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 2011

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.

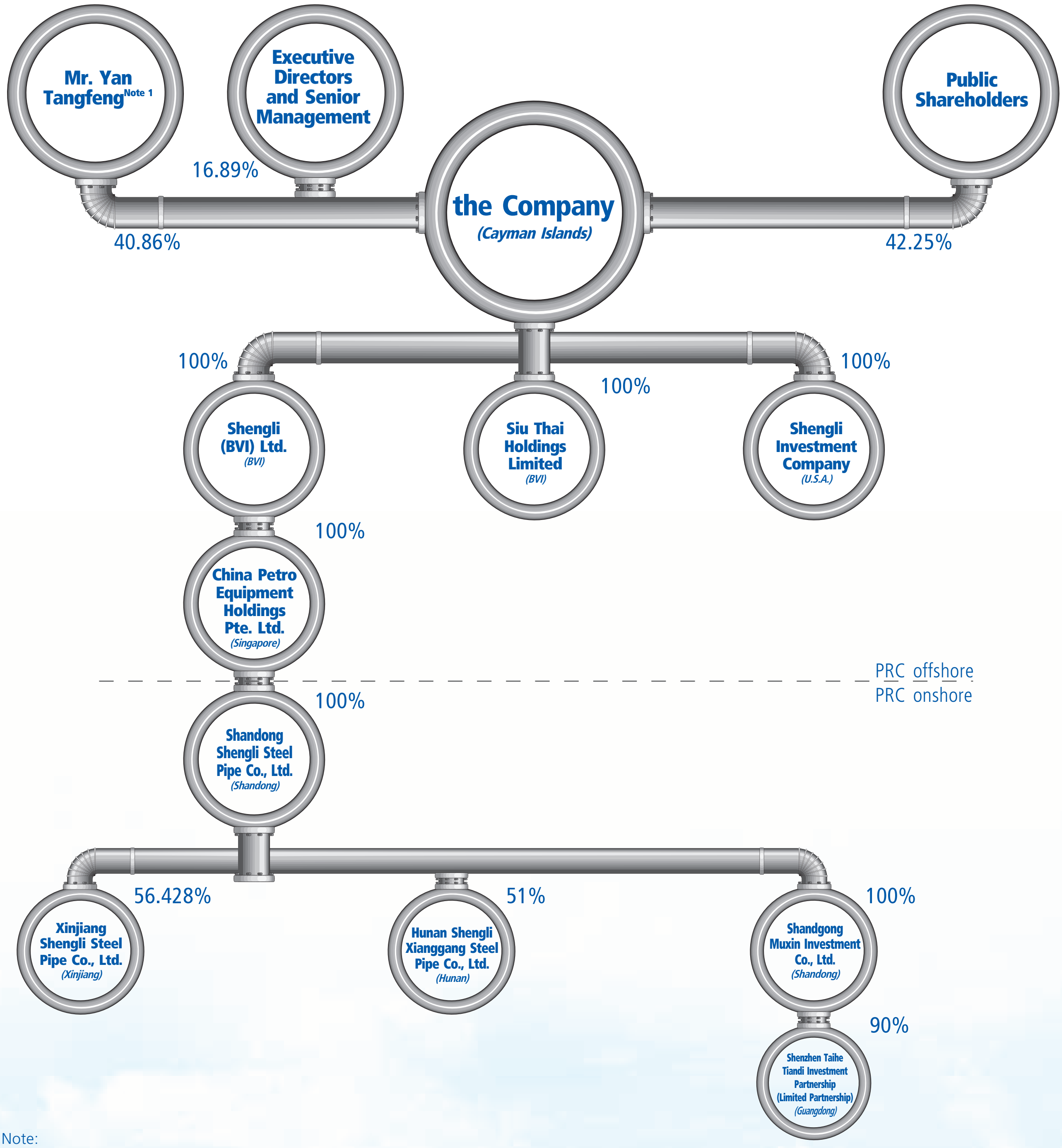
CONTENT

CORPORATE PROFILE

We are one of the largest oil and gas line pipe manufacturers in China. We focus on the design, manufacture, Value-added processing and servicing of 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 2011, 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 *(Vice president)*
Mr. Liu Yaohua *(Vice president)*
(appointed on 29 June 2011)
Ms. Han Aizhi *(Vice president)*

Non-executive Directors

Mr. Yan Tangfeng *(Chairman)*
Mr. Teo Yi-Dar (resigned on 31 December 2011)
Mr. Ling Yong Wah (resigned on 29 June 2011)
Mr. Ong Kar Loon
(alternate Director to Mr. Ling Yong Wah)
(resigned on 29 June 2011)

Independent non-executive Directors

Mr. Huo Chunyong
Mr. Guo Changyu
Mr. Leung Ming Shu (appointed on 1 January 2011)

AUDIT COMMITTEE

Mr. Leung Ming Shu *(Chairman)*
Mr. Huo Chunyong
Mr. Teo Yi-Dar (resigned on 31 December 2011)
Mr. Yan Tangfeng (appointed on 16 January 2012)

REMUNERATION COMMITTEE

Mr. Yan Tangfeng *(Chairman)*
Mr. Huo Chunyong
Mr. Leung Ming Shu (appointed on 1 January 2011)

NOMINATION COMMITTEE

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

COMPANY SECRETARY

Mr. Ng Kam Tsun, Jeffrey

AUTHORISED REPRESENTATIVES

Ms. Han Aizhi
Mr. Ng Kam Tsun, Jeffrey

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

Unit 2310, 23rd Floor, COSCO Tower,
183 Queen's Road Central,
Hong Kong

PRINCIPAL BANKERS

Industrial & Commercial Bank of China
Bank of China
Industrial and Commercial Bank of China (Asia) Limited
The Hongkong and Shanghai Banking
Corporation Limited

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

The Stock Exchange of Hong Kong Limited
Main Board

Stock Code

1080

COMPANY WEBSITE

www.slogp.com

FINANCIAL HIGHLIGHT

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB1,821,836,000, representing an increase of approximately 61.7% when compared to the same period in 2010.
- Profit attributable to owners of the parent amounted to approximately RMB93,780,000, representing an increase of approximately 5.2% when compared to the same period in 2010.
- Gross profit margin was 7.9%, representing a decrease of about 5.2 percentage points when compared to the same period in 2010.
- Basic earnings per share attributable to equity holders of the parent was approximately RMB3.77 cents representing an increase of about 5.0% when compared to the same period in 2010.
- The Board recommends the payment of a dividend of RMB0.94 cents per share, representing an increase of about 5.0% when compared to the same period in 2010, which will be subject to shareholders' approval at the forthcoming annual general meeting of the Company.

CHIEF EXECUTIVE OFFICER'S STATEMENT

To all shareholders,

I would like to present the audited results of Shengli Oil & Gas Pipe Holdings Limited (the "Company") for the year ended 31 December 2011 to the shareholders of the Company on behalf of the board of directors (the "Board") of the Company.

Looking back at the year 2011, the performance of the Company for the second half of the year was remarkably better than that for the first half of the year. There was an apparent setback in the performance for the first half of 2011 when compared to the same period in 2010, primarily due to the cyclical impacts of the national planning and construction of oil and gas pipeline network in the PRC. Against this backdrop, with the gradual recovery of the pipeline industry from the second quarter of the year and the commencement of production from mid-April for the tenders won by the Company during the first half of the year, the profitability of the Company in the second half of the year recorded a significant increase compared to the same period in 2010. Overall, the profit for 2011 increased slightly compared to the same period in 2010. It is expected that the re-initiation of oil and gas pipeline network projects proposed by the PRC government under the "12th Five-Year Plan" will add momentum to the growth of the Company. Meanwhile, in order to generate stable streams of income, the Company has put into place a well-designed industry layout and has been actively expanding its regional pipeline business.

promising start

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.

CAPTURING NEW GROWTH OPPORTUNITIES IN THE INDUSTRY WITH A WELL-DESIGNED INDUSTRY LAYOUT

China is the world's largest energy consumer. Consumption of natural gas, being a clean energy, currently merely accounts for approximately 3.3% of the total energy consumed in the PRC, which is far below the global average of 24%. In recent years, the growth rate of the annual production volume of natural gas in China was more than 15% per year, and the production volume of natural gas is expected to continue its strong development momentum during the "12th Five-Year Plan" period. The growing demand for oil and natural gas will inevitably fuel up the demand for oil and gas pipelines. According to the "12th Five-Year Plan", the PRC government plans to "speed up the strategic channel construction for oil and gas imports in the northwest, northeast and southwest of China as well as offshore areas, and enhance the domestic oil and gas backbone pipeline network". During the "12th Five-Year Plan" period, the total length of oil and gas pipelines is expected to increase from 77,000 kilometres ("km") in late 2010 to 150,000 km in 2015 and further increase to 210,000 km in 2020.

The Company has been a major participant in the construction of national oil and gas backbone pipelines, and a major supplier of China National Petroleum Corporation ("CNPC") and China Petroleum Chemical Corporation ("Sinopec") for their oil and gas transmission pipeline projects. The Company is well-positioned to benefit from the increasing demand for energy and the continuing development of pipeline construction in China, and will seize the opportunities emerging from the industry growth.

In March 2011, the Company established a joint venture, Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) with Xiangtan Iron and Steel Group Co., Ltd.* (湘潭鋼鐵集團有限公司) and Hunan Shengyu Hi-tech Material Co., Ltd.* (湖南盛宇高新材料有限公司), in which the Company holds 51% equity interest. The joint venture will construct a LSAW production line with an annual production capacity of 200,000 tonnes, a SSAW production line with an annual production capacity of 300,000 tonnes and a supporting anti-corrosion production line. The new production facilities will enable the Company to diversify its product offering, further explore various markets and reduce risks associated with its operation. The construction of the new production facilities is progressing smoothly as scheduled.

In September 2011, the Company obtained a 56.428% interest in Xinjiang Shengli Steel Pipe Co., Ltd. (新疆勝利鋼管有限公司) ("Xinjiang Shengli"), which is previously known as Huayou Xinye (Xinjiang) Petroleum Equipment Manufacture Co., Ltd. (華油興業（新疆）石油裝備製造有限公司), by means of capital increase. Xinjiang Shengli owns a SSAW production line with an annual production capacity of 150,000 tonnes. After such acquisition, the Company, by utilising its existing technology, talent and management edges, further improved the equipment, technology, personnel and management of Xinjiang Shengli. By late 2011, Xinjiang Shengli has been equipped with the necessary qualifications and conditions for the production of high quality oil and gas transportation steel pipes, which laid down the foundation for the Company to undertake major pipeline projects and to secure its market share in the northwest of China in the future. This acquisition is a strategic move which grasps the decisive opportunity and demonstrates the Company's sophisticated understanding of the pipeline industry in China.

With the construction and operation of the above two subsidiaries, the Company will be able to form an industry layout in the east, the central-south and the northwest regions of China, which will greatly extend the reach of the Company's products, thereby establishing a solid foundation for its rapid growth during the "12th Five-Year Plan" period.

ACHIEVING A LEADING POSITION IN PRE-WELDING AND PRECISION-WELDING TECHNOLOGY AND INCREASING INVESTMENTS IN RESEARCH AND DEVELOPMENT

In line with the strategy to increase production capacity and upgrade the technology of the Group, the Group has commenced in December 2011 at its Zibo plant the operation of an advanced SSAW pre-welding and precision-welding steel pipes production line with an expected annual production capacity of 360,000 tonnes, which is among the firsts of its kind imported to China from Germany. Per the technical inspection performed by the professional team organized by Shandong Province Bureau of Science and Technology and led by the academicians of the China Academy of Engineering, the pre-welding and precision-welding steel pipes production line has a leading position in China in terms of its equipment and technology, has met the requirements for producing high performance oil and gas transmission pipes, and is blessed with broad application prospects. This marks the successful application by the Company of the world's most advanced SSAW pipe technology — the pre-welding and precision-welding technology, which represents the Company's march into the new technology arena in the Chinese SSAW pipe industry.

As a result, the annual SSAW production capacity of the Company has increased to 1.15 million tonnes. The influences of the Company in the industry and its core competitiveness have been further increased, which assures the increasing number of major domestic and abroad oil and gas pipe production projects to be undertaken by the Company in the future.

At the same time, in order to promote and further study the new technologies, the Company has increased its investment on scientific research and reinforced training to its technology personnel.

In early 2011, the Company obtained approval from Shandong Province Department of Science and Technology for the establishment of the "Shandong Province Technology Research Center for Oil and Natural Gas Transmission Steel Pipes". The technology center has already commenced its scientific research activities and has made applications for two invention patents and three utility model patents, three of which have been approved, thus filling the blank of the patent application of the Company.

In addition, the Company's quality inspection and testing laboratory was accredited as a national-standard laboratory in May 2011. This accreditation highlights the Company's technical strengths in product inspection and testing. It also reflects the impartiality, independence and accuracy of the Company's product inspection and testing. The Enterprise Engineering Master Program, a course held by the Company jointly with Shandong University and attended by 40 engineers and technicians of the Company has also officially commenced in September 2011. This course will help the Company to train and retain top-level quality scientific research personnels, thereby further strengthening its R&D capabilities.

ENDEAVOURING FOR BUSINESS EXPANSION IN REGIONAL PIPELINE MARKET AND STABILIZING SOURCES OF INCOME

Over the years, a vast majority of the Company's business has been derived from the construction of national oil and gas backbone pipeline network projects due to capacity constraints. In recent years, invigorated by the planning and construction of the national backbone pipeline network, the planning and construction of the regional oil and gas branch pipeline network has reached a new height. Currently, the total length of regional branch pipelines is approximately two to three times of the national backbone pipelines. In light of the continuous expansion of the Company's production capacity, and especially after the Group's annual production capacity has reached 1.15 million tonnes with the acquisition of Xinjiang Shengli in September 2011, the Company now has the capacity to secure more orders from regional pipeline projects, which are usually invested by diverse investors and are less vulnerable to the adjustments of the national policies. As 2011 was the first year of the implementation of China's "12th Five-Year Plan", most of the proposed construction of oil and gas backbone network is still at planning and approval stage. The Company has secured more orders from regional pipeline projects as compared to 2010, which effectively mitigated the cyclical risks associated with the national pipeline projects that the Company is subject to, and stabilised the sources of income of the Company.

CHIEF EXECUTIVE OFFICER'S STATEMENT

In 2011, of the 220 tenders won by the Company, 197 tenders were regional pipeline projects, representing 89.5% of the total number of tenders, which was substantially higher than the previous years. Leveraging on the proven track record of its participation in large-scale pipeline projects, the Company is confident that it will continue to benefit from the immense growth potential embedded with the regional pipeline market.

FOSTERING THE RAPID DEVELOPMENT OF THE COMPANY BY SECURING A CLUB LOAN

To take full advantage of the promising opportunities arising from the expansion of oil and gas pipelines network in China during the "12th Five-Year Plan" period and to finance its business expansion, the Company has obtained a club loan of RMB400 million in Hong Kong in May 2011, which was led by Industrial and Commercial Bank of China (Asia) Limited. The loan is subject to a 3.2% interest rate per annum. The procurement of the loan at such an interest rate and repayment terms demonstrated the strong financial position of the Company, which will provide support to the rapid growth of the Company.

PURCHASE OF EQUITY INTERESTS FROM THE CONTROLLING SHAREHOLDER BY EXECUTIVE DIRECTORS AND SENIOR MANAGEMENT

In September 2011, the executive directors and senior management of the Company purchased an aggregate of approximately 419 million shares of the Company, which represented approximately 16.88% of the issued share capital of the Company, from the controlling shareholder of the Company, which is beneficially owned by Mr. Yan Tangfeng, a non-executive director of the Company and the Chairman of the Board, for a total consideration of approximately HK$293 million at HK$0.7 per share. The change in shareholding structure will enhance the dedication and enthusiasm of the management, and is conducive to the long-term and stable development of the Company.

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

Zhang Bizhuang
Executive Director & Chief Executive Officer

* *For identification purpose only*

the total annual capacity of the Group's SSAW pipe production line has reached

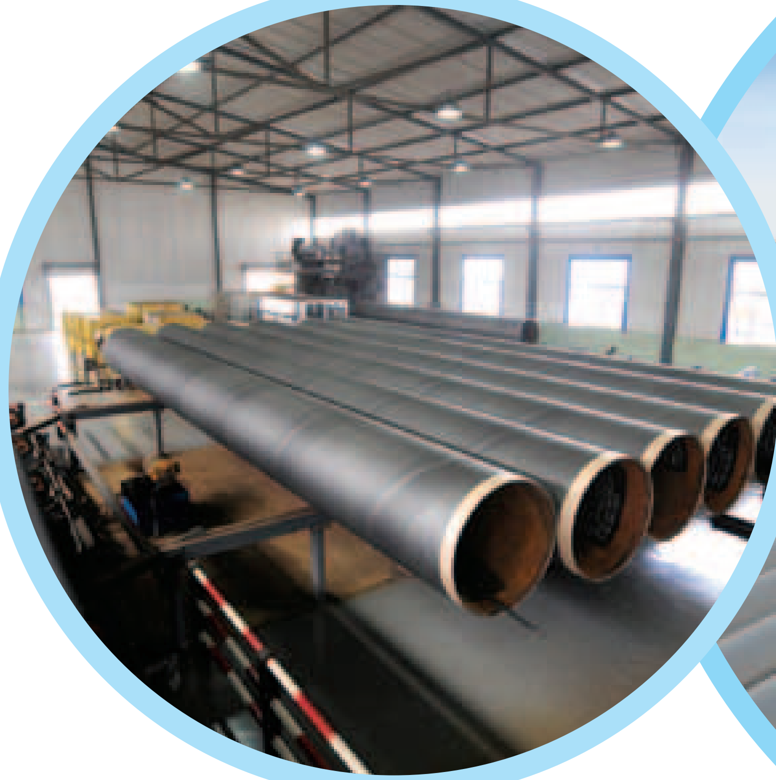
1,150,000

tonnes

which is estimated to account for about one third of the current total capacity of all qualified manufacturers in the PRC.

胜利钢管
SHENG LI STEEL PIPE
起吊前 请检查 防止吊钩滑脱
胜利钢管
SHENG LI STEEL PIPE

MANAGEMENT DISCUSSION AND ANALYSIS



MARKET OVERVIEW

China will become one of the countries in the world that undergo the most oil and gas pipelines construction in this century. At present, the total length of oil and gas pipelines in China is far behind many developed countries in the world. China's pipeline construction has developed rapidly since 1996, and as at the end of 2011, it had over 80,000 km of oil and gas pipelines, however, there is still a considerable gap between China and many developed countries, in terms of pipe network size and coverage. Take the U.S. as an example, which has over 150,000 km of refined oil pipelines, transports approximately 58.2% of its refined oil, whereas, in China, the total length of refined oil pipelines is only approximately 20,000 km, which transported approximately 20% of its refined oil. The U.S. has built an integrated transmission and distribution system for its natural gas pipeline network, with approximately 490,000 km of backbone pipelines, compared to only approximately 40,000 km of nature gas backbone pipelines in China.

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

involving the supply of approximately 290,000 tonnes of oil and gas pipelines

80,000 km of oil and gas pipelines in total during the period from 2011 to 2015.

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

BUSINESS REVIEW

In 2011, the Group carried out its SSAW pipes capacity expansion plan as scheduled, and successfully imported a new pre-welding and precision-welding SSAW pipes production line with an annual production capacity of 360,000 tonnes from Germany, which was among the firsts of its kind imported to China from Germany. The new production line enables the Group to improve its product quality, raise the efficiency of its production facilities, and enhance its welding speed. In addition, after the Group's successful acquisition of a 56.428% equity interest in Xinjiang Shengli in September 2011, which owns a new SSAW pipes production line with an annual capacity of 150,000 tonnes, the Group's annual SSAW pipes production capacity reached 1.15 million tonnes. The Group remains one of the largest oil and gas pipe production enterprises in the country by production capacity.

Total Turnover

The Group's **net profit** for the years ended 31 December 2011 and 31 December 2010 were **RMB91.9 million** and **RMB89.2 million**.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in two business segments, namely, SSAW pipes and cold-formed section steel.

The Group's revenue increased by 61.7% from RMB1,126,923,000 for the year ended 31 December 2010 to RMB1,821,836,000 for the year ended 31 December 2011. The increase in revenue was primarily attributable to the commencement of the construction of a number of delayed national oil and gas pipeline projects in China (including the China-Myanmar Pipeline Project (中緬管線項目), the South Line of the Sino-Kazakh Pipeline Project (哈南管線項目) and the Changqing-Huhhot Pipeline Project (長慶至呼和浩特管線項目)) in the second half of 2011, which also benefited the pipeline anti-corrosion service business of the Group. Accordingly, there was a sharp increase in revenue from the Group's main SSAW pipes business segment.

During the period under review, the Group's two core business segments, namely, (1) SSAW pipes business (including anti-corrosion service business and processing service business) reported a turnover of RMB1,655,764,000 (2010: RMB994,678,000), representing a year-on-year increase of approximately 66.5%, and (2) cold-formed section steel business (including processing service business) reported a turnover of RMB166,109,000 (2010: RMB134,698,000), representing a year-on-year increase of approximately 23.3%.

SSAW pipes business

As one of the largest oil and natural gas line pipe manufacturers in China, the Company is also one of the few suppliers of SSAW pipes in the country 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.

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 reached 1.15 million tonnes; and we remain one of the largest SSAW pipe producers in China.

The Group's major customers included large state-owned oil and gas companies such as CNPC and Sinopec and their joint ventures. The Group focuses on the design, manufacture, anti-corrosion processing and servicing of SSAW pipes, which are used to transport crude oil, refined petroleum products and natural gas. With the successful acquisition of a 56.428% equity interest in Xinjiang Shengli in September 2011 and the introduction of the pre-welding and precision-welding SSAW pipes production line with an annual production capacity of 360,000 tons in the fourth quarter of 2011 at its Zibo plant, the Group's annual SSAW pipes production capacity reached 1.15 million tonnes. The Directors believe that the Group accounted for about one third of the total production capacity of all Qualified Manufacturers of SSAW pipes.

For the year ended 31 December 2011, a total length of approximately 20,545 km of the Group's SSAW pipes were installed in the world's major oil and gas pipelines, of which 94.1% were installed in China and the remaining 5.9% were installed abroad. During the period under review, the Group has supplied SSAW pipes for a number of national pipeline projects, including Sino-Myanmar Pipeline (中緬管線), South Line of the Sino-Kazakh Pipeline (哈南管線), Changqing-Huhhot Pipeline (長慶至呼和浩特管線), Lunnan-Turpan Pipeline (輪南至吐魯番管線) Yizheng-JiuJiang Pipeline (儀征至九江管線), Tieshangang-Shankou Pipeline (鐵山港至山口管線) etc. The Group has also supplied SSAW pipes for a number of regional branch pipeline projects, including Jingbian-Xi'an Pipeline (靖邊至西安管線), Yantai Port-Zibo Pipeline (烟台港至淄博管線) and Liaoning-Datang Pipeline (遼寧至大唐管線). The Group has also provided anti-corrosion services for various projects, such as Jingbian-Xi'an Pipeline (靖邊至西安管線), Sino-Myanmar Pipeline (中緬管線), Liaoning-Datang Pipeline (遼寧至大唐管線) and Yantai Port-Zibo Pipeline (烟台港至淄博管線).

For the year ended 31 December 2011, the total turnover derived from the Group's SSAW pipes business amounted to RMB1,655,764,000 (for the year ended 31 December 2010: RMB994,678,000), representing approximately 90.9% of the Group's total turnover (for the year ended 31 December 2010: 88.3%). 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 RMB1,514,706,000 (for the year ended 31 December 2010: RMB891,972,000), representing a year-on-year increase of approximately 69.8%. Turnover from processing services of SSAW pipes was RMB5,605,000 (for the year ended 31 December 2010: RMB25,415,000), representing a decrease of 77.9% when compared to same period last year due to decrease in processing services for national pipeline projects. Turnover from anti-corrosion services was RMB135,453,000 (for the year ended 31 December 2010: RMB77,291,000), representing an increase of 75.3% when compared to the same period last year.

For the year ended 31 December 2011, the total sales volume of SSAW was 270,197 tonnes (for the year ended 31 December 2010: 219,580 tonnes), representing a year-on-year increase of 23.1%. 47.0% of the Group's SSAW pipes were sold to national pipeline projects in 2011, representing a decrease of 17.6 percentage points as compared to 64.6% in 2010.

Sales volume (tonnes)	**2011**	2010	Change (%)
Sales of SSAW pipes	**259,341**	176,404	47.0%
Processing services of SSAW pipes	**10,856**	43,176	-74.9%
Total	**270,197**	219,580	23.1%
Anti-corrosion treatment services (square meters)	**2,251,621**	1,174,182	91.8%

Due to the increased sales volume, the utilisation rate of the Group's production facilities for SSAW pipes increased from 35.3% for the year ended 31 December 2010 to 45.4% for the year ended 31 December 2011.

Cold-formed Section Steel

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

For the year ended 31 December 2011, turnover from the sales of cold-formed section steel amounted to RMB166,072,000 (for the year ended 31 December 2010: RMB131,260,000), representing an increase 26.5% when compared to the same period last year. The increase in turnover was mainly due to the Group's increased efforts in expanding the cold-formed section steel market, which drove a corresponding growth in both orders and sales volume of cold-formed section steel.

Sales volume (tonnes)	**2011**	2010	Change (%)
Cold-formed steel	**35,262**	34,364	2.6%

OTHER BUSINESS

To enhance its business growth and profitability, the Company has been gradually extending its business and expanding its product offering to regional branch network operations, which are generally less vulnerable to the national planning cycle, and hence establishes a foothold in the downstream business of municipal pipeline network gas transmission and distribution. In line with the Group's development strategy for business expansion, in November 2010, the Group acquired a 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 company engaged in natural gas distribution and natural gas pipeline construction in Henan and Zhejiang province. During the period under review, the business of Golden Fortune recorded a slight loss. The loss was mainly due to the delay of some pipeline projects in Henan province. The Group's share of loss of Golden Fortune amounted to RMB3,746,000 for the year 2011.

FUTURE PROSPECT

According to the "12th Five-Year Plan", the proportion of China's natural gas consumption in its primary energy is expected to jump from 3.4% in 2010 to 8% in 2015. In addition, the total length of national oil and gas pipelines in China is expected to increase from 77,000 km (of which, natural gas pipelines amounted to 40,000 km) in 2010 to 150,000 km at the end of 2015. In particular, pipeline projects that are under construction and to be constructed include the Sino-Kazakhstan Crude Oil Pipeline Phase II (中哈原油管道二期) , the China-Myanmar Oil and Gas Pipeline (中緬油氣管道), the Zhongwei-Guiyang Pipeline (中衛貴陽管線), the Third and Fourth West-East Pipelines (西氣東輸管道第三線和四線) and the Sino-Russian Natural Gas Pipeline Project (中俄天然氣管道工程). The government support on the oil and gas pipeline industry conveyed in the "12th Five-Year Plan" indicates that the industry will embrace another round of rebust growth, which will present promising opportunities for the Company.

Pivoting on edges in aspects ranging from capacity advantage, geographical advantage and new pre-welding and precision-welding technology, the Company will actively seize the business opportunities emerging from the rapid growth of the industry to ensure the steady growth of the earnings of the Company in the future.

By thoroughly digesting, absorbing and mastering the pre-welding and precision-welding production technology, the Company will deliver unwavering efforts to enhance its technological level, carve out a leading niche in the pre-welding and precision-welding technology in China, and complete its application for recognition as a state-level high-tech enterprise in 2012. The Company will take full advantage of the superb product quality, excellent production efficiency and high degree of automation that the pre-welding and precision-welding technology brings to it and seek further opportunities to participate in more significant pipeline projects.

With the implementation of the development strategy for the western region of China, together with the completion and operation of the Second West-East Gas Pipeline Project (西氣東輸二線工程), a new round of large-scale oil and gas exploration in Xinjiang are under smooth progress in full swing. CNPC and Sinopec, being the two giants in oil and gas industry, will build seven natural gas transmission pipelines in Xinjiang in the next few years. Among which, CNPC plans to build five pipelines initiating from Xinjiang, including the Third, Fourth, Fifth, Sixth and Seventh West-East Transmission Pipelines, with an annual gas transmission capacity of 210 billion cubic metres. The total length of natural gas pipelines within Xinjiang will be about 6,350 km. In addition, Sinopec's two important pipelines under the "Xinjiang-East Gas Transmission Project" will cover a total length of 11,836 km, including the Xinjiang-Guangdong-Zhejiang Pipeline (新粵浙管道) of 7,373 km, and the Xinjiang-Urumqi Pipeline (新魯管道) of 4,463 km, both of which have a designed annual gas transmission capacity of 30 billion cubic metres. The Company will take advantage of the favourable geographical location of Xinjiang Shengli, put it into full operation as soon as possible, and further enhance and expand the Company's complementary anti-corrosion capability and pipe capacity, thus establishing a solid base for the Company to undertake production tasks for major pipeline projects. At the same time, armed with the Company's prominent brand presence, the Company is well-positioned to enhance the overall competitiveness in the construction of pipelines extending beyond Xinjiang, thereby actively stepping into the regional markets in Xinjiang.

The Company will dedicate great efforts to facilitate the construction undertaken by the joint venture, Hunan Shengli Xianggang Steel Pipe Co., Ltd., relating to the LSAW pipe production line with a capacity of 200,000 tonnes, the SSAW pipe production line with a capacity of 300,000 tonnes and the supporting anti-corrosion production line, thereby diversifying its product offering, and meeting various needs of its existing customers. The LSAW production line is expected to be completed by the end of June 2013, whereas the SSAW production line is expected to be completed by the end of 2012.

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

Furthermore, with a focus on the existing oil and gas pipeline products and cold-formed steel products, the Company will progressively seek for mergers and acquisitions as well as investment opportunities, in order to make a move to expand into the upstream and downstream segments of the oil industry such as oil equipment. Such a move will enable the Company to grow into an enterprise that is based on oil and gas transmission pipe products, supported by the related industry, and blessed with immense growth potential, which will ensure the steady growth of the Company's overall earnings.

FINANCIAL REVIEW

Revenue

The Group's revenue for the year ended 31 December 2011 was RMB1,821,836,000, representing an increase of approximately 61.7% when compared to RMB1,126,923,000 in 2010. The increase was mainly attributable to a substantial growth in revenue from SSAW pipes business. Such growth was fuelled by the commencement of certain delayed national oil and gas pipeline projects in the second half of 2011 along with the implementation of the development goals of the industry under the "12th Five-Year Plan". For the year ended 31 December 2011, the Group's two core businesses, namely, (1) SSAW pipes business reported revenue of RMB1,655,764,000 (2010: RMB994,678,000), representing a year-on-year increase of approximately 66.5%, and (2) cold-formed section steel business recorded a revenue of RMB166,072,000 (2010: RMB132,245,000), representing a year-on-year increase of approximately 25.6%.

Cost of sales

The Group's cost of sales increased by 71.5% from RMB978,801,000 for the year ended 31 December 2010 to RMB1,678,436,000 for the year ended 31 December 2011. The increase was primarily due to the growth in both production and sales volume when compared to 2010.

Gross profit

The gross profit of the Group decreased from RMB148,122,000 for the year ended 31 December 2010 to RMB143,400,000 for the year ended 31 December 2011. Meanwhile, the gross profit margin of the Group decreased from 13.1% for the year ended 31 December 2010 to 7.9% for the year ended 31 December 2011. The decrease was primarily due to the increase in sales of SSAW pipes and the increase in regional branch pipeline projects which are of generally lower gross profit margin. In 2011, sales of SSAW pipes accounted for 79.2% of the gross profit of SSAW pipes (2010: 72.3%), followed by anti-corrosion services which represented 20.7% (2010: 15.2%). The remaining 0.1% (2010: 12.5%) of the gross profit was derived from the processing services of SSAW pipes.

Other income

Other income of the Group increased from RMB42,673,000 for the year ended 31 December 2010 to RMB96,247,000 for the year ended 31 December 2011, among which, the largest contribution was from the interest income of entrusted loans which amounted to approximately RMB46,216,000.

Selling and distribution expenses

Selling and distribution expenses of the Group increased from RMB18,079,000 for the year ended 31 December 2010 to RMB42,146,000 for the year ended 31 December 2011. The increase in selling and distribution expenses was mainly due to the growth in the number of regional pipeline projects, for some of which, the Group was required to bear the transportation costs.

Administrative expenses

The Group's administrative expenses increased by 1.3% from RMB53,507,000 for the year ended 31 December 2010 to RMB54,207,000 for the year ended 31 December 2011, which was in line with the business growth of the Group.

Finance costs

The Group incurred finance costs of RMB20,183,000 (2010: RMB305,000) for the year ended 31 December 2011, which primarily represented interest on bank loans that were payable within one year.

Income tax expenses

As a foreign invested enterprise, Shandong Shengli Steel Pipe Co., Ltd. (being the major operating entity and a wholly-owned subsidiary of the Group) is eligible for certain tax holidays and concessions, namely, two-year exemption from PRC enterprise income tax starting from 2008, which was the Group's first profitable year and followed by a 50% deduction on PRC enterprise income tax for these three years from 2010 to 2012, 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 increased from RMB89,164,000 for the year ended 31 December 2010 to RMB91,917,000 for the year ended 31 December 2011.

Analysis of inventories, trade receivables and trade payables turnover

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

	2011 (Days)	2010 (Days)
Average turnover days of inventories	**61.8**	80.5
Average turnover days of trade receivables	**105.6**	135.3*
Average turnover days of trade payables	**17.8**	56.5

* It was stated in the 2010 annual report that the average turnover days of trade receivables for such period was 146.14 days. The difference was mainly due to that the calculation adopted in the 2010 annual report had taken into consideration the bills receivable balances.

Inventories

The inventories of the Group generally consist of raw materials, work-in-progress and finished products. The Group's average turnover days of inventories for the each of the years ended 31 December 2011 and 31 December 2010 were 61.8 days and 80.5 days, respectively. The following table sets forth the breakdown of the inventories of the Group as at the year end indicated:

	2011 (RMB'000)	2010 (RMB'000)
Raw materials	**195,435**	62,000
Work-in-progress	**4,832**	4,377
Finished goods	**192,474**	109,692
Total	**392,741**	176,069

As at 31 December 2011 and 31 December 2010, the Group had inventories of RMB392,741,000, representing an increase of approximately 123.1% when compared to RMB176,069,000 in 2010. The increase was due to the increase in sales revenue in second half of year 2011.

Trade receivables

Turnover days of the Group's trade receivables were 105.6 days and 135.3 days for each of the years ended 31 December 2011 and 31 December 2010, respectively. The decrease in the average turnover days of trade receivables was due to the effective credit control policy implemented by the Group. At the end of February 2012, about 31.4% of the trade receivables as at 31 December 2011 were duly received.

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 has 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 receivables. The following table sets forth an aging analysis of trade receivables of the Group as at the year end indicated:

Outstanding balance with ages:

	2011 (RMB'000)	2010 (RMB'000)
Within 3 months	**598,796**	318,299
3 to 6 months	**23,535**	75,293
6 months to 1 year	**2,962**	437
1 to 2 years	**15,109**	16,362
2 to 3 years	**3,513**	—
Total	**643,915**	410,391

The Group's trade receivables as at 31 December 2011 and 31 December 2010 were RMB643,915,000 and RMB410,391,000, respectively. The increase in trade receivables was mainly due to the increase in sales in 2011.

Trade payables

The turnover days of the Group's trade payables were 17.8 days and 56.5 days for each of the years ended 31 December 2011 and 31 December 2010, respectively. The decrease in the average turnover days of trade payables was due to the significant increase in revenue in the second half of 2011, as a result of which, the Group settled its trade payables in a more timely manner to ensure prompt material supply from the suppliers.

Payment for the majority of the Group's raw materials, 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 of the Group as at the year end indicated:

Outstanding balance with ages:

	2011 (RMB'000)	2010 (RMB'000)
Within 3 months	**87,803**	29,339
3 to 6 months	**6,138**	9,643
6 months to 1 year	**438**	28,434
1 to 2 years	**641**	941
Total	**95,020**	68,357

Trade payables of the Group as at 31 December 2011 and 31 December 2010 were RMB 95,020,000 and RMB68,357,000, respectively.

Loan receivable

In January 2011, the Group has granted a loan of RMB300 million to a third party through CITIC Bank, Zibo branch at an interest rate of 16% per annum. The loan will fall due in July 2012.

Analysis of net current assets and liabilities

The following table sets forth the current assets and current liabilities of the Group as at the year end indicated:

	2011 (RMB'000)	2010 (RMB'000)
Current assets		
Inventories	392,741	176,069
Trade and bills receivables	685,854	465,468
Prepayments deposits and other receivables	113,280	210,998
Loan receivable	300,000	100,000
Investment held for sale	4,793	—
Prepaid land lease payments	1,134	1,023
Pledged deposits	36,246	87,300
Cash and cash equivalents	381,832	356,963
Total current assets	1,915,880	1,397,821
Current liabilities		
Trade payables	95,020	68,357
Other payables and accruals	135,874	47,828
Interest-bearing bank loans	631,800	—
Tax payable	15,812	8,310
Deferred income	258	—
Total current liabilities	878,764	124,495
Net current assets	1,037,116	1,273,326

The balance of trade and bills receivables of the Group as at 31 December 2011 increased by 47.3% when compared to the balances as at 31 December 2010. The increase in trade and bills receivables was in line with the increase in the Group's revenue in 2011. The revenue recorded by the Group during the year 2011 increased by 61.7% when compared to 2010.

As at 31 December 2011, the Group had net current assets of RMB1,037,116,000, representing a decrease of approximately 18.6% when compared to 31 December 2010.

Capital expenditure

The Group incurred capital expenditure for the acquisition of property, plant and equipment, expansion of production facilities and purchase of machinery for the manufacture of steel pipe products. Capital expenditure during each of the two years ended 31 December 2010 and 2011 were primarily related to the purchase of property, plant and equipment.

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

	2011 (RMB'000)	2010 (RMB'000)
Purchase of property, plant and equipment	**301,215**	131,513

Indebtedness

Interest-bearing bank loans

The following table sets forth information of the bank loans of the Group:

	2011 (RMB'000)	2010 (RMB'000)
Bank loans due within one year:		
— Secured	**194,090**	—
— Unsecured	**437,710**	—
	631,800	—

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

	2011 %	2010 %
Effective interest rate per annum	**3.20–8.53**	—

As at 31 December 2011, the Group had RMB631,800,000 bank loans (2010: nil).

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

Financial management and fiscal policy

During the year ended 31 December 2011, 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 for its foreign currency risks. 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 were approximately RMB1,098,500,000. After the exercise of over-allotment option in 13 January 2010, the net proceeds of the IPO increased to RMB1,269,900,000. As at 31 December 2011, RMB493,624,000 out of total net proceeds from the IPO has been utilised in the manner specified in the Company's prospectus dated 9 December 2009 ("Prospectus") and the balance of RMB776,276,000 remain unutilized. The Group intended to continue to apply the proceeds in same manner as disclosed in the Prospectus except for the upgrading of one cold-formed section steel production facility, which plan has currently been suspended.

As of 31 December 2011, the accumulated use of proceeds is set out below:

Project	**Amount allocated RMB'000**	Actual expenditure as at 31 December 2011 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**	438,514
construction of one LSAW pipe production line with an annual production capacity of 200,000 tonnes and one anti-corrosion coating line	**650,000**	51,000
upgrade one cold-formed section steel production facility to an ERW pipe production line with an annual production capacity of 100,000 tonnes	**50,000**	suspended
working capital and other general corporate purposes	**129,900**	4,110
Total	**1,269,900**	493,624

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

Liquidity and financial resources

As at 31 December 2011, cash and cash equivalents of the Group amounted to approximately RMB381,832,000 (2010: RMB356,963,000). As at 31 December 2011, the Group had interest-bearing bank loans of approximately RMB631,800,000 (2010: nil).

The gearing ratio is defined as net debt (represented by interest-bearing bank loans, trade payables and other payables and accruals net of cash and cash equivalents and pledged deposits) divided by total capital plus net debt. As at 31 December 2011, the gearing ratio of the Group was 18.0% (2010: -20%).

Charges and contingent liabilities

Except the aforesaid secured bank borrowings, the Group did not have other charges on its assets or any material contingent liabilities as at 31 December 2011.

Foreign exchange risk

For the year of 2011, none of the Group's sales were denominated in U.S. dollars or other foreign currencies. The Group did not utilise any forward contracts or other means to hedge its foreign currency exposure. However, the management will closely monitor the exchange rate fluctuations to ensure sufficient precautionary measures against any adverse impacts are in place.

Employment and remuneration policy

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

As at 31 December 2011, the Group employed a work force of 1,286 employees (including Directors). The total salaries and related costs (including the Directors' fees) for the year ended 31 December 2011 amounted to approximately RMB78,202,000 (2010: RMB73,033,000) including RMB5,547,000 (2010: RMB13,296,000) of the share-based expenses due to grant of share options.

DIVIDENDS

The Directors recommend the payment of dividends of RMB0.94 cents per share which will be deducted from the share premium account (equivalent to HK$1.16 cents per share) for the year ended 31 December 2011 (2010: RMB0.895 cents per share (equivalent to HK$1.064 cents per share)). The relevant dividend payment will be subject to shareholders' approval at the forthcoming annual general meeting.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Zhang Bizhuang, aged 44, is our executive Director and chief executive officer and is responsible for the overall management of our Group's business operations. He joined our Group in December 2007, and has been acting as an executive Director and Chief Executive Officer of our Group since July 2009. Mr. Zhang is currently the chairman and general manager of Shandong Shengli Steel Pipe Co., Ltd. (山東勝利鋼管有限公司) ("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) ("Shengli Oilfield Zibo Pipe") (formerly Shengli Factory and Shengli Administration of Petroleum Steel Pipe Factory (勝利石油管理局鋼管廠)) from July 1990 to September 1996 as a technician, and subsequently served as the department head of technical supervision department and quality control inspection department, where he was responsible for quality control management. From July 1996 and June 2004, Mr. Zhang became the deputy manager and manager of Shengli Oilfield Zibo Pipe, and was responsible for the management of its operations. From June 2004 to December 2007, 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. Since December 2007, he was the general manager of Shandong Shengli, where he is responsible for the overall management of the Company's business operations.

Mr. Zhang served as a director and vice chairman of Shengli Oilfield Zibo Pipe from July 1996 to June 2004. He has been the chairman of Shengli Steel Pipe since March 2004. From January 2001 to December 2008, he was the chairman of Zibo Shengli Anti-corrosion Engineering Company Limited (淄博勝利防腐工程有限公司) ("Shengli Anti-corrosion"). From January 2009 to March 2011, he was a director of Shengli Anti-corrosion. From April 2005 to December 2007, he was the chairman of Shengli Steel Pipe (Rizhao) Co., Ltd. (勝利鋼管（日照）有限公司) ("Rizhao Shengli"). From July 2006 to December 2008, he was the chairman of Shandong Shengda Chemical Company Limited (山東勝達化工有限公司) ("Shengda Chemical"). From December 2007 to December 2008, he was an executive director of Shandong Shengli. Since December 2008, he has been the chairman of Shandong Shengli. Since January 2011, he has been the chairman of Shandong Muxin Investment Co., Ltd. (山東沐鑫投資有限公司) ("Shandong Muxin"). Since April 2011, he has been the chairman of Hunan Shengli. Since September 2011, he has been acting as the chairman of Xinjiang Shengli.

Mr. Zhang 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 43, is our executive Director. He joined our Group in December 2007 and was appointed as a member of the Board in July 2009. He started his career in Shengli Oilfield Zibo Pipe 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, as well as deputy manager and manager of the supply and sales department. From December 2000 to June 2004, he held the position of the deputy general manager in Shengli Oilfield Zibo Pipe, and was responsible for sales and purchases. From June 2004 to December 2007, he was the deputy general manager of Shengli Steel Pipe, and was responsible for the sales and purchases of Shengli Steel Pipe. Since December 2007, he has been serving as the deputy general manager of Shandong Shengli, managing sales and procurements. He has been the general manager of Xinjiang Shengli since September 2011, with the responsibility for overseeing the company's production and operation.

Mr. Wang was a director of Shengli Steel Pipe from March 2004 to December 2008. He was a director of Rizhao Shengli from April 2005 to December 2007, and was a director of Shengda Chemical from July 2006 to December 2008. Since December 2008, he has been serving as a director of Shandong Shengli, and a director of Xinjiang Shengli since September 2011.

Mr. Wang graduated from Dalian University of Technology in July 1990 with a bachelor's degree in mechanical engineering, and gradated from the Open University of Hong Kong in June 2004 with a master's degree in business administration. He was also certified as a senior engineer by the Sinopec Group Shengli Petroleum Administrative Bureau in December 2001. In June 2003, Mr. Wang was awarded the Technological Improvement (First Class) Award by the Sinopec Group Shengli Petroleum Administrative Bureau, in recognition of his contribution in the transformation of the SSAW pipes equipment in the West-East Gas Pipeline Project. In addition, in February 2004, he was also presented the "Double Civilized Advanced Staff" Award by the Shengli Petroleum Administration Bureau, in recognition of his outstanding achievements and work ethics.

Mr. Liu Yaohua, aged 40, is our executive Director and vice president. He joined our Group in December 2007, and was appointed as the vice president in October 2010. He was appointed as a member of the Board in June 2011. He started his career in Shengli Oilfield Zibo Pipe from July 1995 to March 2004 as an inspection technician of the quality control office, and subsequently served as the deputy head of the quality control office, the deputy officer of No. 1 Factory and the deputy officer of No. 2 Factory. He then held the position of the officer of No. 2 Factory, and was responsible for production process. From March 2004 to December 2007, Mr. Liu worked at Shengli Steel Pipe and held various positions such as the officer of No. 2 Factory, the general manager assistant and the deputy general manager. He was in charge of production process management and new project construction. Since December 2007, he has been serving as a deputy general manager of Shandong Shengli, responsible for production and technology management and overseeing the construction of new projects.

Mr. Liu was a director of Rizhao Shengli from April 2005 to December 2007, and was a director of Shengli Steel Pipe from March 2004 to December 2008. He has also been a director of Shandong Shengli since 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. He 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" Award and "Civilized Advanced Staff" Award by the Sinopec Group Shengli Petroleum Administrative Bureau in February 2000 and February 2003, respectively.

Ms. Han Aizhi, aged 44, is our executive Director. She joined our Group in December 2007. She was appointed as a member of the Board in July 2009, and was appointed as vice president in March 2011. 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 has been serving as a deputy general manager of Shandong Shengli since December 2007, responsible for overseeing quality management, environment, occupational health and safety system management and affairs related to listing preparations, and post-listing investor relations, listing compliance and public relations.

Ms. Han was a director of Rizhao Shengli from April 2005 to December 2007, and a director of Shengda Chemical from July 2006 and December 2008. She was appointed as a director of Shandong Shengli in December 2008, a director of Hunan Shengli in April 2011, and a director of Xinjiang Shengli in September 2011.

Ms. Han graduated from Chengde Petroleum College in July 1988 and was obtained a professional undergraduate 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 Honour" 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 Director

Mr. Yan Tangfeng, aged 41, 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.

Independent Non-executive Directors

Mr. Huo Chunyong, aged 45, 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 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 from March 2003. 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 36, 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 Limited (the "Hong Kong Stock Exchange") (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 the 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 43, is our vice president. He joined our Group in December 2007, and was appointed as a vice president in October 2010. He started his career in Shengli Oilfield Zibo Pipe from July 1990 to March 1996, as a technician and the head of technological team. He worked in Shengli Oilfield Zibo Pipe from March 1996 to June 2004 and subsequently served as deputy chief engineer and deputy general manager, responsible for production management. From June 2004 to December 2007, he was the deputy general manager of Shengli Steel Pipe and was responsible for production management. He served as the general manager of Rizhao Shengli from April 2005 to December 2007, responsible for overseeing the Company's production and management. Since December 2007, he has been serving as a deputy general manager of Shandong Shengli, responsible for technology development, quality control and production management.

From March 2004 to December 2008, Mr. Wang was a director of Shengli Steel Pipe. He was also a director of Rizhao Shengli from April 2005 to December 2007. Mr. Wang was a director of Shengli Steel Pipe from March 2004 to December 2008, and was a director of Rizhao Shengli from April 2005 to December 2007. He has been serving as a director of Shandong Shengli since December 2008, a director of Shandong Muxin since January 2011 and a director of Hunan Shengli since April 2011.

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. Ng Kam Tsun, Jeffrey, aged 38, is the chief financial officer and company secretary of our Company, and is responsible for corporate finance management and investor relationship. He joined the Group in May 2010 and has been the company secretary since June 2010. He served as the deputy chief financial officer from October 2010 to March 2011 and was promoted to chief financial officer of the Group in March 2011. Mr. Ng has over 19 years of experience in financial management. From 2006 to 2010, he was previously a 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), and was responsible for corporate governance matters and investor relations. He was involved in internal control matters as well as compliance. From 2004 to 2006, he was the manager of the finance and human resources department of a rental company. From 2000 to 2004, he was the assistant manager of the finance department of an associate of Liu Chong Hing Investment Limited (a company listed on the Hong Kong Stock Exchange, Stock Code: 0194), and was responsible for finance, taxation, corporate finance and corporate management in China. From 1995 to 2000, he was the chief representative of China region of a Germany testing and certification corporation, and was responsible for financial accounting, taxation, internal control and corporate management in China and Asia region. From 1993 to 1995, he worked for Far East Hotels and Entertainment Limited (a company listed on the Hong Kong Stock Exchange, Stock Code: 0037) in the area of financial accounting for the Group.

Mr. Ng graduated from Monash University with a bachelor's degree in business. He obtained a master's degree in management, majoring in accounting, from Shanghai University of Finance and Economics in 2005. Mr. Ng is a fellow member of the Hong Kong Institute of Certified Public Accountants and fellow member of CPA Australia.

Ms. Zhao Hui, aged 40, is the deputy chief financial officer. She joined our Group in December 2007, and was appointed as the deputy chief financial officer in March 2011. Ms. Zhao took up the accounting duties and responsible accountant duties of Shengli Steel Pipe (formerly known as Shengli Oilfield Zibo Pipe) from August 1991 to August 2007. She subsequently held the position of deputy chief accountant from August 2007 to December 2007, and was responsible for financial related matters. Ms. Zhao was the deputy chief accountant of Shandong Shengli from December 2007 to December 2008 and was the chief accountant of Shandong Shengli from January 2009 to March 2012, responsible for the financial management of Shandong Shengli. Since March 2012, she has been serving as the deputy chief accountant of Shandong Shengli.

Ms. Zhao 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 master's 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" by the Shengli Petroleum Administration Bureau in January 2004, in recognition of her outstanding performance in 2003.

REPORT OF THE DIRECTORS

The Directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2011.

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 17 to the financial statements.

DIVIDENDS

The Directors has resolved to recommend to shareholders the payment of a final dividend of RMB0.0094 per share (equivalent to HK$0.0116 per share) for the year ended 31 December 2011, which will be charged to the share premium account and will be subject to shareholders' approval at the forthcoming annual general meeting to be held on Friday, 15 June 2012 (the "AGM").

CLOSURE OF REGISTER OF MEMBERS

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

(i) from Wednesday, 13 June 2012 to Friday, 15 June 2012, both days inclusive, for the purpose of ascertaining shareholders' entitlement to attend and vote at the AGM. In order to be eligible to attend and vote at the AGM, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited, at Shop 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 12 June 2012; and

(ii) from Thursday, 21 June 2012 to Monday, 25 June 2012, both days inclusive, for the purpose of ascertaining shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Hong Kong branch share registrar and transfer office of the Company, Computershare Hong Kong Investor Services Limited at the address as set out in sub-paragraph (i) above not later than 4:30 p.m. on Wednesday, 20 June 2012.

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

MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for approximately 78.9% (2010: 66.0%) of the Group's total sales and the top five suppliers accounted for approximately 67.2% (2010: 44.3%) of the total purchases for the year. In addition, the Group's largest customer accounted for approximately 58.3% (2010: 54.6%) of the total sales and the largest supplier of the Group accounted for approximately 28.2% (2010: 28.6%) 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 2011 and the financial status of the Company's and the Group as at 31 December 2011 are set out in the financial statements on pages 58 to 148.

DISTRIBUTABLE RESERVE

The Company's reserves available for distribution represent the share premium, contributed surplus and profit which in aggregate amounted to RMB1,063 million as at 31 December 2011 (2010: RMB1,113 million). Details of the reserves of the Company as at 31 December 2011 are set out in note 31 to the financial statements.

FIXED ASSETS

Details of movements in fixed assets during this financial year are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 30 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)*
Mr. Wang Xu *(vice president)*
Mr. Liu Yaohua *(vice president)* (appointed on 29 June 2011)
Ms. Han Aizhi *(vice president)*

Non-executive Directors

Mr. Yan Tangfeng *(Chairman)*
Mr. Teo Yi-Dar (resigned on 31 December 2011)
Mr. Ling Yong Wah (resigned on 29 June 2011)
Mr. Ong Kar Loon (alternate Director to Mr. Ling Yong Wah) (resigned on 29 June 2011)

Independent non-executive Directors

Mr. Huo Chunyong
Mr. Guo Changyu
Mr. Leung Ming Shu (appointed on 1 January 2011)

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

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 and Mr. Liu Yaohua, whose three-year term commenced on 1 January 2011 and 29 June 2011 respectively.

Pursuant to Article 83(3) of the Articles of Association of the Company, all of the Directors of the Company (namely Mr. Zhang Bizhuang, Mr. Wang Xu, Ms. Han Aizhi, Mr. Yan Tangfeng, Mr. Huo Chunyong and Mr. Guo Changyu, except Mr. Liu Yaohua and Mr. Leung Ming Shu), whose term of office will expire at the forthcoming annual general meeting, are eligible for re-election at the forthcoming annual general meeting.

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 Company considers that all of the independent non-executive Directors are independent.

No Director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

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

As at 31 December 2011, 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	Number of shares subject to options granted under the Share Option Scheme	Total percentage of the issued share capital of the Company as of 31 December 2011
Yan Tangfeng	Interest in controlled corporation(1)	1,013,563,200	—	40.86%
Zhang Bizhuang	Interest in controlled corporation(2)	153,130,224		
	Beneficial interest		7,200,000	6.46%
Wang Xu	Interest in controlled corporation(3)	37,392,264		
	Beneficial interest		3,000,000	1.63%
Liu Yaohua	Interest in controlled corporation(4)	26,708,760		
	Beneficial interest		1,500,000	1.14%
Han Aizhi	Interest in controlled corporation(5)	26,708,760		
	Beneficial interest		3,000,000	1.20%

Note:

(1) Aceplus Investments Limited holds 40.86% of the issued shares in the Company. Mr. Yan Tangfeng owns the entire issued share capital of Aceplus Investments Limited and is deemed under the SFO to be interested in such shares.

(2) Goldmics Investments Limited holds 6.173% of the issued shares in the Company. Mr. Zhang Bizhuang is interested in 40%, and his spouse Ms. Du Jichun holds the remaining 60% interest in the issued share capital of Goldmics Investments Limited. Both of them are deemed to be interested in such shares under the SFO. Mr. Zhang Bizhuang was granted 7,200,000 shares options under the share option scheme of the Company (the "Share Option Scheme") adopted on 21 November 2009.

(3) Funsteps International Limited holds 1.507% of the issued shares in the Company. Mr. Wang Xu owns the entire issued share capital of Funsteps International Limited and is deemed to be interested in such shares under the SFO. Mr. Wang Xu was granted 3,000,000 shares options under the Share Option Scheme.

(4) Ocean Prosperity Limited holds 1.077% of the issued shares in the Company. Mr. Liu Yaohua owns the entire issued share capital of Ocean Prosperity Limited and is deemed to be interested in such shares under the SFO. Mr. Liu Yaohua was granted 1,500,000 shares options under the Share Option Scheme.

(5) Crownova Limited holds 1.077% of the issued shares in the Company. Ms. Han Aizhi owns the entire issued share capital of Crownova Limited and is deemed to be interested in such shares under the SFO. Ms. Han Aizhi was granted 3,000,000 shares options under the Share Option Scheme.

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

Save as disclosed above, as at 31 December 2011, none of the Directors or chief executives of the Company had or were 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 required to be 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 the 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, 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 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 of the Company to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company shall not exceed 10% of the Shares in issue as of the date of approval by Shareholders in general meeting where the Scheme Mandate Limit is refreshed. Options previously granted under the Share Option Scheme and any other schemes of the Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other schemes of the Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. The Company shall send to our Shareholders a circular containing the details and information required under the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing Rules).

(b) The Company may seek separate approval from 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 of the Company in general meeting with such Eligible Person and his associates abstaining from voting. The Company shall send a circular to our Shareholders disclosing the identity of the Eligible Person, the number and terms of the options to be granted (and options previously granted) to such Eligible Person, and containing the details and information required under the Hong Kong Listing Rules. The number and terms (including the subscription price) of the options to be granted to such Eligible Person must be fixed before the approval of the Shareholders of the Company 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 four directors of the Company and its subsidiaries at an exercise price of HK$2.03 per Share under the Share Option Scheme.

For the year ended 31 December 2011, movements of options granted under the Share Option Scheme are set out below:

Name	Capacity	Exercise Price	Outstanding as at 1 January 2011	Exercised during the year	Lapsed during the year	Outstanding as at 31 December 2011	Approximate percentage of the issued share capital of the Company as at 31 December 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)
Liu Yaohua	Beneficial owner	HK$2.03	1,500,000	—	—	1,500,000	0.06%	(1)
Han Aizhi	Beneficial owner	HK$2.03	3,000,000	—	—	3,000,000	0.12%	(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 granted by the Company were exercisable within 10 years. The grantees may exercise up to one-third, two-third and 100% of the respective total share options granted from the first, second and third anniversaries of the date of grant (i.e. 10 February 2010). These share options may be exercisable at HK$2.03 each according to the rules of the Share Option Scheme during 10 February 2010 and 9 February 2020.

Further details in respect of the Share Option Scheme are disclosed in note 32 to the financial statements.

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

As at 31 December 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)]	1,013,563,200	40.86%
Goldmics Investments Limited (金覓投資有限公司)	Beneficial owner[(2)]	153,130,224	6.17%
Ms. Du Jichun	Interest in controlled corporation[(2)]	153,130,224	6.17%

Note:

(1) Aceplus Investments Limited holds 40.86% of the issued shares in the Company. Mr. Yan Tangfeng owns the entire issued share capital of Aceplus Investments Limited and is deemed under the SFO to be interested in such shares.

(2) Goldmics Investments Limited holds 6.17% of the issued shares in the Company. Mr. Zhang Bizhuang is interested in 40%, and his spouse Ms. Du Jichun holds the remaining 60% interest in the issued share capital of Goldmics Investments Limited. Both of them are deemed to be interested in such shares under the SFO.

Save as disclosed above, as at 31 December 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.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance had been entered into between the Company or any of its subsidiaries and the controlling shareholders during the year ended 31 December 2011.

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 2011, 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 2011, cash and cash equivalents of the Group amounted to approximately RMB381.8 million (2010: approximately RMB357.0 million). As of 31 December 2011, the Group had interest-bearing bank loans amounted to approximately RMB631.8 million (2010: nil).

The gearing ratio is defined as net debt (represented by interest-bearing bank loans, trade payables and other payables and accruals net of cash and cash equivalents and pledged deposits) divided by total capital plus net debt. As at 31 December 2011, the gearing ratio of the Group was 18% (2010: -20%).

CHARGES AND CONTINGENT LIABILITIES

Except the aforesaid secured interest-bearing bank loans, the Group did not have other charges on its assets or any material contingent liabilities as at 31 December 2011.

FOREIGN EXCHANGE RISK

For the year of 2011, none of the Group's sales were denominated in U.S. dollars or other foreign currencies. The Group did not utilise any forward contracts or other means to hedge its foreign currency exposure; however, the management will closely monitor the exchange rate fluctuations to ensure sufficient precautionary measures against any adverse impacts are in place.

HUMAN RESOURCES AND EMOLUMENT POLICY

As at 31 December 2011, the Group employed 1,286 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 2.4 to the financial statements.

CONTINUING CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 36(b) to the financial statements constituted continuing connected transactions under 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").

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

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

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

(2) on normal commercial terms;

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

(4) 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.

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

During the period under review, the Company repurchased a total of 9,420,000 shares, representing 0.38% of the Company's total issued shares as at 31 December 2011. The price of repurchase ranged from HK$1.27 to HK$1.50 per share. All such repurchased shares were cancelled as at 31 December 2011. Neither the Company nor any of its subsidiaries sold or redeemed the listed securities of the Company during the year ended 31 December 2011.

By order of the Board
Yan Tangfeng
Chairman

10 March 2012

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. During the year ended 31 December 2011, all code provisions set out in the Code were fulfilled by the Company.

For the purpose of complying with the new code of corporate governance practice as set out in the Appendix 14 of the Listing Rules, which shall take effect from 1 April 2012, the Board has adopted a revised Code ("New Code") on 10 March 2012.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the Model Code) as set out in Appendix 10 of the Listing Rules as the required standard for securities transactions by Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding directors' securities transactions throughout the year ended 31 December 2011.

BOARD OF DIRECTORS

Composition of the Board of Directors

The Board comprises four executive Directors, one non-executive Director 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 *(Vice president)*
Mr. Liu Yaohua *(Vice president)* (appointed on 29 June 2011)
Ms. Han Aizhi *(Vice president)*

Non-executive Directors
Mr. Yan Tangfeng *(Chairman)*

Independent non-executive Directors
Mr. Huo Chunyong
Mr. Guo Changyu
Mr. Leung Ming Shu (appointed on 1 January 2011)

The biographical details of all Directors are set out in pages 29 to 34 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 experience and expertise to the Company.

Functions of the Board

The principal function of the Board is to consider and approve strategies, financial objectives, annual budget and investment proposals of the 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 and Board Practices

During the year ended 31 December 2011, the Board held 11 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") assists 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 the 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 details, including the matters considered by the board and decisions reached.

Throughout the year, 11 Board meetings were held. Details of the attendance of each Director are as follows:

Name of the Director	Attendance
Executive Directors	
Mr. Zhang Bizhuang *(Chief executive officer)*	11/11
Mr. Wang Xu *(Vice president)*	11/11
Mr. Liu Yaohua *(Vice president)* (appointed on 29 June 2011)	6/6
Ms. Han Aizhi *(Vice president)*	11/11
Non-executive Directors	
Mr. Yan Tangfeng *(Chairman)*	11/11
Mr. Teo Yi-Dar (resigned on 31 December 2011)	11/11
Mr. Ling Yong Wah (resigned on 29 June 2011)	4/5
Mr. Ong Kar Loon (alternate Director to Mr. Ling Yong Wah) (resigned on 29 June 2011)	0/5
Independent non-executive Directors	
Mr. Huo Chunyong	9/11
Mr. Guo Changyu	10/11
Mr. Leung Ming Shu (appointed on 1 January 2011)	11/11

Directors' Appointment, Re-election and Removal

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

In accordance with the Company's Articles of Association, one-third of the Directors (including executive directors, non-executive directors and independent non-executive directors) shall retire from office by rotation. 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 3.10A and 3.11 of the Listing Rules, the Company has three independent non-executive Directors, representing more than one-third of the members of the Board. Out of the three independent non-executive Directors, one of them is required to possess appropriate professional qualification in accounting or related financial management expertise under Rule 3.10(2) of the Listing Rules. The Company has received a written confirmation from each of the independent non-executive Directors in respect of his/her independence pursuant to Rule 3.13 of the Listing Rules. Based on the relevant confirmation, the Company considers Mr. Huo Chunyong, Mr. Guo Changyu and Mr. Leung Ming Shu to be independent from the Company.

Continuous Professional Development

The Directors have been informed of the requirement under code provision A.6.5 of the New Code regarding continuous professional development. Details of how each Director complies with such requirement for the year ending 31 December 2012 will be set out in the corporate governance report in the Company's 2012 annual report.

Chairman and Chief Executive Officer

Under code provision A.2 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 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

The Board has established (i) an audit committee, (ii) a remuneration committee; and (iii) a nomination committee, with defined terms of reference which are in line with the code provisions of the Code. For the purpose of complying with the New Code adopted by the Company on 10 March 2012, the Board has adopted revised terms of reference for the (i) audit committee, (ii) remuneration committee; and (iii) nomination committee on 10 March 2012. The terms of reference of the board committees which explain their respective roles and the authority delegated to them by the Board will be made available on the websites of the Company and the Stock Exchange. The board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice and other assistance in appropriate circumstances, at the Company's expenses.

Audit Committee

Composition

The audit committee of the Company (the "Audit Committee") was established on 21 November 2009 in compliance with the Listing Rules. The primary functions of the Audit Committee are to make recommendations to the Board on the appointment and removal of external auditors and review and monitor the financial reporting system and internal controls of the Group. All members of the Audit Committee are appointed by the Board. The Audit Committee currently consists of three Directors, namely Mr. Leung Ming Shu, Mr. Yan Tangfeng (appointed on 16 January 2012) and Mr. Huo Chunyong. Mr. Leung Ming Shu currently serves as the chairman of the Audit Committee. The primary responsibilities of the Audit Committee include the review of the financial reporting system and internal control procedures.

The Audit Committee has review the consolidated financial statements for the year ended 31 December 2011.

During the year ended 31 December 2011, the Audit Committee held four meetings which were attended by all of the members.

Remuneration Committee

Composition

The remuneration committee of the Company (the "Remuneration Committee") was established on 21 November 2009 in compliance with the Listing Rules. The primary duties of the Remuneration Committee are to make recommendation to the Board on Company's policy and structure for all Directors' and senior management's remuneration, review and approve the management's remuneration proposals, and make recommendations to the Board on the remuneration packages of individual executive directors and senior management. The Remuneration Committee currently consists of three Directors, namely, Mr. Yan Tangfeng, Mr. Leung Ming 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 make recommendation to the Board in relation to the remuneration of the Directors and the senior management, and to fix specific remuneration packages and employment conditions for the executive directors and the senior management on behalf of the Board.

During the year ended 31 December 2011, the Remuneration Committee held one meeting which was attended by all of the members.

Remuneration Policy for Directors and Senior Management

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

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

The Company has adopted the Share Option Scheme on 21 November 2009. The purpose of the Share Option Scheme is to give the Eligible Persons (as mentioned on page 39 to 42 of this report) an opportunity to have a personal stake in the Company and help motivate them to optimize their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with such Eligible Persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of executives, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Nomination Committee

Composition

The nomination committee of the Company (the "Nomination Committee") was established on 21 November 2009. The Nomination Committee is mainly responsible for nominating suitable candidates qualified to become Board members and makes recommendations to the Board. The Nomination Committee consists of three Directors, namely, Mr. Zhang Bizhuang, Mr. Guo Changyu and Mr. Huo Chunyong. Mr. Zhang Bizhuang currently serves as the chairman of the Nomination Committee.

The Nomination Committee held two meetings during the year ended 31 December 2011, at which all of the members were present.

CORPORATE GOVERNANCE FUNCTION

The Company's corporate governance function is carried out by the Board pursuant to a set of written terms of reference adopted by the Board in compliance with code provision D.3.1 of the New Code, which include (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the board; (b) to review and monitor the training and continuous professional development of the Directors and senior management of the Group; (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements; (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees of the Group and the Directors; and (e) to review the Company's compliance with the Code and disclosure in the corporate governance report. Details of the work of the Board in relation to the corporate governance function for the year ending 31 December 2012 will be disclosed in the corporate governance report in the Company's 2012 annual report.

ACCOUNTABILITY AND AUDIT

Directors and Auditors' Responsibilities for the Financial Statements

The Board of Directors acknowledges its responsibility to prepare the Group's financial statements for each financial period to give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 December 2011, 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 2011, the remuneration paid or payable to the auditor, Ernst & Young, in respect of their audit and non-audit services were as follows:

Type of Services	RMB'000
Audit services	1,530
Non-audit services	—
Total	1,530

INTERNAL CONTROL

The Board acknowledges its responsibility for the effectiveness of the Group's internal control systems. The Board and the audit committee have reviewed the effectiveness of the Group's internal control systems on all major operations of the Group during the year under review. The Board and the audit committee considered that the key areas of the Group's internal control systems, including financial and operational aspects, are reasonably implemented and the Group has fully complied with provisions of the Code regarding internal control systems in general for the year ended 31 December 2011. Nevertheless, subsequent to the date of this annual report, the Company will appoint an independent professional body to conduct an annual review of the effectiveness of internal control systems of the Group.

INVESTORS AND SHAREHOLDERS RELATIONS

The Board is well aware of the importance of maintaining clear, timely and effective communication with the shareholders of the Company and investors. The Board also recognises that an effective communication with investors is the key for us to establish investor confidence and to attract new investors. Therefore, the Group is committed to maintaining a high degree of transparency, in order to ensure that the investors and the shareholders of the Company can receive accurate, clear, comprehensive and timely information of the Group via the issue of annual reports, interim reports, announcements and circulars. The Company also publishes all documents on the Company's website at www.slogp.com.

We promptly respond to investors' enquiries. We also organise and plan exchange activities on a regular basis, such as investor conferences, seminars and conferences. These initiatives can help help us extend an in-depth reach of our strengths and competitive advantages into the market, and ultimately reflect the market value of the Company.

The investor relations team regularly informs the Board of the latest market perceptions and developments of the Company, in order for the Board to immediately keep abreast of the concerns of investors, to get deeper understanding of the prevailing policies, and to make better efforts in the Company's own investor relations with reference to the best international standards. The Directors and the committee members will attend the annual general meeting to answer questions so raised. Separate resolutions on each distinct issue would be proposed at the general meeting.

During the year, we took part in 3 road-shows, participated in 201 meetings, met 435 investors, analysts and media representatives, and arranged 14 visits. We also published the Company's latest information, press releases, interim reports and annual reports to analysts, fund managers and the media via e-mails.

Major investor relations activities for the year

No.	Date	Name of Activities	Location	Speak at the meeting	One-on-one meeting
1	31 March	2010 Annual Result Analyst Meeting	Hong Kong	✓	
2	1 April	2010 Post Result Non-Deal Roadshow	Hong Kong		✓
3	12–15 April	Standard Chartered Emerging Corporates Spring Conference	Hong Kong/Singapore		✓
4	15 August	2011 Interim Result Analyst Meeting	Hong Kong	✓	
5	16 August	2011 Post Result Non-Deal Roadshow	Hong Kong		✓
6	19–21 October	Citi-Greater China Investor Conference 2011	Macau		✓
7	2–4 November	Bank of America Merrill Lynch 2011 Investor Conference, Beijing	Beijing		✓
8	18 November	Guosen Securities Non-Deal Roadshow	Shenzhen		✓

Analysts Contact Information

No.	Company Name	Analyst	Email address
1	Citigroup Global Market Asia Limited	Hanzhi Ding	hanzhi.ding@citi.com
2	Core Pacific-Yamaichi International (HK) Limited	YK Lee	yukkei.lee@cpy.com.hk
3	CSC Securities (HK) Limited	Allen Ngai	allen_ngai@e-capital.com.hk
4	DBS Vickers Hong Kong Limited	Wee keat Lee	wk_lee@hk.dbsvickers.com
5	Evolution Watterson Securities Limited	Meng Li	meng.li@evolutionchina.com
6	Guosen Securities (HK) Financial Holding Co. Limited	John Luo	john.lu@guosen.com.hk
7	ICBC International Research Limited	Keith Lo	keith.lo@icbci.com.hk
8	KGI Securities Asia Limited	Guo Zhang	guo.zhang@kgish.com
9	Macquarie Securities Limited	Bonan Li	bonan.li@macquarie.com
10	Oriental Patron Securities Limited	Yuji Fung	yuji.fung@oriental-patron.com.hk
11	Standard Chartered Bank (Hong Kong) Limited	Dennis Ip	dennis.ip@sc.com
12	The Royal Bank of Scotland N.V., (Hong Kong Branch)	Danny Huang	danny.huang@rbs.com

Shareholders' Right

How Shareholders can convene an extraordinary general meeting and putting forward proposals at Shareholders' meetings

Pursuant to the Articles of Association of the Company, any one or more Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the secretary of the Company, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition and such meeting shall be held within two months after the deposit of such requisition. If, within 21 days of such deposit the Board fails to proceed to convene such meeting the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Procedures by which enquiries may be put to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the company secretary of the Company by mail at Unit 2310, 23rd Floor, COSCO Tower,183 Queen's Road Central, Hong Kong or by email at jeffrey@slogp.com. The company secretary of the Company forwards communications relating to matters within the Board's direct responsibilities to the Board and communications relating to ordinary business matters, such as suggestions, inquiries and customer complaints, to the chief executive officer of the Company.

During the year ended 31 December 2011, there has been no significant change in the Company's constitutional documents.

INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

To the shareholders 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 (together, the "Group") set out on pages 59 to 148, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, 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 auditors' judgement, 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 auditors consider 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 state of affairs of the Company and of the Group as at 31 December 2011, 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.

Ernst & Young
Certified Public Accountants
Hong Kong

10 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
REVENUE	5	**1,821,836**	1,126,923
Cost of sales		**(1,678,436)**	(978,801)
Gross profit		**143,400**	148,122
Other income and gains	5	**96,247**	42,673
Selling and distribution expenses		**(42,146)**	(18,079)
Administrative expenses		**(54,207)**	(53,507)
Other expenses		**(3,077)**	(10,788)
Finance costs	6	**(20,183)**	(305)
Share of profits and losses of:			
Jointly-controlled entity		**(792)**	—
Associate		**(3,746)**	—
PROFIT BEFORE TAX	7	**115,496**	108,116
Income tax expenses	10	**(23,579)**	(18,952)
PROFIT FOR THE YEAR AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**91,917**	89,164
Attributable to:			
Owners of the parent	11	**93,780**	89,164
Non-controlling interests		**(1,863)**	—
		91,917	89,164
Earnings per share attributable to equity holders of the parent			
Basic (RMB cents)	13	**3.77**	3.59
Diluted (RMB cents)	13	**3.77**	3.59

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**710,133**	336,753
Prepaid land lease payments	15	**60,745**	49,520
Goodwill	16	**9,910**	2,525
Investment in a jointly-controlled entity	18	**17,208**	—
Investment in an associate	19	**243,254**	247,000
Derivative financial instrument	19	**75,000**	53,000
Deferred tax assets	20	**9,039**	—
Other assets		**1,322**	—
Total non-current assets		**1,126,611**	688,798
CURRENT ASSETS			
Inventories	21	**392,741**	176,069
Trade and bills receivables	22	**685,854**	465,468
Prepayments, deposits and other receivables	23	**113,280**	210,998
Loan receivable	24	**300,000**	100,000
Investment held for sale		**4,793**	—
Prepaid land lease payments	15	**1,134**	1,023
Pledged deposits	25	**36,246**	87,300
Cash and cash equivalents	25	**381,832**	356,963
Total current assets		**1,915,880**	1,397,821
CURRENT LIABILITIES			
Trade payables	26	**95,020**	68,357
Other payables and accruals	27	**135,874**	47,828
Interest-bearing bank loans	28	**631,800**	—
Tax payable		**15,812**	8,310
Deferred income	29	**258**	—
Total current liabilities		**878,764**	124,495
NET CURRENT ASSETS		**1,037,116**	1,273,326
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,163,727**	1,962,124

	Notes	2011 RMB'000	2010 RMB'000
NON-CURRENT LIABILITIES			
Deferred income	29	**11,965**	—
Deferred tax liabilities	20	**5,943**	458
Total non-current liabilities		**17,908**	458
Net assets		**2,145,819**	1,961,666
EQUITY			
Equity attributable to owners of the parent			
Issued capital	30	**218,786**	219,572
Reserves		**1,809,154**	1,742,094
		2,027,940	1,961,666
Non-controlling interests		**117,879**	—
Total equity		**2,145,819**	1,961,666

Zhang Bizhuang
Director

Han Aizhi
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2011

	Notes	Issued capital RMB'000	Share premium RMB'000	Statutory surplus reserve RMB'000 (note i)	Share option reserve RMB'000 (note ii)	Other reserve RMB'000 (note iii)	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
		Attributable to owners of the parent									
As at 1 January 2010		211,656	1,033,948	9,685	—	(9)	475,129	—	1,730,409	—	1,730,409
Profit for the year and total comprehensive income for the year		—	—	—	—	—	89,164	—	89,164	—	89,164
Issue of new shares upon over-allotment of shares		7,916	166,231	—	—	—	—	—	174,147	—	174,147
Transaction costs attributable to over-allotment of shares		—	(6,213)	—	—	—	—	—	(6,213)	—	(6,213)
Adjustment on over-provision of transaction cost attributable to issue of shares in 2009		—	4,453	—	—	—	—	—	4,453	—	4,453
Share-based payment		—	—	—	13,296	—	—	—	13,296	—	13,296
Final 2009 dividend declared		—	(43,590)	—	—	—	—	—	(43,590)	—	(43,590)
Proposed final 2010 dividend		—	(21,817)	—	—	—	—	21,817	—	—	—
Transfer from retained profits		—	—	41,139	—	—	(41,139)	—	—	—	—
As at 31 December 2010 and as at 1 January 2011		219,572	1,133,012*	50,824*	13,296*	(9)*	523,154*	21,817*	1,961,666	—	1,961,666
Profit for the year and total comprehensive income for the year		**—**	**—**	**—**	**—**	**—**	**93,780**	**—**	**93,780**	**(1,863)**	**91,917**
Establishment of a non-wholly-owned subsidiary		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**49,000**	**49,000**
Acquisition of a subsidiary	33	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**70,742**	**70,742**
Repurchase of shares	30	**(786)**	**(10,450)**	**—**	**—**	**—**	**—**	**—**	**(11,236)**	**—**	**(11,236)**
Share-based payment		**—**	**—**	**—**	**5,547**	**—**	**—**	**—**	**5,547**	**—**	**5,547**
Final 2010 dividend declared		**—**	**—**	**—**	**—**	**—**	**—**	**(21,817)**	**(21,817)**	**—**	**(21,817)**
Proposed final 2011 dividend	12	**—**	**(23,317)**	**—**	**—**	**—**	**—**	**23,317**	**—**	**—**	**—**
Transfer from retained profits		**—**	**—**	**11,660**	**—**	**—**	**(11,660)**	**—**	**—**	**—**	**—**
As at 31 December 2011		**218,786**	**1,099,245***	**62,484***	**18,843***	**(9)***	**605,274***	**23,317***	**2,027,940**	**117,879**	**2,145,819**

* The aggregate of these reserves represents the consolidated reserves of RMB1,809,154,000 (2010: RMB1,742,094,000) on the consolidated statement of financial position.

Notes:

(i) Statutory surplus reserve

As stipulated by the relevant law and regulations for foreign investment 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. Appropriation to such reserve is made out of net profit after tax expenses as shown in the statutory financial statements of the relevant PRC subsidiaries and after making up prior year cumulative losses. The amounts and allocation basis are decided by the board of directors of the respective subsidiaries annually. The statutory surplus reserve can be applied in conversion into issued capital by means of capitalisation issue.

(ii) Share option reserve

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

(iii) Other reserve

Other reserve represents the reserve arising from Group Reorganisation.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		115,496	108,116
Adjustments for:			
Finance costs	6	20,183	305
Interest income	5	(47,324)	(6,210)
Share of profit and loss of a jointly-controlled entity	18	792	—
Share of profit and loss of an associate		3,746	—
Depreciation	7,14	33,780	25,250
Amortisation of prepaid land lease payments	7,15	992	319
Loss/(gain) on disposals of items of property, plant and equipment, net	7	102	(114)
Write down/(reversal of write down) of inventories	7	196	(1,350)
Share option expense	7	5,547	13,296
Change in fair value of a derivative financial instrument	5	(22,000)	—
Recognise of deferred income	29	(86)	—
		111,424	139,612
Decrease/(increase) in inventories		(216,463)	80,878
Increase in trade and bills receivables		(220,222)	(69,174)
Decrease/(increase) in prepayments, deposits and other receivables and other assets		208,090	(118,295)
Increase in pledged deposits		(11,250)	—
Increase/(decrease) in trade payables		26,491	(165,562)
Increase/(decrease) in other payables and accruals		8,386	(63,862)
Cash used in operations		(93,544)	(196,403)
Income tax paid		(17,790)	(10,659)
Net cash used in operating activities		(111,334)	(207,062)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of items of property, plant and equipment		**(277,205)**	(131,469)
Additions of prepaid land lease payments		**(172)**	(33,404)
Acquisition of a subsidiary, net of cash acquired	33	**(98,910)**	—
Investment in a jointly-controlled entity		**(18,000)**	—
Investment in an associate		**—**	(300,000)
Investment held for sale		**(4,900)**	—
Proceeds from disposal of items of property, plant and equipment		**498**	325
Decrease/(increase) in pledged deposits		**57,300**	(57,300)
Interest received		**48,580**	6,210
Loan to a third party		**(300,000)**	(100,000)
Repayment of loan from a third party		**100,000**	—
Advances to related parties		**—**	4,389
Net cash used in investing activities		**(492,809)**	(611,249)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans		**781,164**	—
Repayment of bank loans		**(154,364)**	(87,058)
Interest paid		**(18,739)**	(305)
Proceeds from issue of new shares		**—**	174,147
Repurchase of shares		**(11,236)**	—
Share issue expenses		**—**	(6,213)
Capital contributions from non-controlling interests		**49,000**	—
Dividends paid		**(21,817)**	(43,590)
Net cash from financing activities		**624,008**	36,981
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**19,865**	(781,330)
Cash and cash equivalents at beginning of year		**386,963**	1,168,293
CASH AND CASH EQUIVALENTS AT END OF YEAR	25	**406,828**	386,963
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the statement of financial position	31	**381,832**	356,963
Pledged time deposits with original maturity of less than three months when acquired	31	**24,996**	30,000
Cash and cash equivalents as stated in the statement of cash flows		**406,828**	386,963

STATEMENT OF FINANCIAL POSITION

31 December 2011

	Notes	2011 RMB'000	2010 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	321	457
Investments in subsidiaries	17	1,678,529	1,315,442
Total non-current assets		1,678,850	1,315,899
CURRENT ASSETS			
Prepayments, deposits and other receivables	23	213	213
Cash and cash equivalents	25	7,733	30,509
Total current assets		7,946	30,722
CURRENT LIABILITIES			
Other payables and accruals	27	16,996	14,183
Interest-bearing bank loans	28	387,710	—
Total current liabilities		404,706	14,183
NET CURRENT ASSETS/(LIABILITIES)		(396,760)	16,539
TOTAL ASSETS LESS CURRENT LIABILITIES		1,282,090	1,332,438
Net assets		1,282,090	1,332,438
EQUITY			
Issued capital	30	218,786	219,572
Reserves	31	1,063,304	1,112,866
Total equity		1,282,090	1,332,438

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2011

1. CORPORATE INFORMATION

The Company is a limited company incorporated in the Cayman Islands on 3 July 2009. The principal place of business of the Company is located in the PRC is Zhongbu Town, Zhangdian District, Zibo City, Shandong province 225082, the PRC.

The Company acts as an investment holding company. The principal activities of the Group include manufacture, processing and sales 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

2.1 Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board ("IASB"), and International Accounting Standards ("IASs") and Standing Interpretation Committee interpretations approved by the International Accounting Standards Committee that remain in effect, and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

As at 31 December 2011, the Company's net current liabilities amounted to approximately RMB396,760,000, which comprised current assets of approximately RMB7,946,000 and current liabilities of approximately RMB404,706,000. The liquidity of the Company is primary dependent on its ability to maintain sufficient financing to meet its financial obligation as and when they fall due. In preparing the financial statements, the directors of the Company have considered the Company's sources of liquidity and believe that adequate funding is available to fulfil the Company's debt obligation. Accordingly, the Company's financial statements have been prepared on a basis that the Company will be able to continue as a going concern.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of Preparation (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Total comprehensive income within a subsidiary is attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in the income statement. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained earnings, as appropriate.

2.2 Changes in Accounting Policy and Disclosures

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 1 Amendment	Amendment to IFRS 1 *First-time Adoption of IFRSs — Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*
IAS 24 (Revised)	*Related Party Disclosures*
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation — Classification of Rights Issues*
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to IFRSs 2010	Amendments to a number of IFRSs

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Changes in Accounting Policy and Disclosures (continued)

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

2.3 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 financial statements.

IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of IFRSs — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Transfers of Financial Assets*[1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities*[4]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Initial application of IFRS9*[6]
IFRS 9	*Financial Instruments*[6]
IFRS 10	*Consolidated Financial Statements*[4]
IFRS 11	*Joint Arrangements*[4]
IFRS 12	*Disclosure of Interests in Other Entities*[4]
IFRS 13	*Fair Value Measurement*[4]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income*[3]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes — Deferred Tax: Recovery of Underlying Assets* [2]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits*[4]
IAS 27 (Revised)	*Separate Financial Statements*[4]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*[4]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities*[5]
IFRIC 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

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
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of Significant Accounting Policies

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's investment in a jointly-controlled entity is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in a jointly-controlled entity is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of Significant Accounting Policies (continued)

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and are stated at cost less any impairment losses.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed 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. For each business combination, the Group elects whether it measures the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of Significant Accounting Policies (continued)

Business combinations and goodwill (continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IAS 39 either in income statement or as a change to other comprehensive income. If the contingent consideration is classified as equity, it will not be remeasured. Subsequent settlement is accounted for within equity. In instances where the contingent consideration does not fall within the scope of IAS 39, it is measured in accordance with the appropriate IFRS.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in income statement as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of Significant Accounting Policies (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, goodwill and non-current assets held-for-sale), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the income statement in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

  (i) has control, or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group; or

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of Significant Accounting Policies (continued)

Related parties (continued)

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of Significant Accounting Policies (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with IFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Buildings	20–30 years
Machinery	10 years
Vehicles	6 years
Electronic equipment and others	4–5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised are derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress representing buildings, plants, machinery and equipment under construction are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of Significant Accounting Policies (continued)

Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than investment properties and financial assets) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Computer software licences

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 2 to 10 years.

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of Significant Accounting Policies (continued)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land premiums/land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value plus transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and other receivables, bills receivable, loans receivable and quoted and unquoted financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the income statement. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under IAS 39 are satisfied.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of Significant Accounting Policies (continued)

Investments and other financial assets (continued)

The Group evaluates its financial assets at fair value through profit or loss (held for trading to assess whether the intent to sell them in the near term is still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation as these instruments cannot be reclassified after initial recognition.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the income statement. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the income statement. The loss arising from impairment is recognised in the income statement in finance costs for loans and in other expenses for receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in the income statement. The loss arising from impairment is recognised in the income statement in other expenses.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of Significant Accounting Policies (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of Significant Accounting Policies (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced either directly or through the use of an allowance account and the amount of the loss is recognised in the income statement. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in the income statement.

Financial assets carried at cost

If there is objective evidence that an impairment loss has been occurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of Significant Accounting Policies (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value plus, in the case of loans and borrowings, directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, and interest-bearing loans and borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the income statement.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of Significant Accounting Policies (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis and option pricing models.

Derivative financial instruments

Initial recognition and subsequent measurement

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of Significant Accounting Policies (continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of Significant Accounting Policies (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside income statement is recognised outside income statement, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of Significant Accounting Policies (continued)

Income tax (continued)

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, it is recognised as deferred income and released to income in equal amounts over the expected useful life of the related asset by equal annual instalments or deducted from the carrying amount of the asset and released to income statement by way of a reduced depreciation charge.

Where the Group receives a non-monetary grant, the asset and the grant are recorded at the fair value of the non-monetary assets or a nominal amount and released to income statement over the expected useful life of the relevant asset by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to income statement over the expected useful life of the relevant asset by equal annual instalments.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of Significant Accounting Policies (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from rendering of services, when the services are provided;

(c) rental income, on a time proportion basis over the lease terms;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of Significant Accounting Policies (continued)

Share-based payment transactions

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 32 to the financial statements.

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to the income statement for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of Significant Accounting Policies (continued)

Other employee benefits

Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement schemes organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefits payable to all existing and future retired employees under these plans and the Group has no further obligations for post-retirement benefits beyond the contributions made. The contributions to the schemes are recognised as and when incurred.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of Significant Accounting Policies (continued)

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences arising on settlement or translation of monetary items are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. The gain or loss arising on retranslation of a non-monetary item is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation differences on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their statements of comprehensive income are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the income statement.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgement, apart from those involving estimations, which has the most significant effect on the amounts recognised in the financial statements:

De facto control over subsidiaries

The Group's management exercises its critical judgement when determining whether the Group has de facto control over an entity by evaluating its influence over the entity which includes, but is not limited to:

(i) the ability to exercise de facto control in the shareholders' meetings or equivalent governing body of the investee;

(ii) the ability to govern the financial and operational decision of the investee;

(iii) the ability to appoint or remove the majority of the members of the board of directors or equivalent governing body of the investee; and

(iv) the ability to cast the majority of votes of the board of directors.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty

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 amount of assets and liabilities within the next financial year, are described below.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying amount of deferred tax assets at 31 December 2011 was RMB9,039,000 (2010: Nil).

Impairment of receivables

The Group recognises provision based on the judgement of recovery of accounts receivable. Bad debt provision is required to be recognised when there are indications that the receivable cannot be recovered. Recognition of bad debt provision requires the use of judgement and estimates. If the revised estimates deviate from the current estimates, then any difference arising from changes of accounting estimates will affect the carrying value of debtors in the relevant accounting periods. The net carrying amounts of trade receivables and prepayments, deposits and other receivables at 31 December 2011 were RMB643,915,000 (2010: RMB410,391,000) and RMB113,280,000 (2010: RMB210,998,000), respectively.

Write-down of inventories

The Group determines the write-down for obsolescence of inventories with reference to aged inventory analyses and projections of expected future saleability of goods. Based on this review, write-down of inventories will be made when the carrying amounts of inventories are lower than their estimated net realisable values. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation. The net carrying amount of inventories at 31 December 2011 was RMB392,741,000 (2010: RMB176,069,000).

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2011 was RMB9,910,000 (2010: RMB2,525,000). More details are given in note 16.

4. OPERATING 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. Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment.

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

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

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

Segment results represent the profit earned by each segment without allocation of central administration costs including directors' fees, finance costs, share-based payments, foreign currency exchange gains/losses and items not directly related to the core business of the segments.

Segment revenue and results

For the year ended 31 December 2011

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

4. OPERATING SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

For the year ended 31 December 2010

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:				
Sales to external customers	994,678	132,245	—	1,126,923
Intersegment sales	—	2,453	(2,453)	—
Total revenue	994,678	134,698	(2,453)	1,126,923
Segment results	141,788	4,178	—	145,966
Interest income				6,210
Unallocated expenses				(43,755)
Finance costs				(305)
Profit before tax				108,116

4. OPERATING SEGMENT INFORMATION (continued)

Segment assets

As at 31 December 2011

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Eliminations RMB'000	Total RMB'000
Segment assets	**2,513,658**	**134,103**	**(660,892)**	**1,986,869**
Unallocated assets				**1,055,622**
Total consolidated assets				**3,042,491**

As at 31 December 2010

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Eliminations RMB'000	Total RMB'000
Segment assets	1,586,421	123,289	(420,086)	1,289,624
Unallocated assets				796,995
Total consolidated assets				2,086,619

4. OPERATING SEGMENT INFORMATION (continued)

Segment liabilities

As at 31 December 2011

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

As at 31 December 2010

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Eliminations RMB'000	Total RMB'000
Segment liabilities	397,310	136,419	(420,086)	113,643
Unallocated liabilities				11,310
Total consolidated liabilities				124,953

4. OPERATING SEGMENT INFORMATION (continued)

Other segment information

As at 31 December 2011

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

As at 31 December 2010

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Unallocated items RMB'000	Total RMB'000
Depreciation and amortisation	20,392	5,085	92	25,569
Reversal of write down of inventories	—	(1,350)	—	(1,350)
Investment in an associate	247,000	—	—	247,000
Capital expenditure*	164,031	343	543	164,917

* Capital expenditure consists of additions of property, plant and equipment and prepaid land lease payments.

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2011 RMB'000	2010 RMB'000
Mainland China	**1,338,638**	1,126,923
Other countries	**483,198**	—
	1,821,836	1,126,923

The revenue information above is based on the location of the customers. Other countries represent Myanmar and Kazakhstan.

(b) Non-current assets

	2011 RMB'000	2010 RMB'000
Mainland China	**1,042,246**	635,332
Hong Kong	**326**	466
	1,042,572	635,798

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

Information about a major customer

Revenue of approximately RMB1,062,204,000 (2010: RMB614,900,000) was derived from sales to a single customer, including sales to a group of entities which are known to be under common control with that customer.

5. REVENUE, OTHER INCOME AND GAINS

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

An analysis of revenue, other income and gains is as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Revenue		
Sale of goods	**1,816,231**	1,100,523
Rendering of services	**5,605**	26,400
	1,821,836	1,126,923
Other income		
Interest income	**47,324**	6,210
Rental income	**457**	—
Government grants	**219**	—
Quality inspection and testing service income	**94**	406
Others	**447**	384
	48,541	7,000
Gains		
Gain on sales of materials	**25,643**	35,559
Fair value gains of derivative financial instrument	**22,000**	—
Gain on disposal of property, plant and equipment, net	**—**	114
Others	**63**	—
	47,706	35,673
	96,247	42,673

6. FINANCE COSTS

	Group 2011 RMB'000	2010 RMB'000
Interest on bank loans wholly repayable within five years	**21,469**	305
Less: Interest capitalised	**(1,286)**	—
	20,183	305

7. PROFIT BEFORE TAX

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

	Group 2011 RMB'000	2010 RMB'000
Cost of inventories sold*	**1,672,953**	959,365
Cost of services rendered	**5,483**	19,436
Employee benefit expense (including directors' remuneration (note 8)):		
Wages, salaries and bonuses	**57,005**	45,861
Performance related bonuses	**4,936**	4,700
Pension scheme contributions	**4,520**	3,731
Welfare and other expenses	**6,194**	5,445
Equity-settled share option expense	**5,547**	13,296
	78,202	73,033
Depreciation of property, plant and equipment (note 14)	**33,780**	25,250
Amortisation of prepaid land lease payments (note 15)	**992**	319
Loss/(gain) on disposal of property, plant and equipment	**102**	(114)
Exchange losses, net	**805**	9,289
Auditors' remuneration	**1,530**	1,595

* Included in the cost of inventories sold is an amount of RMB196,000 related to the write down of inventories (2010: reversal of write down of inventories of RMB1,350,000).

8. DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, is as follows:

	Group	
	2011 RMB'000	2010 RMB'000
Fees	1,486	1,527
Other emoluments:		
Salaries, allowances and benefits in kind	2,981	1,867
Performance related bonuses	2,419	903
Social security contributions*	65	93
Equity-settled share option expense	3,625	7,274
	10,576	11,664

* The social security contributions represent statutory contributions directly to the PRC government and are determined based on a certain percentage of the salaries of directors.

In 2010, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 32 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' remuneration disclosures.

8. DIRECTORS' REMUNERATION (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year are as follows:

	Group	
	2011 **RMB'000**	2010 RMB'000
Huo Chunyong	**165**	174
Guo Changyu	**165**	174
Leung Ming Shu*	**165**	—
Wong Wing Yee**	**—**	135
	495	483

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil).

* Leung Ming Shu was appointed as an independent non-executive director on 1 January 2011.

** Wong Wing Yee resigned as an independent non-executive director on 8 October 2010.

(b) Executive directors and non-executive directors

Year ended 31 December 2011

	Fees RMB'000	Salaries, allowances, and benefits in kind RMB'000	Performance related bonuses RMB'000	Social security contributions RMB'000	Equity-settled share option expense RMB'000	Total remuneration RMB'000
Executive directors						
Zhang Bizhuang	**165**	**911**	**790**	**17**	**1,775**	**3,658**
Wang Xu	**165**	**664**	**543**	**16**	**740**	**2,128**
Han Aizhi	**165**	**660**	**543**	**16**	**740**	**2,124**
Liu Yaohua*	**82**	**746**	**543**	**16**	**370**	**1,757**
	577	**2,981**	**2,419**	**65**	**3,625**	**9,667**
Non-executive directors						
Yan Tangfeng	**165**	**—**	**—**	**—**	**—**	**165**
Teo Yi-Dar**	**165**	**—**	**—**	**—**	**—**	**165**
Ling Yong Wah***	**84**	**—**	**—**	**—**	**—**	**84**
	414	**—**	**—**	**—**	**—**	**414**

* Liu Yaohua was appointed as an executive director on 29 June 2011.

** Teo Yi-Dar resigned as a non-executive director on 31 December 2011.

*** Ling Yong Wah resigned as a non-executive director on 29 June 2011.

8. DIRECTORS' REMUNERATION (continued)

(b) Executive directors and non-executive directors (continued)

Year ended 31 December 2010

	Fees RMB'000	Salaries, allowances, and benefits in kind RMB'000	Performance related bonuses RMB'000	Social security contributions RMB'000	Equity-settled share option expense RMB'000	Total remuneration RMB'000
Executive directors						
Zhang Bizhuang	174	795	387	33	3,968	5,357
Wang Xu	174	533	258	33	1,653	2,651
Han Aizhi	174	539	258	27	1,653	2,651
	522	1,867	903	93	7,274	10,659
Non-executive directors						
Yan Tangfeng	174	—	—	—	—	174
Teo Yi-Dar	174	—	—	—	—	174
Ling Yong Wah	174	—	—	—	—	174
	522	—	—	—	—	522

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

9. FIVE HIGHEST PAID EMPLOYEES

An analysis of the headcounts of the five highest paid employees within the Group for the year is as follows:

	Number of employees	
	2011	2010
Directors	**4**	3
Non-director employees	**1**	2
	5	5

Details of the above directors' remuneration are set out in note 8.

Details of the remuneration of the above non-director, highest paid employees are as follows:

	Group	
	2011 RMB'000	2010 RMB'000
Salaries, allowances and benefits in kind	**819**	467
Performance related bonuses	**518**	1,176
Social security contributions	**16**	54
Equity-settled share option expense	**370**	1,653
	1,723	3,350

The number of non-director highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2011	2010
RMB1,500,001 to RMB2,000,000	**1**	2

In 2010, share options were granted to two non-director, highest paid employees in respect of their services to the Group, further details of which are set out in note 32 to the financial statements. The fair value of such options, which has been recognised in the income statement over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director, highest paid employees' remuneration disclosures.

10. INCOME TAX EXPENSES

The major components of income tax expense are as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Current income tax-Mainland China	**22,138**	18,969
Deferred income tax	**1,441**	(17)
Total tax charge for the year	**23,579**	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 years ended 31 December 2011 and 31 December 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 years ended 31 December 2011 and 31 December 2010.

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.

10. INCOME TAX EXPENSES (continued)

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

		Group			
		2011		2010	
	Notes	RMB'000	%	RMB'000	%
Profit before tax		115,496		108,116	
Tax at the statutory tax rate		28,874	25.0	27,029	25.0
Expenses not deductible for tax		503	0.4	427	0.4
Tax losses not recognised	(i)	6,417	5.6	10,480	9.7
Profits and losses attributable to a jointly-controlled entity and an associate		1,135	1.0	—	—
Others		3,118	2.7	—	—
Effect of tax relief		(16,468)	(14.3)	(18,984)	(17.6)
Tax charge at the Group's effective rate		23,579	20.4	18,952	17.5

The share of tax attributable to an associate and a jointly-controlled entities amounting to RMB3,746,000 (2010: nil) and RMB792,000 (2010: nil), respectively, is included in share of profits and losses of jointly-controlled entity and associate in the consolidated income statement.

Notes:

(i) No deferred tax assets have been recognised for tax losses of RMB25,668,000 (2010: RMB41,920,000) derived from overseas subsidiaries of the Group as the management of the Group is of the view that it is not probable that taxable profits of these subsidiaries will be available against which tax losses can be utilised.

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

As at 31 December 2010 and 31 December 2011, the aggregate amounts of temporary differences associated with undistributed earnings of the subsidiaries in the Mainland China for which deferred tax liabilities have not been recognised were RMB620 million and RMB738 million, respectively. In the opinion of the directors of the Company, it is not probable that its principal operating subsidiary, Shandong Shengli will distribute such earnings in the foreseeable future.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2011 includes a loss of approximately RMB22,842,000 (2010: RMB41,720,000), which has been dealt with in the financial statements of the Company (note 31).

12. DIVIDENDS

The dividends for the years ended 31 December 2011 and 2010 are set out below:

	2011 **RMB'000**	2010 RMB'000
Proposed final RMB0.0094 (2010: RMB0.00895) per ordinary share	**23,317**	22,286

On 10 March 2012, the directors proposed a final dividend of RMB0.0094 per share (equivalent to HKD0.0116 per share) for the year ended 31 December 2011 (2010: approximately RMB0.00895 per share (equivalent to approximately HKD0.01064 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.

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

The calculation of the basic earnings per share for the year ended 31 December 2011 is based on the consolidated profit attributable to equity holders of the parent of approximately RMB93,780,000 (2010: RMB89,164,000) and the weighted average number of shares of 2,484,726,000 (2010: 2,486,795,000) in issue during the year, as adjusted to reflect the repurchase of 6,450,000 and 2,970,000 issued shares by the Company on 18 May 2011 and 1 August 2011, respectively.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2011 and 2010 in respect of a dilution as the impact of the share options outstanding had an anti-dilutive effect on the basic earnings per share amounts presented.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Machinery RMB'000	Vehicles RMB'000	Electronic equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2011						
At 31 December 2010 and at 1 January 2011:						
Cost	42,507	247,954	9,220	3,787	90,851	394,319
Accumulated depreciation and impairment	(3,777)	(49,010)	(3,498)	(1,281)	—	(57,566)
Net carrying amount	38,730	198,944	5,722	2,506	90,851	336,753
At 1 January 2011, net of accumulated depreciation and impairment	38,730	198,944	5,722	2,506	90,851	336,753
Additions	6,232	10,476	1,890	742	281,875	301,215
Transfers from construction in progress	57,468	3,936	—	—	(61,404)	—
Acquisition of a subsidiary (note 33)	37,777	56,798	235	249	11,486	106,545
Disposals	—	(597)	—	(3)	—	(600)
Depreciation provided during the year	(2,562)	(28,673)	(1,725)	(820)	—	(33,780)
At 31 December 2011, net of accumulated depreciation and impairment	137,645	240,884	6,122	2,674	322,808	710,133
At 31 December 2011:						
Cost	145,497	319,990	11,466	4,932	322,808	804,693
Accumulated depreciation and impairment	(7,852)	(79,106)	(5,344)	(2,258)	—	(94,560)
Net carrying amount	137,645	240,884	6,122	2,674	322,808	710,133

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group

	Buildings RMB'000	Machinery RMB'000	Vehicles RMB'000	Electronic equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2010						
At 1 January 2010:						
Cost	42,044	206,794	6,927	1,896	5,576	263,237
Accumulated depreciation and impairment	(2,187)	(27,535)	(2,119)	(695)	—	(32,536)
Net carrying amount	39,857	179,259	4,808	1,201	5,576	230,701
At 1 January 2010, net of accumulated depreciation and impairment	39,857	179,259	4,808	1,201	5,576	230,701
Additions	463	31,114	2,466	1,922	95,548	131,513
Transfers from construction in progress	—	10,273	—	—	(10,273)	—
Disposals	—	(153)	(38)	(20)	—	(211)
Depreciation provided during the year	(1,590)	(21,549)	(1,514)	(597)	—	(25,250)
At 31 December 2010, net of accumulated depreciation and impairment	38,730	198,944	5,722	2,506	90,851	336,753
At 31 December 2010:						
Cost	42,507	247,954	9,220	3,787	90,851	394,319
Accumulated depreciation and impairment	(3,777)	(49,010)	(3,498)	(1,281)	—	(57,566)
Net carrying amount	38,730	198,944	5,722	2,506	90,851	336,753

As at 31 December 2011, the Group was in the process of applying for the title certificates of buildings with an aggregate net book value of approximately RMB101,708,000 (2010: RMB5,512,000). The directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings in due course, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2011.

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Electronic equipment and others RMB'000	Total RMB'000
31 December 2011		
At 31 December 2010 and at 1 January 2011:		
Cost	543	543
Accumulated depreciation and impairment	(86)	(86)
Net carrying amount	457	457
At 1 January 2011, net of accumulated depreciation and impairment	457	457
Additions	2	2
Depreciation provided during the year	(138)	(138)
At 31 December 2011, net of accumulated depreciation and impairment	321	321
At 31 December 2011:		
Cost	545	545
Accumulated depreciation and impairment	(224)	(224)
Net carrying amount	321	321

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Electronic equipment and others RMB'000	Total RMB'000
31 December 2010		
At 1 January 2010:		
Cost	—	—
Accumulated depreciation and impairment	—	—
Net carrying amount	—	—
At 1 January 2010, net of accumulated depreciation and impairment	—	—
Additions	543	543
Depreciation provided during the year	(86)	(86)
At 31 December 2010, net of accumulated depreciation and impairment	457	457
At 31 December 2010:		
Cost	543	543
Accumulated depreciation and impairment	(86)	(86)
Net carrying amount	457	457

15. PREPAID LAND LEASE PAYMENTS

	Group	
	2011	2010
	RMB'000	RMB'000
Carrying amount at beginning of the year	**50,543**	17,458
Additions	**194**	33,404
Acquisition of a subsidiary (note 33)	**12,134**	—
Amortisation for the year	**(992)**	(319)
Carrying amount at end of the year	**61,879**	50,543
Current portion	**(1,134)**	(1,023)
Non-current portion	**60,745**	49,520

The Group's prepaid land lease prepayments related to land use rights held under long term leases and located in Mainland China.

As at 31 December 2011, the Group was in the process of applying for the title certificates of certain land acquired by the Group with an aggregate net book value of approximately RMB37,718,000 (2010: RMB33,403,000). 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 31 December 2011.

16. GOODWILL

	Group
	RMB'000
Cost and net carrying amount as at 1 January 2010 and 31 December 2010	2,525
Acquisition of a subsidiary (note 33)	7,385
Cost and net carrying amount as at 31 December 2011	9,910

16. GOODWILL (continued)

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

- SSAW Pipes business cash-generating unit
- Xinjiang business cash-generating unit

SSAW Pipes business cash-generating unit

The recoverable amount of the SSAW Pipes business cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 16% (2010: 20%) and cash flows beyond the five-year-period were extrapolated using a growth rate of 3% by reference to the long-term average growth rate.

Xinjiang business cash-generating unit

The recoverable amount of the Xinjiang business cash-generating unit has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 16% and cash flows beyond the five-year-period were not extrapolated using a growth rate under the management's conservative estimation.

The carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	Group	
	2011 **RMB'000**	2010 RMB'000
SSAW Pipes business	**2,525**	2,525
Xinjiang business	**7,385**	—
	9,910	2,525

16. GOODWILL (continued)

Impairment testing of goodwill (continued)

Key assumptions were used in the value in use calculation of the SSAW Pipes business and Xinjiang business cash-generating units for 31 December 2011 and 31 December 2010. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, adjusted for expected product mix, and expected market development.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

The values assigned to key assumptions are consistent with external information sources.

17. INVESTMENTS IN SUBSIDIARIES

	Company	
	2011	2010
	RMB'000	RMB'000
Unlisted investments, at cost	**5,733**	—
Due from subsidiaries	**1,672,796**	1,315,442
	1,678,529	1,315,442

The balances with the subsidiaries are unsecured and have no fixed terms of repayment.

17. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of all the subsidiaries as at 31 December 2011 are as follows:

Company name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
			%	%	
Shengli (BVI) Ltd. ("BVI")	British Virgin Islands	USD1 of nil paid	100	—	Investment holding
China Petro Equipment Holdings Pte. Ltd. ("CPE")	Republic of Singapore	SGD2	—	100	Investment holding
Shandong Shengli Steel Pipe Co., Ltd. ("Shandong Shengli")# (山東勝利鋼管有限公司)	PRC/Mainland China	RMB1,153,790,300	—	100	Manufacturing, processing and sale of welded steel pipes for oil and gas pipelines and other construction and manufacturing applications
Shandong Muxin Investment Co., Ltd. ("Shandong Muxin")# (山東沐鑫投資有限公司)	PRC/Mainland China	RMB30,000,000	—	100	Equity investment, investment management, and investment consultation
Xinjiang Shengli Steel Pipe Co., Ltd. ("Xinjiang Shengli")# (新疆勝利鋼管有限公司)	PRC/Mainland China	RMB180,000,000	—	56.428*	Manufacturing and selling of pipes for oil and gas, pipe components and anti-corrosion steel pipes
Hunan Shengli Xianggang Steel Pipe Co., Ltd. ("Hunan Shengli")# (湖南勝利湘鋼鋼管有限公司)	PRC/Mainland China	RMB500,000,000	—	51**	Manufacturing, processing and sale of LSAW and SSAW pipelines and provision of anti-corrosion service
Shengli Investment Company	United Sates of America/Texas	N/A ***	100	—	Investment holding
Siu Thai Holdings Limited	British Virgin Islands	USD1, nil paid	100	—	Investment holding

\# The English names of these companies are direct translations of their Chinese names.

* During the year, Shandong Shengli acquired 56.428% equity interests in Xinjiang Shengli, and accordingly, Xinjiang Shengli is accounted for as a subsidiary by virtue of the Company's control over it. Further details of this acquisition are included in note 33 to the financial statements.

** Hunan Shengli is a non-wholly-owned subsidiary of a subsidiary of the Company and, accordingly, is accounted for as a subsidiary by virtue of the Company's control over it.

*** Pursuant to the articles of incorporation of Shengli Investment Company, the maximum number of shares is authorised to have outstanding at any one time is 100,000 shares having no par value per share.

18. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group 2011 RMB'000	2010 RMB'000
Share of net assets	**17,208**	—

Particulars of the jointly-controlled entity of the Group are as follows:

Company name	Place of establishment/ operations	Registered capital	Percentage of equity interest held by the Group	Principal activities
Shenzhen Taihe Tiandi Investment Partnership ("Shenzhen Taihe") (深圳市泰和天地投資合夥企業)	PRC/Mainland China	RMB20,000,000	90%	Equity investment, investment management, and investment consultation

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, a partnership in the PRC.

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

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

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

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

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

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

18. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY (continued)

The following tables illustrate the summarised financial information of the Group's jointly-controlled entity:

	2011 RMB'000
Share of the jointly-controlled entity's assets and liabilities:	
Current assets	15,069
Non-current assets	2,139
Net assets	17,208
Share of the jointly-controlled entity's results:	
Total expenses	792
Loss for the year	792

19. INVESTMENT IN AN ASSOCIATE AND DERIVATIVE FINANCIAL INSTRUMENT

(a) Investment in an associate

	Group	
	2011 RMB'000	2010 RMB'000
Share of net assets	122,186	125,932
Goodwill on acquisition	121,068	121,068
	243,254	247,000

19. INVESTMENT IN AN ASSOCIATE AND DERIVATIVE FINANCIAL INSTRUMENT (continued)

(a) Investment in an associate (continued)

Particulars of the associate of the Group are as follows:

Company name	Place of establishment/ operations	Registered capital	Percentage of equity interest held by the Group	Principal activities
Beijing Golden Fortune Investment Co., Ltd. ("Golden Fortune") (北京慧基泰展投資有限公司)	PRC/Mainland China	RMB222,910,000	25%	Equity investment, investment management, and investment consultation

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

	Group 2011 RMB'000	2010 RMB'000
Total assets	**1,314,647**	1,157,916
Total liabilities	**(796,609)**	(631,762)
Revenue	**487,926**	321,890
Net losses	**(18,461)**	(15,690)

Movements in goodwill are as follows:

	Group 2011 RMB'000	2010 RMB'000
As at 1 January	**121,068**	—
Acquisition of an associate	**—**	121,068
As at 31 December	**121,068**	121,068

19. INVESTMENT IN AN ASSOCIATE AND DERIVATIVE FINANCIAL INSTRUMENT (continued)

(b) Derivative financial instrument

	Group	
	2011	2010
	RMB'000	RMB'000
Guaranteed return and right to sell of Golden Fortune	**75,000**	53,000

The fair value of Guaranteed Return and Right to Sell of Golden Fortune was determined by the directors of the Company with reference to the valuation performed by an independent valuer. The valuation was performed based on a 5 years' financial projection provided by management, using the "with and without" approach, under which the excess amount of the present value of the return of the investment with guarantee over the 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	14%
Expected volatility	25%

The changes in fair value of the derivative financial instrument were recognised in the income statement during the year ended 31 December 2011.

20. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The movements in deferred tax assets and deferred tax liabilities during the year are as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Deferred tax assets:		
As at 1 January	**—**	—
Acquisition of a subsidiary (note 33)	**4,995**	—
Deferred tax credited to the income statement during the year (note 10)	**4,044**	—
Gross deferred tax assets as at 31 December	**9,039**	—
Deferred tax liabilities:		
As at 1 January	**458**	475
Deferred tax charged to the income statement during the year (note 10)	**5,485**	(17)
Gross deferred tax liabilities as at 31 December	**5,943**	458
Net deferred tax assets as at 31 December	**3,096**	(458)

20. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES (continued)

The components of the Group's deferred tax assets and liabilities are as follows:

	Group 2011 RMB'000	Group 2010 RMB'000
Deferred tax assets:		
Accrued interest on borrowings	2,955	—
Government grants received but not yet recognised as income	3,056	—
Unrealised gains arising from intra-group sales	23	—
Excess of carrying value over fair value of identifiable assets and liabilities in acquisition of subsidiaries	1,867	
Tax losses	1,138	—
Gross deferred tax assets	9,039	—
Deferred tax liabilities:		
Excess of fair value of identifiable assets and liabilities over carrying value in acquisition of subsidiaries	443	458
Fair value gains of a derivative financial instrument	5,500	—
Gross deferred tax liabilities	5,943	458
Net deferred tax assets	3,096	(458)

21. INVENTORIES

	Group 2011 RMB'000	Group 2010 RMB'000
Raw materials	195,435	62,000
Work in progress	4,832	4,377
Finished and semi-finished goods	192,474	109,692
	392,741	176,069

22. TRADE AND BILLS RECEIVABLES

	Group	
	2011	2010
	RMB'000	RMB'000
Trade receivables	**643,915**	410,391
Bills receivable	**41,939**	55,077
	685,854	465,468

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

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

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

	Group	
	2011	2010
	RMB'000	RMB'000
Within 3 months	**598,796**	318,299
3 to 6 months	**23,535**	75,293
6 months to 1 year	**2,962**	437
1 to 2 years	**15,109**	16,362
2 to 3 years	**3,513**	—
	643,915	410,391

22. TRADE AND BILLS RECEIVABLES (continued)

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

	Group	
	2011	2010
	RMB'000	RMB'000
Neither past due nor impaired	**618,572**	328,702
3 to 6 months past due	**22,728**	73,794
6 months to 1 year and due	**2,615**	357
1 to 2 years past due	**—**	7,538
	643,915	410,391

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

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

The details of the above trade receivables pledged to secure general banking facilities granted to the Group are set out in note 28 below.

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Advance to suppliers	**64,048**	189,421	**—**	—
Tender deposits to customers	**1,517**	10,588	**—**	—
Other tax receivables*	**34,341**	3,860	**—**	—
Others	**13,374**	7,129	**213**	213
	113,280	210,998	**213**	213

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

24. LOAN RECEIVABLE

	Group	
	2011	2010
	RMB'000	RMB'000
Loan receivable, within one year	**300,000**	100,000

The Group's loan receivable represents secured loans granted to a third party (the "Borrower") through a financial institution in the PRC. The loan receivable as at 31 December 2011 carried interest at the rate of approximately 16% per annum which will float with benchmark interest rate of People's Bank of China, and was repayable on 27 January 2012. On 17 February 2012, the Group entered into an extension agreement with the Borrower (the "Extension Agreement"). Pursuant to the Extension Agreement, the borrower will repay the principal amount by four instalments according to the following schedule: (i) RMB70 million before 30 April 2012; (ii) RMB25 million before 31 May 2012; (iii) RMB25 million before 30 June 2012; and (iv) RMB180 million before 31 July 2012.

The loan receivable as at 31 December 2010 carried interest at the rate of 7% per annum and was settled during the reporting period.

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Cash and bank balances	**418,078**	444,263	**7,733**	30,509
Less: Time deposits with original maturity of more than three months when acquired, pledged for				
— Letter of guarantee	**(11,250)**	—	**—**	—
— Letter of credit	**—**	(57,300)		
	(11,250)	(57,300)	**—**	—
Less: Time deposits with original maturity of less than three months when acquired, pledged for				
— Letter of guarantee	**(12,186)**			
— Letter of credit	**(12,810)**			
— Registered capital	**—**	(30,000)		
	(24,996)	(30,000)		
Cash and cash equivalents	**381,832**	356,963	**7,733**	30,509
Cash and cash equivalents and pledged deposits denominated in:				
— RMB	**413,207**	410,561	**6,843**	—
— USD	**2,038**	51	**20**	21
— HKD	**1,360**	31,003	**870**	30,488
— SGD	**1,473**	2,648	**—**	—
	418,078	444,263	**7,733**	30,509

The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between seven days and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

26. TRADE PAYABLES

An aged analysis of the Group's trade payables, based on the invoice date, as at the reporting date is as follows:

	Group	
	2011 RMB'000	2010 RMB'000
Within 3 months	**87,803**	29,339
3 to 6 months	**6,138**	9,643
6 months to 1 year	**438**	28,434
1 to 2 years	**641**	941
	95,020	68,357

Included in the trade payables for the year ended 31 December 2010 was an amount of RMB809,000 due to a related party, which was repayable within 90 days, representing similar credit terms to those offered by the related party to its major customers.

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

27. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Receipt in advances from customers	**73,401**	13,634	**—**	—
Payable on acquisition of property, plant and equipment	**34,442**	10,432	**—**	—
Other tax payables	**4,901**	—	**—**	—
Others	**23,130**	23,762	**16,996**	14,183
	135,874	47,828	**16,996**	14,183

Included in the other payables for the year ended 31 December 2010 was an amount of RMB4,617,000 due to a related party, which was repayable within 90 days, representing similar credit terms to those offered by the related party to its major customers.

28. INTEREST-BEARING BANK LOANS

Group

	2011			2010		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — Unsecured	5.08%-8.53%	2012	50,000	—	—	—
Bank loans — Secured	6.06%-6.88%	2012	194,090	—	—	—
Current portion of long-term bank loans — Unsecured	3.20%	2012	387,710	—	—	—
			631,800			—
Interest-bearing bank loans denominated in RMB			631,800			—

Company

	2011			2010		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Current portion of long-term bank loans — Unsecured	3.20%	2012	387,710	—	—	—
			387,710			—
Interest-bearing bank loans denominated in RMB			387,710			—

28. INTEREST-BEARING BANK LOANS (continued)

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

	Group		Company	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Analysed into:				
Bank loans repayable within one year	**631,800**	—	**387,710**	—

The Group's bank loans of RMB180,090,000 as at 31 December 2011 (2010: Nil) were pledged by certain of the Group's trade receivables amounting to RMB103,024,000 (2010: Nil).

The Group's bank loans of RMB14,000,000 as at 31 December 2011(2010: Nil) were guaranteed by Shengli Steel Pipe Co., Ltd, a related party and independent third parties.

29. DEFERRED INCOME

	Group	
	2011	2010
	RMB'000	RMB'000
Government grants:		
As at 1 January	**—**	—
Acquisition of a subsidiary (note 33)	**12,309**	—
Recognised as other income during the year	**(86)**	—
As at 31 December	**12,223**	—
Less: Current portion	**(258)**	—
Non-current portion	**11,965**	—

In August 2011, Xinjiang Shengli received a government grant of RMB12,330,000 in relation to land use right. Such government grant is recognised as income in equal amounts over the expected useful life of the land use right.

30. SHARE CAPITAL

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

	Number of shares	Issued capital	
		HK$'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 reorganisation*	99,998	10	9
Issue of shares on capitalisation of shareholder's loans*	100,000	10	9
Issue of shares on listing*	600,000,000	60,000	52,914
Issue by capitalisation of the share premium account relating to capitalisation 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**	(9,420,000)	(942)	(786)
As at 31 December 2011	2,480,580,000	248,058	218,786

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

** In April 2011 and June 2011, the Company repurchased 6,450,000 shares and 2,970,000 shares, respectively. These shares had been cancelled by the Company on 18 May 2011 and 1 August 2011, respectively. The total consideration paid to repurchase these shares amounted to HK$13,406,000 (equivalent to RMB11,236,000), of which HK$942,000 (equivalent to RMB786,000) and HK$12,464,000 (equivalent to RMB10,450,000) were debited to the Company's issued capital and share premium account, respectively.

31. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Company

	Share premium RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
As at I January 2010	1,034,387	—	(13,878)	1,020,509
Loss for the year	—	—	(41,720)	(41,720)
Issue of new shares	166,231	—	—	166,231
Transaction costs attributable to overallotment of shares	(6,213)	—	—	(6,213)
Share premium	4,353	—	—	4,353
Final 2009 dividend declared	(43,590)	—	—	(43,590)
Share-based payment	—	13,296	—	13,296
As at 31 December 2010 and 1 January 2011	1,155,168	13,296	(55,598)	1,112,866
Loss for the year	—	—	(22,842)	(22,842)
Repurchase of shares	(10,450)	—	—	(10,450)
Final 2010 dividend declared	(21,817)	—	—	(21,817)
Share-based payment	—	5,547	—	5,547
As at 31 December 2011	1,122,901	18,843	(78,440)	1,063,304

32. SHARE-BASED PAYMENTS

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme include the Company's directors and other employees of the Group. The Scheme became effective on 10 February 2010 and, unless otherwise cancelled or amended, will remain in force for 10 years from that date.

The maximum number of unexercised share options currently permitted to be granted under the Scheme is an amount equivalent, upon their exercise, to 0.96% of the shares of the Company in issue at any time. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 0.28% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

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 in total by the grantee.

The exercise price of share options is determinable by the directors, but may not be less than the higher of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

Pursuant to the Company's announcement on 10 February 2010, the Company granted to eligible participants 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

32. SHARE-BASED PAYMENTS (continued)

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 values 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.

Details of the share options outstanding during the year are as follows:

	Number of share options
Granted on 10 February 2010 and outstanding as at 31 December 2010	24,000,000
Forfeited during the year	(1,500,000)
Outstanding as at 31 December 2011	22,500,000

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 recognised in the income statement with a corresponding adjustment to the share option reserve.

For the year ended 31 December 2011, the Group recognised share-based payments of RMB5,547,000 (2010: RMB13,296,000), which have been charged to the consolidated statement of comprehensive income.

33. BUSINESS COMBINATION

On 12 August 2011, Shandong Shengli entered into an agreement with Huayou Xingye (Xinjiang) Oil Equipment Manufacturing Co., Ltd. ("Huayou Xinjiang") and a shareholder of Huayou Xinjiang, pursuant to which Shandong Shengli and Beijing Huayou Xingye Energy Investment Co., Ltd., one of the shareholders of Huayou Xinjiang, subscribed by contribution of cash of RMB99,000,000 and RMB1,000,000, respectively, in the registered capital of Huayou Xinjiang. Upon the completion of the capital contribution on 13 September 2011, Shandong Shengli acquired 56.428% of equity interests in Huayou Xinjiang. Huayou Xinjiang became an indirect non-wholly-owned subsidiary of the Company by virtue of the Company's control over it. Huayou Xinjiang was renamed as Xinjiang Shengli Steel Pipe Co., Ltd. on 18 October 2011.

The fair values of the identifiable assets and liabilities of Huayou Xinjiang as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Property, plant and equipment	106,545
Prepaid land lease payments	12,134
Deferred tax assets	4,995
Inventories	405
Trade and bills receivables	164
Prepayments, deposits and other receivables	112,865
Cash and cash equivalents	90
Interest-bearing bank loans	(5,000)
Government grants	(12,309)
Trade payables	(172)
Other payables and accruals	(54,206)
Tax payable	(3,154)
Non-controlling interests	(70,742)
Net assets	91,615
Goodwill arising on acquisition	7,385
	99,000
Satisfied by:	
Cash	99,000

The goodwill is mainly derived from expected synergies from combining operation of Shandong Shengli and Huayou Xinjiang.

33. BUSINESS COMBINATION (continued)

The fair value of trade and bills receivables and prepayments, deposits and other receivables as at the date of acquisition amounted to RMB164,000 and RMB112,865,000 respectively. The gross contractual amounts of trade and bills receivables and prepayments, deposits and other receivables were RMB164,000 and RMB112,865,000, respectively.

The Group incurred transaction costs of RMB180,000 for this acquisition. These transaction costs have been expensed and are included in Administrative expenses in the consolidation income statement.

An analysis of the cash flows in respect of the acquisition of Huayou Xinjiang is as follows:

	RMB'000
Cash consideration	99,000
Cash and bank balances acquired	(90)
Net outflow of cash and cash equivalents included in cash flows from investing activities	98,910

Since the acquisition, Huayou Xinjiang contributed a loss of RMB2,413,000 to the consolidated profit for the year ended 31 December 2011. Had the combination taken place at the beginning of the year, the revenue and the profit of the Group for the year would have been RMB1,821,836,000 and RMB85,974,000, respectively.

34. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its factory properties under an operating lease arrangement for one year.

At 31 December 2011, the Group had future minimum lease receivable under non-cancellable operating leases with its tenant falling due as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Within one year	**212**	—

34. OPERATING LEASE ARRANGEMENTS (continued)

(b) As lessee

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

	Group	
	2011 **RMB'000**	2010 RMB'000
Within one year	**24,850**	6,850
In the second to fifth years, inclusive	**214**	6,850
	25,064	13,700

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

35. COMMITMENTS

(i) Capital commitments

The Group had the following capital commitments for property, plant and equipment and prepaid land lease payments as at the end of the reporting period:

	Group	
	2011 **RMB'000**	2010 RMB'000
Contracted, but not provided for	**60,945**	229,347
Authorised, but not contracted for	**26,000**	—-
	86,945	229,347

35. COMMITMENTS (continued)

(ii) Investment commitments

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

	Group	
	2011 **RMB'000**	2010 RMB'000
Contracted, but not provided for:		
Subsidiary	**204,000**	—

36. 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	**Relationship 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	The major shareholder of the 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 Real Estate Development Co., Ltd. (騰州市第五季房地產開發有限公司)	Associate of the Company
Shenzhen Taihe	Jointly-controlled entity of the Company

36. RELATED PARTY TRANSACTIONS (continued)

(b) Significant related party transactions

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

	Group	
	2011 **RMB'000**	2010 RMB'000
Purchase of materials from Shengli Coating	**—**	809
Rental expense paid to Shengli Steel Pipe	**6,850**	6,850

The rented expenses were made according to an independent valuer's report dated on 2 April 2009.

In addition, the Group's bank loan of RMB9,000,000 was guaranteed by Shengli Steel Pipe as at 31 December 2011.

(c) Commitments with related parties

On 20 December 2011, Shandong Shengli entered into a lease agreement with Shengli Steel Pipe to rent factory premises for production purposes. The annual rental for years 2012, 2013 and 2014 is approximately RMB8.11 million. Details of the operating lease arrangement is disclosed in note 34(b) to the financial statements.

(d) Trade and other payables balances with related parties

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

	Group	
	2011 **RMB'000**	2010 RMB'000
Trade payables:		
Shengli Coating	**—**	809
Other payables:		
Shengli Steel Pipe	**—**	4,617

36. RELATED PARTY TRANSACTIONS (continued)

(e) Compensation of key management personnel

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

	Group	
	2011	2010
	RMB'000	RMB'000
Compensation of key management personnel of the Group:		
Fees	**1,487**	1,529
Salaries, allowances and benefits in kind	**5,077**	3,771
Performance related bonuses	**3,520**	2,977
Social security contributions	**106**	244
Equity-settled share option expense	**4,363**	10,580
	14,553	19,101

Further details of directors' emoluments are included in note 8 to the financial statements.

The related party transactions in respect of item(b) above also constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules.

37. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Group

	2011 RMB'000	2010 RMB'000
Financial assets		
Financial assets at fair value through profit or loss:		
Derivative financial instrument	**75,000**	53,000
Loans and receivables:		
Trade and bills receivables	**685,854**	465,468
Financial assets included in prepayments, deposits and other receivables	**14,891**	17,717
Loan receivable	**300,000**	100,000
Pledged deposits	**36,246**	87,300
Cash and cash equivalents	**381,832**	356,963
	1,418,823	1,027,448
Financial liabilities		
Financial liabilities at amortised cost:		
Trade payables	**95,020**	68,357
Financial liabilities included in other payables and accruals	**23,130**	23,762
Interest-bearing bank loans	**631,800**	—
	749,950	92,119

37. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Company

	2011 RMB'000	2010 RMB'000
Financial assets		
Loans and receivables:		
Financial assets included in prepayments, deposits and other receivables	**213**	213
Cash and cash equivalents	**7,733**	30,509
	7,946	30,722
Financial liabilities		
Financial liabilities at amortised cost:		
Financial liabilities included in other payables and accruals	**16,996**	14,183
Interest-bearing bank loans	**387,710**	—
	404,706	14,183

38. FAIR VALUE AND FAIR VALUE HIERARCHY

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of cash and cash equivalents, pledged deposits, loan receivable, trade and bills receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair values of financial assets at fair value through profit or loss are based on valuation techniques.

The fair values of interest-bearing bank loans have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities. The carrying amounts of the Group's interest-bearing bank loans are RMB631,800,000 (2010: Nil) which approximately equal to the fair values of the interest-bearing bank loans as at 31 December 2011.

38. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Financial assets measured at fair value:

As at 31 December 2011

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial instrument	—	75,000	—	75,000

As at 31 December 2010

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Derivative financial instrument	—	53,000	—	53,000

During the years ended 31 December 2011 and 2010, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank loans, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities, such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency risk. The board reviews and agrees on policies for managing each of these risks and they are summarised below:

Credit risk

Credit risk means the risk of loss in respect of a financial instrument when the counterparty to the financial instrument cannot execute its obligations.

The Group only transacts with those third parties who are recognised as creditworthy. The Group's policy is to perform credit verification for all customers who have transactions with the Group. Further, credit limits, credit terms and sales methods are determined based on the credit ratings of customers.

For sales under credit terms, a sales contract shall stipulate the payment term and credit amounts. The payment date should not exceed the credit term, and the credit amount in aggregate should not exceed the credit limit.

In addition, the Group continuously monitors its trade receivable balance, and insists that salespersons are responsible for cash collection, and the persons who approve sales contracts are accountable for the collection of receivables. For receivables which are not collected in three years, the relevant personnel have the responsibility to make compensation so as to ensure that the Group will not be subject to material bad debt risk.

The Group's other financial assets include cash and cash equivalents, and other receivables. The credit risk of these financial assets arises from default of counterparties who transact with the Group, with a maximum exposure equal to the carrying amounts of these instruments.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

Liquidity risk means the risk that an enterprise may encounter difficulties to obtain adequate financing to repay the debts related to financial instruments. Liquidity risk may arise from liability to dispose of financial assets promptly, or arise from the counterparty who cannot repay its contracted debt obligations, or arise from liability to generate the expected cash flows.

The Group's objectives are to maintain a balance between continuity and flexibility through measures such as bills settlement, loans and short-term commercial paper, to adopt an appropriate combination of long-term and short-term financing, and to improve the financing structure.

The Group has already obtained banking facilities from various commercial banks for its working capital and capital expenditure.

The Group's management monitors the working capital position to ensure that there is adequate liquidity to meet with all the financial obligations when they become due and to maximise the return of the Group's financial resources.

The table below summarises the maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments:

Group

2011

	Within one year or on demand RMB'000	In the second year RMB'000	In the third to fifth years, inclusive RMB'000	Beyond five years RMB'000	Total RMB'000
Interest-bearing bank loans	631,800	—	—	—	631,800
Trade payables	95,020	—	—	—	95,020
Financial liabilities included in other payables and accruals	23,130	—	—	—	23,130
	749,950	—	—	—	749,950

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Group

2010

	Within one year or on demand RMB'000	In the second year RMB'000	In the third to fifth years, inclusive RMB'000	Beyond five years RMB'000	Total RMB'000
Trade payables	68,357	—	—	—	68,357
Financial liabilities included in other payables and accruals	23,762	—	—	—	23,762
	92,119	—	—	—	92,119

The table below summarises the maturity profile of the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments:

Company

2011

	Within one year or on demand RMB'000	**In the second year RMB'000**	**In the third to fifth years, inclusive RMB'000**	**Beyond five years RMB'000**	**Total RMB'000**
Interest-bearing bank loans	**387,710**	—	—	—	**387,710**
Financial liabilities included in other payables and accruals	**16,996**	—	—	—	**16,996**
	404,706	—	—	—	**404,706**

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company

2010

	Within one year or on demand RMB'000	In the second year RMB'000	In the third to fifth years, inclusive RMB'000	Beyond five years RMB'000	Total RMB'000
Financial liabilities included in other payables and accruals	14,183	—	—	—	14,183

Interest rate risk

Interest rate risk means the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group did not have any long-term bank loans with a floating interest rate during the years ended 31 December 2011 and 2010, so the Group was not exposed to the risk of changes in market interest rates.

Foreign currency risk

Foreign currency risk means the risk of fluctuations in the fair value or future cash flows of financial instruments which arise from changes in exchange rates.

The Group's businesses are mainly located in the Mainland China and are mainly transacted and settled in Renminbi, so the Group was not exposed to the foreign currency risk.

39. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the year.

The Group monitors capital using a gearing ratio, which is net debt divided by the total capital plus net debt. Net debt includes interest-bearing bank loans, trade payables and other payables and accruals, less cash and cash equivalents and pledged deposits. Capital includes equity attributable to owners of the parent.

The Group's strategy was to maintain the gearing ratio at a healthy capital level in order to support its business. The principal strategies adopted by the Group include, without limitation, reviewing the future cash flow requirement and the ability to meet debt repayment schedules when they fall due, maintaining a reasonable level of available banking facilities and adjusting investment plans and financing plans, if necessary, to ensure that the Group has a reasonable level of capital to support its business. The gearing ratios at 31 December 2011 and 2010 were as follows:

	Group	
	2011	2010
	RMB'000	RMB'000
Interest-bearing bank loans	**631,800**	—
Trade payables	**95,020**	68,357
Other payables and accruals	**135,874**	47,828
Less: Cash and cash equivalents and pledged deposits	**(418,078)**	(444,263)
Net debt	**444,616**	(328,078)
Equity attributable to the equity holders	**2,027,940**	1,961,666
Capital and net debt	**2,472,556**	1,633,588
Gearing ratio	**18%**	(20%)

40. EVENTS AFTER THE REPORTING PERIOD

(i) On 3 January 2012, the Company made an announcement on the grant of new share options, pursuant to which the Company granted to eligible participants (the "Grantees") an aggregate of 24,000,000 share options (the "Share Options") to subscribe for ordinary shares of HK$0.1 each in the share capital of the Company (the "Share(s)"), subject to acceptance of the Grantees, under the share option scheme adopted by the Company on 21 November 2009. The Grantees include directors and other employees of the Company. The Share Options granted will vest in the proposed Grantee with a 10-year exercise period. Each Share Option shall entitle the holder of the Share Option to subscribe for one Share upon exercise of such Share Option at an exercise price of HK$0.80 per Share.

(ii) On 12 January 2012, the Company and its subsidiary CPE (collectively as "Party B") entered into an non-legally binding memorandum of undertaking ("MOU") with Opes Asia Development Limited ("Opes Asia") and its wholly-owned subsidiary, Master Score Investments Limited ("Master Score") (collectively as "Party A"), pursuant to which Party B will assist Party A to complete an investment primarily manufacturing advanced pipelines located in Hunan, the PRC. In addition, pursuant to the MOU, Party A will pay the Earnest Deposit in the amount of RMB20,000,000 (or HK$ equivalent) to CPE upon the execution of the MOU. The Earnest Deposit will be refunded to Party A if the investment considered under the MOU does not proceed under certain situations. CPE received the Earnest Deposit of RMB20,000,000 in January 2012.

(iii) On 17 February 2012, the Company made an announcement on the extension of the entrusted loan of RMB300 million. Pursuant to the announcement, the loan receivable of RMB300 million expired on 27 January 2012 and an extension agreement was entered into by Shandong Shengli and the borrower on 17 February 2012. The expiry date is extended to 31 July 2012 and the borrower will repay the principal amount by four instalments according to the following schedule: (i) RMB70 million before 30 April 2012; (ii) RMB25 million before 31 May 2012; (iii) RMB25 million before 30 June 2012; and (iv) RMB180 million before 31 July 2012. The interest rate and its adjustment mechanism remain the same as set out in the original entrusted loan agreement. The extended loan is guaranteed by three different parties, including two parties who provided guarantees during the original term loan and one new guarantee. The directors believe that the credit risks of the Group in connection with extending the loan have been properly addressed. The directors are of the opinion that the terms of the entrusted loan extension agreement are fair and reasonable and in the interest of the Company and its shareholders as a whole.

41. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform with the current year's presentation.

42. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 10 March 2012.