continuing connected transactions under the Listing Rules and their details are set out below.

Lease of land and buildings from Shengli Steel Pipe Co., Ltd. (“Shengli Steel Pipe”)

The Company’s indirect wholly owned subsidiary, Shandong Shengli Steel Pipe Co., Ltd. (“Shandong Shengli”), entered into a lease agreement with Shengli Steel Pipe on 26 July 2009 pursuant to which Shengli Steel Pipe agreed to lease to Shandong Shengli certain land and buildings in Zibo, Shandong Province where our SSAW production facilities are located. The lease is 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 years from 1 January 2009 to 31 December 2011 is RMB6.4 million and the parties will then determined the new annual rental for the next three-year period based on the opinion of an independent valuer.

In respect of the above continuing connection transaction, the Stock Exchange granted a waiver to the Company from strict compliance with the announcement requirement under Chapter 14A of the Listing Rules subject to some conditions.

The independent non-executive directors of the Company have reviewed the above continuing connected transactions and confirmed that the transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms; and
- (3) in accordance with the lease agreement on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company’s Articles of Association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the year.

AUDITOR

Deloitte Touche Tohmatsu retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of Deloitte Touche Tohmatsu as auditor of the Company is to be proposed at the forthcoming annual general meeting.

By order of the Board
Yan Tangfeng
Chairman

Corporate Governance Report

OVERVIEW

The Directors recognise the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability to the shareholders as a whole. The Board strived to uphold good corporate governance and adopt sound corporate governance practices. This report outlines the principles and the code provisions of the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 of the Listing Rules, which have been adopted by the Group.

In accordance with the requirements of the Listing Rules, the Company has established an audit committee with defined terms of reference to oversee the financial reporting procedures and internal controls of the Group during the year ended 31 December 2009. The Company has also established a nomination committee and a remuneration committee with defined terms of reference. The terms of reference of these Board committees are available upon request. During the year ended 31 December 2009, all code provisions set out in the Code were fulfilled by the Company.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules as the required standard for securities transactions by Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding directors' securities transactions throughout the year ended 31 December 2009.

BOARD OF DIRECTORS

Composition of the Board of Directors

The Board comprises three executive Directors, four non-executive Directors and three independent non-executive Directors. The Board members of the Company currently are:

Executive Directors

Mr. Zhang Bizhuang (*Chief Executive Officer*) (appointed on 3 July 2009)

Mr. Wang Xu (appointed on 22 July 2009)

Ms. Han Aizhi (appointed on 22 July 2009)

Non-executive Directors

Mr. Yan Tangfeng (*Chairman*) (appointed on 3 July 2009)

Mr. Teo Yi-Dar (appointed on 22 July 2009)

Mr. Ling Yong Wah (appointed on 22 July 2009)

Mr. Ong Kar Loon (*alternate Director to Mr. Ling Yong Wah*) (appointed on 22 July 2009)

Independent non-executive Directors

Mr. Huo Chunyong (appointed on 22 July 2009)

Mr. Guo Changyu (appointed on 22 July 2009)

Ms. Wong Wing Yee Jessie (appointed on 22 July 2009)

Corporate Governance Report

The biographical details of all Directors are set out in pages 27 to 31 of the annual report. Save as disclosed in this annual report, none of the Directors has any other financial, business, family or other material or relevant relationships among members of the Board.

The composition of the Board is well balanced with each Director having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The Board brings a variety of experiences and expertises to the Company.

Functions of the Board

The principal function of the Board is to consider and approve strategies, financial objectives, annual budget, investment proposals of the Group and to assume the responsibilities of corporate governance of the Group. The Board delegates the authority and responsibility for implementing day-to-day operations, business strategies and management of the Group's businesses to the executive Directors, senior management and certain specific responsibilities to the Board committees.

Board meetings and Board Practices

During the year ended 31 December 2009, the Board held 9 meetings, none of the meetings was regular Board Meeting because the Company listed on the Main Board of the Stock Exchange of Hong Kong Limited on 18 December 2009. The Directors can attend meetings in person or through other means of electronic communication in accordance with the Company's Articles of Association. The company secretary of the Company (the "Company Secretary") will assist the Chairman to prepare the agenda of the meeting and each Director may request to include any matters in the agenda. Generally, at least 14 days notice would be given for the regular meeting by the Company. The Directors will receive details of agenda items for decision at least 3 days before each Board meeting. The Company Secretary is responsible for distributing detailed documents to Directors prior to the meetings of the Board to ensure that the Directors are able to make informed decisions regarding the matters to be discussed in the meetings so that they may receive accurate, timely and clear information. All Directors may access the advice and services of the Company Secretary who regularly updates the Board on governance and regulatory matters. All Directors will also be provided with sufficient resources to discharge their duties, and upon reasonable request, the Directors will be able to seek independent professional advice in appropriate circumstances, at the Company's expense. The Company Secretary is also responsible for ensuring the procedures of the Board meetings are observed and providing the Board with opinions on matters in relation to the compliance with the procedures of the Board meetings. All minutes of Board meetings were recorded in sufficient detail the matters considered by the board and decisions reached.

Throughout the year, 9 Board meetings were held. Details of the attendance of Directors are as follows:

Name of the Director

Executive Directors

Mr. Zhang Bizhuang (appointed on 3 July 2009)	9/9
Mr. Wang Xu (appointed on 22 July 2009)	4/8
Ms. Han Aizhi (appointed on 22 July 2009)	4/8

Non-executive Directors

Mr. Yan Tangfeng (<i>Chairman</i>) (appointed on 3 July 2009)	9/9
Mr. Teo Yi-Dar (appointed on 22 July 2009)	4/8
Mr. Ling Yong Wah (appointed on 22 July 2009)	4/8
Mr. Ong Kar Loon (<i>alternate Director to Mr. Ling Yong Wah</i>) (appointed on 22 July 2009)	N/A

Independent non-executive Directors

Mr. Huo Chunyong (appointed on 22 July 2009)	4/8
Mr. Guo Changyu (appointed on 22 July 2009)	4/8
Ms. Wong Wing Yee Jessie (appointed on 22 July 2009)	3/8

Directors' Appointment, Re-election and Removal

Each of the Directors has entered into a service contract or appointment letter with the Company for an initial term of three years commencing from the Listing Date, and subject to termination in accordance with the provisions of the service contract or appointment letter giving the other not less than 3 months' prior written notice for executive Directors and 1 month prior written notice for non-executive Directors.

In accordance with the Company's Articles of Association, one-third of the Directors (including executive Directors, non-executive Directors and independent non-executive Directors) shall retire from office by rotation and pursuant to A.4.2 of the code provision, all Directors are subject to retirement by rotation at least once every three years.

Independent non-executive Directors

In compliance with Rule 3.10(1) of the Listing Rules, there are three independent non-executive Directors representing approximately one-third of the Board. Among the three independent non-executive Directors, one has appropriate professional qualification in accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules. The Company has received from each of its independent non-executive Directors the written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company, based on such confirmation, considers Mr. Huo Chunyong, Mr. Guo Changyu and Ms. Wong Wing Yee Jessie to be independent.

Chairman and Chief Executive Officer

Under provision A.2.1 of the Code, the roles of the Chairman and the chief executive officer ("CEO") should be separated and should not be performed by the same individual.

Corporate Governance Report

The roles of the chairman and the chief executive officer of the Company are separate to reinforce their respective independence and accountability. The Chairman of the Company is Mr. Yan Tangfeng who is primarily responsible for the leadership of the Board, while the Chief Executive Officer of the Company is Mr. Zhang Bizhuang who is responsible for the overall management of our business operations. Their responsibilities are clearly segregated and have been set out in writing and approved by the Board.

Delegation of Powers

The Board delegates day-to-day operations of the Group to executive Directors and management of the Company with department heads responsible for different aspects of the business/functions, while reserving certain key matters in making strategic decision for its approval. When the Board delegates aspects of its management and administration functions to management, it gives clear directions as to the powers of management, in particular, with respect to the circumstances where management need to report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

BOARD COMMITTEES

Audit Committee

Composition

The audit committee of the Company (the "Audit Committee") was established on 21 November 2009 with written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to review and supervise 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 chairlady of our Audit Committee. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control procedures of our Group.

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2009.

As the Company was listed on 18 December 2009, the Audit Committee did not conduct any meeting during the year ended 31 December 2009.

Remuneration Committee

Composition

We have established a remuneration committee of the Company (the "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.

The primary functions of the Remuneration Committee are to make recommendations to the Board on remuneration of Directors and senior management and determine on behalf of the Board specific remuneration packages and conditions of employment for executive Directors and senior management.

As the Company was listed on 18 December 2009, the Remuneration Committee did not conduct any meeting during the year ended 31 December 2009.

Remuneration Policy for Directors and Senior Management

The emolument policy of the employees of the Group is determined on the basis of their merit, qualifications and competence.

The emoluments of the Directors are recommended by the Remuneration Committee, having regard to the Company's operating results, individual performance, experience, responsibility, workload and time devoted to the Company and comparable market statistics. Each of the executive Directors is entitled to a basic salary which is reviewed annually. In addition, each of the executive Directors may receive a discretionary bonus as the Board may recommend. Such amount has to be approved by the Remuneration Committee.

The Company has adopted the Share Option Scheme on 21 November 2009. The purpose of the Share Option Scheme is to give the Eligible Persons (as mentioned on page 37 of this report) 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, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Nomination Committee

Composition

The nomination committee of the Company (the "Nomination Committee") was established 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.

As the Company was listed on 18 December 2009, the Nomination Committee did not conduct any meeting during the year ended 31 December 2009.

ACCOUNTABILITY AND AUDIT

Directors' and Auditor's Responsibilities for the Financial Statements

The Board of Directors acknowledges its responsibility to prepare the Group's financial statements for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2009, the Board has selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Corporate Governance Report

Auditor's Remuneration

During the year ended 31 December 2009, the remuneration paid or payable to the Company's auditor, Deloitte Touche Tohmatsu, in respect of their audit and non-audit services were as follows:

Type of Services	RMB'000
Audit services	1,300
Non-audit services (listing fee)	5,466
Total	6,766

INTERNAL CONTROL

The Board acknowledges its responsibility for the effectiveness of the Group's internal control systems. The Company has prepared an internal control report, covering all material controls, including financial and operation for the year. Subsequent to the date of this annual report, the Company will engage an independent professional body to conduct an annual review of the effectiveness of the internal control systems of the Group found. The said internal control report compiled by the Company has to be brought to the attention of the Board and the Audit Committee and concluded that the Group operate satisfactorily and there is no material discrepancy.

INVESTORS AND SHAREHOLDERS RELATIONS

The Board recognises the importance of maintaining clear, timely and effective communication with shareholders of the Company and investors. The Board also recognises that effective communication with investors is the key to establish investor confidence and to attract new investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure that the investors and the shareholders of the Company receive accurate, clear, comprehensive and timely information of the Group by the publication of annual reports, interim reports, announcements and circulars. The Company also publishes all documents on the Company's website at www.slogp.com. The Board continues to maintain regular dialogues with institutional investors and analysts to keep them informed of the Group's strategy, operations, management and plans. The Directors and the committee members are available to answer questions at annual general meetings. Separate resolutions would be proposed at general meetings on each substantially separate issue.

Shareholders' Right

The Company shall adhere to the amendments to the Listing Rules effective from 1 January 2009 such that all votes of the shareholders at general meetings will be taken by poll. The results of voting by poll will be declared at the meeting and published on the websites of the Stock Exchange and the Company respectively.

Shareholders may put forward their proposals or inquiries to the Board by sending their written request to the Company's correspondence address in Hong Kong.

Independent Auditor's Report

Deloitte.
德勤

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Email: mail@deloitte.com.hk
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TO THE MEMBERS OF SHENGLI OIL & GAS PIPE HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements 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”) set out on pages 51 to 104, which comprise the consolidated statement of financial position as at 31 December 2009 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design

Independent Auditor's Report

audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

16 April 2010

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Turnover	8	2,999,092	1,070,747
Cost of sales		(2,657,043)	(935,241)
Gross profit		342,049	135,506
Other income	9	51,356	36,141
Selling and distribution expenses		(16,515)	(6,020)
Administrative expenses		(37,951)	(16,830)
Finance costs	10	(3,051)	—
Profit before taxation	11	335,888	148,797
Income tax expenses	13	—	—
Profit for the year and total comprehensive income for the year		335,888	148,797
Earnings per share — basic (RMB cents)	15	31.01	16.53

Consolidated Statement of Financial Position

As at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	230,701	221,093
Prepaid lease payments	17	17,103	5,894
Goodwill	19	2,525	2,525
		250,329	229,512
CURRENT ASSETS			
Inventories	20	255,598	812,126
Trade and other receivables	21	488,997	178,854
Amounts due from related parties	29(d)	4,389	2,840
Prepaid lease payments	17	355	123
Bank balances and cash	22	1,168,293	80,796
		1,917,632	1,074,739
CURRENT LIABILITIES			
Trade and other payables	23	350,019	829,542
Amounts due to related parties	29(d)	—	275,308
Bank and other borrowings	24	87,058	50,000
		437,077	1,154,850
NET CURRENT ASSETS (LIABILITIES)		1,480,555	(80,111)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,730,884	149,401

**Consolidated
Statement of Financial Position**

As at 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CAPITAL AND RESERVES			
Paid-in capital/share capital	25	211,656	—
Reserves		1,518,753	148,926
TOTAL EQUITY			
		1,730,409	148,926
NON-CURRENT LIABILITIES			
Deferred tax liabilities	26	475	475
TOTAL EQUITY AND NON-CURRENT LIABILITIES			
		1,730,884	149,401

The consolidated financial statements on pages 51 to 104 were approved and authorized for issue by the board of directors on 16 April 2010 and are signed on its behalf by:

Zhang Bizhuang
DIRECTOR

Han Aizhi
DIRECTOR

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

	Paid-in capital/ share capital RMB'000	Share Premium RMB'000	Other reserve RMB'000 (Note (a) below)	Statutory surplus reserve RMB'000 (Note (b) below)	Retained earnings RMB'000	Total RMB'000
At 1 January 2008	—	—	—	—	129	129
Profit for the year and total comprehensive income for the year	—	—	—	—	148,797	148,797
At 31 December 2008 and 1 January 2009	—	—	—	—	148,926	148,926
Profit for the year and total comprehensive income for the year	—	—	—	—	335,888	335,888
Transfer	—	—	—	9,685	(9,685)	—
Issue of shares upon Group Reorganization (as defined in note 2)	9	—	(9)	—	—	—
Capitalization of Shareholder's Loans (as defined in note 29(d)(iv))	9	146,441	—	—	—	146,450
Issue of new shares upon the listing of the Company's shares	52,914	1,111,194	—	—	—	1,164,108
Transaction costs attributable to Issue of shares	—	(64,963)	—	—	—	(64,963)
Capitalization Issue (as defined in note 25)	158,724	(158,724)	—	—	—	—
At 31 December 2009	211,656	1,033,948	(9)	9,685	475,129	1,730,409

Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

Notes:

a. OTHER RESERVE

Other reserve represents the reserve arising from Group Reorganization.

b. STATUTORY SURPLUS RESERVE

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
OPERATING ACTIVITIES			
Profit before taxation		335,888	148,797
Adjustments for:			
Finance costs		3,051	—
Interest income		(392)	(149)
Write-down of inventories		170	1,272
Depreciation of property, plant and equipment		22,067	10,631
Amortization of intangible asset		—	2,670
Release of prepaid lease payments		181	123
Losses on disposals of property, plant and equipment		423	64
Operating cash flows before movements in working capital		361,388	163,408
Decrease (increase) in inventories		556,358	(737,131)
Increase in trade and other receivables		(313,453)	(239,505)
(Decrease) increase in trade and other payables		(470,161)	797,541
Cash generated from (used in) operations		134,132	(15,687)
Interest paid		(3,051)	—
NET CASH FROM (USED IN) OPERATING ACTIVITIES		131,081	(15,687)
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(41,460)	(103,603)
Increase in prepaid lease payments		(11,622)	—
Advances to related parties		(4,389)	(2,840)
Repayment from related parties		2,840	—
Interest received		392	149
Acquisition relating to Shandong Shengli acquisition (as defined in note 26)	26	—	(32,500)
Acquisition relating to Shengli Steel Pipe acquisition (as defined in note 18)	18	—	(84,010)
Proceeds on disposals of property, plant and equipment		—	240
NET CASH USED IN INVESTING ACTIVITIES		(54,239)	(222,564)

Consolidated Statement of Cash Flows

For the year ended 31 December 2009

Notes	2009 RMB'000	2008 RMB'000
FINANCING ACTIVITIES		
Proceeds from issue of shares	1,164,108	—
Transaction costs attributable to issue of shares	(64,963)	—
New bank and other borrowings raised	87,058	50,000
Repayments to related parties	(133,998)	(98,650)
Repayments of borrowings	(50,000)	—
Advances from related parties	8,450	398,875
Repayment of advances from staff	—	(32,104)
NET CASH FROM FINANCING ACTIVITIES	1,010,655	318,121
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,087,497	79,870
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	80,796	926
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	1,168,293	80,796

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

1. GENERAL

The Company (formerly known as Shengli Oil & Gas Pipe Holdings Ltd.) is a limited company incorporated in the Cayman Islands on 3 July 2009 and acts as an investment holding company. Its parent and ultimate holding company is Aceplus Investments Limited (“Aceplus”), a company incorporated in the British Virgin Island, for the two years ended 31 December 2009. Mr Yan Tangfeng is the ultimate controlling shareholder of the Company who holds the equity interest in the Company through his wholly owned investment in Aceplus for the two years ended 31 December 2009.

The Company changed its name from Shengli Oil & Gas Pipe Holdings Ltd. to Shengli Oil & Gas Pipe Holdings Limited and adopted the Chinese name of 勝利油氣管道控股有限公司 on 17 September 2009.

The address of the registered office and the principal place of business of the Company are disclosed in the section “Corporate Information” to the Annual Report.

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

The Company acts as an investment holding company. The principal activities of the Group are manufacture, processing and sale of welded steel pipes for oil and gas pipelines and other construction and manufacturing applications. The principal activities of the subsidiaries of the Company are set out in note 31.

The shares of the Company have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 18 December 2009.

2. GROUP REORGANIZATION AND BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to the group reorganization (the “Group Reorganization”) to rationalize the structure of the Group in preparation for the listing of the Company’s shares on the Stock Exchange (the “Listing”), the Company became the holding company of the Group on 28 October 2009 by interspersing the Company and Shengli (BVI) Ltd. (“Shengli (BVI)”) between China Petro Equipment Holdings Pte Ltd. (“CPE”) and Aceplus. Details of the Group Reorganization were set out in the prospectus dated 9 December 2009 issued by the Company (the “Prospectus”).

The consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the years ended 31 December 2008 and 2009 have been prepared on the basis as if the Company had always been the holding company of the companies now comprising the Group throughout the two years ended 31 December 2009, or since the respective dates of incorporation of the relevant entity, where there is a shorter period.

The consolidated statement of financial position of the Group as at 31 December 2008 has been prepared to present the assets and liabilities of the companies now comprising the Group as at 31 December 2008 as if the current group structure had been in existence at that date.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRSs”)

In the current year, the Group has applied a number of new and revised standards, amendments to standards and interpretations (“new and revised IFRS”) issued by the International Accounting Standards Board (“IASB”).

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

IFRSs (Amendments)	Amendments to IFRS 5 as part of Improvements to IFRSs issued in 2008 ¹
IFRSs (Amendments)	Improvements to IFRSs issued in 2009 ²
IAS 24 (Revised)	Related Party Disclosures ⁵
IAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
IAS 32 (Amendment)	Classification of Rights Issues ³
IAS 39 (Amendment)	Eligible Hedged Items ¹
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ⁴
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters ⁶
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ⁴
IFRS 3 (Revised)	Business Combinations ¹
IFRS 9	Financial Instruments ⁷
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁵
IFRIC 17	Distributions of Non-cash Assets to Owners ¹
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments ⁶

¹ Effective for annual periods beginning on or after 1 July 2009

² Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate

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 annual periods beginning on or after 1 January 2011

⁶ Effective for annual periods beginning on or after 1 July 2010

⁷ Effective for annual periods beginning on or after 1 January 2013

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.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis as explained in the accounting policies set out below.

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

Basis of combination

The consolidated financial statements 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.

The financial performance of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

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 consolidation.

Business combinations

The acquisition of 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Capitalized goodwill arising on acquisition of a business is presented separately in the consolidated 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 year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial 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 profit or loss. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 profit or loss 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 statements 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

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. 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 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 consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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 in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognized in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognized in other comprehensive income or directly in equity respectively.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

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 profit or loss in the year in which the item is derecognized.

Prepaid lease payments

Prepaid lease payments represent payments for leasehold interest in land and are released over the lease terms on a straight-line basis. Prepaid lease payments which are to be released in the next twelve months or less are classified as current assets.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 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 related parties 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 to the net carrying amount on initial recognition.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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 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 profit or loss 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity (continued)

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 (including all fees paid or received that from an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognized on an effective interest basis for debt instruments of which interest expense is included in finance costs.

Financial liabilities

Financial liabilities (including bank and other borrowings, amounts due to related parties 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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 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 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 was provided during the two years ended 31 December 2009.

(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 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 two years ended 31 December 2009.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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 two years ended 31 December 2009.

The capital structure of the Group consists of bank and other borrowings, amounts due to related parties and equity attributable to equity holders of the Group, comprising share capital, share premium, retained earnings and other reserves.

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

	2009 RMB'000	2008 RMB'000
Financial assets:		
Loans and receivables (including cash and cash equivalents)	1,623,327	214,556
Financial liabilities:		
Liabilities measured at amortized costs	357,022	416,260

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amount due from related parties, trade and other payables, amounts due to related parties, bank and other 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 two years ended 31 December 2009.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

7. FINANCIAL INSTRUMENTS (continued)

(c) Market risk

The Group's activities expose it primarily to the market risks including interest rate risk (note 7 (d)) and foreign currency risk (note 7 (e)). There has been no significant change to the Group's exposure to these market risks or the manner in which it manages and measures the risks for the two years ended 31 December 2009.

(d) Interest rate risk management

The fair value interest rate risk of the Group relates primarily to fixed rate bank and other borrowings. The fixed-rate bank and other borrowings are mainly due within one year in which the fair value interest rate risk is considered to be minimal. The Group's cash flow interest rate risk relates primarily to bank balances carried at prevailing deposit rates.

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.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for bank balances at prevailing deposit rate. The analysis is prepared assuming the bank balances outstanding at the end of the reporting period were outstanding for the whole year. A 10 basis points (2008: 10 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 10 basis points (2008: 10 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2009 would increase/decrease by RMB1,168,000 (2008: increase/decrease by RMB81,000).

In the opinion of the management, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the year end exposure does not reflect the exposure during the year. The sensitivity analysis to change in prevailing deposit rate is mainly attributable to the bank balances as a result of the HKD proceeds from issue of shares of the Company in December 2009.

(e) Foreign currency risk management

The Group undertakes certain transactions and has monetary assets and liabilities denominated in foreign currency, hence exposure to exchange rate fluctuations arises. The Group is mainly exposed to the currency of the Hong Kong Dollars ("HKD"), the United States Dollars ("USD") and the Singapore Dollars ("SGD") against RMB, the functional currency of relevant group entities. The Group currently does not use any derivative contracts to hedge against its exposure to foreign currency risk. However the Group manages its foreign currency risk by closely monitoring the movement of the foreign currency rate.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

7. FINANCIAL INSTRUMENTS (continued)

(e) Foreign currency risk management (continued)

The carrying amounts of the Company's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Liabilities		Assets	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
HKD	14,360	—	1,111,594	—
USD	4,223	—	1,037	32
SGD	—	—	1,005	533

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. The sensitivity analysis includes borrowings, certain other payables, amounts due from related parties and bank balances denominated in currencies other than functional currency of the relevant group entities. A negative number below indicates a decrease in profit where RMB strengthen 5% against the relevant foreign currency. For a 5% weakening of the RMB against the relevant foreign currency, there would be an equal and opposite impact on the profit.

	2009 RMB'000	2008 RMB'000
Profit/(loss) for the year	(54,752)	(28)

In the opinion of the management, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year. The sensitivity analysis to change in foreign currencies against RMB is mainly attributable to the bank balances as a result of the HKD proceeds from issue of shares of the Company in December 2009.

(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 2008 and 31 December 2009 in relation to each class of recognized financial assets is the carrying amounts of those assets as stated in the respective consolidated statement of financial position.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

7. FINANCIAL INSTRUMENTS (continued)

(f) Credit risk management (continued)

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 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 2009 of approximately RMB385,320,000 (2008: RMB103,167,000), representing 91% (2008: 83%) of total trade receivables, were derived from a few major customers which are China's major oil and gas companies. 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 2008 and 31 December 2009.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

7. FINANCIAL INSTRUMENTS (continued)

(g) Liquidity risk management (continued)

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 RMB'000	3 months to 1 year RMB'000	Total undiscounted cash flows RMB'000	Carrying amounts RMB'000
Non-derivative financial liabilities					
As at 31 December 2009					
Trade and other payables	—	269,964	—	269,964	269,964
Fixed rate interest borrowings	5.11	8,151	81,476	89,627	87,058
		278,115	81,476	359,591	357,022
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
		366,924	51,770	418,694	416,260

(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 consolidated financial statements approximate their fair values at the end of each respective reporting period.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

8. TURNOVER AND SEGMENT INFORMATION

(a) Turnover

Turnover represents the net amounts received and receivable during the two years ended 31 December 2009 for:

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

An analysis of the Group's turnover during the two years ended 31 December 2009 is as follows:

	2009 RMB'000	2008 RMB'000
Revenue from		
— Sales of goods	2,930,011	985,482
— Provision of processing services	69,081	85,265
	2,999,092	1,070,747

(b) Segment information

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

These reportable segments form the basis on which the Group's chief operating decision maker makes decision about resource allocation and performance assessment. The accounting policies of the operating segments are the same as those described in the summary of significant accounting policies.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

8. TURNOVER AND SEGMENT INFORMATION (continued)

(b) Segment information (continued)

For the year ended 31 December 2009:

Segment revenue and results

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Total RMB'000	Eliminations RMB'000	Consolidated RMB'000
Turnover					
External sales	2,918,185	80,907	2,999,092	—	2,999,092
Internal sales	—	1,255	1,255	(1,255)	—
	2,918,185	82,162	3,000,347	(1,255)	2,999,092
Result					
Segment result	366,194	(7,096)	359,098	—	359,098
Interest income					392
Unallocated income					80
Unallocated expenses					(20,631)
Finance costs					(3,051)
Profit for the year					335,888

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

8. TURNOVER AND SEGMENT INFORMATION (continued)

(b) Segment information (continued)

For the year ended 31 December 2009: (continued)

Other information

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Total RMB'000	Unallocated items RMB'000	Consolidated RMB'000
Amounts included in the measurement of segment profit or loss or segment assets:					
Additions of property, plant and equipment	30,858	1,240	32,098	—	32,098
Additions of prepaid lease payments	11,622	—	11,622	—	11,622
Depreciation	17,078	4,985	22,063	4	22,067
Release of prepaid lease payments	58	123	181	—	181
Write-down of inventories	—	170	170	—	170
Losses on disposals of property, plant and equipment	423	—	423	—	423

Segment assets and liabilities

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Total RMB'000
Segment assets	879,942	101,731	981,673
Unallocated assets			1,186,288
Total consolidated assets			2,167,961
Segment liabilities	167,041	91,477	258,518
Unallocated liabilities			179,034
Total consolidated liabilities			437,552

For the purposes of monitoring segment performance and allocating resources between segments:

- All assets are allocated to reportable segments other than assets of head office and bank balances and cash. Goodwill is allocated to reportable segment as described in note 19.
- All liabilities are allocated to reportable segments other than liabilities of head office, bank and other borrowings and current and deferred tax liabilities.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

8. TURNOVER AND SEGMENT INFORMATION (continued)

(b) Segment information (continued)

For the year ended 31 December 2008:

Segment revenue and results

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Total RMB'000	Eliminations RMB'000	Consolidated RMB'000
Turnover					
External sales	992,398	78,349	1,070,747	—	1,070,747
Internal sales	—	7,521	7,521	(7,521)	—
	992,398	85,870	1,078,268	(7,521)	1,070,747
Result					
Segment result	158,117	(8,247)	149,870	—	149,870
Interest income					149
Unallocated expenses					(1,222)
Profit for the year					148,797

Other information

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Total RMB'000	Unallocated items RMB'000	Consolidated RMB'000
Amounts included in the measurement of segment profit or loss or segment assets:					
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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

8. TURNOVER AND SEGMENT INFORMATION (continued)

(b) Segment information (continued)

For the year ended 31 December 2008: (continued)

Segment assets and liabilities

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Total RMB'000
Segment assets	1,098,918	115,825	1,214,743
Unallocated assets			89,508
Total consolidated assets			1,304,251
Segment liabilities	738,395	82,307	820,702
Unallocated liabilities			334,623
Total consolidated liabilities			1,155,325

Geographical information

All of the Group's revenue were derived from customers in the PRC. All of the non-current assets of the Group are located in the PRC, therefore, no geographical information is presented.

Information about major customers

For the year ended 31 December 2009, revenue from two customers (2008: one customer) of the Group amounting to RMB2,122,132,000 (2008: RMB763,829,000) and RMB500,242,000, respectively had individually accounted for over 10% of the Group's total revenue. The revenue from these customers related to SSAW Pipes Business segment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

9. OTHER INCOME

	2009 RMB'000	2008 RMB'000
Other income comprises:		
Gain on sales of scrap materials	47,152	23,560
Loading service income	2,764	—
Quality inspection service income	743	1,150
Interest income	392	149
Exchange gains (net)	66	—
Gain on sales of surplus materials	42	9,548
Rental income	—	1,163
Others	197	571
	51,356	36,141

10. FINANCE COSTS

	2009 RMB'000	2008 RMB'000
Finance costs comprise:		
Interest on bank and other borrowings wholly repayable within one year	3,051	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

11. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

	2009 RMB'000	2008 RMB'000
Staff cost (including directors):		
– Salaries and wages	43,209	30,404
– Retirement benefit scheme contributions	5,462	1,905
	48,671	32,309
Depreciation and amortization:		
– Property, plant and equipment	22,067	10,631
– Intangible asset	–	2,670
	22,067	13,301
Release of prepaid lease payments	181	123
Cost of inventories recognized as an expense (note below)	2,657,043	935,241
Exchange losses, net	–	797
Auditors' remuneration	1,300	224
Losses on disposals of property, plant and equipment	423	64

Note: Included in the cost of inventories recognized as an expense is an amount of RMB170,000 for the year ended 31 December 2009 (2008: RMB1,272,000), related to the write-down of closing inventories.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Details of the emoluments paid to directors of the Company for the two years ended 31 December 2009 are as follows:

	2009			Total RMB'000
	Directors' fees RMB'000	Retirement benefit scheme contributions RMB'000	Other emoluments RMB'000	
Executive directors:				
– Zhang Bizhuang	122	16	866	1,004
– Wang Xu	51	16	155	222
– Han Aizhi	51	14	148	213
Non-executive directors:				
– Yan Tangfeng	90	–	–	90
– Teo Yi-Dar	63	–	–	63
– Ling Yong Wah	63	–	–	63
Independent non-executive directors:				
– Huo Chunyong	15	–	–	15
– Guo Changyu	15	–	–	15
– Wong Wing Yee Jessie	15	–	–	15
	485	46	1,169	1,700

During the two years ended 31 December 2009, 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 two years ended 31 December 2009.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

	Directors' fees RMB'000	2008		Total RMB'000
		Retirement benefit scheme contributions RMB'000	Other emoluments RMB'000	
Executive directors:				
— Zhang Bizhuang	20	12	170	202
— Wang Xu	—	10	138	148
— Han Aizhi	—	9	125	134
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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, 3 (2008: 3), were directors of the Company for the year ended 31 December 2009, details of whose emoluments are included in the disclosures above.

The emoluments of the remaining 2 (2008: 2) individuals for the year ended 31 December 2009 were as follows:

	2009 RMB'000	2008 RMB'000
Salaries and allowances	691	501
Retirement benefit scheme contributions	62	38
	753	549

The emoluments of each of the five highest paid individuals (others than directors) during the two years ended 31 December 2009 were within HKD1,000,000.

During the two years ended 31 December 2009, 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

	2009 RMB'000	2008 RMB'000
Income tax expenses comprise:		
Current tax:		
PRC enterprise income tax ("EIT")	—	—

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profit arising in Hong Kong for the two years ended 31 December 2009.

The statutory tax rate of CPE, a subsidiary of the Company incorporated in the Republic of Singapore ("Singapore"), was 18% for the year ended 31 December 2008 and 31 December 2009. No provision for Singapore Income Tax has been made in the consolidated financial statements as the income of the Group neither arising in nor derived from Singapore.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

13. INCOME TAX EXPENSES (continued)

The statutory tax rate of Shandong Shengli Steel Pipe Co., Ltd. ("Shangdong Shengli"), a subsidiary of the Company established in the PRC, was 25% for the years ended 31 December 2008 and 31 December 2009. 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 and second exemption year in year 2008 and 2009.

The charge during the two years ended 31 December 2009 can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

	2009		2008	
	RMB'000	%	RMB'000	%
Profit before taxation	335,888		148,797	
Tax at the PRC EIT rate (note (a) below)	83,972	25	37,199	25
Effect of expenses that are not deductible for tax purposes	3,997	—	398	—
Tax effect of tax loss not recognized	1,534	—	303	—
Effect of tax exemption	(89,503)	(25)	(37,900)	(25)
	—	—	—	—

Notes:

- The PRC EIT rate represents the income tax rate applicable to Shandong Shengli, the Group's principal operating subsidiary throughout the two years ended 31 December 2009.
- In accordance to PRC tax circular (Guoshuihan [2008] 112) effective from 1 January 2008, PRC withholding income tax at the rate of 10% is applicable to dividends to be payable by the Company's PRC operating subsidiaries based on their profits generated from 2008 onwards to "non-resident" investors who do not have an establishment or place of business in the PRC. According to the "Agreement between the Government of the People's Republic of China and the Government of the Republic of Singapore for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income", where the Singapore resident company directly owns at least 25% of the capital of the PRC company, 5% dividend withholding tax rate is applicable.

At 31 December 2008 and 31 December 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 RMB457 million, respectively. No liability has been recognized in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and the Company, the shareholder of Shandong Shengli, the Group's principal operating subsidiary, has resolved that the profit from its operations for the 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.

- No deferred tax assets have been recognized for tax loss of RMB6,135,000 (2008: RMB1,212,000) derived from a subsidiary of the Group as the management of the Group is of the view that it is not probable that taxable profits of this subsidiary will be available against which tax loss can be utilized.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

14. DIVIDENDS

	2009 RMB'000	2008 RMB'000
Final dividend proposed after the end of the reporting period of RMB0.0176 per share (equivalent to HKD0.02 per share) (2008: Nil)	43,801	—
	43,801	—

On 16 April 2010, the directors proposed a final dividend of RMB0.0176 per share (equivalent to HKD0.02 per share) for the year ended 31 December 2009 to all equity shareholders of the Company, which will be charged to the share premium accounts and is subject to the shareholders' approval at the forthcoming annual general meeting.

No dividend had been paid or declared by the Company during the year ended 31 December 2008.

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

15. EARNINGS PER SHARE

The calculation of the basic earnings per share for the two years ended 31 December 2009 is based on the consolidated profit attributable to owners of the Company for the respective years and the weighted average number of shares of 1,083,287,671 (2008: 900,000,000), which is determined on the basis that 100,000 shares issued and outstanding upon the Group Reorganization had been in effective at 1 January 2008, and had taken into account of the 100,000 shares issued and outstanding upon the capitalization of shareholder's loans on 28 October 2009 and also has been adjusted for the effect of 1,799,800,000 shares issued pursuant to the capitalization issue as disclosed in note 25.

There was no diluted earnings per share presented for both years as there were no potential shares outstanding.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

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						
At 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	3,578	8,192	566	1,252	18,510	32,098
Transfer	5,926	7,008	—	—	(12,934)	—
Disposals	—	(531)	(23)	—	—	(554)
At 31 December 2009	42,044	206,794	1,896	6,927	5,576	263,237
ACCUMULATED DEPRECIATION						
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 year	1,288	19,183	336	1,260	—	22,067
Elimination on disposals	—	(110)	(21)	—	—	(131)
At 31 December 2009	2,187	27,535	695	2,119	—	32,536
CARRYING VALUES						
At 31 December 2009	39,857	179,259	1,201	4,808	5,576	230,701
At 31 December 2008	31,641	183,663	973	4,816	—	221,093

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

16. PROPERTY, PLANT AND EQUIPMENT (continued)

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

As at 31 December 2009, certain buildings of the Group with a carrying value of approximately RMB27,385,000 (2008: Nil) were pledged against secured bank loans amounting to RMB6,450,000 (2008: Nil) (see note 24).

17. PREPAID LEASE PAYMENTS

	2009 RMB'000	2008 RMB'000
Analyzed for reporting purposes as:		
– Non-current assets	17,103	5,894
– Current assets	355	123
	17,458	6,017

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.

As at 31 December 2009, certain items of the Group's land use rights with a carrying value of approximately RMB5,894,000 (2008: Nil) were pledged against secured bank loans amounting to RMB8,550,000 (2008: Nil) (see note 24).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

18. INTANGIBLE ASSET

	Contract backlog RMB'000
COST	
At 1 January 2008	2,670
De-recognition upon fulfillment of the sales contract for the year	(2,670)
At 31 December 2008 and 31 December 2009	—
AMORTIZATION	
At 1 January 2008	—
Amortization for the year	(2,670)
De-recognition upon fulfillment of the sales contract	2,670
At 31 December 2008 and 31 December 2009	—
CARRYING VALUES	
At 31 December 2009	—
At 31 December 2008	—

The amount represents the incomplete sales contract arising from acquisition of SSAW Pipes Business and certain of related assets and liabilities of Shengli Steel Pipe Co., Ltd. ("Shengli Steel Pipe") by Shandong Shengli (the "Shengli Steel Pipe Acquisition"). The sales contract had been completed during the year 2008 and therefore was fully released to profit or loss for the year ended 31 December 2008.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

19. GOODWILL

	RMB'000
COST	
Arising on acquisition relating to Shengli Steel Pipe Acquisition in 2007, balance at 1 January 2008, 31 December 2008 and 31 December 2009	2,525

For the purpose of impairment testing, goodwill has been allocated to a cash-generating unit, SSAW Pipes Business (the "CGU").

At 31 December 2008 and 31 December 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% (2008: 20%) at 31 December 2009. The cash flows beyond the five year period are extrapolated using a steady growth rate of 3% (2008: 3%) at 31 December 2009. 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

20. INVENTORIES

	2009 RMB'000	2008 RMB'000
Raw materials	117,795	315,797
Work-in-progress	7,897	895
Finished goods	129,906	495,434
	255,598	812,126

21. TRADE AND OTHER RECEIVABLES

	Notes	2009 RMB'000	2008 RMB'000
Trade receivables	a		
— Related parties		—	6,286
— Non-related parties		424,776	118,221
		424,776	124,507
Notes receivable		12,130	5,895
		436,906	130,402
Advance to suppliers	b	38,352	47,934
Tender deposit to customer		1,371	—
Others		12,368	518
		488,997	178,854

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

21. TRADE AND OTHER RECEIVABLES (continued)

Notes:

a. TRADE RECEIVABLES

Balances with related parties are set out in note 29(c).

The trade receivables as at 31 December 2008 and 31 December 2009 comprise amounts receivable from the sales of goods and provision of processing services during the respective years.

No interest is charged on the trade receivables.

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

The Group generally allows a credit period of 90 days to its trade customers. All of the notes receivable are within 90 days. The aged analysis of the Group's trade receivables as at the end of both of the reporting years are as follows:

	2009 RMB'000	2008 RMB'000
Within 90 days	401,014	123,283
Over 90 days but within 1 year	23,708	1,224
Over 1 year	54	—
	424,776	124,507

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

	2009 RMB'000	2008 RMB'000
Over 90 days but within 1 year	23,708	1,224
Over 1 year	54	—
	23,762	1,224

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

The Group's trade and other receivables denominated in currencies other than functional currency of the relevant group entities as at 31 December 2009 was nil (2008: nil).

b. ADVANCE TO SUPPLIERS

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

22. BANK BALANCES AND CASH

The Group's bank balances carry deposit interest rate of 0.36% (2008: 0.72% to 0.36%) per annum for the year ended 31 December 2009.

The Group's bank balances and cash denominated in currencies other than functional currency of the relevant group entities were as follows:

	2009 RMB'000	2008 RMB'000
Currency:		
USD	31	32
SGD	1,005	533
HKD	1,097,115	—

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

23. TRADE AND OTHER PAYABLES

	Notes	2009 RMB'000	2008 RMB'000
Trade payables	a		
— Related parties		4,364	2,903
— Non-related parties		230,158	65,243
Receipt in advances from customers	b	234,522	68,146
Payable on acquisition of property, plant and equipment		4,458	732,614
Other tax payables	c	9,824	19,186
Listing expenses payables		75,597	5,976
Others		14,055	—
		11,563	3,620
		350,019	829,542

Notes:

a. TRADE PAYABLES

Balances with related parties are set out in note 29(c).

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 both of the reporting years are as follows:

	2009 RMB'000	2008 RMB'000
Within 3 months	180,741	27,276
Over 3 months but within 1 year	44,651	40,870
Over 1 year	9,130	—
	234,522	68,146

b. RECEIPT IN ADVANCES FROM CUSTOMERS

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

c. OTHER TAX PAYABLES

Included in the other tax payable is an amount of RMB74,567,000 (2008: RMB5,557,000) as at the end of the reporting year related to VAT payable.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

24. BANK AND OTHERS BORROWINGS

	2009 RMB'000	2008 RMB'000
Bank borrowings due within one year:		
— Secured	15,000	—
— Unsecured	65,000	50,000
Unsecured other borrowing due within one year	7,058	—
	87,058	50,000

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

	Effective interest rate per annum	
	2009 %	2008 %
Effective interest rates:		
Fixed-rate bank and other borrowings	4.86% to 5.31%	5.31%

As at 31 December 2008, bank borrowings amounting to RMB50,000,000 were guaranteed by a related party, Shengli Steel Pipe. The guarantees were fully released during the year ended 31 December 2009.

As at 31 December 2009, the Group's bank borrowings amounting to RMB15,000,000 (2008: Nil) were secured by the Group's property, plant and equipment and land use rights, which had carrying amounts at 31 December 2009 of approximately RMB27,385,000 (2008: Nil) and RMB5,894,000 (2008: Nil), respectively as set out in notes 16 and 17, respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

25. PAID-IN CAPITAL/SHARE CAPITAL

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

	Number of shares	Share capital HKD'000	RMB'000
Issued:			
— One share allotted and issued at nil paid on date of incorporation	1	—	—
— One share allotted and issued at nil paid on 23 September 2009	1	—	—
— Issue of shares on Group Reorganization	99,998	10	9
— Issue of shares on Capitalization of Shareholder's Loans	100,000	10	9
— Issue of shares on Listing	600,000,000	60,000	52,914
— Issue by capitalization of the share premium account relating to Capitalization Issue	1,799,800,000	179,980	158,724
At 31 December 2009	2,400,000,000	240,000	211,656

Notes:

- a. The Company was incorporated in the Cayman Islands on 3 July 2009 with an authorized share capital of HKD380,000, divided into 3,800,000 shares of HKD0.1 each. At the date of incorporation, one share of HKD0.1 was issued at par to Codan Trust Company (Cayman) Limited, at nil paid, which was subsequently transferred to Mr. Yan Tangfeng, a director of the Company.
- b. On 23 September 2009, Mr. Yan Tangfeng transferred his 100% shareholding in Shengli (BVI) to the Company in consideration of the Company crediting as fully paid the one nil paid share held by him and issuing one share, credited as fully paid, to him.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

25. PAID-IN CAPITAL/SHARE CAPITAL (continued)

Notes: (continued)

- c. On 24 September 2009, Mr. Yan Tangfeng transferred two shares in the Company to Aceplus in consideration of Aceplus issuing two shares in its share capital to him.
- d. On 28 October 2009, Aceplus transferred two shares in the share capital of CPE to Shengli (BVI) in consideration of the Company issuing 99,998 shares, credited as fully paid, to Aceplus.
- e. On 28 October 2009, 100,000 shares were issued, credited as fully paid, to Aceplus in respect of Capitalization of Shareholder's Loans of RMB146.45 million owed by the Company to Aceplus (see Note 29(d)(iv)).
- f. Pursuant to the written resolutions of all shareholders on 21 November 2009:
 - i. the authorized share capital of the Company was increased from HKD380,000 to HKD500,000,000 by the creation of 4,996,200,000 shares of HKD0.1 each which rank pari passu in all respects with the existing shares.
 - ii. conditional on the share premium account of the Company being credited as a result of the Listing, the sum of HKD179,980,000 be capitalized and be applied in paying up in full at par 1,799,800,000 shares for allotment and issue to the shareholders whose names were on the register of members of the Company as at the close of business on 12 December 2009 (the "Capitalization Issue") and the shares have been allotted and issued pursuant to this resolution which rank pari passu in all respects with the existing shares.
- g. On 18 December 2009, the Company issued 600,000,000 new shares of HKD0.1 each at issue price of HKD2.2 per share pursuant to the Listing of the Company's shares.

Pursuant to the Company's announcement on 14 January 2010, an over-allotment option of 90,000,000 new shares of HKD0.1 each was exercised by Macquarie Capital Securities Limited, the sole global coordinator and sole bookrunner of the Listing, and details of which are set out in the Company's announcement of "full exercise of over-allotment option, stabilising actions and end of stabilisation period" at the same date.

The balances as at 1 January and 31 December 2008 represented paid-in capital of CPE of SGD2 (equivalent to RMB10).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

26. DEFERRED TAX LIABILITIES

The following are the Group's deferred tax liabilities recognized and the movements thereon, during the two years ended 31 December 2009:

	Fair value adjustments on acquisition RMB'000
Addition arising on acquisition of 100% equity interest in Shandong Shengli by CPE (the "Shandong Shengli Acquisition") and balances at 1 January 2008, 31 December 2008 and 31 December 2009	475

27. OPERATING LEASES

The Group as lessee

	2009 RMB'000	2008 RMB'000
Minimum lease payments paid under operating leases in the year	6,525	3,451

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:

	2009 RMB'000	2008 RMB'000
Minimum lease payments paid under operating leases in the year		
— within one year	6,400	3,451
— in the second to fifth years inclusive	6,400	10,353
	12,800	13,804

Operating lease payments represent rentals payable by the Group for factory premises. Leases are negotiated for lease terms of 3 years.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

28. RETIREMENT BENEFIT PLANS

The employees of the Group in the PRC/Singapore are members of state-managed retirement benefits schemes operated by the PRC/Singapore government. The Group is required to contribute a specified percentage of its payroll costs to the retirement benefits schemes to fund the benefits. The only obligation of the Group with respect to the retirement benefits schemes is to make the specified contributions under the schemes.

The amounts of contributions made by the Group in respect of the retirement benefit schemes during each of the two years ended 31 December 2009 are disclosed in note 11.

29. RELATED PARTY TRANSACTIONS

(a) Related parties of the Group

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

29. RELATED PARTY TRANSACTIONS (continued)

(b) Significant related party transactions

Save as disclosed in note 24 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 two years ended 31 December 2009:

	Note	2009 RMB'000	2008 RMB'000
Sales of goods and raw materials to:			
– Shengli Steel Pipe		2,829	87,778
Utilities income received from:			
– Shengli Coating		1,079	2,466
Rental expense paid to:			
– Shengli Steel Pipe	i	6,525	3,451
Rental income received from:			
– Shengli Coating		–	188
Purchase of materials from:			
– Shengli Coating		4,822	13,099
Acquisition of property from:			
– Shengli Steel Pipe	i	6,526	–

Note:

- i. Out of which, an amount of RMB6,400,000 for the year ended 31 December 2009 represents rental expense regarding to the leasing of the properties of Shengli Steel Pipe in Zibo, Shandong, the PRC which has been set out in the section "Connected Transactions" to the Prospectus. The remaining amount of RMB125,000 for the year ended 31 December 2009 represents rental expense regarding to the leasing of properties of Shengli Steel Pipe in Dezhou, Shandong, the PRC which has been acquired by the Company for a consideration of RMB6,526,000 prior to the Listing.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

29. RELATED PARTY TRANSACTIONS (continued)

(c) Trade balances and other receivables with related parties

The Group has significant trade and other receivables and payables with the following related parties as at the end of each reporting period:

	Notes	2009 RMB'000	2008 RMB'000
Trade receivables:			
— 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	4,364	2,903
		4,364	2,903
Other payable:			
— Shengli Steel Pipe		1,262	—
		5,626	2,903

Notes:

- i. The amounts represent the outstanding trade balances between Shengli Steel Pipe and the Group as at 31 December 2008 and 31 December 2009 and details of the transactions with Shengli Steel Pipe during each reporting periods are set out in note 29(b) above.

During the year ended 31 December 2009, trade receivables from Shengli Steel Pipe amounting to approximately RMB3,310,000 (2008: RMB86,322,000), were settled through the non-trade current account with Shengli Steel Pipe and details of which are set out in note 29(d)(iii) below.

- ii. The amounts represent the outstanding trade balances between Shengli Coating and the Group as at 31 December 2008 and 31 December 2009 and details of the transactions with Shengli Coating during the two years ended 31 December 2009 are set out in note 29(b) above.
- iii. The amount represented the miscellaneous charges paid on behalf of Shengda Chemical, which was interest-free and was fully repaid during the year ended 31 December 2009.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

29. RELATED PARTY TRANSACTIONS (continued)

(d) Non-trade balances with related parties

Saved as disclosed in note 23 relating to a payable to Shengli Steel Pipe, the Group has significant non-trade balances with the following related parties as at the end of each reporting period:

	Notes	2009 RMB'000	2008 RMB'000
Amounts due from:			
— Aceplus	i	3,067	2,840
— SEAVI	ii	793	—
— Apollo	ii	529	—
		4,389	2,840
Amount due to:			
— Shengli Steel Pipe	iii	—	136,813
— Aceplus			
— Shareholder's loan	iv	—	138,000
— Zhang Bizhuang	v	—	495
		—	275,308

Notes:

- (i) The non-trade balance with Aceplus as at 31 December 2008 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 non-trade balance with Aceplus as at 31 December 2009 was receivable from Aceplus regarding to the share of Listing expense upon the Listing.

The maximum amounts outstanding during the year ended 31 December 2009 were approximately RMB3,067,000 (2008: RMB2,840,000).

- (ii) The non-trade balances with SEAVI and Apollo as at 31 December 2009 were receivables from SEAVI and Apollo regarding to the share of Listing expense upon the Listing.

The maximum amounts outstanding relating to SEAVI and Apollo during the year ended 31 December 2009 were approximately RMB793,000 (2008: Nil) and RMB529,000 (2008: Nil), respectively.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

29. RELATED PARTY TRANSACTIONS (continued)

(d) Non-trade balances with related parties (continued)

Notes: (continued)

- (iii) 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 2009, trade receivables from Shengli Steel Pipe amounting to approximately RMB3,310,000 (2008: RMB86,322,000) were settled through the non-trade current account with Shengli Steel Pipe and details of which are set out in note 29(c) above.

The outstanding amount as at 31 December 2008 was fully settled during the year ended 31 December 2009.

- (iv) 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 RMB138 million together with an advance of RMB8.45 million provided by Aceplus to CPE as at 28 October 2009 (the shareholder's loan of RMB138 million and the advance of RMB8.45 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 HKD0.1 each in the Company to Aceplus (the "Capitalization of Shareholder's Loans") 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 and Note 25(e).

- (v) 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 was fully settled during the year ended 31 December 2009.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

29. RELATED PARTY TRANSACTIONS (continued)

(e) Compensation of key management personnel

The remuneration of directors and other members of key management during the two years ended 31 December 2009 were as follows:

	2009 RMB'000	2008 RMB'000
Salaries and allowances	2,002	790
Performance related bonus	65	—
Retirement benefits scheme contributions	123	60
	2,190	850

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

30. CAPITAL COMMITMENTS

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

	2009 RMB'000	2008 RMB'000
Capital expenditure in respect of acquisition of property, plant and equipment: — contracted for but not provided in the consolidated financial statements	23,160	—

Notes to the Consolidated Financial Statements

For the year ended 31 December 2009

31. PARTICULARS OF THE COMPANY'S SUBSIDIARIES

Particulars of the Company's subsidiaries as at the end of each reporting period are as follows:

Name of the subsidiary	Place of incorporation/ establishment	Issued and fully paid-up capital/ registered capital	Proportion of ownership attributable to the Group as at		Principal activities
			31 December 2009	2008	
Directly held:					
Shengli (BVI) (formerly known as Sinolion Equity II Ltd.)	British Virgin Islands 30 October 2008	USD1 of nil paid	100%		N/A Investment holding
Indirectly held:					
CPE	Singapore 1 November 2007	SGD2	100%	100%	Investment holding
山東勝利鋼管有限公司 Shandong Shengli, (formerly known as 勝利鋼管(日照)有限公司, (Shengli Steel Pipe (Rizhao) Co., Ltd.))	PRC, 29 April 2005 wholly owned foreign enterprise	RMB150,760,000	100%	100%	Manufacture, processing and sale of welded steel pipes for oil and gas pipelines and other construction and manufacturing applications

None of the subsidiaries had issued any debt securities at the end of the year.



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