



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

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

INTERIM REPORT
2011



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Bizhuang (*Chief Executive Officer*)

Mr. Wang Xu (*Vice President*)

Ms. Han Aizhi (*Vice President*)

Mr. Liu Yaohua (*Vice President*)

Non-executive Directors

Mr. Yan Tangfeng (*Chairman*)

Mr. Teo Yi-Dar

Independent non-executive Directors

Mr. Huo Chunyong

Mr. Guo Changyu

Mr. Leung Ming Shu

AUDIT COMMITTEE

Mr. Leung Ming Shu (*Chairman*)

Mr. Huo Chunyong

Mr. Teo Yi-Dar

REMUNERATION COMMITTEE

Mr. Yan Tangfeng (*Chairman*)

Mr. Huo Chunyong

Mr. Leung Ming Shu

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

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KY1-1111
Cayman Islands

HEADQUARTERS IN CHINA

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Shandong Province
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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

AUDITORS

Ernst & Young

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

CHIEF EXECUTIVE OFFICER'S STATEMENT

To the Shareholders,

First and foremost, I would like to thank you for your support to the Company. I hereby present to you the unaudited interim results as at 30 June 2011 on behalf of the board of directors (the "Board") of Shengli Oil & Gas Pipe Holdings Limited (the "Company").

There was a significant setback in the business performance of the Company for the first half of the year compared to same period last year. However, since May this year, sales orders of the Company have recorded a marked increase and the performance of Company has been improving gradually. This improvement was mainly due to the cycle effects brought by the country's planning for the construction of oil and gas pipeline network. Although the Company's revenue for the first half of the year continued to be affected by the trend of the second half of last year, the Company is very confident that the business for the second half of the year will be better than the first half of the year, in view that the projects successfully tendered by the Group in the first half of the year had already commenced production in May and June, and some oil and gas pipeline projects were re-launched by the government in the first year of the "12th National Five-Year Plan".

PROMISING START

2011 is the first year of the "12th National Five-Year Plan" of the PRC. Energy planning remains a focus of the "12th National Five-Year Plan". According to the Plan, the total length of the domestic oil and gas pipelines is expected to increase from 77,000 km at the end of 2010 to about 150,000 km in 2015, and further to about 210,000 km in 2020, as a result, the coverage of the pipeline network will be further expanded. At the same time, the local oil and gas pipelines will also be expanded and extended, and the total increase, in term of mileage, will be three times of the major national oil and gas transmission pipelines.

In addition to domestic oil and gas pipelines, the overseas pipeline projects recently planned by the PRC government continued to increase, such as the Second Central Asia-China Natural Gas Pipeline (中亞天然氣管道二期), the China-Myanmar Oil and Gas Pipeline (中緬油氣管道), the Kazakhstan-China Natural Gas Pipelines (中哈天然氣道) and the China-Russia Natural Gas Pipeline (中俄天然氣管道).

The first half of 2011 marked a promising start for the Company. In the first half of the year, the Company won the tenders for several national pipeline projects, including the China-Myanmar Oil and Gas Pipeline Project (overseas section) (中緬油氣管道工程(國外段)), the Second West — East Natural Gas Pipeline, Lunnan — Tulufan Branch Line (西氣東輸二線輪南 — 吐魯番支幹線) and the Changqing Oil Field — Huhhot Petroleum and Chemical Crude Oil Pipeline Project (長慶油田 — 呼和浩特石化原油管道工程).

In addition to the achievement in national projects, the Company has also turned a new chapter in the expansion of local markets. In the first half of the year, the Company won tenders for a number of local pipeline projects, including the Third Jingbian — Xi'an Gas Transmission Pipeline Project (靖邊 — 西安輸氣管道三線), the West Port District of Yantai Port — Zibo Heavy Liquid Chemical Raw Materials Transmission Pipeline Project (煙臺港西港區至濰博重質液體化工原料輸送管道) and the Fuxin Coal-based Natural Gas Project in Liaoning (遼寧阜新煤制天然氣項目).

During the first half of 2011, the Company has secured tenders for a total of 9 national pipeline projects and 12 local pipeline projects, with an estimated total contract value of approximately RMB1.93 billion, involving the supply of approximately 238,000 tonnes of oil and gas pipelines in total, of which, the national pipeline projects amounted to about 111,000 tonnes, whereas the local pipeline projects amounted to about 127,000 tonnes, accounting for 46.6% and 53.4% respectively. These orders are expected to be completed and delivered in the second half of this year and next year.

CHIEF EXECUTIVE OFFICER'S STATEMENT (cont'd)

INTRODUCTION OF PRE-WELDING AND PRECISION WELDING STEEL PIPE PRODUCTION LINE

The pre-welding and precision welding project is a key project of the Company, under which the Company introduced a complete set of the relevant advanced technology from Germany. It has been listed as one of the hundred key industrial projects in Zibo City in 2010, and one of the science and technology development projects in Shandong Province. The production line is now the first and the only SSAW production line in the PRC whose entire units are introduced from Germany. As scheduled, the production line is now at installation and adjustment phase, and will be put into operation in the second half of this year. Following the completion of the production line, the Company's SSAW production technology and equipment will be enhanced in all respects, and the production line will become a SSAW production line with one of the best quality and the most advanced technologies in China. The increased production capacity will enable the Company to enhance its competitive strengths, provide customers with products of better quality and in a timely manner and better meet customers' needs.

INCREASED OUR STAKE IN HUAYOU XINJIANG TO SPEED UP THE STRATEGIC DEVELOPMENT IN XINJIANG

On 12 August 2011, the Company entered into a capital increase agreement with Huayou Xingye (Xinjiang) Petroleum Equipment Manufacture Co., Ltd. (華油興業(新疆)石油裝備製造有限公司) ("Huayou Xinjiang") and its shareholders for making an additional capital contribution of RMB99 million to Huayou Xinjiang, thereby holding 55% of its equity interest. Huayou Xinjiang is primarily engaged in the manufacturing of oil and gas SSAW pipe with an annual capacity of 150,000 tonnes. Its primary customers are primarily business enterprises in the western part of the PRC and Central Asia. Both Xinjiang and Central Asia are rich in natural gas and coal resources. Several main natural gas pipelines of the PRC originate from these two areas. The geographical location and customer base of Huayou Xinjiang will provide us a solid foundation for our business expansion in these areas.

SUPPORTING RAPID DEVELOPMENT THROUGH CLUB LOANS

The Company obtained RMB400 million of club loans as working capital in Hong Kong in May this year to support its rapid development during the "12th National Five-Year Plan" period. The loans were provided in the form of full underwritten from a syndicate led by Industrial and Commercial Bank of China (Asia) Limited, with an interest rate of 3.2% per annum and a three-year term. These loans is among the first club loans provided in RMB as a single currency in Hong Kong after Hong Kong became a testing venue for RMB business. Leveraging on its advantages as a Hong Kong-listed company, the Company has fully and effectively tapped into the benefits and edges of the international capital markets. The procurement of the loans with such interest rate and repayment term demonstrated the Company's financial strengths and capabilities to finance its rapid development at low finance cost.

DEDICATED EFFORTS ON REWARDING SHAREHOLDERS THROUGH REPURCHASE OF SHARES

From 8 April to 21 June this year, the Company repurchased a total of 9,420,000 shares, representing approximately 0.38% of the total number of issued shares, at a repurchase price ranging between HK\$1.27 and HK\$1.5 per share. The Company considered that the shares were repurchased at a reasonable price range after taking into account of the market conditions and factors such as share price valuations of the Company and its industry peers. The repurchase also indicated the Company's confidence in its future business development. As at the date hereof, the Company has cancelled all the repurchased shares. This will in turn enhance the asset value and earnings of each share.

CHIEF EXECUTIVE OFFICER'S STATEMENT (cont'd)

DIVERSIFIED PRODUCTION OFFERING

The Company will focus on SSAW pipes business, its main business segment. It is also committed to diversify its product offering, and expand its upstream and downstream business.

After the commencement of production of the pre-welding and precision welding steel pipes production line and the completion of the capital increase in Huayou Xinjiang, the annual capacity of the Company's SSAW pipes will be increased to 1,150,000 tonnes. With the Company's advantages in product quality, capacity and location, it is well positioned to seize the future growth opportunities arising from the construction of main national oil and gas transmission lines, and to expand into the market of local oil and gas transmission branch line. It will also actively explore the international markets to further expand and reinforce its SSAW production and distribution business.

With the completion of the LSAW pipes production line with an annual capacity of 200,000 tonnes in Xiangtan, Hunan Province, the Company's products and services will be further diversified. This will help the Company to disperse operating risks while catering for the different needs of its existing customer and enhancing its competitiveness.

The Company also increased its input in research and development, and took various measures to implement the strategy rejuvenation through science and technology. Apart from the introduction of the SSAW pre-welding and precision welding steel pipes production line with an annual capacity of 360,000 tonnes from Germany, and relying on the oil and gas transmission pipe engineering research centre in Shandong Province established by the Group and national laboratories, the Company will establish post-doctoral workstations, hire experts, and jointly organize Master engineering training courses with Shandong University, with a view to improving the overall quality of the existing technical staff of the Company, and strengthening the research and development and production technology of the Company.

The Company will emphasise on SSAW pipe products and endeavour to seek for mergers and acquisitions, as well as investment opportunities. It will strive to stabilise the already developed downstream business of municipal pipeline network gas transmission and distribution and expand into the upstream and downstream of the oil industry, including oil equipment, so as to ensure the stable earnings of the Company.

Finally, I would like to extend gratitude to all shareholders ("Shareholders") and business partners for their support to the Company, and to our management team and staff for their tireless efforts. The Company will endeavour to capture future growth opportunities, and will continue to maximise returns to shareholders.

Zhang Bizhuang

Chief Executive Officer

13 August 2011

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2011, the Group recorded an unaudited revenue of RMB425,724,000, representing a decrease of 34.5% when compared to RMB649,694,000 in the same period last year. The decrease was mainly due to the reduction in the revenue from SSAW pipeline business as a result of the tightening measures adopted by the PRC government, and the resultant delays in the commencement of the construction of a number of major national oil and gas pipelines in the PRC. For the six months ended 30 June 2011, among the two core business segments of the Group, revenue from SSAW pipes business was RMB324,703,000 (for the six months ended 30 June 2010: RMB591,017,000), representing a decrease of approximately 45.1% compared to the same period last year, whereas revenue from cold-formed section steel was RMB101,021,000 (for the six months ended 30 June 2010: RMB58,677,000), representing an increase of approximately 72.2% compared to the same period last year.

Gross profit

For the six months ended 30 June 2011, gross profit amounted to RMB28,389,000 (for the six months ended 30 June 2010: RMB100,216,000), representing a decrease of 71.7% when compared to the same period last year. The overall gross profit margin was 6.7% (for the six months ended 30 June 2010: 15.4%), representing a decrease of 8.7 percentage points when compared to the same period last year. The decrease in the overall gross profit margin was primarily caused by the following reasons: (1) the low utilization rate of the Group's production facilities, as a result of which, the Group was unable to leverage its economies of scale; (2) the decrease of orders from national pipeline projects; (3) the decline in orders and unit price of the processing services; and (4) the increase in sales of steel pipes which has a relatively low profit margin. Profit before tax was RMB18,199,000 (for the six months ended 30 June 2010: RMB81,341,000), representing a decrease of approximately 77.6% from the same period last year, which was mainly attributable to the decrease in revenue and increase in costs and expenses.

Other income and gains

For the six months ended 30 June 2011, other income and gains was RMB34,430,000, representing an increase of RMB18,835,000 when compared to the same period last year. The increase was mainly attributable to the significant increase in interest income, which amounted to RMB22,586,000 for the period, compared to only RMB1,798,000 for the same period last year.

Selling and distribution expenses

For the six months ended 30 June 2011, selling and distribution expenses amounted to RMB8,088,000, representing a decrease of 3.9% when compared to the same period last year. Selling and distribution expenses mainly included transportation costs, and fees relating to preparation and participations of biddings by the Group.

Administrative expenses

For the six months ended 30 June 2011, administrative expenses were RMB24,896,000, representing an increase of 24.3% when compared to the same period last year. The main reason for the increase in the relevant expenses was that the Group increased the salaries of its management and administrative staffs during the period. Another factor attributable to such increase was the increase in administrative expenses of the Hong Kong office, which was only established close to the end of the second quarter of the previous year.

Finance costs

For the six months ended 30 June 2011, finance costs were approximately RMB4,314,000, representing a significant increase compared to RMB305,000 for the same period last year. The increase was mainly due to the obtaining of RMB635 million loans by the Group during the six months ended 30 June 2011 to meet its capital needs during the business expansion, which led to the increase of related finance costs.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

Income tax expenses and net profits

The major operating subsidiary of the Group is entitled to a 50% deduction of the normal PRC corporate income tax for three years starting from 1 January 2010 and therefore the applicable tax rate for the Group's principal place of operation for the six months ended 30 June 2011 was 12.5%. After deduction of tax of RMB5,969,000 (for the six months ended 30 June 2010: RMB12,008,000), the Group recorded an unaudited net profit of RMB12,230,000 (for the six months ended 30 June 2010: RMB69,333,000).

Assets and liabilities

As at 30 June 2011, the total assets of the Group were approximately RMB3,173,157,000 (as at 31 December 2010: RMB2,086,619,000) and the net assets of the Group were approximately RMB1,968,230,000 (as at 31 December 2010: RMB1,961,666,000). Net assets per share amounted to RMB0.79, representing an increase of RMB0.01 when compared to that of 31 December 2010. The total liabilities of the Group were RMB1,204,927,000 as at 30 June 2011 (as at 31 December 2010: RMB124,953,000). The increase in total liabilities is due to the new bank loans of RMB635,722,000 and increase in trade payable and advances from customers. The increase in inventory, advances to suppliers and advances from customers as at 30 June 2011 was caused by the increase in sales orders towards the end of the reporting period. There is no inventory risk since all inventories were made based on actual sales orders. As at 30 June 2011, the Group had cash and cash equivalents of RMB324,267,000.

Use of proceeds raised from the initial public offering

The Group raised net proceeds of approximately RMB1,098,500,000 from its initial public offering and listing of its shares on the Stock Exchange on 18 December 2009. None of the proceeds was utilized on or before 31 December 2009. Upon the exercise of the over-allotment option on 13 January 2010, net proceeds from the initial public offering increased to RMB1,269,900,000. As at 30 June 2011, RMB362,900,000 of the net proceeds from the initial public offering had been utilized by the Company in the manner as described in the prospectus dated 9 December 2009 ("Prospectus"), and the balance of RMB907,000,000 has not yet been utilized. The Group intends to continue to apply the proceeds in the same manner as disclosed in the Prospectus. The Group will continue to implement a prudent fiscal policy, and maintain a strong liquidity position and adequate cash, in order to meet the capital requirements for its day-to-day operations and future development. The Group did not entered into any hedging arrangements during the period under review.

Project	Cumulative use of proceeds from the initial public offering	
	Allocated amount	Actual incurred amount
	RMB (million)	RMB (million)
(1) construction of a LSAW pipe production line with an annual capacity of 200,000 tonnes, and an anti-corrosion coating production line	650.0	—
(2) construction of SSAW pre-welding and precision welding steel pipes production facilities with an annual capacity of 360,000 tonnes, and a SSAW production line with an annual capacity of 100,000 tonnes	440.0	361.4
(3) upgrading of cold-formed section steel production facilities to a ERW pipe production line with an annual capacity of 100,000 tonnes	50.0	The plan has been temporarily suspended
(4) working capital and other general corporate purposes	129.9	1.5
Total	1,269.9	362.9

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

INTERIM DIVIDENDS

The Board did not recommend the payment of an interim dividend during the six months ended 30 June 2011 (for the six months ended 30 June 2010: Nil).

BUSINESS REVIEW

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

SSAW Pipes

As one of the largest manufacturers of oil and natural gas line pipes in the PRC, the Company is one of the few suppliers in the PRC which are able to provide SSAW pipes of high pressure and large diameter that meet the long-haul requirements for the transportation of (among other things) crude oil, refined petroleum products and natural gas. In addition, the Company is also the only non-state owned enterprise among a few approved and qualified manufacturers in China to provide services to major domestic oil and natural gas companies ("qualified manufacturers"). The Group specializes in the design, manufacture, anti-corrosion processing and other value-added services of SSAW pipes that are used to transport crude oil, refined petroleum products and natural gas.

As at 30 June 2011, an aggregate length of approximately 19,300 km of the Group's SSAW pipes had been installed in major trans-national oil and gas pipelines, among which, 94.4% was installed within the PRC, and the remaining 5.6% was installed overseas. It is expected that after the completion of construction and commencement of operations of the SSAW pre-welding and precision welding steel pipes production facilities invested and built by the Group with an annual capacity of 360,000 tonnes in the second half of 2011, the total annual capacity of the Group's SSAW pipe production line will reach 1,000,000 tonnes, which is estimated to account for about one third of the current total capacity of all qualified manufacturers in the PRC. For the six months ended 30 June 2011, total revenue from the SSAW pipe business segment amounted to RMB324,703,000 (for the six months ended 30 June 2010: RMB591,017,000), accounting for approximately 76.3% of the Group's total revenue for the period (for the six months ended 30 June 2010: 91.0%). The SSAW pipe business is mainly divided into (1) sales of SSAW pipes; (2) processing services of SSAW pipes; and (3) anti-corrosion processing services.

For the six months ended 30 June 2011, revenue from the sales of SSAW pipes amounted to RMB288,982,000 (for the six months ended 30 June 2010: RMB523,268,000), representing a decrease of 44.8% when compared to the same period last year. Approximately 49.9% of the relevant sales was generated from national pipeline projects (for the six months ended 30 June 2010: 73.8%). Revenue from processing services of SSAW pipes for the same period was RMB4,736,000 (for the six months ended 30 June 2010: RMB20,781,000), representing a decrease of 77.2% when compared to that of the same period last year. For the period, 100% of the relevant revenue from anti-corrosion processing was generated from national pipeline projects (for the six months ended 30 June 2010: 90.5%). As a result of the reduction of orders from national pipeline projects and lesser demand for anti-corrosion processing services from regional pipeline projects in the first half of the year, there was a significant decrease in revenue from anti-corrosion processing services during the period. For the six months ended 30 June 2011, revenue from anti-corrosion processing services was RMB30,985,000 (for the six months ended 30 June 2010: RMB46,968,000), representing a decrease of 34.0% when compared to the same period last year.

In 2011, some oil and gas pipeline projects were re-launched by the government in the first year of the "12th National Five-Year Plan". The Company will actively seize the opportunities, and believes that its business can benefit from the exciting opportunities offered in the "12th National Five-Year Plan". However, due to the production time and revenue recognition policies of the Group, the benefit brought to the Group by such re-launching has not been reflected in its results under review. For the six months ended 30 June 2011, the Group sold a total of 65,066 tonnes of SSAW pipes (for the six months ended 30 June 2010: 127,846 tonnes), representing a decrease of 49.1%.

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

Sales volume (tonnes)	First half of 2011	First half of 2010	Change (%)
Sales of SSAW pipes	56,094	95,352	-41.2%
Processing services of SSAW pipes	8,972	32,494	-72.4%
Total	65,066	127,846	-49.1%
Anti-corrosion services (square metre)	542,430	756,313	-28.3%

In the first half of 2011, the Group provided SSAW pipes for a number of national and regional pipeline projects, among which, national pipelines projects included the Third Shaanxi-Beijing Gas Pipeline (陝京三線), the Taishan-Qingdao-Weihai Gas Pipelines (泰青威管線), the Rizhao-Dongming Gas Pipelines (日照東明管線), the China-Myanmar Gas Pipelines (中緬管線), and the Tieshan Port-Shankou and Daniudi Gas Pipelines (鐵山港 — 山口和大牛地管線); and regional pipeline projects included the Jingbian-Xi'an Pipelines (靖邊 — 西安管線), the Yantai-Zibo Pipelines (烟台港 — 淄博管線). The projects that the Company provided anti-corrosion services during the period under review included the Third Shaanxi-Beijing Gas Pipeline (陝京三線), the Taishan-Qingdao-Weihai Gas Pipelines (泰青威管線), the Rizhao-Dongming Gas Pipelines (日照東明管線) and the China-Myanmar Gas Pipelines (中緬管線). Due to the reduction in the overall production volume, for the six months ended 30 June 2011, the utilization rate of the capacity of SSAW pipes was 28.3% (for the six months ended 30 June 2010: 54.1%), representing a decrease of 25.8 percentage points when compared to the same period last year.

Cold-formed Section Steel

In addition to SSAW pipes, its major business, the Group also utilizes welding technologies and various equipment to produce cold-formed section steel. Cold-formed section steel is one of the major materials applied in modern construction. Our cold-formed section steel is mainly used in the construction industry and the manufacture of automobiles and freight containers. The Group has three existing cold-formed section steel production lines with an annual 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 six months ended 30 June 2011, revenue from sales of cold-formed section steel amounted to RMB101,021,000 (for the six months ended 30 June 2010: RMB57,699,000), representing an increase of 75.1% when compared to the same period last year. Revenue from processing services of cold-formed section steel for the same period was nil (for the six months ended 30 June 2010: RMB978,000). The overall revenue from cold-formed section steel business amounted to RMB101,021,000 (for the six months ended 30 June 2010: RMB58,677,000), representing an increase of 72.1% when compared to the same period last year. The increase in revenue was mainly attributable to the increase in both orders and sales volume of cold-formed section steel as a result of the Group's reinforced efforts in developing its cold-formed section steel market.

Sales volume (tonnes)	The first half of 2011	The first half of 2010	Change (%)
Cold-formed section steel	21,098	18,025	17.0

MANAGEMENT DISCUSSION AND ANALYSIS (cont'd)

FUTURE PROSPECTS

The “12th National Five-Year Plan” of the PRC clearly states that the construction of oil and gas pipelines is one of priority targets of the Plan. The construction oil and gas pipelines is closely linked to the huge domestic demand for energy in the PRC. The Directors are confident that the construction of major oil and gas pipelines in the PRC will be carried out in a gradual and planned manner.

The Company deeply believes that the expansion of production capacity and the improvement of product quality are the only keys for the Group to meet the overall development needs of the country and to secure a greater market share. In the second half of the year, the new pre-welding and precision welding steel pipes production facilities imported from Germany with an annual capacity of 360,000 tonnes will be put into production. On 12 August 2011, the Company entered into a capital increase agreement with Huayou Xinjiang, which has an annual capacity of 150,000 tonnes, and its shareholders. Upon the completion of expansion plan and capital increase, the Group’s annual capacity of SSAW pipes will increase from the current level of 640,000 tonnes to 1,150,000 tonnes. The Directors believe that the Group will become one of the largest manufactures of SSAW pipes in the PRC. The new production facilities will enable the Company to better grasp the opportunities brought by the “12th National Five-Year Plan”. Observing from recent developments, The Company believes that the oil and gas pipeline industry began to pick up gradually in 2011, and has been growing at an accelerated speed.

To diversify our products offerings, the Company will strive to expand its capability in the design and production of LSAW pipes. The Company plans to build a LSAW pipe production line with an annual capacity of 200,000 tonnes in the future.

Meanwhile, the Company will continue to focus on enhancing its product research and development capabilities and identifying different market needs in order to explore new opportunities, thereby expanding the Company’s size and enhancing its long-term competitive strengths.

The long-term development of the Company will depend on its research and development capability. The quality inspection centre of Shandong Shengli Steel Pipe Co., Ltd. (山東勝利鋼管有限公司), a subsidiary of the Company, received the National Laboratory Accreditation Certificate issued by China National Accreditation Board for Conformity Assessment (中國合格評定國家認可委員會) (the “National Accreditation Board”). The recognition by the National Accreditation Board demonstrated that the Company processes technical skills to carry out the production, inspection and testing of pipes according to relevant international standards, and has the qualification to undertake external testing tasks. The Company can also participate in bilateral and multilateral cooperation with laboratories overseas, thereby promoting the development of the industrial technologies and enhancing the Company’s presence and competitiveness in the domestic and international markets.

In addition to keep on enhancing its efforts in research and development, the Company also places an emphasis on personnel training. The Company has completed the preparatory work for its enterprise engineering master program, in which the Company will cooperate with Shandong University. About 40 engineering and management personnel who hold bachelor’s degrees will participate in this program.

The economy in the PRC is growing rapidly. The rapid urbanization has created immense opportunities for the domestic oil and pipeline related industries. In order to improve transportation efficiency, the domestic oil and gas pipelines have been switching to larger diameter pipes, which will bring greater benefits to pipe manufacturers, and provide a solid foundation for the Company’s future business development. In addition, as the PRC government has been promoting the replacement of other energy sources with natural gas, the use of natural gas in medium and small cities and rural areas in the PRC is increasing. According to the “12th National Five-Year Plan”, natural gas consumption will increase from 3.8% of the total energy consumption in 2009 to around 8% to 10% in 2020. The PRC needs to import natural gas from Central Asia and Russia, thus build more pipelines to transmit the imported natural gas from the northwest and northeast China to the eastern and southern China. It is expected that about 70% of these pipelines will use SSAW pipes. Accordingly, the Company believes that the pipeline related industries will continue to grow rapidly. The Company is also confident of the long-term outlook of the industry.

REPORT OF THE DIRECTORS

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

As at 30 June 2011, the interests or short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as follows:

(i) Interests in issued shares and underlying shares

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Yan Tangfeng	Interest in a controlled corporation ⁽¹⁾	1,432,485,600	57.68%

Note:

- (1) As at 30 June 2011, Aceplus Investments Limited held 57.68% of the 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 on 21 November 2009 ("Share Option Scheme"). The purpose of the Share Option Scheme is to give the Eligible Persons (as described in the following paragraph) an opportunity to have a personal stake in the Company and help motivate them to optimize their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of Executives, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

REPORT OF THE DIRECTORS (cont'd)

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

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

Grantee	Number of share options on the date of grant	Fair value of share options on the date of grant 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 21 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.

During the reporting period, a qualified individual left the Group and the options granted to such personnel lapsed. As a result, the number of outstanding share options granted changed to 22,500,000. For the six months ended 30 June 2011, changes resulting from the share options granted under the Share Option Scheme are set out below:

Name	Capacity	Exercise Price	Outstanding as at 1 January 2011	Lapsed during the period	Outstanding as at 30 June 2011	Approximate percentage of the issued share capital of the Company as at 30 June 2011	Notes
Directors							
Zhang Bizhuang	Beneficial owner	HK\$2.03	7,200,000	—	7,200,000	0.29%	(1)
Wang Xu	Beneficial owner	HK\$2.03	3,000,000	—	3,000,000	0.12%	(1)
Han Aizhi	Beneficial owner	HK\$2.03	3,000,000	—	3,000,000	0.12%	(1)
Liu Yaohua	Beneficial owner	HK\$2.03	1,500,000	—	1,500,000	0.06%	(1)
Employees	Beneficial owner	HK\$2.03	9,300,000	(1,500,000)	7,800,000	0.31%	(1)
Total			24,000,000	(1,500,000)	22,500,000	0.90%	

Note:

- (1) The share options were granted by the Company and exercisable within 10 years. On the last day of the first, second and third anniversaries after the date of grant (i.e. 10 February 2010), the aggregate number of exercisable share options will not exceed one-third, two-third and 100% of the respective total share options granted. These share options may be exercisable at HK\$2.03 each according to its terms during the period from 10 February 2010 to 9 February 2020.

Further details of the Share Option Scheme are disclosed in note 21 to the financial statements.

REPORT OF THE DIRECTORS (cont'd)

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

As at 30 June 2011, 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	57.68%

Save as disclosed above, as at 30 June 2011, 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.

USE OF PROCEEDS FROM THE GLOBAL OFFERING

The net proceeds from the Company's initial public offering on 18 December 2009 and the full exercise of the over-allotment option on 13 January 2010 amounted to approximately RMB1,269.9 million. Such proceeds will be utilized in the manner as set out in the Company's prospectus dated 9 December 2010. As at 30 June 2011, approximately RMB362.9 million of such proceeds 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.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2011.

CORPORATE GOVERNANCE

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Directors recognize the importance of incorporating elements of good corporate governance in the management structures and internal control procedures of the Group so as to achieve effective accountability to the shareholders as a whole. The Board has strived to uphold good corporate governance and adopt sound corporate governance practices. The Group has adopted the code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Listing Rules. None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not for any time of this period in compliance with the requirement of the Code.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted 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 to all Directors and all Directors confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding Directors’ securities transactions during the six months ended 30 June 2011.

AUDIT COMMITTEE

The primary duties of the Audit Committee are to review the financial reporting process and internal control procedures of the Group. The Audit Committee currently consists of a non-executive director (Mr. Teo Yi-Dar) and two independent non-executive directors (Mr. Leung Ming Shu and Mr. Huo Chunyong) of the Company. Mr. Leung Ming Shu currently serves as the Chairman of the Audit Committee. All members of the Audit Committee are appointed by the Board. During the six months ended 30 June 2011, the Audit Committee held two meetings, each with an attendance of 100%.

The Audit Committee has reviewed the Group’s unaudited financial statements for the six months period ended 30 June 2011, and reviewed the internal audit work.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed with management and the external auditor the accounting principles and practices adopted by the Group and discussed auditing, internal controls, and financial reporting matters including the review of the unaudited interim financial statements for the Interim Period. The external auditor has reviewed the interim financial information for the six months ended 30 June 2011 in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 June 2011, the Company repurchased a total of 9,420,000 shares, representing approximately 0.38% of the total number of issued shares, at repurchase prices ranging between HK\$1.27 and HK\$1.5. The batch of shares repurchased has been cancelled prior to the date of issue of this interim report.

Save as aforesaid, neither the Company nor any of its subsidiaries sold or redeemed any listed securities of the Company.

By order of the Board

Chairman

Yan Tangfeng

13 August 2011

INDEPENDENT AUDITORS' REPORT



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To the shareholders of Shengli Oil & Gas Pipe Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

We have reviewed the accompanying interim condensed consolidated financial statements of Shengli Oil & Gas Pipe Holdings Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") as at 30 June 2011, which comprise the interim condensed consolidated statement of financial position as at 30 June 2011 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

The Directors are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made 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.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing. Consequently, it does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in any material respects, in accordance with IAS 34.

Ernst & Young

Certified Public Accountants
Hong Kong

13 August 2011

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Notes	For the six months ended 30 June 2011 RMB'000 (Unaudited)	30 June 2010 RMB'000 (Unaudited)
Revenue	3	425,724	649,694
Cost of sales		(397,335)	(549,478)
Gross profit		28,389	100,216
Other income and gains	4	34,430	15,595
Selling and distribution expenses		(8,088)	(8,415)
Administrative expenses		(24,896)	(20,031)
Other expenses		(5,872)	(5,719)
Operating profit		23,963	81,646
Finance costs	5	(4,314)	(305)
Share of loss of an associate		(1,450)	—
Profit before tax	6	18,199	81,341
Income tax expenses	7	(5,969)	(12,008)
Profit and total comprehensive income for the period		12,230	69,333
Profit and total comprehensive income attributable to:			
Owners of the parent		12,230	69,333
Non-controlling interests		—	—
		12,230	69,333
Earnings per share attributable to owners of the parent			
— Basic (RMB cents)	9	0.49	2.79
— Diluted (RMB cents)	9	0.49	2.79

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2011

	Notes	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	561,970	336,753
Lease prepayments	11	49,502	49,520
Goodwill		2,525	2,525
Other intangible assets		23	—
Interests in associates	12	250,450	247,000
Interest in a jointly-controlled entity	13	18,000	—
Other financial assets		54,298	53,000
Deferred tax assets		1,231	—
Total non-current assets		937,999	688,798
CURRENT ASSETS			
Inventories		620,143	176,069
Trade and bills receivables	14	422,968	465,468
Prepayments, deposits and other receivables	15	494,131	210,998
Loan receivable	16	300,000	100,000
Lease prepayments	11	1,028	1,023
Held-to-maturity investment		6,000	—
Pledged deposits		66,621	87,300
Cash and cash equivalents		324,267	356,963
Total current assets		2,235,158	1,397,821
TOTAL ASSETS		3,173,157	2,086,619
CURRENT LIABILITIES			
Trade payable	17	219,339	68,357
Other payables and accruals	18	341,393	47,828
Tax payable		7,861	8,310
Interest-bearing bank loans	19	285,336	—
Total current liabilities		853,929	124,495
NET CURRENT ASSETS		1,381,229	1,273,326
TOTAL ASSETS LESS CURRENT LIABILITIES		2,319,228	1,962,124

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (cont'd)

AS AT 30 JUNE 2011

	Notes	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Interest-bearing bank loans	19	350,386	—
Deferred tax liabilities		612	458
Total non-current liabilities		350,998	458
NET ASSETS			
		1,968,230	1,961,666
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Issued capital	20	219,032	219,572
Treasury shares		(3,205)	—
Reserves		1,752,403	1,742,094
TOTAL EQUITY		1,968,230	1,961,666

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	Issued capital	Treasury shares (note i)	Share premium	Statutory surplus reserve (note ii)	Share option reserve (note iii)	Other reserve	Retained earnings	Approved but not paid dividend (note iv)	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2011 (Audited)	219,572	—	1,154,829	50,824	13,296	(9)	523,154	—	1,961,666
Profit for the period	—	—	—	—	—	—	12,230	—	12,230
Repurchase of shares (note v)	(540)	—	(7,489)	—	—	—	—	—	(8,029)
Treasury shares	—	(3,205)	—	—	—	—	—	—	(3,205)
Approved but not paid dividend	—	—	(22,286)	—	—	—	—	22,286	—
Share-based payment	—	—	—	—	5,568	—	—	—	5,568
As at 30 June 2011 (Unaudited)	219,032	(3,205)	1,125,054*	50,824*	18,864*	(9)*	535,384*	22,286*	1,968,230

	Issued capital	Share premium	Statutory surplus reserve	Share option reserve	Other reserve	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2010 (Audited)	211,656	1,033,948	9,685	—	(9)	475,129	1,730,409
Profit for the period	—	—	—	—	—	69,333	69,333
Appropriation of statutory surplus reserve	—	—	41,139	—	—	(41,139)	—
Issue of new shares	7,916	166,231	—	—	—	—	174,147
Transaction costs attributable to over-allotment of shares	—	(6,213)	—	—	—	—	(6,213)
Share-based payment	—	—	—	5,902	—	—	5,902
Dividend recognized as distribution	—	(43,590)	—	—	—	—	(43,590)
As at 30 June 2010 (Unaudited)	219,572	1,150,376	50,824	5,902	(9)	503,323	1,929,988

* The aggregate of these reserves represents the consolidated reserves of RMB1,752,403,000 (31 December 2010: RMB1,742,094,000) on the interim condensed consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (cont'd)

FOR THE SIX MONTHS ENDED 30 JUNE 2011

Notes:

(i) TREASURY SHARES

In June 2011, the Company repurchased 2,970,000 shares. These shares had not yet been formally cancelled at the end of the reporting period. The total consideration paid to repurchase these shares amounted to HK\$3,838,000 (equivalent to RMB3,205,000) and such repurchased but not yet cancelled shares were recorded as treasury shares as at 30 June 2011.

(ii) 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 which is non-distributable. Appropriations to such reserve is made out of net profit after tax expenses of the statutory financial statements of the relevant PRC subsidiaries. The amount and basis of allocation are determined by the board of directors of the respective subsidiaries annually. The statutory surplus reserve can be used to make up prior years cumulative losses, if any, and can be converted into share capital.

(iii) SHARE OPTION RESERVE

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

(iv) APPROVED BUT NOT PAID DIVIDEND

The dividend represents the final dividend for the year ended 31 December 2010 approved by the shareholders in the annual general meeting on 29 June 2011. Such dividend has not been paid as at the end of the reporting period.

(v) REPURCHASE OF SHARES

In April 2011, the Company repurchased 6,450,000 shares. These shares had been cancelled by the Company on 18 May 2011. The total consideration paid to repurchase these shares amounted to HK\$9,568,000 (equivalent to RMB8,029,000), of which HK\$645,000 (equivalent to RMB540,000) and HK\$8,923,000 (equivalent to RMB7,489,000) were debited to the Company's issued capital and share premium account, respectively.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2011

	For the six months ended	
	30 June 2011	30 June 2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(253,262)	(474,015)
Net cash used in investing activities	(401,004)	(193,205)
Net cash from financing activities	621,570	36,981
NET DECREASE IN CASH AND CASH EQUIVALENTS	(32,696)	(630,239)
Cash and cash equivalents at beginning of period	356,963	1,168,293
CASH AND CASH EQUIVALENTS AT END OF PERIOD	324,267	538,054

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS AT 30 JUNE 2011

1. CORPORATE INFORMATION

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 Aceplus.

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

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2011 have been prepared in accordance with IAS 34 and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange (the “Listing Rules”).

The interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements, and therefore should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2010.

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

Impact of new and revised IFRSs

The principal accounting policies adopted in the preparation of the interim condensed consolidated financial statements of the Group are consistent with those followed in the preparation of the audited annual financial statements of the Group for the year ended 31 December 2010, except for the adoption of the following new and revised International Financial Reporting Standards (“IFRSs”):

IFRS 1 Amendment	<i>Amendment to IFRS 1 First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters</i>
IAS 24 (Revised)	<i>Related Party Disclosures</i>
IAS 32 Amendment	<i>Amendments to IAS 32 Financial Instruments: Presentation – classification of Right Issues</i>
IFRIC 14 Amendments	<i>Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement</i>
IFRIC 19	<i>Extinguishing Financial Liabilities with Equity Instruments</i>

Improvements to IFRSs (issued in May 2010)

In May 2010, the IASB issued its third omnibus of amendment to its standards, including improvements to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13, primarily with a view to removing inconsistencies and clarifying wording.

The adoption of these new and revised IFRSs has had no significant financial effect on these financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

AS AT 30 JUNE 2011

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Issued but not yet effective IFRSs

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these interim condensed consolidated financial statements.

IFRS 1 Amendment	<i>Amendment to IFRS 1 First-time Adoption of IFRSs — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters¹</i>
IFRS 7 Amendments	<i>Amendments to IFRS 7 Financial Instruments: Disclosures — Transfers of Financial Assets¹</i>
IFRS 9	<i>Financial Instruments⁴</i>
IFRS 10	<i>Consolidated Financial Statements⁴</i>
IFRS 11	<i>Joint Arrangements⁴</i>
IFRS 12	<i>Disclosure of Interests in Other Entities⁴</i>
IFRS 13	<i>Fair Value Measurement⁴</i>
IAS 1 Amendments	<i>Amendments to IAS 1 Presentation of Financial Statements — Presentation of items of Other comprehensive Income³</i>
IAS 12 Amendments	<i>Amendments to IAS 12 Income Taxes — Deferred Tax: Recovery of Underlying Assets²</i>
IAS 19 Amendments	<i>Amendments to IAS 19 Employee Benefits — Post-Employment Benefits and Termination Benefits projects⁴</i>
IAS 27 (2011)	<i>Separate Financial Statements⁴</i>
IAS 28 (2011)	<i>Investments in Associates and Joint Ventures⁴</i>

¹ Effective for annual periods beginning on or after 1 July 2011

² Effective for annual periods beginning on or after 1 January 2012

³ Effective for annual periods beginning on or after 1 July 2012

⁴ Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

AS AT 30 JUNE 2011

3. REVENUE AND SEGMENT INFORMATION

a. Revenue

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

	For the six months ended	
	30 June 2011 RMB'000 (unaudited)	30 June 2010 RMB'000 (Unaudited)
Sale of goods	420,988	627,936
Rendering of services	4,736	21,758
	425,724	649,694

b. Segment information

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

These reportable segments form the basis on which the Group's chief operating decision maker makes decision about resource allocation and performance assessment.

Segment revenue and results

For the six months ended 30 June 2011 (Unaudited)

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

AS AT 30 JUNE 2011

3. REVENUE AND SEGMENT INFORMATION (cont'd)

b. Segment information (cont'd)

Segment revenue and results (cont'd)

For the six months ended 30 June 2010 (Unaudited)

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
REVENUE				
Sales to external customers	591,017	58,677	—	649,694
Intersegment sales	—	2,610	(2,610)	—
Total revenue	591,017	61,287	(2,610)	649,694
Segment results	92,039	3,076	—	95,115
Interest income				1,798
Unallocated expenses				(15,267)
Finance costs				(305)
Profit before tax				81,341

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

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

Segment assets

As at 30 June 2011 (Unaudited)

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Eliminations RMB'000	Total RMB'000
Segment assets	3,086,615	141,083	(1,782,655)	1,445,043
Unallocated assets				1,728,114
Total consolidated assets				3,173,157

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

AS AT 30 JUNE 2011

3. REVENUE AND SEGMENT INFORMATION (cont'd)

b. Segment information (cont'd)

Segment assets (cont'd)

As at 31 December 2010 (Audited)

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Eliminations RMB'000	Total RMB'000
Segment assets	2,048,565	124,700	(1,417,914)	755,351
Unallocated assets				1,331,268
Total consolidated assets				2,086,619

Geographical information

Revenue from external customers

	For the six months ended	
	30 June 2011 RMB'000 (Unaudited)	30 June 2010 RMB'000 (Unaudited)
Mainland China	264,698	649,694
Other country	161,026	—
	425,724	649,694

The revenue information above is based on the location of the customers. The other country represents Myanmar.

Information about major customers

For the six months ended 30 June 2011, revenue of approximately RMB161,026,000 was derived from sales to a single customer. For the six months ended 30 June 2010, revenue of approximately RMB407,931,000 was derived from sales to two major customers.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

AS AT 30 JUNE 2011

4. OTHER INCOME AND GAINS

	For the six months ended	
	30 June 2011 RMB'000 (Unaudited)	30 June 2010 RMB'000 (Unaudited)
Interest income	22,586	1,798
Gain on sales of materials	9,977	13,255
Fair value gains of derivative financial instrument	1,298	—
Government grants	133	—
Quality inspection and testing service income	94	399
Gain on disposal of property, plant and equipment	—	143
Others	342	—
	34,430	15,595

5. FINANCE COSTS

	For the six months ended	
	30 June 2011 RMB'000 (Unaudited)	30 June 2010 RMB'000 (Unaudited)
Interest on interest-bearing bank loans	4,314	305

6. PROFIT BEFORE TAX

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

	For the six months ended	
	30 June 2011 RMB'000 (Unaudited)	30 June 2010 RMB'000 (Unaudited)
Cost of inventories sold (note i)	392,368	540,916
Cost of services provided	4,967	8,562
	397,335	549,478
Staff costs (including directors' remuneration):		
Wages, salaries and bonuses	21,046	22,386
Retirement benefit scheme contributions	2,216	1,836
Welfare and other expenses	2,327	3,357
Expense of share-based payments	5,568	5,902
	31,157	33,481
Depreciation of property, plant and equipment	14,917	12,411
Amortization of lease prepayments	159	159
Exchange losses, net	2,575	4,961
Auditors' remuneration	500	512

Note:

- (i) The amount included a reversal of write-off of inventories of RMB92,000 for the six months ended 30 June 2011 (for the six months ended 30 June 2010: RMB1,132,000).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

AS AT 30 JUNE 2011

7. INCOME TAX EXPENSES

The major components of income tax expense are as follows:

	For the six months ended	
	30 June 2011	30 June 2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax:		
Mainland China	7,046	12,008
Deferred income tax	(1,077)	—
	5,969	12,008

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profit arising in Hong Kong for the six months ended 30 June 2011 and 30 June 2010.

The statutory tax rate of China Petro Equipment Holdings Pte Ltd. ("CPE"), a subsidiary of the Company incorporated in the Republic of Singapore ("Singapore"), was 17% for the six months ended 30 June 2011 and 30 June 2010. No provision for Singapore Income Tax has been made as the income of the Group neither arising in nor derived from Singapore.

The statutory tax rate of Shandong Shengli Steel Pipe Co., Ltd. ("Shandong Shengli"), a subsidiary of the Company established in the PRC, was 25%. Shandong Shengli is entitled to an exemption from income tax for the two years commencing from its first profit-making year of operations and thereafter entitled to a 50% relief for the subsequent three years. Shandong Shengli was exempted from income tax in 2008 and 2009 and enjoyed a 50% relief in 2010, 2011 and 2012.

The tax charge for the six months ended 30 June 2011 and 30 June 2010 can be reconciled to the profit before tax in the interim condensed consolidated statement of comprehensive income as follows:

		For the six months ended	
	Notes	30 June 2011	30 June 2010
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Profit before tax		18,199	81,341
Tax at the rate applicable to the Group's principal place of operation		4,550	20,335
Effect of expenses that are not deductible for tax purpose		298	147
Tax effect of tax losses not recognized	(i)	3,397	3,534
Share of loss of an associate		363	—
Others	(ii)	1,693	—
Effect of tax exemption		(4,332)	(12,008)
		5,969	12,008

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

AS AT 30 JUNE 2011

7. INCOME TAX EXPENSES (cont'd)

Notes:

- (i) No deferred tax assets have been recognized for tax losses of RMB13,588,000 (for the six months ended 30 June 2010: RMB14,136,000) derived from subsidiaries of the Group as the management of the Group is of the view that it is not probable that taxable profits of these subsidiaries will be available against which tax losses can be utilized.
- (ii) Others mainly represent withholding income tax accrued by Shandong Shengli for deemed interest income of the Company for the six months ended 30 June 2011 (for the six months ended 30 June 2010: nil).
- (iii) Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends to be paid 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 PRC tax circular (Guoshuihan [2008] 112) effective from 1 January 2008, "non-resident" investors located in countries having tax treaties with the PRC are entitled to certain preferential tax rates or exemptions. But the preferential tax rate or exemptions need the approval of local tax authority. According to the "Agreement Between the Government of the People's Republic of China and the Government of the Republic of Singapore for Avoidance of Double Taxation and Prevention of Fiscal Evasion with Respect to Taxes on Income", if a Singapore resident company directly owns at least 25% of interest in a PRC company, a 5% dividend withholding tax shall be applied. The approval of the relevant tax authority was not obtained by a PRC subsidiary of the Group, the Group is therefore liable to 10% withholding tax on dividends to be distributed by the PRC subsidiary in respect of earnings generated from 1 January 2008 and afterwards.

As at 31 December 2010 and 30 June 2011, the aggregate amounts of temporary differences associated with undistributed earnings of PRC subsidiaries for which deferred tax liabilities have not been recognized were RMB620 million and RMB645 million, respectively. No liability has been recognized in respect of these differences because the Group is in a position to control the timing of the reversal of the temporary differences and the Company, has resolved that the profit from its principal operating subsidiary, Shandong Shengli, for the relevant period will be retained and not be distributed. Therefore, it is probable that such differences will neither reverse nor subject to withholding tax in the foreseeable future.

8. DIVIDENDS

During the annual general meeting of the Company held on 29 June 2011, the Company's shareholders approved the payment of a final dividend of RMB0.00895 per share (equivalent to HK\$0.01064 per share) for the year ended 31 December 2010 (2009: RMB0.0176 per share (equivalent to HK\$0.02 per share)), which will be charged to the share premium account. The above mentioned final dividend has not been paid or recognized as a liability by the end of the reporting period.

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2011 (for the six months ended 30 June 2010: Nil).

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

The calculation of the basic earnings per share for the six months ended 30 June 2011 were based on the consolidated profit attributable to owners of the Company of approximately RMB 12,230,000 (for the six months ended 30 June 2010: RMB69,333,000) and the weighted average number of shares of 2,488,432,044 (for the six months ended 30 June 2010: 2,483,535,912), which was determined on the basis that a total of 6,450,000 issued shares were repurchased by the Company on 18 May 2011 (for the six months ended 30 June 2010: 90,000,000 additional new shares were issued and exercised by Macquarie Capital Securities Limited on 14 January 2010).

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 June 2011 and 30 June 2010 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during both periods.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

AS AT 30 JUNE 2011

10. PROPERTY, PLANT AND EQUIPMENT

For the six months ended 30 June 2011, the Group acquired property, plant and equipment at a total cost of RMB240,676,000 (for the six months ended 30 June 2010: RMB94,986,000).

Property, plant and equipment with a net book value of RMB542,000 (for the six months ended 30 June 2010: RMB474,000) were disposed of by the Group during the six months ended 30 June 2011.

11. LEASE PREPAYMENTS

As at 30 June 2011, the Group was in the process of applying for the title certificates of certain land acquired with an aggregate net book value of approximately RMB33 million. The Directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned land in due course, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 30 June 2011.

12. INTERESTS IN ASSOCIATES

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Share of net assets	129,382	125,932
Goodwill on acquisition	121,068	121,068
	250,450	247,000

Particulars of the associates of the Group are as follows:

Company name	Place and date of establishment/ operations	Registered capital	Percentage of equity interest held by the Group	Principal activities
Beijing Golden Fortune Investment Co., Ltd. (北京慧基泰展投資有限公司) (note i)	The PRC/Mainland China 23 May 2006	RMB 108,360,000	25%	natural gas distribution and gas pipeline construction
Tengzhou Fifth Season Real Estate Development Co., Ltd. (滕州市第五季房地產開發有限公司) (note ii)	The PRC/Mainland China 26 January 2011	RMB 20,000,000	49%	Development and sale or lease of Real Estate and property management

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

AS AT 30 JUNE 2011

12. INTERESTS IN ASSOCIATES (cont'd)

Notes:

- (i) Summarized financial information of Beijing Golden Fortune Investment Co., Ltd. ("Golden Fortune") as at the date of acquisition and the end of the reporting period is as follows:

	30 June 2011 RMB'000	21 December 2010 RMB'000
Total assets	1,202,470	1,157,916*
Total liabilities	(683,379)	(631,762)
Net assets	519,091	526,154
Non-controlling interests	(21,163)	(22,425)
	497,928	503,729
The Group's share of net assets of Golden Fortune	124,482	125,932
Goodwill arising on the acquisition of Golden Fortune	121,068	121,068

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

Although the acquisition of Golden Fortune was completed on 21 December 2010, the management of the Group is 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 ended 31 December 2010 was not accounted for. For the six months ended 30 June 2011, the Group's share of loss of Golden Fortune amounted to RMB1,450,000 after adjustment for amortization of RMB12,311,000 of above mentioned intangible assets.

- (ii) On 26 January 2011, Shandong Muxin Investment Co., Ltd. ("Shandong Muxin"), a wholly-owned subsidiary of the Company, entered into an agreement with Tengzhou Fifth Season Property Management Co., Ltd. and an individual, pursuant to which the three parties agreed to make an aggregate capital contribution of RMB20,000,000 to set up a new real estate and property management company named Tengzhou Fifth Season Real Estate Development Co., Ltd. (滕州市第五季房地產開發有限公司) ("Tengzhou Fifth Season"). As at 30 June 2011, the three parties have made an aggregate contribution of RMB10,000,000, of which Shandong Muxin contributed RMB4,900,000, accounting for 49% of equity interest in Tengzhou Fifth Season. Tengzhou Fifth Season did not commence operation as at 30 June 2011.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

AS AT 30 JUNE 2011

13. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Cost of investment	18,000	—

On 27 January 2011, Shandong Muxin entered into an agreement with an individual, pursuant to which Shandong Muxin and the individual contributed RMB18,000,000 and RMB2,000,000, respectively, to set up Shenzhen Taihe Tiandi Investment Partnership (深圳市泰和天地投資合夥企業) ("Shenzhen Taihe"), a partnership in the PRC. Shenzhen Taihe is primarily engaged in the business of equity investment, investment management and investment consultation and its registered capital is RMB20,000,000. Shenzhen Taihe did not commence operation as at 30 June 2011.

14. TRADE AND BILLS RECEIVABLES

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Trade receivable	379,585	410,391
Bills receivable	43,383	55,077
	422,968	465,468

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

AS AT 30 JUNE 2011

14. TRADE AND BILLS RECEIVABLES (cont'd)

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

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Within 90 days	181,354	297,305
Over 90 days but within 1 year	189,150	70,231
Over 1 year	9,081	42,855
	379,585	410,391

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Advance to suppliers	441,707	189,421
Tender deposits to customers	13,811	10,588
Other tax receivables	30,854	2,663
Others	7,759	8,326
	494,131	210,998

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

16. LOAN RECEIVABLE

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Loan receivable, within one year	300,000	100,000

The Group's loan receivable represents secured loans granted to third parties through financial institutions in the PRC. The loan receivable as at 30 June 2011 bears interest at a rate of 16% per annum and will be due within one year. The loan receivable as at 31 December 2010 bore interest at a rate of 5% per annum and was settled during the reporting period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

AS AT 30 JUNE 2011

17. TRADE PAYABLE

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Related parties	—	809
Non-related parties	219,339	67,548
	219,339	68,357

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

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Within 90 days	162,695	29,339
Over 90 days but within 1 year	56,577	38,077
Over 1 year	67	941
	219,339	68,357

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

18. OTHER PAYABLES AND ACCRUALS

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Advances from customers	304,502	13,634
Payable on acquisition of property, plant and equipment	20,600	9,868
Other tax payable	3,265	—
Others	13,026	24,326
	341,393	47,828

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

AS AT 30 JUNE 2011

19. INTEREST-BEARING BANK LOANS

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Current bank loans:		
Unsecured	50,000	—
Secured	200,386	—
Current portion of long term bank loans — unsecured	34,950	—
	285,336	—
Non-current bank loans:		
Unsecured	350,386	—

The interest rates of the bank loans for the six months ended 30 June 2011 ranged from 3.20% to 6.44% per annum (for the year ended 31 December 2010: Nil).

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

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Bank balances	52,810	—
Trade receivable	113,023	—
	165,833	—

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

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
With maturities:		
Within one year	285,336	—
In the second year	74,950	—
In the third to fifth years, inclusive	275,436	—
	635,722	—

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

AS AT 30 JUNE 2011

20. SHARE CAPITAL

	Number of shares	Share capital HKD'000
Shares of HK\$0.1 each		
Authorized:		
— Upon incorporation	3,800,000	380
— Increase on 21 November 2009	4,996,200,000	499,620
As at 31 December 2010 and 30 June 2011	5,000,000,000	500,000

	Number of shares	Issued capital	
		HKD'000	RMB'000
Issued and fully paid:			
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
Issue of shares on overallotment*	90,000,000	9,000	7,916
As at 31 December 2010 and 1 January 2011	2,490,000,000	249,000	219,572
Repurchase of shares	(6,450,000)	(645)	(540)
As at 30 June 2011	2,483,550,000	248,355	219,032

* The details of these issues of shares have been disclosed in the Group's annual financial statements for the year ended 31 December 2010.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

AS AT 30 JUNE 2011

21. SHARE-BASED PAYMENTS

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

	Number of share options
Granted on 10 February 2010 and outstanding as at 31 December 2010	24,000,000
Outstanding as at 30 June 2011	22,500,000

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

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

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

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

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

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

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

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

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

For the six months ended 30 June 2011, the Group recognized share-based payments of RMB5,568,000 (for the six months ended 30 June 2010: RMB5,902,000), which has been charged to the interim condensed consolidated statement of comprehensive income.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

AS AT 30 JUNE 2011

22. OPERATING LEASE ARRANGEMENTS

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

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Within one year	6,850	6,850
In the second to fifth years, inclusive	3,425	6,850
	10,275	13,700

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

23. COMMITMENTS

(i) Capital commitments

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

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Contracted, but not provided for	86,525	229,347

(ii) Investment commitments

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

	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
Contracted, but not provided for:		
Associate	4,900	—
Authorized, but not contracted for:		
Jointly-controlled entity	255,000	—

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

AS AT 30 JUNE 2011

24. 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")	With common directors
Zibo Shengli Coating Engineering Co., Ltd. ("Shengli Coating")	With common directors and associate of Shengli Steel Pipe
Aceplus	Ultimate holding company
SEAVI Advent Equity V(A) Ltd.	Shareholder of the Company and with a representative in the Company's board of directors
Golden Fortune	Associate of the Company
Tengzhou Fifth Season	Associate of the Company
Shenzhen Taihe	Jointly-controlled entity of the Company

(b) Significant related party transactions

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

	For the six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Utilities income received from:		
– Shengli Coating	–	199
Rental expense paid to:		
– Shengli Steel Pipe	3,425	3,200

(c) Trade and other payable balances with related parties

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

	30 June	31 December
	2011	2010
	RMB'000	RMB'000
	(Unaudited)	(Audited)
Trade payable:		
– Shengli Coating	–	809
Other payable:		
– Shengli Steel Pipe	–	4,617

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (cont'd)

AS AT 30 JUNE 2011

24. RELATED PARTY TRANSACTIONS (cont'd)

(d) Compensation of key management personnel

The remuneration of directors and other members of key management during the reporting period is as follows:

	For the six months ended	
	30 June 2011	30 June 2010
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Compensation of key management personnel of the Group:		
Salaries and allowances	3,518	1,864
Retirement benefit scheme contributions	57	61
Share-based payments	4,380	4,721
	7,955	6,646

25. EVENTS AFTER THE REPORTING PERIOD

On 12 August 2011, Shandong Shengli entered into an agreement with Huayou Xingye (Xinjiang) Oil Equipment Manufacturing Co., Ltd. ("Huayou Xinjiang") and its shareholders, pursuant to which Shandong Shengli and Beijing Huayou Xingye Energy Investment Co., Ltd., one of the shareholders of Huayou Xinjiang, will subscribe by contribution of cash of RMB99,000,000 and RMB1,000,000, respectively, to the registered capital of Huayou Xinjiang. Upon the completion of the subscription, Shandong Shengli will hold 55% of the equity interest in Huayou Xinjiang. Huayou Xinjiang will become an indirect non-wholly owned subsidiary of the Company and its results will be consolidated into the results of the Company.

26. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified and restated to conform with the current period's presentation.

27. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorized for issue by the board of directors on 13 August 2011.