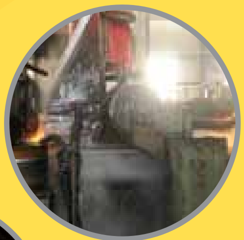
SHENGLI OIL & GAS PIPE HOLDINGS LIMITED

勝利油氣管道控股有限公司

(Incorporated in the Cayman Islands with limited liability)

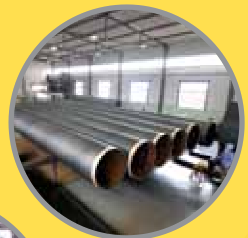
Stock Code: 1080

Annual Report 2010



鋼鐵意志 鍥而不捨

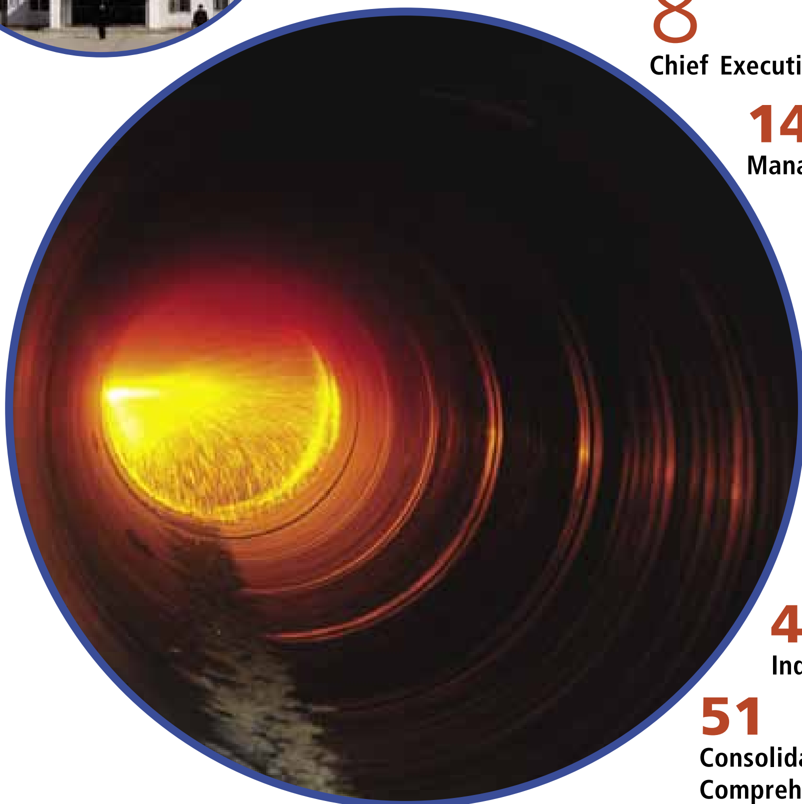
虛心品質 追求永遠



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 design, 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.

Content



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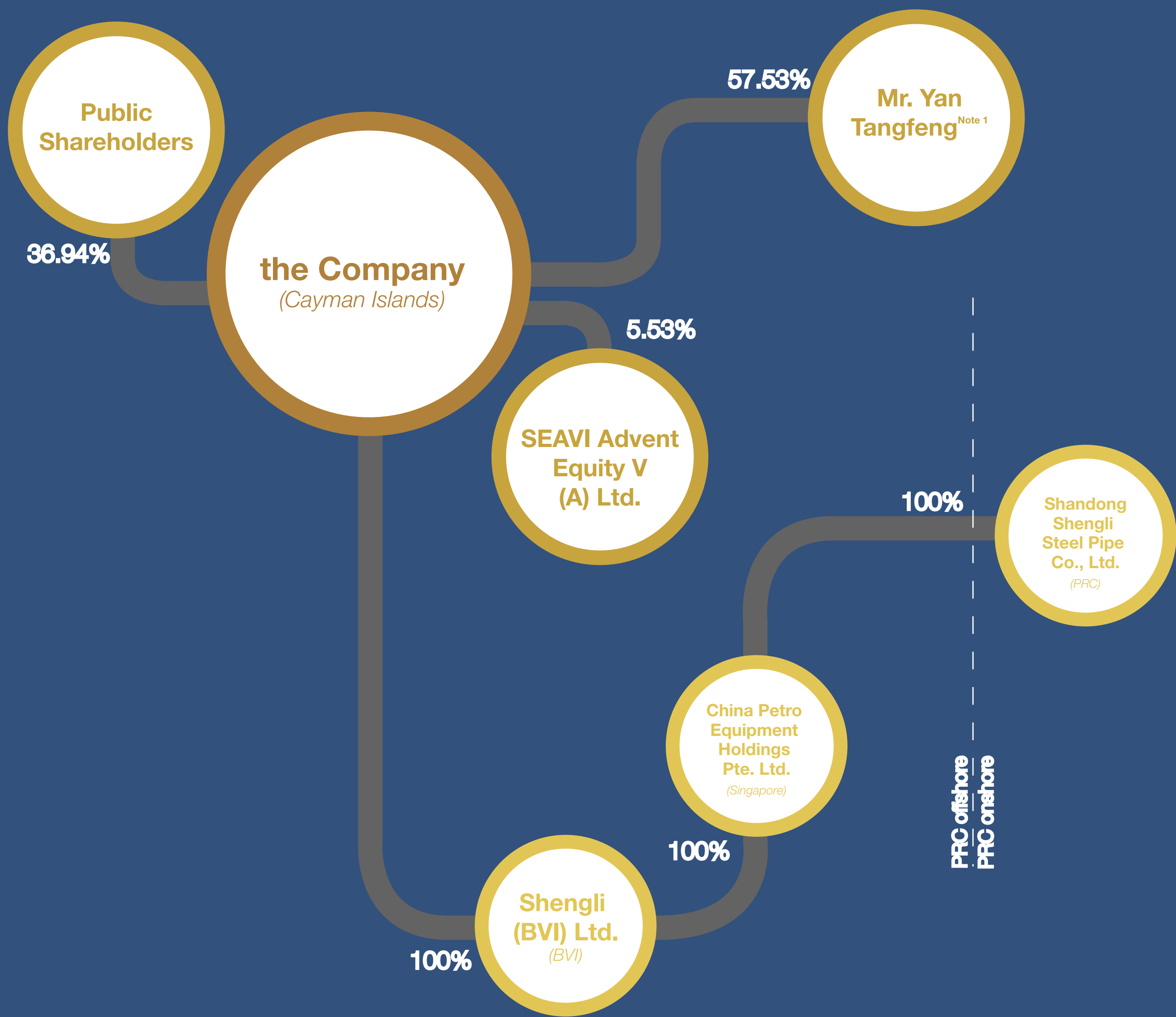
Corporate Profile

We are one of the largest oil and gas line pipe manufacturers in China. We focus on the design, manufacture, anti-corrosive 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.

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 2010, the corporate structure of our Company and its subsidiaries (the "Group") was as follows:



Note:

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

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
Mr. Leung Ming Shu (appointed 1 January 2011)
Ms. Wong Wing Yee Jessie (resigned 8 October 2010)

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. Ng Kam Tsun, *FCPA, FCPA (AUST.)*

AUTHORISED REPRESENTATIVES

Ms. Han Aizhi
Mr. Ng Kam Tsun, *FCPA, FCPA (AUST.)*

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

23rd Floor, COSCO Tower,
183 Queen's Road Central,
Hong Kong

PRINCIPAL BANKERS

Industrial & Commercial Bank of China
Bank of China Zibo Branch

LEGAL ADVISER AS TO HONG KONG LAW

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

Financial Highlight And Summary

FINANCIAL HIGHLIGHT

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

FINANCIAL SUMMARY

Consolidated/Combined Statements of Comprehensive Income

	Year ended 31 December			For the period from 1 November 2007 to 31 December
	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Turnover	**1,126,923**	2,999,092	1,070,747	—
Cost of sales	**(978,801)**	(2,657,043)	(935,241)	—
Gross profit	**148,122**	342,049	135,506	—
Other income	**33,384**	51,356	36,141	141
Selling and distribution expenses	**(18,079)**	(16,515)	(6,020)	—
Administrative expenses	**(55,006)**	(37,951)	(16,830)	(12)
Finance costs	**(305)**	(3,051)	—	—
Profit before taxation	**108,116**	335,888	148,797	129
Income tax expenses	**(18,952)**	—	—	—
Profit for the year/period and total comprehensive income for the year/period	**89,164**	335,888	148,797	129

Selected Statements of Financial Position Information

	As at 31 December			
	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Total assets	**2,086,619**	2,167,961	1,304,251	227,826
Total liabilities	**124,953**	437,552	1,155,325	227,697
Total equity	**1,961,666**	1,730,409	148,926	129

Notes:

i. 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.

ii. 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.

we have 9 SSAW pipe production lines
with an annual production capacity of

640,000

tons

Zhang Bizhuang *Chief Executive Officer*

We believe that we are one of the few suppliers in China producing SSAW pipes of large-diameter, high wall thickness, high steel grade and high pressure for the transportation of crude oil, refined petroleum products and natural gas over long distances.

To the Shareholders,

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

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

Chief Executive Officer's Statement

cycle. This will enable the Group to expand into the downstream business of municipal pipeline network gas transmission and distribution, thereby establishing more stable industrial chains.

CONTINUED HEAT UP OF MARKET DEMAND

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

SEIZING THE GROWING OPPORTUNITIES

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

Chief Executive Officer's Statement

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

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

OUTLOOK: THE INDUSTRY'S "GOLDEN DECADE"

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

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

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

MAKING MULTI-FACETED STRATEGIC MOVES AND GAIN FIRST-MOVER ADVANTAGES

Along with the commencement of a number of oil and gas pipeline projects in 2011, the Company will

continue to improve its production capacity and technologies, further explore domestic and overseas markets, broaden its product and service offering and actively seek cooperation and merger and acquisition opportunities to well prepare itself for the future development of oil and gas pipe industry.

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

The Company will also increase its input in research and development, and take various measures to implement the strategy of rejuvenation through science and technology. The pre-welding and precision-welding steel pipes production facilities with an annual production capacity of 360,000 tonnes to be introduced from Germany is expected to be put into operation in the second half of 2011, by then the Company will become the first oil and gas pipe manufacturer in China equipped with such technologies and equipment. Such production facilities will significantly improve the Group's product quality, achieve significant savings on raw materials and enhance welding speed, as compared with traditional technologies. The Company will take this opportunity to enhance research and development capacity and accelerate the deployment of new technologies. With the establishment of Shandong Province Oil and Gas Transmission Steel Pipes Engineering Technology Research Centre, a research institute established by the Group, the Group will partner with research and development and academic institutions to set up a postdoctoral workstation and hire experts to strengthen its research and development capability and production technology.

Meanwhile, the Company will seek cooperation and merger and acquisition opportunities in related upstream and downstream industries, so as to form a more complete industry chain and take full advantage of the government's increasing construction of and improvement in the oil and gas pipe network in the upcoming "Golden Ten Years". Therefore, on 30 March 2011, the Company entered into a joint venture agreement with Xiangtan Steel Group Co., Ltd. and Hunan Shengyu New and High-Tech Materials Co., Ltd. in relation to the establishment of a joint venture company. The joint venture company will be primarily engaged in manufacture of LSAW and SSAW pipelines and provision of anti-corrosion services hence the Group increasing the production capacity and expanding the product offering. The joint venture company will have a registered capital of RMB500,000,000, and the Company will hold 51% of its equity interest. The joint venture company will construct a LSAW production line with an annual production capacity of 200,000 tons, four SSAW production lines with an annual production capacity of 300,000 tons in aggregate and an anti-corrosion production line with an annual production capacity of 2,400,000 square meters.

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

Chief Executive Officer
Zhang Bizhuang

29 March 2011

We have provided cumulatively about

18,600

km high-quality SSAW pipes for some major pipeline projects in China and overseas.

Management Discussion and Analysis

MARKET OVERVIEW

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

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

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

BUSINESS REVIEW

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

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

During the period under review, the Group's two core business segments, namely, (1) SSAW pipes business (including anti-corrosion business)

Our Company has taken part in almost all the long-distance oil and gas pipeline projects in China and construction of transnational pipelines projects.

reported a turnover of RMB994,678,000 (2009: RMB2,918,185,000), representing a year-on-year decrease of approximately 65.9%, and (2) cold-formed section steel business, reported a turnover of RMB132,245,000 (2009: RMB80,907,000), representing an increase of approximately 63.5%.

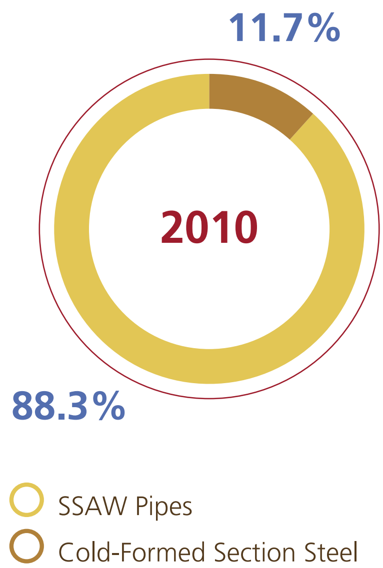
SSAW pipes business

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

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

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

Total Turnover



The Group's **net profit** for the years ended 31 December 2010 and 31 December 2009 were **RMB89.2 million** and **RMB335.9 million**.

After the installation of the pre-welding and precision-welding steel pipes production facilities with an annual production capacity of 360,000 tonnes, our annual SSAW pipe production capacity will reach 1,000,000 tons; and we will become the biggest SSAW pipe producer in China.

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

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

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

In 2010, the tightening measures adopted by the PRC government led to a tight control over the new and large-scale infrastructure projects (including pipeline projects), which in turn caused delays in the commencement of construction of a number of major national oil and gas pipelines in the PRC (including the China-Myanmar Oil and Gas Pipelines (中緬油氣管道) and the Central Asia Gas Pipelines (中亞管道)). As a result of such delays, orders received by the Group for the supplies of pipes of large-diameter, high steel grade and high pipe-wall thickness, dropped substantially. Such products are usually supplied to major national oil and gas pipeline projects and are usually of higher selling prices and profit margins.

For the year ended 31 December 2010, the total sales volume of SSAW was 219,580 tonnes (for the year ended 31 December 2009: 486,459 tonnes), dropped by 54.9% compared to 2009. The proportion of (sales of SSAW pipes to national pipeline projects reduced from 89% in 2009 to 65% in 2010.

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

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

Cold-formed Section Steel

In addition to SSAW pipes, the major business of the Group, the Group also produces cold-formed section steel utilizing welding technology and a variety of equipment. Cold-formed section steel is one of the major materials for modern construction. The Group's cold-formed section steel is mainly used in the construction industry and the manufacture of automobiles and freight containers. At present, the Group has three cold-formed section steel production lines with an annual production capacity of 60,000 tonnes, which can be reconfigured to produce cold-formed section steel products with various specifications, such as square and rectangular tubes and round steel pipes.

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

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

STRATEGIC INVESTMENT

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

OUTLOOK

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

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

At the same time, to reinforce product diversification and meet different needs of its customers, the Group has commenced the construction of a LSAW pipes production line.

On 30 March 2011, the Company entered into a joint venture agreement with Xiangtan Steel Group Co., Ltd. ("Xiangtan Steel") and Hunan Shengyu New and High-Tech Materials Co., Ltd. in relation to the establishment of the first domestic pipe manufacturing company jointly set up by an oil and gas pipelines manufacturer and a steel company. The joint venture company will be primarily engaged in manufacture of LSAW and SSAW pipelines and provision of anti-corrosion services hence increasing the production capacity and expanding the product offering of the Group. Xiangtan Steel is a state-owned enterprise with an annual production capacity of 10,000,000 tons. It is a qualified steel manufacturer for high-grade pipes and the largest single product manufacturer of wide and thick steel in China. By partnering with Xiangtan Steel in establishing the production base in Xiangtan, Hunan Province, the Group will be able to secure the supply of steel, reduce raw material costs, take advantage of the close proximity between Xiangtan Steel and the joint venture company as well as the related geographic advantages, convenient water and land transportation and less regional competition to reduce transportation cost of steel and take advantage of the favorable policies provided by the local government in Hunan Province towards the further processing of steel industry so as to maximize returns to the Shareholders.

Taken into account of the recent market situation, the Group has decided to suspend the addition of ERW pipes production lines so that it can focus on the expansion that will bring the most benefit to the Group.

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

FINANCIAL REVIEW

Revenue

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

Cost of sales

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

Gross profit

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

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

Other income

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

Selling and distribution expenses

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

Administrative expenses

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

Finance costs

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

Income tax expenses

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

Profit for the year

As a result of the foregoing factors, the profit of the Group decreased from RMB335,888,000 for the year ended 31 December 2009 to RMB89,164,000 for the year ended 31 December 2010 representing a year-on-year decrease of 73.5%.

Analysis of inventory, trade receivable and trade payable turnover

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

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

Inventories

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

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

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

Trade receivables

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

Other trade receivables mainly represent the credit sales of the Group's products to be paid by customers. The Group generally grants a 90-day credit period to its customers. In addition, the Group have adopted a series of measures to enhance the collection of its trade receivables, such as imposing more stringent credit standards, conducting credit checks and closely monitoring the Group's overdue trade and bills receivables. The following table sets forth an aging analysis of trade receivables of the Group as at 31 December of the years indicated.

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

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

Trade payables

The turnover days of the Group's trade payables were 56.5 days and 20 days for each of the years ended 31 December 2010 and 31 December 2009, respectively. The increase in the turnover days was mainly due to the Group's tightening payment policy.

Payment for most of the Group's raw materials and parts and components are due within 90 days of delivery and acceptance. The following table sets forth an aging analysis of the Group's trade payables and notes payables of the Group and Shengli Steel Pipe as at 31 December 2010 and 2009 indicated:

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

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

Loan receivables

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

Analysis of net current assets and liabilities

The following table sets forth the current asset and current liability positions of the Group as at 31 December 2010 and 2009 indicated:

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

The balance of trade and other receivables of the Group as at 31 December 2010 increased by 38.34% compared to the balance as at 31 December 2009. The revenue recorded by the Group during the year 2010 decreased by 62.4% compared to the total revenue recorded in 2009.

As at 31 December 2010, the Group had net current assets of RMB1,273.3 million. The Group's net current asset position was primarily the result of (i) an increase in bank balance and cash of RMB1,087.5 million mainly from net proceeds of its initial public offering on the Stock Exchange on 18 December 2009 (the "IPO"), (ii) the capitalization of a loan of RMB146.5 million from Aceplus for shares of the Company on 28 October 2009 and (iii) the settlement of amounts due to related parties.

Capital expenditures

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

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

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

Indebtedness

Borrowings

The following table sets forth information of the bank and other borrowings of the Group and Shengli Steel Pipe as at 31 December 2010 and 2009 indicated:

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

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

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

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

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

Financial management and fiscal policy

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

Utilisation of IPO proceeds

The net proceeds obtained by the Group from the IPO was approximately RMB1,098.5 million, all of which remained unutilized as at 31 December 2009. After the exercise of over-allotment option on 13 January 2010, the net proceeds of the IPO increased to RMB1,269.9 million. As at 31 December 2010, RMB153.6 million out of the total net proceeds from the IPO has been utilized in the manner specified in the Company's prospectus dated 9 December 2009 ("Prospectus") and the balance of RMB1,115.6 million remain unutilized. The Group intended to continue to apply the proceeds in the same manner as 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, the Group is in a net cash position and has not entered into any hedging arrangement.

Liquidity and financial resources

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

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

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

Charges and contingent liabilities

Other than the secured bank borrowings mentioned above, as at 31 December 2010, the Group did not have any charges on its assets or any material contingent liabilities.

Foreign exchange risk

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

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

DIVIDENDS

The Directors recommend the payment of dividends of RMB0.895 cents per share which will be charged to the share provision account (equivalent to HK$1.064 cents per share) for the year ended 31 December 2010 (2009: RMB1.76 cents per share), subject to shareholders' approval at the forthcoming annual general meeting of the Company.

Biographical Details of Directors and Senior Management

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Zhang Bizhuang, aged 43, is our executive Director and chief executive officer. He joined our Group in December 2011 and is responsible for the overall management of our business operations. Mr. Zhang is currently the chairman and general manager of Shandong Shengli, and is responsible for the overall management of its business operations. He started his career in Shengli Oilfield Zibo Pipe Co., Ltd. (勝利油田淄博製管有限公司) (formerly Shengli Factory and Shengli Administration of Petroleum Steel Pipe Factory) ("Shengli Oilfield Zibo Pipe") (勝利石油管理局鋼管廠)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, and was responsible for the management of its operations. From June 2004 to December 2008, he served as general manager of Shengli Steel Pipe Co., Ltd., (勝利鋼管有限公司) ("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. Since December 2008, 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. Since December 2008, 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 Shengli Steel Pipe (Rizhao) Co., Ltd. (勝利鋼管(日照)有限公司)("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 bachelor's degree in metallurgical and materials engineering in July 1990, and graduated from the Open University of Hong Kong with a master's 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 42, is our executive Director joined our Group in December 2007. He has been the deputy general manager of Shandong Shengli since December 2007 and is responsible for the management of sales and purchases. He has been the director of Shandong Shengli since December 2008. He started his career in Shengli Administration of Petroleum Steel Pipe Factory as a technician from July 1990 to March 1996. From March 1996 to December 2000, he worked in Shengli Oilfield Zibo Pipe 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. and was responsible for sales and purchase. From June 2004 to December 2008, he was the deputy general manager of Shengli

Biographical Details of Directors and Senior Management

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 bachelor's degree in mechanical engineering, and a master's 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 43, is our executive Director. She joined our Group in December 2007. 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 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, 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 obtained 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 master's 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 40, is our non-executive Director and chairman of the Board and joined our Group in July 2008. He has been the chief executive officer of Sinolion Investment Pte. Ltd. since September 2007, responsible for the management of investments and overall management of business operations. Mr. Yan started his career as a teacher and secretary of the faculty's Party Committee in Shandong University of Technology (merged 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 (merged with Shandong University in 2001) with a bachelor's degree in engineering.

Mr. Teo Yi-Dar, aged 40, is our non-executive Director and joined our Group in July 2009. He is the investment director in SEAVI Advent Corporation Ltd. since October 1999, where he is responsible for the management of its 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 worked at Keppel Corporation Ltd. as its business development executive, where he was responsible for conducting business expansion activities for its engineering, marine and offshore oil & gas business segments. Mr. Teo is also a director in these Singapore listed companies, namely 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's degree in Engineering in July 1996, a master's degree of science (Industrial & Systems Engineering) and a master's degree of science (Applied Finance) 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 45, is our non-executive Director and joined our Group in 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 acquisition targets and corporate matters of the company. Mr. Ling is a non-executive director of China Sunsine 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 Monash University in Australia with a bachelor's 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 31, is the alternate Director to Mr. Ling Yong Wah and joined our Group in July 2009. He joined SEAVI Advent Corporation Ltd. in September 2005 and is currently an assistant vice president, where he is responsible for identifying investments targets, 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 Monash University in Australia in September 2003 with a bachelor's degree of Business in Banking and Finance.

Independent Non-executive Directors

Mr. Huo Chunyong, aged 44, is our independent non-executive Director and joined our Group in July 2009. From June 1990 until now, 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.

Mr. Guo Changyu, aged 61, is our independent non-executive Director and joined our Group in 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 and 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. 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. 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 master's 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.

Mr. Leung Ming Shu, aged 35, is our independent non-executive Director and joined our Group in January 2011. He currently serves as the CFO and company secretary of China ITS (Holdings) Co., Ltd., a company listed on The Stock Exchange of Hong Kong (Stock Code: 1900). Mr. Leung is also serving as an independent non-executive director, the chairman of the audit committee and a member of the remuneration committee of Comtec Solar Systems Group Limited, a company listed on the Hong Kong Stock Exchange (Stock Code: 0712), since June 2008.

Prior to joining China ITS (Holdings) Co., Ltd., Mr. Leung served as the CFO of two private companies in China, Beijing Lingtu Spacecom Technology Co., Ltd. and Beijing Xinwei Telecom Technology Co., Ltd. from March 2006 to December 2007. Prior to that, Mr. Leung spent more than three years from February 2003 at CDC Corporation, a NASDAQ-listed company, as a senior manager in the mergers and acquisitions department, and as the CFO of China.com Inc., a subsidiary of CDC Corporation and also a company listed on Hong Kong Stock Exchange. Mr. Leung started his professional career at PricewaterhouseCoopers in Hong Kong in auditing in 1998, and subsequently worked at the global corporate finance division of Arthur Andersen & Co. in Hong Kong, which subsequently merged with PricewaterhouseCoopers, until July 2001. From July 2001 to February 2003, he also worked as a business consultant in Market Catalyst International (Hong Kong) Limited, where he advised companies on issues relating to strategy, organisation and operations. Save as disclosed above, Mr. Leung has not held any directorship in any other listed companies in the last three years.

Mr. Leung obtained a bachelor's degree in accountancy with a First Class Honours from the City University of Hong Kong in June 1998 and a master's degree in accountancy from the Chinese University of Hong Kong in November 2001. He is a Fellow Member of the Association of Chartered Certified Accountants and a Fellow Member of the Hong Kong Institute of Certified Public Accountants.

Senior Management

Mr. Wang Kunxian, aged 42, is a director and a deputy general manager of Shandong Shengli and is responsible for the technological development and quality control. 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 bachelor's degree in metallurgical and materials engineering, and a master's 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 39, is a director and was appointed as the vice president on 29 October 2010. He has been a deputy general manager of Shandong Shengli since December 2007, responsible for production and technological management and new construction projects. 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 and December 2008. Mr. Liu graduated from the North China Institute of Technology in July 1995 with a bachelor's degree in detection technology and instrument & meter engineering, and had obtained a master's 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. Ng Kam Tsun, Jeffrey, aged 37, joined our Group in May 2010. He is the chief financial officer and company secretary of our Company, responsible for corporate finance management, corporate governance and investor relationship. From 2006 to 2010, he was joint company secretary and an authorized representative of China COSCO Holdings Company Limited (a company listed on the Hong Kong Stock Exchange, Stock Code: 1919), responsible for corporate governance matters and investor relations, and was involved in internal control matters as well as compliance. Mr. Ng has more than 16 years experience of financial management. Mr. Ng graduated from Monash University with a bachelor's degree in business and obtained master degree in management majoring in accounting from Shanghai University of Finance and Economics in 2005. Mr. Ng is a fellow member of Hong Kong Institute of Certified Public Accountants and fellow member of CPA Australia.

Ms. Zhao Hui, aged 39, is the chief accountant of Shandong Shengli. 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.

Report of the Directors

The Directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2010.

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 Unit 2310, 23rd Floor, COSCO Tower, 183 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 35 to the financial statements.

DIVIDENDS

The Directors recommend the payment of a dividend of RMB0.895 cents per share (equivalent to HK$1.064 cents per share) for the year ended 31 December 2010 (2009: RMB1.76 cents per share), which will be subject to Shareholders' approval at the forthcoming annual general meeting of the company ("AGM").

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 22 June 2011 to 28 June 2011 (both dates inclusive) during which period no transfer of Shares will be effected. In order to qualify for the proposed 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 21 June 2011.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for approximately 66.0% (2009: 92.1%) of the Group's total sales and the top five suppliers accounted for approximately 87.8% (2009: 97.0%) of the total purchases for the year. In addition, the Group's largest customer accounted for approximately 54.6% (2009: 70.8%) of the total sales and the largest supplier accounted for approximately 42.4% (2009: 81.0%) 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 2010 and the financial status of the Company's and the Group as at 31 December 2010 are set out in the financial statements on pages 51 to 108.

DISTRIBUTABLE RESERVE

The Company's reserves available for distribution represent the share premium, contributed surplus and profit which in aggregate amounted to RMB1,112.9 million as at 31 December 2010.

The Directors recommend the payment of dividends of RMB0.895 cents per share (equivalent to HK$1.064 cents per share) for the year ended 31 December 2010 (2009: RMB1.76 cents per share), which will be changed to the share premium account and is subject to Shareholders' approval at the AGM.

FIXED ASSETS

Details of movements in fixed assets during this 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 27 to the financial statements.

DIRECTORS

The Directors during this 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)
Mr. Leung Ming Shu (appointed on 1 January 2011)
Ms. Wong Wing Yee, Jessie (resigned on 8 October 2010)

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 (or if their number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation.

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"), except Mr. Leung Ming Shu, whose three-year term commenced on 1 January 2011.

The Company has received from each of the independent non-executive Directors, an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). 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 2010, the interests and 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	Interest in controlled corporation[1]	1,432,485,600	57.53%

Note:

(1) Aceplus Investments Limited held 57.53% 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.

(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 ("Share Option Scheme") on 21 November 2009. The purpose of the Share Option Scheme is to give the Eligible Persons (as defined in Share Option Scheme) 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.

The principal terms of the Share Option Scheme are summarized 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 can be granted pursuant to the Share Option Scheme 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 the 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 Listing Rules.

(b) The Company may seek separate approval from the 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(s) specified by the Company before such approval is obtained. The Company shall issue a circular to the 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 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 in general meeting with such Eligible Person and his associates abstaining from voting. The Company shall send a circular to the 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 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 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.

On 10 February 2010, the Board granted 24,000,000 share options to 19 Directors and chief executives and other personnel approved by the Board, including three Directors of the Company and its subsidiaries at an exercise price of HK$2.03 per Share under the Share Option Scheme.

Further details of the Share Option Scheme are disclosed in note 29 to the financial statements.

For the year ended 31 December 2010, movements of options granted under the Share Option Scheme are set out below:

Name	Capacity	Exercise Price	Outstanding at 1 January 2010	Granted during the year	Exercised during the year	Outstanding at 31 December 2010	Approximate percentage of the issued share capital of the Company at 31 December 2010
Directors							
Zhang Bizhuang	Beneficial owner	HK$2.03	—	7,200,000	—	7,200,000	0.29%
Wang Xu	Beneficial owner	HK$2.03	—	3,000,000	—	3,000,000	0.12%
Han Aizhi	Beneficial owner	HK$2.03	—	3,000,000	—	3,000,000	0.12%
Employees	Beneficial owner	HK$2.03	—	10,800,000	—	10,800,000	0.43%

Note: The share options granted by the Company were exercisable within 10 years. One third of the share options are immediately exercisable. After second and third anniversaries after the date of grant (i.e. 10 February 2010), two-third and 100% of the respective total share options granted shall also become exercisable. These share options will be exercisable at HK$2.03 each according to the rules of the Share Option Scheme during 10 February 2010 and 9 February 2020.

The fair value of the Company's share options was calculated by an independent professional valuer, Ernst & Young (China) Advisory Limited at HK$29,100,000 using the binomial option pricing model as at the date of grant of the options:

Grantee	**Number of share options granted during the year**	**Theoretical value of share options (HK$)**
Directors and employees in aggregate	24,000,000	29,100,000

The binomial option pricing model is a generally accepted method of valuing options, using certain key determinants to calculate the theoretical value of share options. The significant assumptions used in the calculation of the values of the share options included the risk-free interest rate, expected life, expected volatility and expected dividend.

The measurement dates used in the valuation calculations were the dates on which the options were granted. For details of the assumptions, please refer to note 29 to the financial statements.

The value of share options calculated using the binomial option pricing model is subject to certain fundamental limitations, due to the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself.

The value of an option varies with different variables of certain subjective assumptions. Any change to the variables used may materially affect the estimation of the fair value of an option.

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

As at 31 December 2010, 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	1,432,485,600	57.53%
SEAVI Advent Equity V (A) Ltd. *(Note)*	Beneficial owner	137,708,640	5.53%
SEAVI Advent Corporation Ltd *(Note)*	Interest in a controlled corporation	137,708,640	5.53%

Note: SEAVI Advent Equity V (A) Ltd. is a special purpose vehicle, the business of which is 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 2010, 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.

COMPETING BUSINESS

During the year and up to the date of this annual report, none of the Directors and controlling shareholders of the Company has any interest in business which competes or is likely to compete, either directly or indirectly, with business of the Group under the Listing Rules.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at 31 December 2010, the Company had maintained a public float of not less than 25% 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 2010, cash and bank balances of the Group amounted to approximately RMB357.0 million (2009: approximately RMB1,168.3 million). As of 31 December 2010, the Group had nil bank and other borrowings (2009: RMB87.1 million).

The gearing ratio is defined as net debt (represented by borrowings net of time deposits and bank balances and cash) divided by shareholders equity. As at 31 December 2010, the Group is in a strong financial position with a net cash position amounting to RMB357.0 million (2008: RMB1,081.2 million). Accordingly, no gearing ratio is presented.

CHARGES AND CONTINGENT LIABILITIES

As at 31 December 2010, the Group did not have any charges on its assets or any material contingent liabilities.

FOREIGN EXCHANGE RISK

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

HUMAN RESOURCES

As at 31 December 2010, 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 year is set out in the financial summary section on page 5 of the annual report.

RETIREMENT SCHEMES

Particulars of employee retirement schemes of the Group are set out in note 31 to the financial statements.

CONTINUING CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 32 (b) to the consolidated financial statements constituted continuing connected transactions (the "Continuing Connected Transactions") under chapter 14A of the Listing Rules, details of which 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 ("Lease Agreement") with Shengli Steel Pipe on 26 July 2009 and pursuant to which, Shengli Steel Pipe agreed to lease to Shandong Shengli certain land and buildings in Zibo, Shandong Province where the Group's SSAW production facilities are located.

The registered capital of Shengli Steel Pipe is held as to 49.87% by Mr. Zhang Bizhuang, an executive Director and the chief executive officer of the Company (for himself as to 1.19% and the remaining on behalf of the 315 employees of Shengli Steel Pipe). By reason of him being entitled to control the exercise of more than 30% voting power in Shengli Steel Pipe's general meeting, Shengli Steel Pipe is an associate of Mr. Zhang Bizhuang pursuant to the Listing Rules . As Mr. Zhang Bizhuang, being an executive Director and the chief executive officer of the Company, is a connected person of the Company pursuant to the Listing Rules, Shengli Steel Pipe, being his associate, is also a connected person of the Company pursuant to the Listing Rules.

Pursuant to the Lease Agreement, the term of the lease is 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 determine the new annual rental for the next three-year period based on the opinion of an independent valuer. Details of the terms of Lease Agreement were disclosed in the prospectus of the Company dated 9 December 2009 ("Prospectus").

On 28 September 2010, the Company entered into another property leasing agreement (the "New Lease Agreement") with Shengli Steel Pipe for a lease term of 19 years with the annual rental of RMB450,000 in respect of certain additional land and buildings also located in Zibo, Shandong Province where the Group's SSAW production facilities are located but which did not form part of the properties covered under the Lease Agreement. The New Lease Agreement has not been approved by the Company's board of directors.

The Board of Directors of the Company, including the independent non-executive Directors of the Company, has reviewed the above continuing connected transactions and noted that, as a result of the entering of the New Lease Agreement, the entry into the transactions thereunder including the payment of rental of RMB450,000 paid to Shengli Steel Pipe pursuant to the New Lease Agreement, the aggregate amount of rental paid or payable to Shengli Steel Pipe during the year ended 31 December 2010 was RMB6,850,000, which have exceeded the maximum aggregate annual transaction cap of RBM6,400,000 as disclosed in the Prospectus.

The Directors of the Company has confirmed that above continuing connected transactions have been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) on normal commercial terms;

(iii) in accordance with the relevant agreements governing them; and

(iv) on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Continuing Connected Transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its qualified letter containing its findings and conclusions, which are extracted as below, in respect of the abovementioned Disclosed Continuing Connected Transactions disclosed by the Group in this Annual Report in accordance with Rule 14A.38 of the Listing Rules.

Basis for qualified conclusion

During the year, the Company entered into a property leasing agreement with Shengli Steel Pipe Co., Ltd., a connected party of the Group, for a lease term of 19 years with the annual rental of RMB450,000. This property leasing agreement has not been approved by the Company's board of directors and accordingly, the aggregate amount of rental paid or payable to Shengli Steel Pipe Co., Ltd. during the year ended 31 December 2010 was RMB6,850,000, which exceeded the maximum aggregate annual value of RMB6,400,000 as disclosed in the prospectus of the Company dated 9 December 2009 in respect of the Disclosed Continuing Connected Transactions.

Qualified conclusion

Based on the foregoing, in respect of the Disclosed Continuing Connected Transactions:

a. except for an amount of RMB450,000 rental paid or payable to Shengli Steel Pipe Co., Ltd. as described in the basis for qualified conclusion paragraph, nothing has come to our attention that causes us to believe that the Disclosed Continuing Connected Transactions have not been approved by the Company's board of directors.

b. nothing has come to our attention that causes us to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions.

c. with respect to the aggregate amount of the continuing connected transactions set out in the attached list of continuing connected transactions, the Disclosed Continuing Connected Transactions have exceeded the maximum aggregate annual value disclosed in the prospectus of the Company dated 9 December 2009 in respect of the Disclosed Continuing Connected Transactions.

A copy of the auditor's letter has been provided by the Company to the Stock Exchange of Hong Kong Limited.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The net proceeds obtained by the Group from the IPO on 18 December 2009 and after the exercise of over-allotment option on 13 January 2010 was approximately RMB1,269.9 million. The relevant proceeds from the IPO will be utilized in the manner specified in the Company's prospectus dated 9 December 2009. As at 31 December 2010, RMB153.6 million out of the total net proceeds from the IPO has been utilized.

To the extent that the net proceeds are not immediately applied for the specified purposes and to the extent permitted by the relevant laws and regulations, the Group intends to deposit the net proceeds into short-term deposits with licensed banks or financial institutions in Hong Kong or the PRC.

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

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

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 SECURITIES OF THE COMPANY

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

By order of the Board
Yan Tangfeng
Chairman

29 March 2011

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 2010. 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 2010, 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, following specific enquiry, 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 2010.

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)*
Mr. Wang Xu
Ms. Han Aizhi

Non-executive Directors
Mr. Yan Tangfeng *(Chairman of the Board)*
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
Mr. Leung Ming Shu (appointed on 1 January 2011)
Ms. Wong Wing Yee, Jessie (resigned on 8 October 2010)

The biographical details of all Directors are set out in pages 25 to 29 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 development strategies, financial objectives, annual budget, investment proposals of the Group, monitor the performance of the management of Group and 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

During the year ended 31 December 2010, the Board held 13 meetings, in which four of the meetings were regular meetings.

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, 13 Board meetings were held. Details of the attendance of each Director are as follows:

Name of the Director	Attendance
Executive Directors	
Mr. Zhang Bizhuang	13/13
Mr. Wang Xu	11/13
Ms. Han Aizhi	13/13
Non-executive Directors	
Mr. Yan Tangfeng *(Chairman of the Board)*	11/13
Mr. Teo Yi-Dar	10/13
Mr. Ling Yong Wah	7/13
Mr. Ong Kar Loon (alternate Director to Mr. Ling Yong Wah)	10/13
Independent non-executive Directors	
Mr. Huo Chunyong	11/13
Mr. Guo Changyu	11/13
Ms. Wong Wing Yee, Jessie (resigned on 8 October 2010) *(Note)*	8/10
Mr. Leung Ming Shu (appointed on 1 January 2011)	N/A

Note: 10 Board meetings have been held up to 8 October 2010

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, 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 (or if their number is not three or a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotations and pursuant to A.4.2 of the code provisions in the Code, 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) and (2) of the Listing Rules, the Company has appointed three independent non-executive Directors, among whom, one has appropriate professional qualification in accounting or related financial management expertise. During the year, Ms. Wong Wing Yee, Jessie, resigned as an independent non-executive Director of the Company effective from 8 October 2010 due to personal reasons. Following the resignation of Ms. Wong and before the appointment of Mr. Leung Ming Shu as an independent non-effective Director of Company effective on 1 January 2011, the Company was not in compliance with Rule 3.10(1) and (2) of the Listing Rules. Upon the resignation of Ms. Wong Wing Yee, Jessie, the Board had used its best endeavours to look for a suitable candidate to fill in her vacancy. Upon the appointment of Mr. Leung Ming Shu as an independent non-executive Director of the Company with effective from 1 January 2011, the Company was in compliance with Rule 3.10(1) and (2) of the Listing Rules again. The Company has received from each of its independent non-executive Directors 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, Mr. Leung Ming Shu, Ms. Wong Wing Yee, Jessie (resigned on 8 October 2010) to be independent from the Company.

Chairman and Chief Executive Officer

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

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 providing leadership to and managing 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

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 Audit Committee currently consists of one non-executive Director, namely Mr. Teo Yi-Dar and two independent non-executive Directors, namely, Mr. Leung Ming Shu and Mr. Huo Chunyong. Mr. Leung Ming Shu currently serves as the chairman of the Audit Committee. All members of the Audit Committee are appointed by the Board.

The primary responsibilities of the Audit Committee include the following:

- making recommendations to the Board on the appointment, re-appointment and removal of external auditors and their fees;
- reviewing the financial information in the interim and annual reports of the Group; and
- overseeing the Group's financial reporting system and internal control procedures.

During the year, the work conducted by the Audit Committee includes but not limited to the following:

- reviewing the 2009 annual report and 2010 interim report of the Company;
- discussing with external auditors about the 2009 annual report and 2010 interim reports of the Group; and
- reviewing the Group's accounting standards and policies, statutory and Listing Rules compliance, other financial reporting matters and internal controls.

During the year, Ms. Wong Wing Yee, Jessie, resigned as an independent non-executive Director and the chairman of the Audit Committee of the Company effective on 8 October 2010 due to personal reasons. Following the resignation of Ms. Wong and before the appointment of Mr. Leung Ming Shu as an independent non-executive Director and the chairman of the Audit Committee of the Company effective on 1 January 2011, the Company did not comply with Rule 3.21 of the Listing Rules which requires (1) the Audit Committee of the Company to comprise at least three members and at least one of who is an independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise; (2) the majority of the Audit Committee members must be independent non-executive Directors; and (3) the Audit Committee must be chaired by an independent non-executive Director.

The Board had used its best endeavours to look for a suitable candidate to fill in the vacancy upon Ms. Wong's resignation, eventually, the Board identified Mr. Leung as a suitable candidate and appointed him as an independent non-executive Director and the chairman of the Audit Committee of the Company effective on 1 January 2011, since when the Company has been in compliance with Rule 3.21 of the Listing Rules.

The Audit Committee held two meetings during the year ended 31 December 2010 and the details of the attendance are set out below:

Name of Directors	Attendance
Mr. Teo Yi-Dar	2/2
Mr. Huo Chunyong	2/2
Ms. Wong Wing Yee, Jessie (resigned on 8 October 2010)	2/2

Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") was established on 21 November 2009 in compliance with the Listing Rules. The Remuneration Committee currently consists of one non-executive Director, namely, Mr. Yan Tangfeng, and two independent non-executive Directors, namely, Mr. Leung Ning Shu and Mr. Huo Chunyong. Mr. Yan Tangfeng currently serves as the chairman of the Remuneration Committee.

The primary functions of the Remuneration Committee are to formulate remuneration policies of the Company, determine on behalf of the Board specific remuneration packages and conditions of employment for executive Directors and senior management and assess their performance.

During the year, Ms. Wong Wing Yee, Jessie, resigned as an independent non-executive Director and member of the Remuneration Committee of the Company effective on 8 October 2010 due to personal reasons. Following the resignation of Ms. Wong and before the appointment of Mr. Leung Ming Shu as an independent non-effective Director and member of the Remuneration Committee of Company effective on 1 January 2011, the Company was not in compliance with the B.1.1 of the code provision in the Code set out in Appendix 14 of the Listing Rules, which requires that the majority of the members of the remuneration committee should be independent non-executive Directors. The Board had used its best endeavours to look for a suitable candidate to fill in the vacancy upon the receiving Ms. Wong's written resignation notice. Eventually, the Board identified Mr. Leung as a suitable candidate and appointed him as an independent non-executive Director and member of the Remuneration Committee of the Company effective on 1 January 2011, since when the Company has been in compliance with B.1.1 of the code provision in the Code.

The Remuneration Committee held one meeting during the year ended 31 December 2010, during which, the members reviewed the remuneration packages of the executive Directors and senior management and assessed their overall performance. Details on the attendance of the meeting by the members are set out below:

Name of Directors	Attendance
Mr. Yan Tangfeng	1/1
Mr. Huo Chunyong	1/1
Ms. Wong Wing Yee, Jessie (resigned on 8 October 2010)	1/1

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 with reference to the remuneration paid by comparable companies.

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 33 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

The nomination committee of the Company (the "Nomination Committee") was established on 21 November 2009. The Nomination Committee consists of one executive Director, namely, Mr. Zhang Bizhuang, and two independent non-executive Directors, namely, Mr. Guo Changyu and Mr. Huo Chunyong. Mr. Zhang Bizhuang currently serves as the chairman of the Nomination Committee.

The responsibilities of the Nomination Committee are to review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes; assess the independence of independent non-executive Directors. The Nomination Committee is also responsible for identifying and nominating suitable candidates qualified to become Board members and makes recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors if necessary. Normally, the Nomination Committee recommends the suitable candidates to the Board. The Board will review the qualifications and experience of the relevant candidates for determining the suitablility to the Group. Suitable candidates will be recommended by the Board to the Shareholders for approval at the general meeting.

During the year ended 31 December 2010, the work conducted by the Nomination Committee includes but not limited to making recommendations to the Board on the proposed changes to the Board and indentifying and nominating suitable candidates to serve as the Board members. The Nomination Committee held three meetings during the year ended 31 December 2010, at which all of the members were present.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for the Financial Statements

The Board of Directors acknowledges its responsibility to prepare the Group's financial statements for each financial period in accordance with the requirements of laws and regulations and applicable accounting standards 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 2010, the Board has selected appropriate 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.

Auditor's Remuneration

During the year ended 31 December 2010, the remuneration paid or payable to the auditor, Deloitte Touche Tohmatsu, in respect of their audit and non-audit services were as follows:

Type of Services	RMB'000
Audit services	1,595
Non-audit services	—
Total	1,595

INTERNAL CONTROL

The Board acknowledges its responsibility for the effectiveness of the Group's internal control systems. The Internal control system has been designed to safeguard the Group's assets from unauthorized use or disposition. It is also designed to ensure maintenance of proper accounting records and compliance with relevant laws and regulations by the Company, thereby providing reasonable assurance to the effective operation of the Group's business.

During the year ended 31 December 2010, the Directors conducted review on the effectiveness of the Group's internal control system, covering all material controls, including financial, operational and compliance controls and risk management functions. No significant areas of concern were identified.

The Directors also reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting functions, and their training programs and budgets and considered that they are adequate.

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 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.

Deloitte.
德勤

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

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 (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 51 to 108, which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about 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 of consolidated financial statements that give a true and fair view in order to design 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 Group's state of affairs as at 31 December 2010, 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

29 March 2011

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000
Revenue	8	**1,126,923**	2,999,092
Cost of sales		**(978,801)**	(2,657,043)
Gross profit		**148,122**	342,049
Other gains and losses	9	**33,384**	51,356
Selling and distribution expenses		**(18,079)**	(16,515)
Administrative expenses		**(55,006)**	(37,951)
Finance costs	10	**(305)**	(3,051)
Profit before taxation	11	**108,116**	335,888
Income tax expenses	13	**(18,952)**	—
Profit and total comprehensive income for the year		**89,164**	335,888
Earnings per share	15		
— Basic (RMB cents per share)		**3.59**	31.01
— Diluted (RMB cents per share)		**3.59**	31.01

Consolidated Statement of Financial Position

As at 31 December 2010

	NOTES	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**336,753**	230,701
Prepaid lease payments	17	**49,520**	17,103
Goodwill	18	**2,525**	2,525
Interests in an associate	19	**247,000**	—
Other financial assets	19	**53,000**	—
		688,798	250,329
CURRENT ASSETS			
Inventories	20	**176,069**	255,598
Trade and other receivables	21	**676,466**	488,997
Amounts due from related parties	32(d)	**—**	4,389
Loan receivable	22	**100,000**	—
Prepaid lease payments	17	**1,023**	355
Restricted bank balances	23	**87,300**	—
Bank balances and cash	24	**356,963**	1,168,293
		1,397,821	1,917,632
CURRENT LIABILITIES			
Trade and other payables	25	**116,185**	350,019
Income tax liabilities		**8,310**	—
Bank and other borrowings	26	**—**	87,058
		124,495	437,077
NET CURRENT ASSETS		**1,273,326**	1,480,555
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,962,124**	1,730,884

	NOTES	2010 RMB'000	2009 RMB'000
CAPITAL AND RESERVES			
Share capital	27	**219,572**	211,656
Reserves		**1,742,094**	1,518,753
TOTAL EQUITY		**1,961,666**	1,730,409
NON-CURRENT LIABILITIES			
Deferred tax liabilities	28	**458**	475
		1,962,124	1,730,884

The consolidated financial statements on pages 51 to 108 were approved and authorized for issue by the board of directors on 29 March 2011 and are signed on its behalf by:

Zhang Bizhuang	**Han Aizhi**
DIRECTOR	*DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (note (a) below)	Statutory surplus reserve RMB'000 (note (b) below)	Share options reserve RMB'000 (note (c) below)	Retained earnings RMB'000	Total RMB'000
At 1 January 2009	—	—	—	—	—	148,926	148,926
Profit 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 27(e))	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 27(f)(ii))	158,724	(158,724)	—	—	—	—	—
At 31 December 2009 and 1 January 2010	211,656	1,033,948	(9)	9,685	—	475,129	1,730,409
Profit and total comprehensive income for the year	—	—	—	—	—	89,164	89,164
Transfer	—	—	—	41,139	—	(41,139)	—
Issue of new shares upon the overallotment of the Company's shares (see note 27(h))	7,916	166,231	—	—	—	—	174,147
Transaction costs attributable to overallotment of shares	—	(6,213)	—	—	—	—	(6,213)
Adjustment on overprovision of transaction cost attributable to issue of shares in 2009	—	4,453	—	—	—	—	4,453
Share-based payments (see note 29)	—	—	—	—	13,296	—	13,296
Dividend recognized as distribution	—	(43,590)	—	—	—	—	(43,590)
At 31 December 2010	219,572	1,154,829	(9)	50,824	13,296	523,154	1,961,666

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 enterprises in the People's Republic of China (the "PRC"), the Company's PRC subsidiaries are required to maintain a statutory surplus reserve fund which is non-distributable. The appropriations to such reserve are made out of net profit after taxation of the statutory financial statements of the relevant PRC subsidiaries. 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.

c. SHARE OPTIONS RESERVE

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

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
OPERATING ACTIVITIES		
Profit before taxation	**108,116**	335,888
Adjustments for:		
Finance costs	**305**	3,051
Interest income	**(6,210)**	(392)
(Reversal of) write-down of inventories	**(1,350)**	170
Depreciation of property, plant and equipment	**25,250**	22,067
Release of prepaid lease payments	**319**	181
Share-based payments	**13,296**	—
(Gains) losses on disposals of property, plant and equipment	**(114)**	423
Operating cash flows before movements in working capital	**139,612**	361,388
Decrease in inventories	**80,878**	556,358
Increase in trade and other receivables	**(187,469)**	(313,453)
Decrease in trade and other payables	**(229,424)**	(470,161)
Cash (used in) generated from operations	**(196,403)**	134,132
Interest paid	**(305)**	(3,051)
Income tax paid	**(10,659)**	—
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(207,367)**	131,081
INVESTING ACTIVITIES		
Payment of interests in an associate	**(300,000)**	—
Purchase of property, plant and equipment	**(131,469)**	(41,460)
Loan granted to a third party	**(100,000)**	—
Increase in restricted bank balances	**(87,300)**	—
Purchase of prepaid lease payments	**(33,404)**	(11,622)
Amounts repaid from related parties	**4,389**	2,840
Interest received	**6,210**	392
Proceeds on disposals of property, plant and equipment	**325**	—
Amounts advanced to related parties	**—**	(4,389)
NET CASH USED IN INVESTING ACTIVITIES	**(641,249)**	(54,239)

Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 RMB'000	2009 RMB'000
FINANCING ACTIVITIES		
Proceeds from issue of new shares	**174,147**	1,164,108
Repayments of bank and other borrowings	**(87,058)**	(50,000)
Dividend paid	**(43,590)**	—
Transaction costs attributable to issue of new shares	**(6,213)**	(64,963)
New bank and other borrowings raised	**—**	87,058
Amounts advanced from related parties	**—**	8,450
Amounts repaid to related parties	**—**	(133,998)
NET CASH FROM FINANCING ACTIVITIES	**37,286**	1,010,655
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(811,330)**	1,087,497
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**1,168,293**	80,796
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash	**356,963**	1,168,293

1. GENERAL

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

The address of the registered office 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 35.

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

2. BASIS OF PRESENTATION OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

IFRSs (Amendments)	Amendments to IFRS 5 as part of Improvements to IFRSs issued in 2008
IFRSs (Amendments)	Improvements to IFRSs issued in 2009
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IAS 39 (Amendment)	Eligible hedged Items
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
IFRS 3 (Revised)	Business Combinations
IFRIC — INT 17	Distributions of Non-cash Assets to Owners

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

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

IFRSs (Amendments)	Improvements to IFRSs 2010[1]
IFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[3]
IFRS 9	Financial Instruments[4]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
IAS 24 (Revised)	Related Party Disclosures[6]
IAS 32 (Amendments)	Classification of Rights Issues[7]
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[2]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate
2 Effective for annual periods beginning on or after 1 July 2010
3 Effective for annual periods beginning on or after 1 July 2011
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2012
6 Effective for annual periods beginning on or after 1 January 2011
7 Effective for annual periods beginning on or after 1 February 2010

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared under the historical cost basis, except for certain financial instruments which are measured at fair value, 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 incorporate the financial statements of the Company and 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 results 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 in full on consolidation.

Business combinations

Business combinations that took place on or after 1 January 2010

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value at the acquisition date, except that:

— deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognized and measured in accordance with IAS 12 "Income Taxes" and IAS 19 "Employee Benefits" respectively;

— liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with IFRS 2 "Share-based Payment" at the acquisition date; and

— assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that Standard.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

Business combinations that took place on or after 1 January 2010 (continued)

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognized in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognized in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Changes in the value of the previously held equity interest recognized in other comprehensive income and accumulated in equity before the acquisition date are reclassified to profit or loss when the Group obtains control over the acquiree.

Business combinations that took place prior to 1 January 2010

Acquisition of businesses was accounted for using the purchase method. The cost of the acquisition was 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 met the relevant conditions for recognition were generally recognized at their fair value at the acquisition date.

Goodwill arising on acquisition was recognized as an asset and initially measured at cost, being the excess of the cost of the acquisition over the Group's interest in the recognized amounts of the identifiable assets, liabilities and contingent liabilities recognized. If, after assessment, the Group's interest in the recognized amounts of the acquiree's identifiable assets, liabilities and contingent liabilities exceeded the cost of the acquisition, the excess was recognized immediately in profit or loss.

Business combinations achieved in stages were accounted for as separate steps. Goodwill was determined at each step. Any additional acquisition did not affect the previously recognized goodwill.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

Goodwill arising on acquisition of a business is carried at cost less accumulated impairment losses, if any, and 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 combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit on pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in the consolidated statement of comprehensive income. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investment in associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment in associate (continued)

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

From 1 January 2010 onwards, upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognized in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold 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 legal title is passed.

Service income is recognized when the services are provided.

Interest income from a financial asset, other than a financial asset at fair value through profit or loss, 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 on initial recognition.

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 lessee

Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortized 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 the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the end of the 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 temporary 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 differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates 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. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period 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 for the year is recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, deferred tax is also recognized in other comprehensive income or directly in equity.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as 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 including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalized in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognized so as to write off the cost of assets (other than construction in progress) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

At the end of the reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

Financial assets and financial liabilities are recognized in 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. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including financial assets at fair value through profit or loss ("FVTPL") and loans and receivables.

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.

Interest income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in other gains and losses.

Financial assets at fair value through profit or loss

Financial assets at FVTPL of the Group comprise financial assets held for trading.

A financial asset is classified as held for trading if:

— it has been acquired principally for the purpose of selling in the near future; or

— it is part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

— it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognized directly in profit or loss in the period in which they arise. The net gain or loss recognized in profit or loss includes any dividend or interest earned on the financial assets.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, loan receivable, restricted bank balances 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).

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been impacted.

For loans and receivables, objective evidence of impairment could include:

— significant financial difficulty of the issuer or counterparty; or

— default or delinquency in interest or principal payments; or

— it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit terms of the customers, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, 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 and other 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 and other 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For financial assets measured at amortized cost, 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 loss 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 instruments

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. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognized on an effective interest basis.

Financial liabilities

Financial liabilities (including bank borrowings 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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derivative financial instruments

Derivatives are initially recognized at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

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 in its entirety, 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 amounts of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Share based payment transactions

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

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

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognized in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognized in share options reserve will be transferred to retained earnings.

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 assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Estimated impairment of inventories

The Group assesses periodically if the inventories have been suffered from any impairment in accordance with the accounting policy stated in note 4. The amount of the impairment loss is measured as the difference between inventories' cost and net realizable values.

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. As at 31 December 2010, the directors of the Company are satisfied that this risk is minimal and adequate allowance for obsolete and slow moving inventories has been recognized. As at 31 December 2010, the carrying amounts of inventories are approximately RMB176,069,000, net of inventory write-down of approximately RMB92,000 (2009: the carrying amounts of inventories are approximately RMB255,598,000, net of inventory write-down of approximately RMB1,442,000).

(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 2010.

5. KEY SOURCE OF ESTIMATION (continued)

(c) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating units and a suitable discount rate in order to calculate present value. The directors of the Company are satisfied that this risk is minimal and no impairment of goodwill was provided during the two years ended 31 December 2010.

(d) Valuation of financial instruments

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of the Group's financial instruments, mainly the Guaranteed Return and Right to Sell of an associate (as defined and explained in note 19).

Note 19 (b) provided detailed information about the key assumptions used in the determination of the fair value of financial instruments. The directors believe that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

(e) Useful life and residual value of property, plant and equipment

The management determines the residual value, useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual residual value and useful lives of property, plant and equipment of similar nature and functions and may vary significantly as a result of technical innovation and keen competition from competitors, resulting in higher depreciation charge and/or write-off or write-down of technically obsolete assets when residual value or useful lives are less than previously estimated.

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 from prior year.

The capital structure of the Group consists of net debt, which included borrowings and net of cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

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

	2010 RMB'000	2009 RMB'000
Financial assets:		
— Loans and receivables (including cash and cash equivalents)	1,031,308	1,623,327
— Other financial assets (derivative financial instruments)	53,000	—
	1,084,308	1,623,327
Financial liabilities:		
Liabilities measured at amortized costs	102,551	357,022

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, loan receivable, trade and other payables, borrowings, derivative financial instruments, 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 from prior year.

(c) Market risk

The Group's activities expose it primarily to the market risks including foreign currency risk (note 7 (c) (i)) and interest risk (note 7 (c) (ii)). There has been no change to the Group's exposure to these market risks or the manner in which it manages and measures the risks from prior year.

7. FINANCIAL INSTRUMENTS (continued)

(c) Market risk (continued)

(i) Foreign currency risk management

Foreign currency risk is the risk that the holding of foreign currency assets and liabilities will affect the Group's financial position as a result of a change in foreign currency exchanges rates. Certain bank balances and cash, trade and other payables and borrowings of the Group are denominated in foreign currencies, which expose the Group to foreign currency risk.

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.

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

	Liabilities		Assets	
	2010 RMB'000	2009 RMB'000	**2010 RMB'000**	2009 RMB'000
Hong Kong Dollars ("HKD")	**1,433**	14,360	**31,003**	1,111,594
United States Dollars ("USD")	**—**	4,223	**51**	1,037
Singapore Dollars ("SGD")	**—**	—	**2,648**	1,005
	1,433	18,583	**33,702**	1,113,636

The Group is mainly exposed to the currency of the USD, SGD and HKD.

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 trade and other payables and bank balances denominated in currencies other than functional currency of the relevant group entities.

A positive (negative) number below indicates an increase (decrease) in post-tax profit where RMB strengthen 5% against the relevant foreign currencies.

	2010 RMB'000	2009 RMB'000
Post-tax profit would decrease by	**(1,411)**	(54,752)

7. FINANCIAL INSTRUMENTS (continued)

(c) Market risk (continued)

(i) Foreign currency risk management (continued)

For a 5% weakening of the RMB against the relevant foreign currencies, there would be an equal and opposite impact on the profit after taxation.

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposures do not reflect the exposure during the year.

(ii) Interest rate risk management

The Group's fair value interest rate risk relates primarily to its fixed rates bank borrowings and pledged deposits. The Group is also exposed to cash flow interest rate risk through the impact of rate changes on interest bearing financial assets and liabilities, mainly restricted bank balances and bank balances and cash which carried at prevailing market interest rates. It is the Group's policy to keep its borrowings at floating rate of interests so as to minimize the fair value interest rate risk. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the directors of the Company will consider hedging significant interest rate risk should the need arise.

The sensitivity analysis below has been determined based on the exposure to interest rates for interest bearing bank balances and variable rates bank borrowings at the end of the reporting period and assumed that the amount of assets and liabilities outstanding at the end of the reporting period was outstanding for the whole year.

If interest rates on bank balances and variable rate bank borrowings had been 10 basis points higher/lower and all other variables were held constant, the potential effect on post-tax profit is as follows:

	2010 **RMB'000**	2009 RMB'000
Post-tax profit would increase (decrease)	**389**	1,168

In the opinion of the directors of the Company, the sensitivity analysis is unrepresentative of the inherent interest rate risk as the year end exposures do not reflect the exposure during the year.

7. FINANCIAL INSTRUMENTS (continued)

(d) Credit risk management

As at 31 December 2010, the Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations 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.

In order to minimize the credit risk, the directors of the Company have delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up actions are taken to recover overdue debts. In addition, the directors of the Company review the recoverability of each trade debt at the end of 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 2010 of approximately RMB240,172,000 (2009: RMB385,320,000), representing 59% (2009: 91%) of total trade receivables, were derived from five major customers which are China's major oil and gas companies and also the loan receivable of RMB100 million granted to a third party (2009: nil). 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 mainly with several banks in the PRC. However, the credit risk on bank balances is limited because the majority of the counterparties are banks with good reputation assigned by international credit- rating agencies.

7. FINANCIAL INSTRUMENTS (continued)

(e) 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 and continuously monitoring forecast and actual cash flows.

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms.

The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows.

	Weighted average interest rate	Less than 3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amounts
	%	RMB'000	RMB'000	RMB'000	RMB'000
Non-derivative financial liabilities					
As at 31 December 2010					
Trade and other payables	—	**102,551**	—	**102,551**	**102,551**
As at 31 December 2009					
Trade and other payables	—	269,964	—	269,964	269,964
Fixed rates interest borrowings	5.11	8,151	81,476	89,627	87,058
		278,115	81,476	359,591	357,022

7. FINANCIAL INSTRUMENTS (continued)

(f) Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

— the fair value of financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis; and

— the fair value of derivative instruments is calculated using Monte Carlo model for optional derivatives.

Fair value measurements recognized in the consolidated statements of financial position

As at 31 December 2010, the other financial assets with a carrying value of approximately RMB53,000,000 (2009: nil) are Level 3 measurements which are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs) as following:

	2010 RMB'000	2009 RMB'000
Financial assets at FVTPL:		
Other financial assets (Guaranteed Return and Right to Sell of an associate, as defined in note 19) (see note 19)	53,000	—

In determining the fair value, probability of a discount rate of 10% is used as at 31 December 2010. If discount rate was 1% higher or lower while all the other variables were help constant, the carrying amount of the other financial assets would decrease or increase by approximately of RMB2,000,000 or RMB3,000,000 as at 31 December 2010.

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 to their fair values at the end of the reporting period.

8. REVENUE AND SEGMENT INFORMATION

(a) Revenue

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

(1) sales of goods; and

(2) provision of processing service.

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

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

(b) Segment information

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

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

8. REVENUE AND SEGMENT INFORMATION (continued)

(b) Segment information (continued)

Information about reportable segment revenues, results, assets and liabilities

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

8. REVENUE AND SEGMENT INFORMATION (continued)

(b) Segment information (continued)

Information about reportable segment revenues, results, assets and liabilities (continued)

Segment revenue and results (continued)

The inter-segment sales were charged at cost.

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

Other information

	SSAW Pipes Business 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:					
For the year ended 31 December 2010:					
Additions of property, plant and equipment	130,614	343	130,957	556	131,513
Additions of prepaid lease payments	33,404	—	33,404	—	33,404
Depreciation	20,033	4,999	25,032	218	25,250
Release of prepaid lease payments	233	86	319	—	319
Reversal of write-down of inventories	—	(1,350)	(1,350)	—	(1,350)
(Gains) losses on disposals of property, plant and equipment	(136)	22	(114)	—	(114)

8. REVENUE AND SEGMENT INFORMATION (continued)

(b) Segment information (continued)

Information about reportable segment revenues, results, assets and liabilities (continued)

Other information (continued)

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Total RMB'000	Unallocated items RMB'000	Consolidated RMB'000
For the year ended 31 December 2009:					
Additions of property, plant and equipment	30,858	1,240	32,098	—	32,098
Additions of prepaid lease payments	11,622	—	11,622	—	11,622
Depreciation	17,078	4,985	22,063	4	22,067
Release of prepaid lease payments	58	123	181	—	181
Write-down of inventories	—	170	170	—	170
Losses on disposals of property, plant and equipment	423	—	423	—	423

8. REVENUE AND SEGMENT INFORMATION (continued)

(b) Segment information (continued)

Information about reportable segment revenues, results, assets and liabilities (continued)

Segment assets and liabilities

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Total RMB'000
As at 31 December 2010:			
Segment assets	**822,054**	**123,289**	**945,343**
Unallocated assets			**1,141,276**
Total consolidated assets			**2,086,619**
Segment liabilities	**97,913**	**10,139**	**108,052**
Unallocated liabilities			**16,901**
Total consolidated liabilities			**124,953**
As at 31 December 2009:			
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 18.

- All liabilities are allocated to reportable segments other than liabilities of head office, bank and other borrowings and current and deferred tax liabilities.

8. REVENUE AND SEGMENT INFORMATION (continued)

(b) Segment information (continued)

Geographical information

All of the Group's revenue was 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

The following table sets forth a breakdown of the Group's customers individually accounted for over 10% of the Group's total revenue during the two years ended 31 December 2010:

	2010 RMB'000	2009 RMB'000
— Customer A	614,900	2,122,132
— Customer B	N/A*	500,242

* Less than 10%

The revenue from these customers related to SSAW Pipes Business segment.

9. OTHER GAINS AND LOSSES

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

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

10. FINANCE COSTS

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

11. PROFIT BEFORE TAXATION

Profit before taxation has been arrived at after charging:

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

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

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' emoluments

Details of the emoluments paid or payable to directors of the Company are as follows:

	Directors' fees RMB'000	Retirement benefit scheme contributions RMB'000	Other emoluments RMB'000	Share-based payments RMB'000	Performance related bonus RMB'000	Total RMB'000
For the year ended 31 December 2010:						
Executive directors:						
— Zhang Bizhuang	777	18	207	3,968	387	5,357
— Wang Xu	546	18	176	1,653	258	2,651
— Han Aizhi	569	14	157	1,653	258	2,651
Non-executive directors:						
— Yan Tangfeng	174	—	—	—	—	174
— Teo Yi-Dar	174	—	—	—	—	174
— Ling Yong Wah	174	—	—	—	—	174
Independent non-executive directors:						
— Huo Chunyong	174	—	—	—	—	174
— Guo Changyu	174	—	—	—	—	174
— Wong Wing Yee Jessie (see note below)	135	—	—	—	—	135
	2,897	50	540	7,274	903	11,664
For the year ended 31 December 2009:						
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

Note: Ms. Jessie Wong resigned as director of the Company on 8 October 2010.

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 year ended 31 December 2010.

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS **(continued)**

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, 3 were director of the Company for the year ended 31 December 2010 (2009: 3 directors), respectively, details of whose emoluments are included in the disclosures above.

The emoluments of the remaining 2 individuals during the year ended 31 December 2010 (2009: 2 individuals) were as follows:

	2010 **RMB'000**	2009 RMB'000
Salaries and allowances	**893**	691
Performance related bonus	**743**	—
Share-based payments	**1,653**	—
Retirement benefit scheme contributions	**61**	62
	3,350	753

Their emoluments were within the following bands:

	2010 **No. of** **employees**	2009 No. of employees
HKD nil to HKD1,000,000	**—**	2
HKD1,500,001 to HKD2,000,000	**2**	—
	2	2

No remuneration was paid by the Group to any of 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

	2010 RMB'000	2009 RMB'000
Income tax expenses comprise:		
Current tax		
— PRC enterprise income tax ("EIT")	18,969	—
Deferred tax		
— Current year (see note 28)	(17)	—
	18,952	—

No provision for Hong Kong Profits Tax has been made as the Group did not have any assessable profit arising in Hong Kong for the year.

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

The statutory tax rate of 山東勝利鋼管有限公司 (Shandong Shengli Steel Pipe Co., Ltd., "Shandong Shengli"), a subsidiary of the Company established in the PRC was 25%. Shandong Shengli is entitled to an exemption from income tax for the two years commencing from its first profit-making year of operations and thereafter, entitled to a 50% relief for the subsequent three years. Shandong Shengli has been entitled to and enjoyed the second exemption year in year 2009 and a 50% relief in year 2010.

The charge during the two years ended 31 December 2010 can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

	2010 RMB'000	2009 RMB'000
Profit before taxation	108,116	335,888
Tax at the PRC EIT rate (note (a) below)	27,029	83,972
Effect of expenses that are not deductible for tax purposes	10,907	3,997
Tax effect of tax loss not recognized	—	1,534
Effect of tax exemption/relief	(18,984)	(89,503)
	18,952	—

13. INCOME TAX EXPENSES (continued)

Notes:

a. The PRC EIT rate represents the income tax rate applicable to Shandong Shengli, the Group's principal operating subsidiary throughout two years ended 31 December 2010.

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

   As at December 2010, the aggregate amount of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognized was of approximately RMB620 million (2009: RMB457 million). 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 relevant period 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.

c. At the end of the reporting period, no deferred tax assets have been recognized for tax loss of RMB6,135,000 (2009: RMB6,135,000) 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.

14. DIVIDENDS

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

On 29, March 2011, the directors proposed a final dividend of RMB0.00895 per share (equivalent to HKD0.01064 per share) for the year ended 31 December 2010 (2009: RMB0.0176 per share (equivalent to HKD0.02 per share)) to all equity shareholders of the Company which will be charged to the share premium account and is subject to the shareholders' approval at the forthcoming annual general meeting.

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

15. EARNINGS PER SHARE

The calculation of the basic earnings per share for the two year ended 31 December 2010 were based on the consolidated profit attributable to owners of the Company for the year of approximately RMB 89,164,000 (2009: RMB335,888,000) and on the weighted average number of shares of 2,486,794,521 shares (2009:1,083,287,671 shares). The weighted average number of shares for the year ended 31 December 2009 had been determined on the basis that 100,000 shares issued and outstanding upon the Group Reorganization had been in effective at 1 January 2009, and had taken into account of the 100,000 shares issued and outstanding upon the Capitalization of Shareholder's Loans (as defined in note 27(e)) on 28 October 2009 and also has been adjusted for the effect of 1,799,800,000 shares issued pursuant to the Capitalization Issue (as defined in note 27(f)(ii)) as disclosed in note 27.

The calculation of diluted earnings per share for the year ended 31 December 2010 does not assume the exercise of the Company's share options as the exercise prices of the share options were higher than the average market price of the Company's shares for the year ended 31 December 2010.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
COST						
At 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 and 1 January 2010	42,044	206,794	1,896	6,927	5,576	263,237
Additions	463	31,114	1,922	2,466	95,548	131,513
Transfer	—	10,273	—	—	(10,273)	—
Disposals	—	(227)	(31)	(173)	—	(431)
At 31 December 2010	42,507	247,954	3,787	9,220	90,851	394,319
ACCUMULATED DEPRECIATION						
At 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 and 1 January 2010	2,187	27,535	695	2,119	—	32,536
Provided for the year	1,590	21,549	597	1,514	—	25,250
Elimination on disposals	—	(74)	(11)	(135)	—	(220)
At 31 December 2010	3,777	49,010	1,281	3,498	—	57,566
CARRYING VALUES						
At 31 December 2010	38,730	198,944	2,506	5,722	90,851	336,753
At 31 December 2009	39,857	179,259	1,201	4,808	5,576	230,701

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 2010, the Group did not pledge any of its property, plant and equipment to secure banking facilities granted to the Group. As at 31 December 2009, the Group pledged its property, plant and equipment with a carrying value of approximately RMB27,385,000 to banks to secure banking facilities of RMB6,450,000 granted to the Group.

17. PREPAID LEASE PAYMENTS

	2010 RMB'000	2009 RMB'000
Analyzed for reporting purposes as:		
— Non-current assets	49,520	17,103
— Current assets	1,023	355
	50,543	17,458

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 2010, the Group did not pledge any of its land use rights to secure banking facilities granted to the Group. As at 31 December 2009, the Group pledged its land use rights with a carrying value of approximately RMB5,894,000 to banks to secure banking facilities of RMB8,550,000 granted to the Group.

18. GOODWILL

	RMB'000
COST	
Balance as at 31 December 2009, 1 January 2010 and 31 December 2010	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 2010, 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% (2009: 20%) at 31 December 2010. The cash flows beyond the five year period are extrapolated using a steady growth rate of 3% (2009: 3%) at 31 December 2010. 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.

19. INTERESTS IN AN ASSOCIATE AND OTHER FINANCIAL ASSETS

	Notes	2010 RMB'000	2009 RMB'000
Interests in an associate:	a		
— Cost of investment in an associate		247,000	—
— Share of post-acquisition profit and other comprehensive income		—	—
		247,000	—
Other financial assets (derivative financial instrument)	b	53,000	—
Consideration paid		300,000	—

Notes:

(a) INTERESTS IN AN ASSOCIATE

On 20 November 2010, the Company announced that Shandong Shengli, a wholly owned subsidiary of the Company, entered into an investment agreement (the "Investment Agreement") with Beijing Golden Fortune Investment Co., Ltd. ("Golden Fortune") and the shareholders of Golden Fortune. Golden Fortune is a company established on 23 May 2006 in the PRC and is mainly engaged in the businesses of natural gas distribution and gas pipeline construction. As at 31 December 2010, the registered capital of the Golden Fortune was RMB108,360,000. Pursuant to the Investment Agreement, Shandong Shengli agreed to:

(i) to acquire certain equity interest in Golden Fortune from a shareholder of Golden Fortune for a consideration of RMB150,000,000 (the "Transferred Equity Transaction"); and

(ii) to contribute RMB150,000,000 as the registered capital of Golden Fortune (the "New Equity Transaction") (the total investment of Shandong Shengli was RMB300,000,000, i.e. the "Investment").

The Transferred Equity Transaction and New Equity Transaction were completed on 21 December 2010 and accordingly, Shandong Shengli owns 25% equity interest in Golden Fortune.

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

19. INTERESTS IN AN ASSOCIATE AND OTHER FINANCIAL ASSETS (continued)

Notes: (continued)

(a) INTERESTS IN AN ASSOCIATE (continued)

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

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

The total consideration paid for Golden Fortune was RMB300,000,000, netting off the fair values of the Guaranteed Return and Right to Sell of RMB53,000,000 (see note 19(b) below), the Group's cost of acquisition of 25% interests in Golden Fortune was RMB247,000,000.

The Group's share of identifiable assets and liabilities of Golden Fortune at the date of acquisition were measured at fair value of a net amount of approximately RMB138,350,000, the excess of the cost of acquisition over this amount is RMB108,650,000 and recognized as goodwill.

The fair value of net assets of Golden Fortune was determined by the directors of the Company with reference to a valuation performed by an independent valuer.

As at 31 December 2010, the summarized financial information in respect of Golden Fortune is set out below:

	RMB'000
Total assets	1,190,483
Total liabilities	(637,083)
Net assets	553,400
The Group's share of net assets of Golden Fortune	138,350
Goodwill arising on the acquisition of Golden Fortune	108,650

In view of the completion of the acquisition of Golden Fortune was 21 December 2010, the management of the Group are of the view that the Group's share of profits and other comprehensive income of Golden Fortune during the period from 21 December 2010 to 31 December 2010 is insignificant and accordingly, the Group's share of profits and other comprehensive income of Golden Fortune for the year has not been accounted for.

19. INTERESTS IN AN ASSOCIATE AND OTHER FINANCIAL ASSETS (continued)

Notes: (continued)

(b) OTHER FINANCIAL ASSETS (DERIVATIVE FINANCIAL INSTRUMENT)

	2010 RMB'000	2009 RMB'000
Other financial assets (Guaranteed Return and Right to Sell of Golden Fortune)	53,000	—

The fair values of Guaranteed Return and Right to Sell of Golden Fortune was determined by the directors of the Company with reference to a valuation performed by an independent valuer. The valuation was performed based on a 5 years financial projection provided by the management, using "with and without" approach, under which the excess amount of the present value of the return of the investment with guarantee over that without guarantee is deemed to be the fair value of the guarantee.

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

— Discount rate	10%
— Expected volatility	25%
— Weighted average cost of capital	14%
— Terminal growth rate	3%

20. INVENTORIES

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

21. TRADE AND OTHER RECEIVABLES

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

Notes:

(a) TRADE AND NOTE RECEIVABLES

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

No interest is charged on the trade receivables.

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

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

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

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

21. TRADE AND OTHER RECEIVABLES (continued)

Notes: (continued)

(a) TRADE AND NOTE RECEIVABLES (continued)

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

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

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

(b) OTHER RECEIVABLES

As at 31 December 2010, out of the balance of RMB10,989,000, an amount of RMB5,000,000 represents a payment made by the Group to a property development company relating to the employees of the Group intend to purchase of properties from the property development company. The directors of the Company represented that the Group would recover the payment of RMB5,000,000 from the employees within one year.

22. LOAN RECEIVABLE

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

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

23. RESTRICTED BANK BALANCES

	2010 RMB'000	2009 RMB'000
Pledged bank deposits	57,300	—
Other bank balances (see note below)	30,000	—
	87,300	—

Note: As at 31 December 2010, the Group had bank balances of RMB30,000,000 which had been deposited to a bank in the PRC for capital verification in respect of the establishment of a wholly owned subsidiary, 山東沐鑫投資有限公司 (Shandong Mu Xin Investment Co., Ltd., "Shandong Mu Xin") (see note 35)

As at 31 December 2010, the Group's pledged bank deposits carry interest rates of 0.36% per annum (2009: nil).

As at 31 December 2010, bank deposits of RMB57,300,000 (2009: nil) had been deposited to a bank in the PRC for the purchase of equipments from an overseas third party, which carry interest rates of 0.36% per annum (2009: nil).

24. BANK BALANCES AND CASH

As at 31 December 2010, the Group's bank balances carry interest rate of 0.36% per annum (2009: 0.36% per annum).

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

	2010 RMB'000	2009 RMB'000
Currency:		
USD	51	31
SGD	2,648	1,005
HKD	31,003	1,097,115

The Group's bank balances 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.

25. TRADE AND OTHER PAYABLES

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

Note:

Balances with related parties are set out in note 32(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 presented based on invoice date as at the end of the reporting period is as follows:

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

26. BANK AND OTHERS BORROWINGS

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

As at 31 December 2009, the Group's bank and other borrowings carried effective interest rate ranging from 4.86% to 5.31% per annum. The Group's bank and other borrowings were fully repaid during the year.

27. SHARE CAPITAL

	Number of shares	Share capital HKD'000
Share of HK0.1 each		
Authorized:		
— On date of incorporation	3,800,000	380
— Increase on 21 November 2009	4,996,200,000	499,620
At 31 December 2009 and 31 December 2010	5,000,000,000	500,000

	Number of shares	Share capital HKD'000	RMB'000
Issued:			
One share allotted and issued at nil paid on date of incorporation	1	—	—
One share allotted and issued at nil paid on 23 September 2009	1	—	—
Issue of shares on Group Reorganization	99,998	10	9
Issue of shares on Capitalization of Shareholder's Loans	100,000	10	9
Issue of shares on Listing	600,000,000	60,000	52,914
Issue by capitalization of the share premium account relating to Capitalization Issue	1,799,800,000	179,980	158,724
At 31 December 2009 and 1 January 2010	2,400,000,000	240,000	211,656
Issue of shares on over allotment	90,000,000	9,000	7,916
At 31 December 2010	2,490,000,000	249,000	219,572

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

a. The Company was incorporated in the Cayman Islands on 3 July 2009 with an authorized share capital of HKD380,000, divided into 3,800,000 shares of HKD0.1 each. At the date of incorporation, one share of HKD0.1 was issued at par to Codan Trust Company (Cayman) Limited, at nil paid, which was subsequently transferred to Mr. Yan Tangfeng, a director of the Company.

27. SHARE CAPITAL (continued)

b. On 23 September 2009, Mr. Yan Tangfeng transferred his 100% shareholding in Shengli (BVI) to the Company in consideration of the Company crediting as fully paid the one nil paid share held by him and issuing one share, credited as fully paid, to him.

c. On 24 September 2009, Mr. Yan Tangfeng transferred two shares in the Company to Aceplus in consideration of Aceplus issuing two shares in its share capital to him.

d. On 28 October 2009, Aceplus transferred two shares in the share capital of CPE to Shengli (BVI) in consideration of the Company issuing 99,998 shares, credited as fully paid, to Aceplus.

e. On 28 October 2009, 100,000 shares were issued, credited as fully paid, to Aceplus in respect of capitalization of shareholder's loans of RMB146.45 million owed by the Company to Aceplus (the "Capitalization of Shareholder's Loans").

f. Pursuant to the written resolutions of all shareholders on 21 November 2009:

   i. the authorized share capital of the Company was increased from HKD380,000 to HKD500,000,000 by the creation of 4,996,200,000 shares of HKD0.1 each which rank pari passu in all respects with the existing shares.

   ii. conditional on the share premium account of the Company being credited as a result of the Listing, the sum of HKD179,980,000 be capitalized and be applied in paying up in full at par 1,799,800,000 shares for allotment and issue to the shareholders whose names were on the register of members of the Company as at the close of business on 12 December 2009 (the "Capitalization Issue") and the shares have been allotted and issued pursuant to this resolution which rank pari passu in all respects with the existing shares.

g. On 18 December 2009, the Company issued 600,000,000 new shares of HKD0.1 each at issue price of HKD2.2 per share pursuant to the Listing of the Company's shares.

h. Pursuant to the Company's announcement on 14 January 2010, an overallotment option of 90,000,000 new shares of HKD0.1 each at issue price of HKD2.2 per share was exercised by Macquarie Capital Securities Limited, the sole global coordinator and sole bookrunner of the Listing and accordingly, the Company issued an additional of 90,000,000 new shares of HKD0.1 each at issue price of HKD2.2 per share.

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

28. DEFERRED TAX LIABILITIES

The following are the Group's deferred tax liabilities recognized and the movements thereon, during the year:

	RMB'000
Balance as at 31 December 2009 and 1 January 2010	475
Credit to profit or loss	(17)
Balance as at 31 December 2010	458

The amount represents fair value adjustments arising on acquisition of 100% equity interest in Shandong Shengli by CPE in 2007.

29. SHARE-BASED PAYMENTS

The Company has a share option scheme for eligible employees of the Group. Details of the share options outstanding during the current year are as follows:

	Number of Share options
Granted on 10 February 2010 and outstanding as at 31 December 2010	24,000,000

Pursuant to the Company's announcement on 10 February 2010, the Company granted to eligible participants ("Grantees") 24,000,000 share options to subscribe for ordinary shares of HKD0.10 each in the share capital of the Company, at an exercise price of HKD2.03 per share.

The share options granted has a 10-year exercisable period and shall vest as follows:

Vesting Date	**Percentage of Share Options to vest**
First anniversary of the Date of Grant	One-third of the total number of Share options granted
Second anniversary of the Date of Grant	One-third of the total number of Share Options granted
Third anniversary of the Date of Grant	One-third of the total number of Share Options granted

The closing price of the Company's shares immediately before 10 February 2010, the date of grant, was HKD1.98.

The total fair values of the options determined at the dates of grant using the Binomial model were HKD29,100,000.

29. SHARE-BASED PAYMENTS (continued)

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

Grant date share price	HKD1.98
Exercise price	HKD2.03
Contractual life	10 years
Expected volatility	67%
Dividend yield	0%
Risk-free interest rate	2.87%

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

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

During the year ended 31 December 2010, the Group recognized share-based payments of RMB13,296,000 which has been charged to the consolidated statement of comprehensive income.

30. OPERATING LEASES

The Group as lessee

	2010 RMB'000	2009 RMB'000
Minimum lease payments paid under operating leases during the year	7,130	6,525

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2010 RMB'000	2009 RMB'000
Within one year	6,850	6,400
In the second to fifth years, inclusive	450	6,400
	7,300	12,800

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

31. 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 the year ended 31 December 2010 are disclosed in note 11.

32. 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
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

(b) Significant related party transactions

The Group has the following transactions with related parties during the two years ended 31 December 2010:

	2010 RMB'000	2009 RMB'000
Sales of goods and raw materials to:		
— Shengli Steel Pipe	—	2,829
Utilities income received from:		
— Shengli Coating	—	1,079
Rental expense paid to:		
— Shengli Steel Pipe (see note below)	6,850	6,525
Purchase of materials from:		
— Shengli Coating	809	4,822
Acquisition of property from:		
— Shengli Steel Pipe	—	6,526

32. RELATED PARTY TRANSACTIONS (continued)

(b) Significant related party transactions (continued)

Note: During the year ended 31 December 2010, out of which, an amount of RMB6,400,000 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 RMB450,000 represents rental expense for a new property leasing from Shengli Steel Pipe during the year.

(c) Trade balances and other receivables with related parties

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

	Notes	2010 RMB'000	2009 RMB'000
Trade payable:			
— Shengli Coating	a	809	4,364
Other payable:			
— Shengli Steel Pipe	b	4,617	1,262

Notes:

a. The amounts represent the outstanding trade balances between Shengli Coating and the Group as at 31 December 2010 and details of the transactions with Shengli Coating during the year ended 31 December 2010 are set out in note 32(b) above.

b. The amounts represent the outstanding rental expenses payable to Shengli Steel Pipe as at 31 December 2010 and details of the transactions with Shengli Steel Pipe during the year ended 31 December 2010 are set out in note 32(b) above.

(d) Non-trade balances with related parties

The Group has significant non-trade balances with the following related parties as at the end of the reporting period:

	2010 RMB'000	2009 RMB'000
Amounts due from:		
— Aceplus	—	3,067
— SEAVI	—	793
— Apollo	—	529
	—	4,389

The amounts were fully repaid during the year.

32. RELATED PARTY TRANSACTIONS (continued)

(e) Compensation of key management personnel

The remuneration of directors and other members of key management during the year ended 31 December 2010 were as follows:

	2010 RMB'000	2009 RMB'000
Salaries and allowances	2,683	2,002
Performance related bonus	2,234	65
Retirement benefits scheme contributions	126	123
Share-based payments	10,580	—
	15,623	2,190

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

33. COMMITMENTS

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

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

34. INFORMATION ABOUT THE STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the condensed statement of financial position of the Company at the end of the reporting period includes:

	2010 RMB'000	2009 RMB'000
Investments in subsidiaries	**1,021,048**	—
Amounts due from subsidiaries due after one year	**268,942**	—
Other non-current assets	**457**	—
Amounts due from subsidiaries due within one year	**—**	146,450
Bank balances and cash	**30,509**	1,097,115
Other current assets	**196**	15,837
Current liabilities	**(14,183)**	(27,237)
	1,306,969	1,232,165
Share capital	**219,572**	211,656
Reserves	**1,087,397**	1,020,509
	1,306,969	1,232,165

35. PARTICULARS OF THE COMPANY'S SUBSIDIARIES

Particulars of the Company's subsidiaries at the end of the 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 31 December 2010	2009	Principal activities
			%	%	
Directly held:					
Shengli (BVI)	British Virgin Islands	USD1 of nil paid	**100**	100	Investment holding
Indirectly held:					
CPE	Republic of Singapore	SGD2	**100**	100	Investment holding
Shandong Shengli	PRC	RMB1,019,588,000	**100**	100	Manufacture, processing and, sale of welded steel pipes for oil and gas pipelines and other construction and manufacturing applications

35. PARTICULARS OF THE COMPANY'S SUBSIDIARIES (continued)

Subsequent to 31 December 2010, Shandong Shengli established a wholly owned subsidiary, Shandong Mu Xin in the PRC. The registered capital of Shandong Mu Xin was RMB30,000,000 which is mainly engaged in the manufacturing, mining, construction, wholesale and retail, property development, supply of electric, natural gas and water and other area.

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

36. SIGNIFICANT SUBSEQUENT EVENT

On 31 January 2011, the directors of the Company announced that on 28 January 2011, Shandong Shengli entered into the entrusted loan agreement ("Entrusted Loan Agreement") with a bank in the PRC (the "Lending Agent"). Pursuant to the Entrusted Loan Arrangement, Shandong Shengli, through the Lending Agent, provided the Entrusted Loan of RMB300 million to a third party in the PRC for a term of one year, at the interest rate of 15% per annum.

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