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

2012 Interim Report

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Bizhuang *(Chairman and Chief Executive Officer)*
Mr. Jiang Yong *(Vice President)* (appointed on 9 August 2012)
Mr. Wang Xu *(Vice President)* (resigned on 9 August 2012)
Mr. Liu Yaohua *(Vice President)*
Ms. Han Aizhi *(Vice President)*
Mr. Song Xichen *(Vice President)* (appointed on 1 April 2012)

Non-executive Director

Mr. Yan Tangfeng

Independent non-executive Directors

Mr. Huo Chunyong
Mr. Guo Changyu
Mr. Leung Ming Shu, *FCCA, FCPA*

AUDIT COMMITTEE

Mr. Leung Ming Shu *(Chairman)*, *FCCA, FCPA*
Mr. Yan Tangfeng
Mr. Huo Chunyong

REMUNERATION COMMITTEE

Mr. Huo Chunyong *(Chairman)*
Mr. Yan Tangfeng
Mr. Leung Ming Shu, *FCCA, FCPA*

NOMINATION COMMITTEE

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

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

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PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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183 Queen's Road Central,
Hong Kong

PRINCIPAL BANKERS

Industrial & Commercial Bank of China
China Construction Bank
Bank of China
Industrial and Commercial Bank of China (Asia)
The Hong Kong 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

Main Board

The Stock Exchange of Hong Kong Limited

STOCK CODE

1080

COMPANY WEBSITE

www.slogp.com

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB617,431,000, representing an increase of approximately 45.0% compared to the corresponding period in 2011.

- Profit and total comprehensive income for the period was approximately RMB9,821,000, representing a decrease of approximately 19.7% compared to the corresponding period in 2011.

- Gross profit margin was 4.8%, representing a decrease of approximately 1.9 percentage points compared to the corresponding period in 2011.

- Basic earnings per share attributable to equity holders of the Company was approximately RMB0.50 cents.

- The Board does not recommend the declaration of interim dividend for the six months ended 30 June 2012.

CHAIRMAN'S STATEMENT

To the Shareholders,

I would like to present the unaudited results of the Company for the interim period ended 30 June 2012 to the Shareholders on behalf of the Board.

Although we recorded a growth in revenue in the first half of the year when compared to the same period last year, there was a fall in our profit as compared to the same period in 2011 as a result of increased expenditure. However, with the commencement and construction of a number of projects, including the Third West to East Natural Gas Pipeline (西氣東輸三綫), China-Myanmar Natural Gas Backbone Pipeline (中緬天然氣幹綫) and China-Asia Line C (中亞C綫), and the launch of construction of oil and gas pipeline network according to the "12th Five-Year Plan", along with the gradual commencement of production for the pipeline projects won by the Group in the second half of the year, we believe the business development in the second half of the year will resume to a desirable level.

Meanwhile, the wide use of natural gas, being high-quality clean energy, will help raise the quality of people's lives while reducing pollution emissions. Currently, the proportion of natural gas consumption in China's energy consumption structure is far below the world level. We believe natural gas will secure a higher proportion in the future energy consumption.

BENEFITING FROM THE "12TH FIVE-YEAR PLAN" AND BLESSED WITH PROMISING OUTLOOK

By the end of the first half of 2012, the total length of oil and gas pipelines in China has reached over 93,000 km, contrasting to less than 30,000 km in 2004, which reflected the rapid development of oil and gas pipelines in China. During the "12th Five-Year Plan" period, the construction of four major strategic channels for oil and gas import in China will further accelerate. The Sino-Kazakhstan Crude Oil Pipeline Phase II (中哈原油管道二期) and China-Asia Natural Gas Pipeline Phase II (中亞天然氣管道二期) will soon commence construction. The Sino-Russian Natural Gas Pipeline (中俄天然氣管道) is currently under planning. In respect of the construction of national oil and gas backbone pipeline networks in China, the Third and Fourth West to East Natural Gas Pipelines (西氣東輸三綫、四綫) will be constructed, and other backbone gas pipelines including the West to East Natural Gas Pipeline (西氣東輸綫), Shaanxi-Beijing Line (陝京綫) and Sichuan-to-East China Gas Project (川氣東送項目) will be further extended and improved. The total length of oil and gas pipelines in China is expected to reach about 150,000 km by 2015. As such, it is anticipated that the demand for pipelines will remain very robust. Capitalizing on the past experience in participating in a number of large national pipeline projects, the Group believes it is well-positioned to secure more pipeline projects and is well prepared to grasp future opportunities in the industry.

Benefiting from the commencement of the construction of large-scale pipeline projects, in March 2012, the Group won an open tender for the supply of 17,240 tonnes of spiral submerged arc welded ("SSAW") pipes and the provision of related anti-corrosion services to China Petroleum Materials Corporation for the Horgos-Changji Branch Line (霍爾果斯 — 昌吉支綫) of the Third West to East Natural Gas Pipeline (西氣東輸三綫). The total contract price amounts to approximately RMB160 million. In July, the Group entered into contracts for the supply of 10,300 tonnes and 85,000 tonnes of SSAW pipes for the China section of the China-Myanmar Natural Gas Pipeline (中緬天然氣管道中國段) and the Uzbekistan section of the China-Asia Line C (中亞C綫烏茲別克斯坦段), respectively, for a contract price of approximately RMB100 million and RMB630 million respectively. Production for these contracts will commence successively in the next six months.

CAPTURING OPPORTUNITIES WITH WELL-DESIGNED BUSINESS PLANNING

In April 2012, the headquarters for the Sinopec Coal-based Natural Gas External Transmission Pipeline Project (中石化煤制天然氣外輸管道項目) was set up in Urumqi, Xinjiang province. The establishment of the project marks Sinopec's efforts in building the world's largest coal-based natural gas production base with the highest conversion efficiency in Xinjiang. Meanwhile, in order to meet the demand for external transmission of coal-based natural gas, two transmission pipelines connecting Xinjiang and coastal areas will be built. One of which is the Xinjiang-Guangdong-Zhejiang Pipeline (新粵浙管道) which connects Xinjiang and Guangdong and Zhejiang, and the other is the Xinjiang-Shandong Pipeline (新魯管道) which connects Xinjiang and Shandong. The Xinjiang-Guangdong-Zhejiang Pipeline (新粵浙管道) covers a total length of approximately 8,200 km, with a total investment of approximately RMB159.0 billion and is planned to be put into operation within the "12th Five-Year" period. The Xinjiang-Shandong Pipeline (新魯管道) covers a total length of approximately 4,400 km, with a total investment of approximately RMB86 billion. As one of the two pipe manufacturing contractors of Sinopec, the Company accounted for 85% of the SSAW pipes it purchased. With our excellent track record in product delivery, the Company believes that more sizeable contracts will be secured from Sinopec in future.

Furthermore, the Group acquired 56.428% of the equity interests of Xinjiang Shengli Steel Pipe Co., Ltd.* (新疆勝利鋼管有限公司) ("Xinjiang Shengli") in August 2011, which is now well equipped for the production of high standards oil and gas transmission pipes, with an annual production capacity of 150,000 tonnes of SSAW pipes. The Company has assigned key technicians to assist the adjustment of the production line to get fully prepared for the production of major pipelines. Riding on its exceptional advantage in terms of geographical location, Xinjiang Shengli is well-positioned to undertake the pipeline production undertakings as mentioned above.

The construction of Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) ("Hunan Shengli"), a non-wholly owned subsidiary of the Group, is progressing well. Following the completion of the pre-land formation work and the execution of major equipment procurement contracts, construction of the plant has already commenced. Upon completion of the construction, Hunan Shengli will have an annual production capacity of 200,000 tonnes of longitudinal submerged arc welded ("LSAW") pipes and 300,000 tonnes of SSAW pipes, which will bring the total annual production capacity of SSAW pipes of the Group to 1.45 million tonnes. The commencement of LSAW production will further optimize the Group's products offering portfolio. The production capacity growth of SSAW pipes will further solidate the Company's foundation to explore the markets and undertake large-scale pipeline construction projects.

With the development of the natural gas industry, the requirement for transportation equipment of oil and gas pipelines also becomes higher. The Group was the first in China to import a pre-welding and precision-welding SSAW pipes production line that represents the highest technical level of its kind in China. The annual production capacity of this production line is 360,000 tonnes. In March 2012, using the pre-welding and precision-welding production line, the Group successfully produced steel pipes with specification of X80 steel grade and ϕ1422 × 21.4 mm during its trial production, which are pipes with the highest quality materials, the maximum wall thickness and the largest pipe diameter that can be produced in China at present. At the same time, steel pipes with specification of X100 steel grade and ϕ1422 × 16 mm are also under smooth and successful trial production. The pre-welding and precision-welding production line has produced 1.5 million tonnes of SSAW pipes in six specifications during the first half of the year, some of which have been delivered to the Third West to East Natural Gas Pipeline (西氣東輸三綫) in batches. Meanwhile, most of the work for the construction of the ancillary production line for anti-corrosion service has been completed. The expansion of the pre-welding and precision-welding production line is a testimony of both our capability to produce high-quality products, and our distinct edges in the future market competition.

CHAIRMAN'S STATEMENT (cont'd)

At present, the Group's overall business planning in the east, the central and south and the northwest of China, has greatly broadened the Group's product reach, and put us in geographical advantages for undertaking new projects for the Xinjiang-Guangdong-Zhejiang Pipeline (新粵浙管道) and the Xinjiang-Shandong Pipeline (新魯管道) in the future, thereby laying a solid foundation for our rapid development during the "12th Five-Year Plan" period.

REINFORCING THE IMPLEMENTATION OF TECHNOLOGY-DRIVEN STRATEGY BY STEPPING UP SCIENTIFIC RESEARCH EFFORTS

The Group always values the importance of training and recruiting technology talents, with a view to improving its independent innovation capability as well as technological innovation level. Relying on the formation of Shandong Province Technology Research Center for Oil and Natural Gas Transmission Steel Pipes, we have speeded up the adoption and research of new pipe technologies. During the first half of the year, the Group has applied for five utility model patents and one invention patent, all of which are being processed by the national patent offices.

In May 2012, the Group successfully passed the annual inspection recognized by the national laboratories. Our application for the recognition of the Company as a provincial high-tech enterprise are now at the review stage by the Science and Technology Department of Shandong Province (山東省科技廳). Meanwhile, the preliminary preparation has also been carried out for the Company's application for academician workstations (院士站).

In the future, it is our vision to foster the development of China's gas industry through our diligence and dedication as well as quality products, thereby contributing to the adjustment of the energy structure in China. We will also endeavour to create value for the society as well as the Shareholders and employees by making continuous progress and pursuing excellence.

Zhang Bizhuang
Chairman, Executive Director and Chief Executive Officer

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

During the interim period, the Group's two core business segments, namely, (1) SSAW pipes business (including anti-corrosion service business) reported a turnover of RMB552,396,000 (for the six months ended 30 June 2011: RMB324,703,000), representing an increase of approximately 70.1%, and (2) cold-formed section steel business reported a turnover of RMB65,035,000 (for the six months ended 30 June 2011: RMB101,021,000), representing a decrease of approximately 35.6%.

SSAW pipes business

The Group is one of the few suppliers of SSAW pipes in China 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 ("Qualified Manufacturers") to provide services to China's major oil and gas companies, the Group is the only privately owned enterprise. The Group's annual SSAW pipes production capacity has reached 1,150,000 tonnes. The Directors believe that the Group accounted for about one-third of the total production capacity of all Qualified Manufacturers of SSAW pipes.

As at 30 June 2012, a total length of approximately 21,300 km of the Group's SSAW pipes were installed in the world's major oil and gas pipelines, of which 94.4% were installed in China and the remaining 5.6% were installed abroad. During the interim period, the Group participated in production of SSAW pipes for a number of national pipeline projects, including the Third West to East Natural Gas Pipeline (西氣東輸三綫), the domestic section of Sino-Myanmar Oil and Gas Pipeline (中緬油氣管綫國內段) and Changqing-Huhhot Pipeline (長慶至呼和浩特管綫); as well as a number of regional branch pipeline projects, including Yantai Port-Zibo Pipeline (烟台港至淄博管綫) and Beijing Gas Pipeline (北京燃氣管綫). The Group has also provided anti-corrosion services for various projects, such as the Third West to East Natural Gas Pipeline (西氣東輸三綫), the domestic section of Sino-Myanmar Oil and Gas Pipeline (中緬油氣管綫國內段), Changqing-Huhhot Pipeline (長慶至呼和浩特管綫), Yantai Port-Zibo Pipeline (烟台港至淄博管綫), Shanghai Judeyuan Pipeline (上海聚德源管綫) and Liaoning-Datang Pipeline (遼寧大唐管綫).

For the six months ended 30 June 2012, the total turnover derived from the Group's SSAW pipes business amounted to RMB552,396,000 (for the six months ended 30 June 2011: RMB324,703,000), representing approximately 89.5% of the Group's total turnover (for the six months ended 30 June 2011: 76.3%). 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 RMB512,060,000 (for the six months ended 30 June 2011: RMB288,997,000), representing an increase of approximately 77.2%. Turnover from processing services of SSAW pipes was RMB1,191,000 (for the six months ended 30 June 2011: RMB4,736,000), representing a decrease of 74.8% when compared to the same period last year.

For the six months ended 30 June 2012, the turnover of anti-corrosion treatment services was RMB39,144,000 (for the six months ended 30 June 2011: RMB30,985,000), representing an increase of 26.3% when compared to the same period last year. The growth is relatively low compared to the growth rate of 70.1% for the overall revenue for SSAW pipes, which was due to the drop in the number of national pipeline projects and in the demand for anti-corrosion services from regional branch pipeline projects.

For the six months ended 30 June 2012, the total sales volume of SSAW pipes was 82,132 tonnes (for the six months ended 30 June 2011: 65,066 tonnes), representing an increase of 26.2%. Among all the sales of SSAW pipes, sales to national pipeline projects decreased to 47.4% from 55.6% last year.

Sales volume (tonnes)	First half of 2012	First half of 2011	Change (%)
Sales of SSAW pipes	79,891	56,094	+42.4%
Processing services of SSAW pipes	2,241	8,972	–75.0%
Total	82,132	65,066	+26.2%
Anti-corrosion services (square meters)	712,555	542,430	+31.4%

The annual production capacity for SSAW pipes of the Group increased to 1,150,000 tonnes during the interim period from 640,000 tonnes in 2011, therefore, the utilization rate of the production facilities for SSAW pipes decreased to 25.5% from 28.3% of the same period last year, despite the increased sales volume.

Cold-formed section steel

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

For the six months ended 30 June 2012, the revenue from cold-formed section steel business amounted to RMB65,035,000 (for the six months ended 30 June 2011: RMB101,021,000) (which was all generated from sales business), representing a decrease of 35.6% when compared to the same period last year. The decrease in turnover was mainly due to depression in automobile industry and housing property industry in the PRC.

Sales volume (tonnes)	The first half of 2012	The first half of 2011	Change (%)
Cold-formed section steel	15,101	21,098	–28.4%

Other business

In order to procure growth both in business and earnings, the Company has been gradually extending its business to and expanding its product offerings for 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 25% of the equity interests in Beijing Golden Fortune Investment Co., Ltd. (北京慧基泰展投資有限公司 ("Beijing Golden Fortune")), a domestic company engaged in natural gas distribution and natural gas pipeline construction. During the period under review, the business of Beijing Golden Fortune recorded a loss mainly due to the delay in the Wujiang project in Jiangsu (江蘇吳江項目) and decrease in natural gas transmission volume of its subsidiary in Henan, and the Group's share of loss amounted to RMB3,810,000.

FUTURE PROSPECTS

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 (中衛貴陽管綫), the Third and Fourth West to East Natural Gas Pipelines (西氣東輸管道第三綫和四綫) and the Sino-Russian Natural Gas Pipeline Project (中俄天然氣管道工程). The government's support on the oil and gas pipeline industry conveyed in the "12th Five-Year Plan" indicates that the industry will embrace another round of robust 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 a sustainable growth of its earnings in the future.

By thoroughly digesting, absorbing and mastering the pre-welding and precision-welding production technology, the Company will put unwavering efforts to enhance its technological level, carving 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 to East Natural Gas Pipeline Project (西氣東輸二綫工程), 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 to 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 approximately 8,200 km, and the Xinjiang-Shandong Pipeline (新魯管道) of approximately 4,400 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, 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 established by 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, the Company 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 be actively seeking 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 unaudited turnover for the six months ended 30 June 2012 was RMB617,431,000, representing an increase of approximately 45.0% when compared to RMB425,724,000 in the same period of last year. The increase was mainly attributable to a 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 last year after the development goals for the industry were confirmed in the "12th Five-Year Plan". For the six months ended 30 June 2012, the Group's two core businesses, namely, (1) SSAW pipes business reported a revenue of RMB552,396,000 (for the six months ended 30 June 2011: RMB324,703,000), representing an increase of approximately 70.1% when compared to the same period of last year, and (2) cold-formed section steel business recorded a revenue of RMB65,035,000 (for the six months ended 30 June 2011: RMB101,021,000), representing a decrease of approximately 35.6% when compared to the same period of last year.

Cost of sales

The Group's cost of sales increased by 48.0% from RMB397,335,000 for the six months ended 30 June 2011 to RMB587,975,000 for the six months ended 30 June 2012. The increase was primarily due to the growth in both production and sales volume when compared to 2011.

Gross profit

During the interim period, the gross profit of the Group increased from RMB28,389,000 for the six months ended 30 June 2011 to RMB29,456,000 for the six months ended 30 June 2012. However, the gross profit margin of the Group decreased from 6.7% for the six months ended 30 June 2011 to 4.8% for the six months ended 30 June 2012. The decrease in gross profit margin was primarily due to the loss incurred by an 11,200 tonnes pipeline project brought forward from 2011 which held back the overall gross margin of the Group, as well as the substantial contraction in processing business.

Other income and gains

Other income of the Group was RMB58,041,000 for the six months ended 30 June 2012, representing an increase of 68.6% as compared to the same period last year, which was mainly due to the fair value gain of RMB18,000,000 from the derivative financial instrument related to Beijing Golden Fortune. The largest contribution was from the interest income of entrusted loans which amounted to approximately RMB27,846,000 (for the six month ended 30 June 2011: RMB22,586,000).

Selling and distribution expenses

Selling and distribution expenses of the Group increased from RMB8,088,000 for the six months ended 30 June 2011 to RMB9,587,000 for the six months ended 30 June 2012. The increase in selling and distribution expenses was mainly due to (i) the increase in the sales volume, and (ii) the growth in the number of regional pipeline projects and some of the contracts required the Group to undertake the transportation costs which had increased the cost of sales.

Administrative expenses

The Group's administrative expenses increased by 39.0% from RMB24,896,000 for the six months ended 30 June 2011 to RMB34,597,000 for the six months ended 30 June 2012. The increase in administrative expenses was attributable to the additions of Xinjiang Shengli and Hunan Shengli into the Group's financial statements.

Finance costs

The finance costs of the Group increased by 327.5% from RMB4,314,000 for the six months ended 30 June 2011 to RMB18,443,000 for the six months ended 30 June 2012, which primarily represented interest on bank loans that were payable within the period. The increase was mainly due to the increase of the bank loans of the Group since the second quarter of 2011, which increased to RMB730,510,000 as at 30 June 2012 from nil as at 1 January 2011.

Income tax expenses

As a foreign invested enterprise, Shandong Shengli Steel Pipe Co., Ltd. ("Shandong Shengli", 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 three years from 2010 to 2012, which brought the Group's enterprise income tax rate for the period under review to 12.5%.

Profit for the year

The profit of the Group decreased from RMB12,230,000 for the six months ended 30 June 2011 to RMB9,821,000 for the six months ended 30 June 2012. The decrease was primarily due to (i) the increase in depreciation expenses of new production lines; (ii) the increase in operating expenses incurred by new subsidiary companies, Xinjiang Shengli and Hunan Shengli, (iii) the increase in finance costs and (iv) the loss recorded by Beijing Golden Fortune.

Assets and liabilities

As of 30 June 2012, the total assets of the Group were approximately RMB3,164,797,000 (as of 31 December 2011: RMB3,042,491,000) and the net assets of the Group were approximately RMB2,176,261,000 (as of 31 December 2011: RMB2,145,819,000). Net assets per share amounted to RMB0.877, representing an increase of RMB0.012 when compared to that of 31 December 2011. The total liabilities of the Group were RMB988,536,000 as of 30 June 2012 (as of 31 December 2011: RMB896,672,000). The increase in total liabilities was due to the new bank loans of RMB635,722,000 and increase in trade payable and advances from customers.

The increase in inventory, advances to suppliers and advances from customers as of 30 June 2012 was driven by the increase in sales orders towards the end of the reporting period. There is no inventory risk since all inventories were made based on actual sales orders.

Liquidity and financial resources

As of 30 June 2012, cash and cash equivalents of the Group amounted to approximately RMB376,692,000 (As of 31 Dec 2011: RMB381,832,000). As of 30 June 2012, the Group had interest-bearing bank loans of approximately RMB730,510,000 (As of 31 Dec 2011: RMB631,800,000).

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 of 30 June 2012, the gearing ratio of the Group was 18% (As of 31 Dec 2011: 18%).

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 of 30 June 2012.

Financial management and fiscal policy

During the six months ended 30 June 2012, 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.

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 of 30 June 2012, the Group employed a work force of 1,335 employees (including Directors).

INTERIM DIVIDEND

The Board does not recommend the declaration of interim dividend for the six months ended 30 June 2012 (period for the six months ended 30 June 2011: nil).

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

As at 30 June 2012, the interests or short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provision of the SFO) or which were required to be recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as follows:

(i) Interests in issued shares and underlying shares

Name of director	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
Jiang Yong	Interest in a controlled corporation(1)	620,000,000	24.99%
Yan Tangfeng	Interest in a controlled corporation(2)	393,563,200	15.87%
Zhang Bizhuang	Interest in a controlled corporation(3)	153,130,224	6.173%
	Beneficial owner	8,400,000(8)	0.339%
Wang Xu	Interest in a controlled corporation(4)	37,392,264	1.507%
	Beneficial owner	4,200,000(8)	0.169%
Liu Yaohua	Interest in a controlled corporation(5)	26,708,760	1.077%
	Beneficial owner	2,700,000(8)	0.109%
Han Aizhi	Interest in a controlled corporation(6)	26,708,760	1.077%
	Beneficial owner	4,200,000(8)	0.169%
Song Xichen	Interest in a controlled corporation(7)	26,708,760	1.077%
	Beneficial owner	2,460,000(8)	0.099%

Notes:

(1) Valuable Tactics Development Limited ("Valuable Tactics") holds 620,000,000 shares of the Company. Mr. Jiang Yong owns the entire issued share capital of Valuable Tactics and therefore is deemed to be interested in the shares of the Company held by Valuable Tactics by the virtue of the SFO.

(2) Aceplus Investments Limited ("Aceplus Investments") holds 393,563,200 of the issued shares in the Company. Mr. Yan Tangfeng owns the entire issued share capital of Aceplus Investments and is therefore deemed to be interested in the shares of the Company held by Aceplus Investments by the virtue of the SFO.

(3) Goldmics Investments Limited ("Goldmics Investments") holds 153,130,224 shares of the Company. Mr. Zhang Bizhuang holds 40% interest of the issued share capital of Goldmics Investments, and his spouse Ms. Du Jichun holds the remaining 60% interest. Therefore, Mr. Zhang Bizhuang is deemed to be interested in the shares of the Company held by Goldmics Investments by the virtue of the SFO.

(4) Funsteps International Limited ("Funsteps International") holds 37,392,264 shares of the Company. Mr. Wang Xu owns the entire issued share capital of Funsteps International and is therefore deemed to be interested in the shares of the Company held by Funsteps International by the virtue of the SFO.

(5) Ocean Prosperity Limited ("Ocean Prosperity") holds 26,708,760 shares of the Company. Mr. Liu Yaohua owns the entire issued share capital of Ocean Prosperity and is therefore deemed to be interested in the shares of the Company held by Ocean Prosperity by the virtue of the SFO.

(6) Crownova Limited holds 26,708,760 shares of the Company. Ms. Han Aizhi owns the entire issued share capital of Crownova Limited and is therefore deemed to be interested in the shares of the Company held by Crownova Limited by the virtue of the SFO.

(7) Winfun Investments Limited ("Winfun Investments") holds 26,708,760 shares of the Company. Mr. Song Xichen holds 50% interest of the issued share capital of Winfun Investment and his spouse Ms. Xu Li holds the remaining 50%. Therefore, Mr. Song Xichen is deemed to be interested in the shares of the Company held by Winfun Investments by the virtue of the SFO.

(8) Underlying shares subject to the share options issued pursuant to the Share Option Scheme (as defined below).

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

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

DIRECTORS' RIGHT TO ACQUIRE SHARES

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

SHARE OPTION SCHEME

The Company adopted a Share Option Scheme on 21 November 2009 ("Share Option Scheme"). The purpose of the Share Option Scheme is to give the Eligible Persons (as defined in the 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 ongoing 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, 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 is valid for a period of 10 years from the date of adoption on 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 the termination of the Share Option Scheme as aforesaid, no further options may be granted but the provisions of the Share Option Scheme shall otherwise remain in force and effect. All options granted prior to such termination and remain outstanding 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 setting out 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, 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. 1,500,000 share options held by a member of the senior management were lapsed following his departure in 2011.

In addition, on 3 January 2012, the Board granted 24,000,000 share options to 81 directors, chief executives and other personnel approved by the Board, including three directors of the Company and its subsidiaries, at an exercise price of HK$0.80 per Share under the Share Option Scheme.

For the six months ended 30 June 2012, movements of options granted under the Share Option Scheme are set out below:

Name	Capacity	Exercise Price	Outstanding as at 1 January 2012	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding as at 30 June 2012	Approximate percentage of the issued share capital of the Company as at 30 June 2012	Notes
Directors									
Zhang Bizhuang	Beneficial owner	HK$2.03	7,200,000	0	0	0	7,200,000	0.290%	(1)
Zhang Bizhuang	Beneficial owner	HK$0.80	0	1,200,000	0	0	1,200,000	0.048%	(2)
Wang Xu	Beneficial owner	HK$2.03	3,000,000	0	0	0	3,000,000	0.121%	(1)
Wang Xu	Beneficial owner	HK$0.80		1,200,000	0	0	1,200,000	0.048%	(2)
Liu Yaohua	Beneficial owner	HK$2.03	1,500,000	0	0	0	1,500,000	0.060%	(1)
Liu Yaohua	Beneficial owner	HK$0.80	0	1,200,000	0	0	1,200,000	0.048%	(2)
Han Aizhi	Beneficial owner	HK$2.03	3,000,000	0	0	0	3,000,000	0.121%	(1)
Han Aizhi	Beneficial owner	HK$0.80	0	1,200,000	0	0	1,200,000	0.048%	(2)
Song Xichen	Beneficial owner	HK$2.03	1,500,000	0	0	0	1,500,000	0.060%	(1)
Song Xichen	Beneficial owner	HK$0.80		960,000	0	0	960,000	0.039%	(2)
Employees	Beneficial owner	HK$2.03	6,300,000	0	0	0	6,300,000	0.254%	(1)
Employees	Beneficial owner	HK$0.80	0	18,240,000	0	0	18,240,000	0.735%	(2)
Total			22,500,000	24,000,000	0	0	46,500,000	1.875%	

Note:

(1) The share options granted by the Company are exercisable for 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 are exercisable at HK$2.03 each according to the rules of the Share Option Scheme during the period from 10 February 2010 to 9 February 2020.

(2) The share options granted by the Company are exercisable for 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. 3 January 2012). These share options are exercisable at HK$2.03 each according to the rules of the Share Option Scheme during period from 3 January 2012 to 3 January 2022.

Further details in respect of the Share Option Scheme are disclosed in note 20 to the financial statements.

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

As at 30 June 2012, 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
Valuable Tactics	Beneficial owner	620,000,000	24.99%
Aceplus Investments	Beneficial owner	393,563,200	15.87%
Goldmics Investments	Beneficial owner	153,130,224	6.173%
Du Jichun	Interest in controlled corporation[1]	153,130,224	6.173%
	Spouse's interest[2]	8,400,000	0.339%

Notes:

(1) Goldmics Investments holds 153,130,224 shares of the Company. Ms. Du Jichun holds 60% interest of the issued shares of Goldmics Investments and his spouse, Mr. Zhang Bizhuang holds the remaining 40% interest. Ms. Du Jichun is therefore deemed to be interested in the shares of the Company held by Goldmics Investments by virtue of the SFO.

(2) Mr. Zhang Bizhuang, the spouse of Ms. Du Jichun has been granted options to subscribe for 8,400,000 shares of the Company under the Share Option Scheme, Ms. Du Jichun is therefore deemed to be interested in Mr. Zhang Bizhuang's options.

Save as disclosed above, as at 30 June 2012, 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.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2012.

CORPORATE GOVERNANCE REPORT

CODE ON CORPORATE GOVERNANCE PRACTICES

The Stock Exchange has made various amendments to the Code on Corporate Governance Practices (the "Former Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules"), and the revised code, namely Corporate Governance Code (the "Revised Code"), became effective on 1 April 2012. The Company has complied with all the applicable code provisions of the Former Code from 1 January 2012 to 31 March 2012 and the Revised Code from 1 April 2012 to 30 June 2012,

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules as the required standard for securities transactions by Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that for the six months ended 30 June 2012, they have complied with the required standards set out in the Model Code and its code of conduct regarding directors' securities transactions.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") was established on 21 November 2009 with written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process. All members of the Audit Committee were appointed by the Board. The Audit Committee currently consists of two independent non-executive directors, namely, Mr. Leung Ming Shu and Mr. Huo Chunyong and one Non-executive Director, namely, Mr. Yan Tangfeng. Mr. Leung Ming Shu serves as the chairman of the Audit Committee. The primary duties of the Audit Committee are to review and monitor the financial reporting procedures of the Group.

The Audit Committee has reviewed the Group's unaudited financial statements for the six months ended 30 June 2012, and reviewed the internal control system and its executive procedures.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed with management and the external auditor the accounting principles and practices adopted by the Group and discussed auditing, internal controls, and financial reporting matters including the review of the unaudited interim financial statements for the period under review. The external auditor has reviewed the interim financial information for the six months ended 30 June 2012 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

PURCHASE, REDEMPTION OR SALE OF SECURITIES

Neither the Company nor any of its subsidiaries sold or redeemed any listed securities of the Company during for the period under review.

CORPORATE GOVERNANCE REPORT (cont'd)

APPRECIATION AND COMMITMENT TOWARDS OUR GOAL

Finally, on behalf of the Board, I would like to take this opportunity to express my gratitude to all shareholders, customers and employees of the Company for their continuous support and encouragement for the Company to overcome difficulties and achieve a success. The Company is positioned in the oil and gas and related equipment and pipeline industry, and has a close connection with the economic and strategic development of the country. With the highest quality and technical standards, unwavering efforts and unswerving dedication to corporate philosophy, we are committed to capturing each and every opportunity, with a view to becoming the leader in the global pipeline industry, thereby creating maximum values and returns for our shareholders.

By order of the Board
Zhang Bizhuang
Chairman, Executive Director and Chief Executive Officer

4 September 2012

INDEPENDENT AUDITORS' REPORT

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安永

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To the shareholders of Shengli Oil & Gas Pipe Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the accompanying interim condensed consolidated financial statements of Shengli Oil & Gas Pipe Holdings Limited (the "Company") and its subsidiaries (collectively the "Group") as at 30 June 2012, which comprise the interim condensed consolidated statement of financial position as at 30 June 2012 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board.

The Directors are responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review. Our report is made solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Ernst & Young
Certified Public Accountants
Hong Kong

18 August 2012

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

	Notes	For the six months ended 30 June 2012 RMB'000 (Unaudited)	30 June 2011 RMB'000 (Unaudited)
REVENUE	3	**617,431**	425,724
Cost of sales		**(587,975)**	(397,335)
Gross profit		**29,456**	28,389
Other income and gains	4	**58,041**	34,430
Selling and distribution expenses		**(9,587)**	(8,088)
Administrative expenses		**(34,597)**	(24,896)
Other expenses		**(4,969)**	(5,872)
Operating profit		**38,344**	23,963
Finance costs	5	**(18,443)**	(4,314)
Share of loss of a jointly-controlled entity		**(69)**	—
Share of loss of an associate		**(3,810)**	(1,450)
PROFIT BEFORE TAX	6	**16,022**	18,199
Income tax expense	7	**(6,201)**	(5,969)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**9,821**	12,230
Profit and total comprehensive income attributable to:			
Owners of the parent		**12,519**	12,230
Non-controlling interests		**(2,698)**	—
		9,821	12,230
Earnings per share attributable to equity holders of the parent			
Basic (RMB cents)	9	**0.50**	0.49
Diluted (RMB cents)	9	**0.50**	0.49

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (UNAUDITED)

30 JUNE 2012

	Notes	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	10	738,828	710,133
Prepaid land lease payments	11	91,754	60,745
Goodwill		9,910	9,910
Interests in an associate	12	239,444	243,254
Available for sale investment	13	15,000	—
Interest in a jointly-controlled entity		17,139	17,208
Derivative financial instrument		93,000	75,000
Deferred tax assets		10,386	9,039
Other assets		39,715	1,322
Total non-current assets		1,255,176	1,126,611
CURRENT ASSETS			
Inventories		350,893	392,741
Trade and bills receivables	14	701,136	685,854
Prepayments, deposits and other receivables	15	184,118	113,280
Loan receivable	16	180,000	300,000
Prepaid land lease payments	11	1,417	1,134
Investment held for sale		—	4,793
Pledged deposits		115,365	36,246
Cash and cash equivalents		376,692	381,832
Total current assets		1,909,621	1,915,880
TOTAL ASSETS		3,164,797	3,042,491
CURRENT LIABILITIES			
Trade payable	17	71,962	95,020
Other payables and accruals	18	133,669	135,874
Tax payable		7,483	15,812
Dividend payable	8	23,317	—
Interest-bearing bank loans	19	730,510	631,800
Deferred income		854	258
Total current liabilities		967,795	878,764
NET CURRENT ASSETS		941,826	1,037,116
TOTAL ASSETS LESS CURRENT LIABILITIES		2,197,002	2,163,727

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

30 JUNE 2012

	Notes	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Deferred income		10,307	11,965
Deferred tax liabilities		10,434	5,943
Total non-current liabilities		20,741	17,908
NET ASSETS		2,176,261	2,145,819
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT			
Issued capital		218,786	218,786
Reserves		1,802,294	1,809,154
		2,021,080	2,027,940
Non-controlling interests		155,181	117,879
TOTAL EQUITY		2,176,261	2,145,819

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

SIX MONTHS ENDED 30 JUNE 2012

	Attributed to owners of the parent									
	Issued capital	Share premium	Statutory surplus reserve (note i)	Share option reserve (note ii)	Other reserve	Retained earnings	Treasury shares	Total	Non-controlling interest	Total equity
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
AS at 1 January 2012 (Audited)	**218,786**	**1,122,562**	**62,484**	**18,843**	**(9)**	**605,274**	**—**	**2,027,940**	**117,879**	**2,145,819**
Total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**	**12,519**	**—**	**12,519**	**(2,698)**	**9,821**
Capital contribution from non-controlling shareholders	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**40,000**	**40,000**
Share-based payment	**—**	**—**	**—**	**3,938**	**—**	**—**	**—**	**3,938**	**—**	**3,938**
Final dividend declared	**—**	**(23,317)**	**—**	**—**	**—**	**—**	**—**	**(23,317)**	**—**	**(23,317)**
AS at 30 June 2012 (Unaudited)	**218,786**	**1,099,245***	**62,484***	**22,781***	**(9)***	**617,793***	**—**	**2,021,080**	**155,181**	**2,176,261**
AS at 1 January 2011 (Audited)	219,572	1,154,829	50,824	13,296	(9)	523,154	—	1,961,666	—	1,961,666
Total comprehensive income for the period	—	—	—	—	—	12,230	—	12,230	—	12,230
Repurchase of shares	(540)	(7,489)	—	—	—	—	—	(8,029)	—	(8,029)
Treasury shares	—	—	—	—	—	—	(3,205)	(3,205)	—	(3,205)
Share-based payment	—	—	—	5,568	—	—	—	5,568	—	5,568
AS at 30 June 2011 (Unaudited)	219,032	1,147,340	50,824	18,864	(9)	535,384	(3,205)	1,968,230	—	1,968,230

* The aggregate of these reserves represents the consolidated reserves of RMB1,802,294,000 (31 December 2011: RMB1,809,154,000) on the interim condensed consolidated statement of financial position.

Notes:

(i) STATUTORY SURPLUS RESERVE

As stipulated by the relevant laws and regulations for foreign investment enterprises in the People's Republic of China (the "PRC"), the Company's PRC 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 of the statutory financial statements of the relevant PRC subsidiaries. The amounts and allocation basis are decided by the Board of Directors of the respective subsidiaries annually. The statutory surplus reserve can be used to make up prior year's cumulative losses, if any, and can be converted into share capital.

(ii) SHARE OPTION RESERVE

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

SIX MONTHS ENDED 30 JUNE 2012

	For the six months ended	
	30 June 2012	30 June 2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash from/(used) in operating activities	**32,436**	(253,262)
Net cash used in investing activities	**(182,875)**	(401,004)
Net cash from financing activities	**120,303**	621,570
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(30,136)**	(32,696)
Cash and cash equivalents at beginning of period	**406,828**	356,963
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**376,692**	324,267

1. CORPORATE INFORMATION

The Company is a limited company incorporated in the Cayman Islands on 3 July 2009. On 21 May 2012, the original ultimate holding company Aceplus Investments Limited ("Aceplus") signed an Equity Transfer Agreement with Valuable Tactics Development Limited ("Valuable Tactics"), pursuant to which Valuable Tactics agreed to subscribe for a 24.99% shares of the Company with a consideration of HK$589 million. The transaction was completed on 26 June 2012. Upon completion of the transaction, Aceplus and Valuable Tactics, both registered in British Virgin Islands, hold 15.87% and 24.99% of shares of the Company, respectively.

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

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

The interim condensed consolidated financial statements of the Group for the six months ended 30 June 2012 have been prepared in accordance with IAS 34 and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange.

The interim condensed consolidated financial statements do not include all the information and disclosures required in annual financial statements, and therefore should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2011.

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

Impact of new and revised IFRSs

The principal accounting policies adopted in the preparation of the interim condensed consolidated financial statements of the Group are consistent with those followed in the preparation of the audited annual financial statements of the Group for the year ended 31 December 2011, except for the adoption of the following new and revised International Financial Reporting Standards ("IFRSs"):

IAS 12 — Deferred Tax: Recovery of Underlying Assets (Amendment)

This amendment to IAS 12 includes a rebuttable presumption that the carrying amount of investment property measured using the fair value model in IAS 40 will be recovered through sale and, accordingly, that any related deferred tax should be measured on a sale basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time, rather than through sale. Specifically, IAS 12 will require that deferred tax arising from a non-depreciable asset measured using the revaluation model in IAS 16 should always reflect the tax consequences of recovering the carrying amount of the underlying asset through sale. Effective implementation date is for annual periods beginning on or after 1 January 2012.

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

Impact of new and revised IFRSs (cont'd)

IFRS 7 — Disclosures — Transfers of financial assets (Amendment)

The IASB issued an amendment to IFRS 7 that enhances disclosures for financial assets. These disclosures relate to assets transferred (as defined under IAS 39). If the assets transferred are not derecognised entirely in the financial statements, an entity has to disclose information that enables users of financial statements to understand the relationship between those assets which are not derecognised and their associated liabilities. If those assets are derecognised entirely, but the entity retains a continuing involvement, disclosures have to be provided that enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. Effective implementation date is for annual periods beginning on or after 1 July 2011 with no comparative requirements.

IFRS 1 — Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendment)

When an entity's date of transition to IFRS is on or after the functional currency normalisation date, the entity may elect to measure all assets and liabilities held before the functional currency normalisation date, at fair value on the date of transition to IFRS. This fair value may be used as the deemed cost of those assets and liabilities in the opening IFRS statement of financial position. However, this exemption may only be applied to assets and liabilities that were subject to severe hyperinflation. Effective implementation date is for annual periods beginning on or after 1 July 2011 with early adoption permitted.

The above amendments to IFRSs standards did not have any impact on the accounting policies, financial position or performance of the Group.

3. REVENUE AND OPERATING SEGMENT INFORMATION

a. Revenue

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

	For the six months ended	
	30 June 2012	30 June 2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sale of goods	**616,239**	420,988
Rendering of services	**1,192**	4,736
	617,431	425,724

b. 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 result of the Group's operating segments separately for the purpose of making decision about resource allocation and performance assessment.

3. REVENUE AND OPERATING SEGMENT INFORMATION (cont'd)

b. Operating segment information (cont'd)

Segment revenue and results

For the six months ended 30 June 2012 (unaudited)

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue				
Sales to external customers	552,396	65,035	—	617,431
Intersegment sales	—	—	—	—
Total revenue	552,396	65,035	—	617,431
Segment results	27,994	(627)	—	27,367
Interest income				27,846
Unallocated expenses				(20,748)
Finance costs				(18,443)
Profit before tax				16,022

For the six months ended 30 June 2011 (unaudited)

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

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

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 segments.

3. REVENUE AND OPERATING SEGMENT INFORMATION (cont'd)

b. Operating segment information (cont'd)

Segment assets

As at 30 June 2012 (unaudited)

	SSAW Pipes Business RMB'000	Cold-formed Steel Section Business RMB'000	Eliminations RMB'000	Total RMB'000
Segment assets	2,553,914	115,160	(640,482)	2,028,592
Unallocated assets				1,136,205
Total consolidated assets				3,164,797

As at 31 December 2011 (audited)

	SSAW Pipes Business RMB'000	Cold-formed Steel Section Business RMB'000	Eliminations RMB'000	Total RMB'000
Segment assets	2,513,658	134,103	(660,892)	1,968,869
Unallocated assets				1,055,622
Total consolidated assets				3,042,491

Geographical information

Revenue from external customers

	For the six months ended 30 June 2012 RMB'000 (Unaudited)	30 June 2011 RMB'000 (Unaudited)
Mainland China	617,431	264,698
Another country	—	161,026
	617,431	425,724

The revenue information above is based on the location of the customers.

Information about major customers

For the six months ended 30 June 2012, revenue of approximately RMB434,586,000 was derived from sales to two customers. For the six months ended 30 June 2011, revenue of approximately RMB161,026,000 was derived from sales to a single customer.

4. OTHER INCOME AND GAINS

	For the six months ended 30 June 2012 RMB'000 (Unaudited)	30 June 2011 RMB'000 (Unaudited)
Interest income	**27,846**	22,586
Fair value gains of derivative financial instrument	**18,000**	1,298
Gain on sales of materials	**7,835**	9,977
Government grants	**1,862**	133
Others	**2,498**	436
	58,041	34,430

5. FINANCE COSTS

	For the six months ended 30 June 2012 RMB'000 (Unaudited)	30 June 2011 RMB'000 (Unaudited)
Interest on interest-bearing bank loans	**18,443**	4,314

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June 2012 RMB'000 (Unaudited)	30 June 2011 RMB'000 (Unaudited)
Cost of inventories sold	**584,850**	392,460
Write-down of inventories to net realizable value	**2,488**	(92)
Cost of services provided	**637**	4,967
	587,975	397,335
Staff costs (including Directors' remuneration):		
Wages, salaries and bonuses	**28,127**	21,046
Retirement benefit scheme contributions	**2,604**	2,216
Welfare and other expenses	**4,206**	2,327
Expense of share-based payments	**3,938**	5,568
	38,875	31,157
Depreciation of property, plant and equipment	**22,901**	14,917
Amortization of prepaid land lease payments	**708**	159
Gains/(losses) on disposal of property, plant and equipment	**112**	(102)
Gains on disposal of an associate	**107**	—
Exchange losses, net	**347**	2,575
Auditors' remuneration	**579**	500

7. INCOME TAX EXPENSE

The major components of income tax expenses are as follows:

	For the six months ended	
	30 June 2012	30 June 2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current income tax:		
Mainland China	**3,057**	7,046
Deferred income tax	**3,144**	(1,077)
	6,201	5,969

No provision for Hong Kong profits tax has been made as the Group did not have any assessable profit arising in Hong Kong for the six months ended 30 June 2012 and 30 June 2011.

The statutory tax rate of China Petro Equipment Holdings Pte Ltd. ("CPE"), a subsidiary of the Company incorporated in the Republic of Singapore ("Singapore"), was 17% for the six months ended 30 June 2012 and 30 June 2011. No provision for Singapore income tax has been made as the income of the Group neither arising in nor derived from Singapore.

The statutory tax rate of Shandong Shengli, 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.

8. DIVIDEND

During the annual general meeting of the Company held on 15 June 2012, the Company's shareholders approved the payment of a final dividend of RMB0.0094 per share (2010: RMB0.00895 per share) for the year ended 31 December 2011.

The Directors do not recommend the declaration of any interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

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

The calculation of the basic earnings per share for the six months ended 30 June 2012 were based on the consolidated profit attributable to equity holders of the parent of approximately RMB12,519,000 (for the six months ended 30 June 2011: RMB12,230,000) and the weighted average number of shares of 2,480,580,000 (for the six months ended 30 June 2011: 2,488,432,044).

Adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 June 2012 in respect of a dilution as the Group had potentially dilutive ordinary shares from key management personnel's equity-settled share option during the period.

10. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2012, the Group acquired property, plant and equipment at a total cost of RMB56,804,000 (for six months ended 30 June 2011: RMB240,676,000).

Property, plant and equipment with a net book value of RMB4,034,000 (six months ended 30 June 2011: RMB542,000) were disposed of by the Group during the six months ended 30 June 2012.

11. PREPAID LAND LEASE PAYMENTS

As at 30 June 2012, 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 RMB69 million (31 December 2011: RMB38 million). The Directors of the Company are of the view that the Group is entitled to legally and validly occupy and use the above-mentioned land in due course, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 30 June 2012.

12. INTERESTS IN AN ASSOCIATE

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Share of net assets	**118,376**	122,186
Goodwill on acquisition	**121,068**	121,068
	239,444	243,254

Particulars of the associate are as follows:

Company name	**Place and date of establishment/operations**	**Registered capital**	**Percentage of equity interest held by the Group**	**Principal activities**
Beijing Golden Fortune Investment Co., Ltd. ("Golden Fortune") (北京慧基泰展投資有限公司)	The PRC/Mainland China 23 May 2006	RMB222,910,000	25%	Natural gas distribution and gas pipeline construction

The following table illustrates the summarized financial information of Golden Fortune:

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Total assets	**1,288,520***	1,314,647
Total liabilities	**(780,753)**	(796,609)
Revenue	**377,492**	487,926
Net losses	**(16,271)**	(18,461)
Goodwill arising on the acquisition of Golden Fortune	**121,068**	121,068

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

13. AVAILABLE FOR SALE INVESTMENT

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
An unlisted equity investment, at cost	15,000	—

On 31 May 2012, Shandong Muxin Investment Co., Ltd. ("Muxin Investment"), a wholly-owned subsidiary of the Company, signed an agreement with Zibo Minan Plastics Co., Ltd. ("Minan"), pursuant to which Muxin Investment agreed to acquire 10% equity interest in Minfu Microfinance Co., Ltd. ("Minfu") from Minan for a consideration of RMB15 million.

As at 30 June 2012, the equity investment in Minfu which was held on behalf by Minan had a carrying amount of RMB15 million and was stated at cost less impairment because the Directors are of the opinion that its fair value cannot be measured reliably. The Group does not intend to dispose the equity investment in the near future.

14. TRADE AND BILLS RECEIVABLES

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Trade receivable	659,228	643,915
Bills receivable	41,908	41,939
	701,136	685,854

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

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

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Within 90 days	534,861	598,796
Over 90 days but within 1 year	113,102	26,497
Over 1 year	11,265	18,622
	659,228	643,915

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Advance to suppliers	**134,131**	64,048
Tender deposits to customers	**5,014**	1,517
Other tax receivables	**19,184**	34,341
Others	**25,789**	13,374
	184,118	113,280

Included in the other receivable as at 30 June 2012 is an amount of RMB14,000 due from a related party.

16. LOAN RECEIVABLE

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Loan receivable, within one year	**180,000**	300,000

The Group's loan receivable represents the entrusted loan granted to a third party (the "Borrower") through a financial institution in the PRC. The entrusted loan carried interest at the rate of approximately 15% per annum which was subject to adjustments to the extent of any changes of interest rate as announced by People's Bank of China for similar loans during the term of the entrusted loan. The loan receivable was fully repaid by the borrower on 16 August 2012.

17. TRADE PAYABLE

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

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Within 90 days	**57,164**	87,803
Over 90 days but within 1 year	**14,337**	6,576
Over 1 year	**461**	641
	71,962	95,020

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

18. OTHER PAYABLES AND ACCRUALS

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Advances from customers	41,733	73,401
Payable on acquisition of property, plant and equipment	70,784	34,442
Other tax payable	2,834	4,901
Others	18,318	23,130
	133,669	135,874

19. INTEREST-BEARING BANK LOANS

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Current bank loans:		
Unsecured	180,000	50,000
Secured	200,139	194,090
Current portion of a long term bank loan — unsecured	350,371	387,710
	730,510	631,800

The interest rates of the bank loans during the six months ended 30 June 2012 ranged from 2.90% to 6.88% per annum (year ended 31 December 2011: from 3.20% to 8.53%).

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

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Time deposits	100,000	—
Trade receivable	—	103,024
	100,000	103,024

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

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
With maturities:		
Within one year	730,510	631,800

19. INTEREST-BEARING BANK LOANS (cont'd)

As at 30 June 2012, a long term bank loan with a carrying amount of approximately RMB275 million was classified under current liabilities as several general undertakings of the relevant bank facility agreement was breached. The Company is in the process of negotiating with the bank to get waivers for the breach and the Directors are of the opinion that the breach will not result in any significant negative impact on the cashflow of the Group.

20. SHARE-BASED PAYMENTS

The Company operates share option schemes for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation. Details of the share options outstanding as at the end of the reporting period are as follows:

		30 June 2012	31 December 2011
Granted on 10 February 2010	(a)	22,500,000	22,500,000
Granted on 3 January 2012	(b)	24,000,000	—
		46,500,000	22,500,000

(a) 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

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%

1,500,000 share options out of the total 24,000,000 share options granted on 10 February forfeited already during 2011.

20. SHARE-BASED PAYMENTS (cont'd)

(b) Pursuant to the Company's announcement on 3 January 2012, 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$0.80 per share.

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

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

The closing price of the Company's shares immediately before 3 January 2012, being the date of grant, was HK$0.80 per share.

The aggregate fair values of the options determined at the date of grant based on the Binomial model, was HK$8,207,638.

The following assumptions were used to calculate the fair values of share options granted on 3 January 2012:

Grant date share price (per share)	HK$0.80
Exercise price (per share)	HK$0.80
Contractual life	10 years
Expected volatility	57.5%
Dividend yield	1.33%
Risk-free interest rate	1.45%

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

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

For the six months ended 30 June 2012, the Group recognized share-based payments of RMB3,938,000 (for the six months ended 30 June 2011: RMB5,568,000), which has been charged to the condensed consolidated statement of comprehensive income.

21. OPERATING LEASE ARRANGEMENTS

(a) As lessor

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

As at the end of the reporting period, the Group had future minimum leases with its tenant falling due as follows:

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Within one year	267	212

(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:

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Within one year	405	24,850
In the second to fifth years, inclusive	130	214
	535	25,064

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

22. COMMITMENTS

(i) Capital commitments

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

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Contracted, but not provided for	200,551	60,945
Authorized, but not contracted for	–	26,000
	200,551	86,945

22. COMMITMENTS (cont'd)

(ii) Investment commitments

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

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Contracted, but not provided for:		
Subsidiary	153,000	204,000
Authorized, but not contracted for:		
Subsidiary	235,476	—

23. RELATED PARTY TRANSACTIONS

(a) Related parties of the Group

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

Name of related party	Relationships with the Company
Shengli Steel Pipe Co., Ltd. ("Shengli Steel Pipe")	Jointly-controlled by a Director of the Company
Aceplus	Controlled by a Director of the Company
Valuable Tactics	Shareholder of the Company
Golden Fortune	Associate of the Company
Shenzhen Taihe	Jointly-controlled entity of the Company

(b) Significant related party transactions

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

	For the six months ended	
	30 June 2012 RMB'000 (Unaudited)	30 June 2011 RMB'000 (Unaudited)
Rental expense paid to		
— Shengli Steel Pipe	4,055	3,425

(c) Trade and other payable balances with related parties

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

	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
Other receivable:		
— Aceplus	14	14

23. RELATED PARTY TRANSACTIONS (cont'd)

(d) Compensation of key management personnel

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

	For the six months ended	
	30 June 2012	30 June 2011
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Compensation of key management personnel of the Group:		
Fees	**671**	832
Salaries, allowances and benefits in kind	**3,073**	2,686
Social security contributions	**75**	57
Equity-settled share option expense	**1,982**	4,380
	5,801	7,955

24. EVENTS AFTER THE REPORTING PERIOD

On 2 July 2012, a resolution was passed by the Board of Shandong Shengli, a subsidiary of the Company, to set up a wholly-owned subsidiary known as Guangdong Shengli Trading Co., Ltd. ("Guangdong Shengli"). The business registration of Guangdong Shengli was completed on 18 July 2012 and the registered capital of RMB100 million was fully paid.

On 13 August 2012, Hunan Shengli Xianggang Steel Pipe Co., Ltd. ("Hunan Shengli"), a non-wholly owned subsidiary of the Company, entered into an agreement with Hunan Xianggang Hongsheng Municipal Engineering Co., Ltd. ("Hongsheng Engineering", a connected person of the Company), pursuant to which Hongsheng Engineering agreed to conduct certain road engineering work for Hunan Shengli for the production plant being built by Hunan Shengli for a total consideration of approximately RMB13 million.

On 13 April 2012, Siu Thai Holdings Limited ("Siu Thai"), a wholly-owned subsidiary of the Company, entered into an agreement (the "Joint Venture Agreement") with IRI De Colombia S.A. ("IRI") in relation to the establishment of a joint venture company in Panama (the "JV Company"). Pursuant to the Joint Venture Agreement, (1) Siu Thai and IRI will incorporate the JV Company within commercially practicable time after the signing of and no later than 90 days from the date of the Joint Venture Agreement; and (2) if the JV Company is not incorporated within the above-mentioned time frame, the Joint Venture Agreement will be terminated. As more than 90 days have lapsed since the date of the Joint Venture Agreement and at the date of this report Siu Thai and IRI have not been able to agree on the extension of the time frame for incorporation of the JV Company, the Joint Venture Agreement has lapsed. On 18 August 2012, the Board resolved not to proceed further under the Joint Venture Agreement and accordingly the JV Company will not be set up.

25. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorized for issue by the Board of Directors on 18 August 2012.