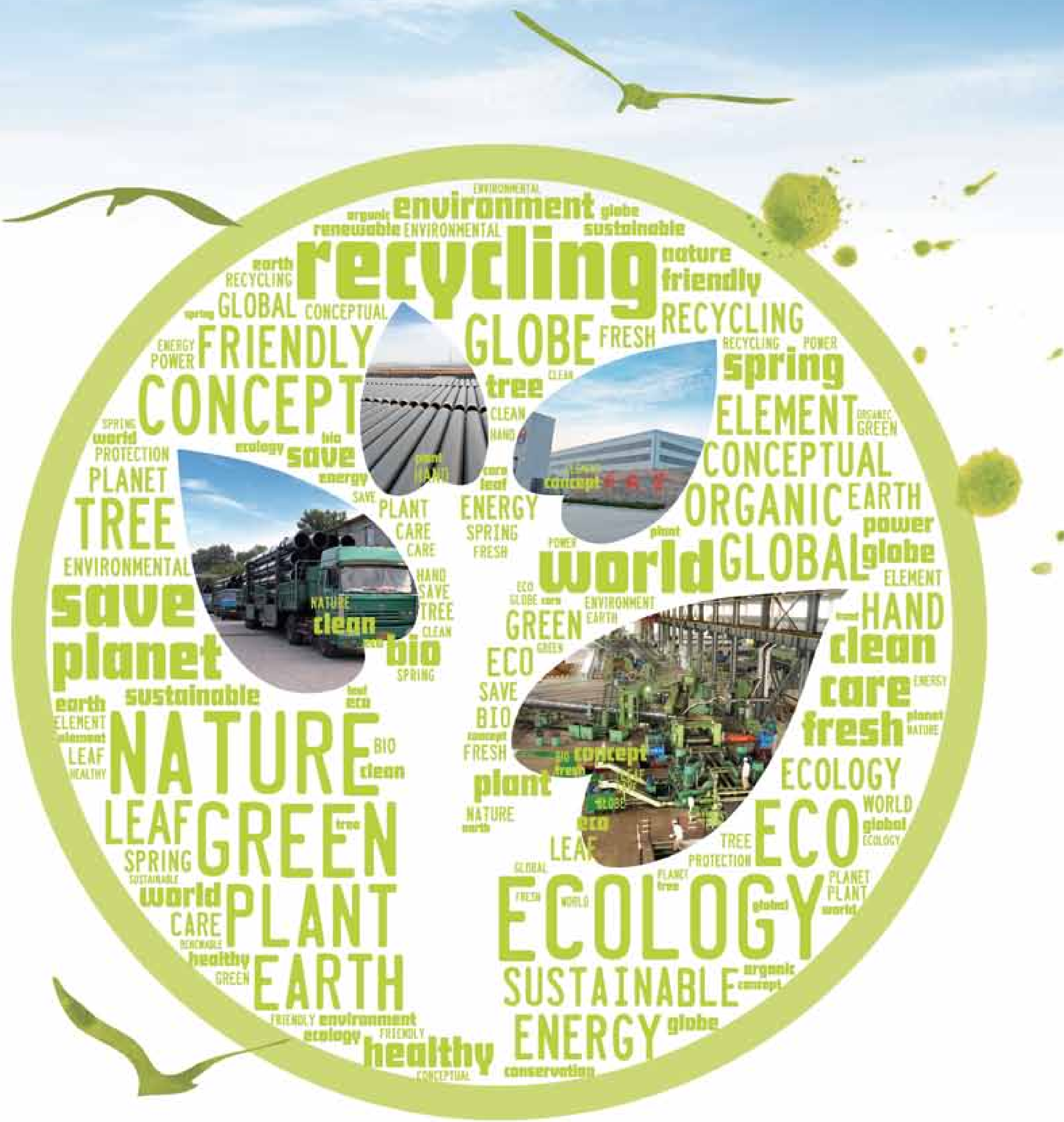
SHENGLI OIL & GAS PIPE HOLDINGS LIMITED

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 2012



CORPORATE PROFILE

SHENGLI OIL & GAS PIPE HOLDINGS LIMITED (the "Company") is one of the largest oil and gas pipeline 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.

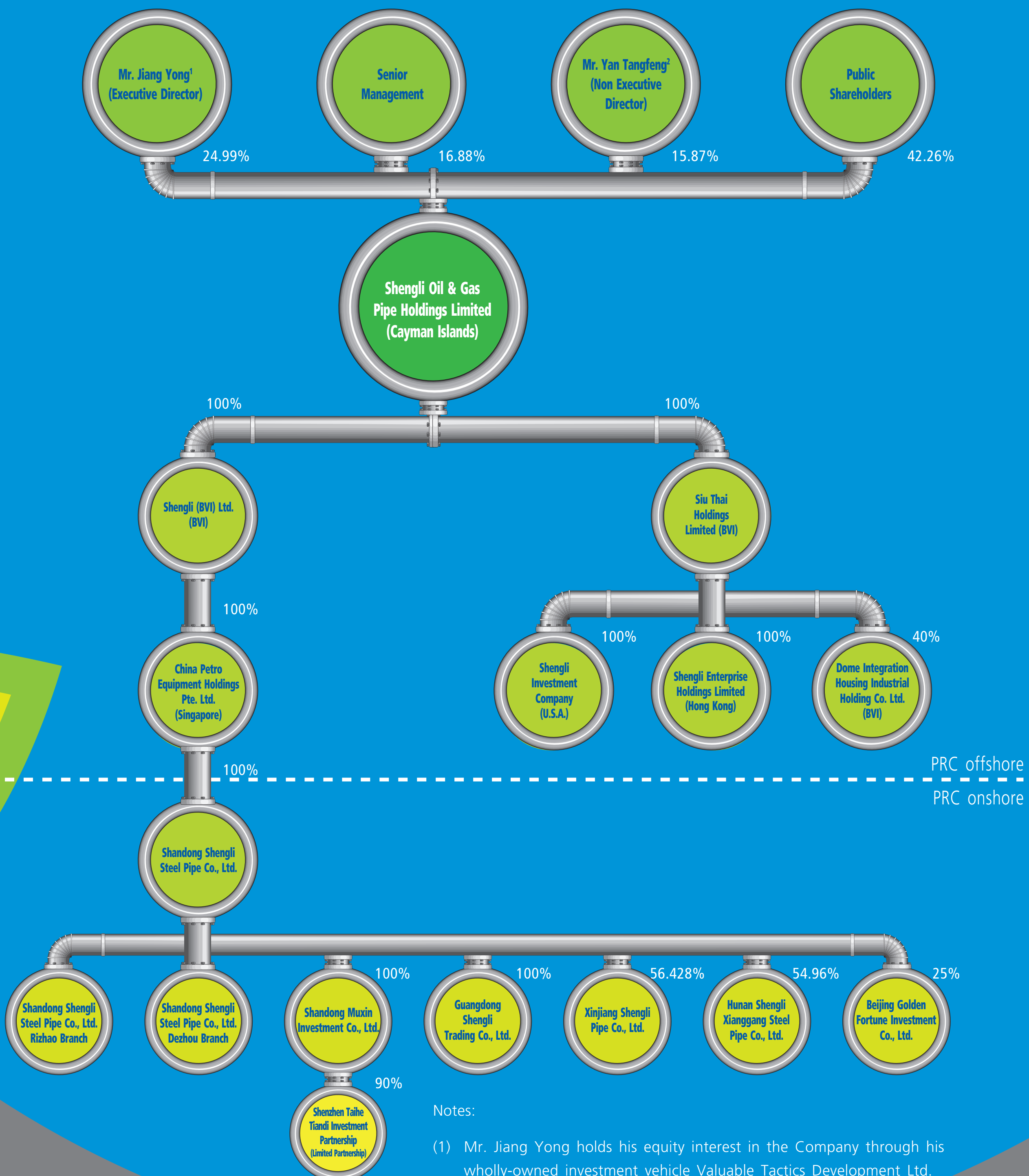
CONTENT

CORPORATE PROFILE

Shengli Oil & Gas Pipe Holdings Limited is one of the largest oil and gas pipeline manufacturers in China. We focus on the design, manufacture, Value-added processing and servicing of SSAW pipes, which 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 well positioned to benefit from the rapidly growing industry and the planned pipeline projects of our major customers.

As at 31 December 2012, the corporate structure of our Company and its subsidiaries (the"Group") was as follows:



Notes:

(1) Mr. Jiang Yong holds his equity interest in the Company through his wholly-owned investment vehicle Valuable Tactics Development Ltd.

(2) 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
(Chairman and Chief Executive Officer)
Mr. Jiang Yong
(Vice President) (appointed on 9 August 2012)
Mr. Liu Yaohua *(Vice President)*
Ms. Han Aizhi *(Vice President)*
Mr. Song Xichen
(Vice President) (appointed on 1 April 2012)
Mr. Wang Xu
(Vice President) (resigned on 9 August 2012)

Non-executive Director

Mr. Yan Tangfeng

Independent non-executive Directors

Mr. Guo Changyu
Mr. Wang Xueyou (appointed on 1 October 2012)
Mr. Chen Junzhu, *ACCA, CICPA*
(appointed on 30 May 2013)
Mr. Leung Ming Shu
(resigned on 9 April 2013)
Mr. Huo Chunyong (resigned on 30 August 2012)

AUDIT COMMITTEE

Mr. Chen Junzhu *(Chairman)*, *ACCA, CICPA*
(appointed on 30 May 2013)
Mr. Yan Tangfeng
Mr. Wang Xueyou (appointed on 1 October 2012)
Mr. Leung Ming Shu
(resigned on 9 April 2013)
Mr. Huo Chunyong (resigned on 30 August 2012)

REMUNERATION COMMITTEE

Mr. Wang Xueyou
(Chairman) (appointed on 1 October 2012)
Mr. Yan Tangfeng
Mr. Chen Junzhu, *ACCA, CICPA*
(appointed on 30 May 2013)
Mr. Leung Ming Shu
(resigned on 9 April 2013)
Mr. Huo Chunyong (resigned on 30 August 2012)

NOMINATION COMMITTEE

Mr. Guo Changyu *(Chairman)*
Mr. Zhang Bizhuang
Mr. Wang Xueyou (appointed on 1 October 2012)
Mr. Huo Chunyong (resigned on 30 August 2012)

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

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

REGISTERED OFFICE

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

LEGAL ADVISER AS TO HONG KONG LAW

Latham & Watkins

AUDITORS

ANDA CPA Limited
21/F., Max Share Centre,
373 King's Road,
North Point,
Hong Kong

SHARE REGISTRARS

Principal Share Registrar and Transfer Office

Royal Bank of Canada Trust Company (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

FINANCIAL HIGHLIGHTS

- Revenue was approximately RMB1,920,855,000, representing an increase of approximately 5.4% when compared to 2011.

- Profit attributable to owners of the parent amounted to approximately RMB62,775,000, representing a decrease of approximately 33.1% when compared to 2011.

- Gross profit margin was 3.7%, representing a decrease of approximately 4.2 percentage points when compared to 2011.

- Basic earnings per share attributable to equity holders of the parent was approximately RMB2.53 cents, representing a decrease of approximately 32.9% when compared to 2011.

- The Board recommends the payment of a dividend of RMB0.672 cents per share, representing a decrease of approximately 28.5% when compared to 2011, which will be subject to shareholders' approval at the forthcoming annual general meeting of the Company.

CHAIRMAN'S STATEMENT

To all shareholders,

On behalf of the board of directors (the "Board") of Shengli Oil & Gas Pipe Holdings Limited (the "Company", Shengli Oil & Gas Pipe Holdings Limited together with its subsidiaries, the "Group"), I would like to present the audited results of the Group for the year ended 31 December 2012 to the shareholders.

2012 marked a year of solid foundation and vigorous development for the Group. Although there was a fall in our profit in the first half of 2012 as compared to the same period in 2011 as a result of increased expenditure, with the commencement and construction of a number of projects including the Third West to East Natural Gas Pipeline (西氣東輸三線), China-Myanmar Natural Gas Backbone Pipeline (中緬天然氣幹線) and China-Asia Line C (中亞C線), and the launch of the 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, there was an improvement in the performance of the main business operations in the second half of the year when compared to the first half of the year. Although the audited consolidated net profit of 2012 was affected by, amongst others, the audit adjustments of non-core investments/operations, our business development throughout the year had basically resumed to a steady level.

CONTINUOUSLY STEPPING UP CONSTRUCTION OF OIL AND GAS PIPELINE NETWORK IN A WELL-DESIGNED LAYOUT

According to the "12th Five-Year Plan", the People's Republic of China (the "PRC") central 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 km at the end of 2010 to 150,000 km in 2015 and further increase to 210,000 km in 2020.

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.

China National Petroleum Corporation ("CNPC") and China Petroleum Chemical Corporation ("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 them, CNPC plans to build five pipelines initiating from Xinjiang, including the Third, Fourth, Fifth, Sixth and Seventh West to East Transmission Pipelines. The total length of natural gas pipelines within Xinjiang will be approximately 6,350 km. Sinopec plans to build two important pipelines under the "Xinjiang-East Gas Transmission Project", including the Xinjiang-Guangdong-Zhejiang Pipeline (新粵浙管道) of approximately 8,200 km which is scheduled to be constructed and put into operation during the "12th Five-Year Plan" period, and the Xinjiang-Shandong Pipeline (新魯管道) of approximately 4,400 km. As one of the two pipe manufacturing contractors of Sinopec, the Group has been a major participant in the construction of national oil and gas pipelines, and a major supplier of CNPC and Sinopec for their oil and gas transmission pipeline projects. We have an excellent track record in product delivery. While the construction schedules of several large-scale national pipeline projects are yet to be confirmed, the Group is confident that our promising track record will enable us to continue to benefit from the increasing demand for energy and the continuing development of pipeline construction in China. We are well-poised to seize the opportunities emerging from the industry growth to further expand our business and strengthen our presence.

STEPPING UP EFFORT ON SALES AND ATTAINING IMPROVED PERFORMANCE OF MAIN BUSINESS OPERATIONS

Benefiting from the commencement of the construction of large-scale pipeline projects, the Group performed better in its main business operations in the second half of 2012 when compared to the first half of the year.

In 2012, the Group won a total of 140 tenders, including tenders for Third West to East Natural Gas Pipeline (西氣東輸三線) in March and December 2012, whereby, we are responsible for the supply of a total of 25,795 tonnes of spiral submerged arc welded ("SSAW") pipes and the provision of related anti-corrosion services to China Petroleum Materials Corporation. The total contract price amounts to approximately RMB230 million. In July 2012, 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線烏茲別克斯坦段), respectively, for a contract price of approximately RMB100 million and RMB630 million respectively. In December 2012, the Group signed a contract with Sinopec for provision of 21,000 tonnes of pipelines to the Guangxi LNG Pipeline project for a contract price of RMB 18 million (processing of customers' materials).

In 2012, the Group won 129 tenders for regional pipeline projects. Leveraging on the proven track record of its participation in large-scale pipeline projects, the Group is confident that it will continue to benefit from the immense growth potential embedded in the regional pipeline market, which will help the Group achieve a continuing growth in profit as a whole.

In addition, we had been stepping up our marketing effort on the international front in terms of expanding our sales team and competing for tenders of overseas pipeline projects. With progress that has been made, we look forward to our first contract for international pipeline to be awarded solely to the Group in 2013.

TO BE WELL-PREPARED FOR MEETING DEMAND THROUGH ACQUISITION AND EXPANSION OF NEW CAPACITY

At present, Xinjiang Shengli Steel Pipe Co., Ltd.* (新疆勝利鋼管有限公司) ("Xinjiang Shengli"), of which the Group is the holding company, is well equipped for the production of high standards oil and gas transmission pipes. Xinjiang Shengli successfully arranged the production of the φ508×9.5mm L360MB and φ529×8mm Q235B standards steel pipes in July and August 2012, and the trial production of the φ1219×18.4mm X80 standard steel pipes in September 2012. This clearly indicates that Xinjiang Shengli is fully capable of producing the high steel grade great-wall thick steel pipe, which is regarded by the PRC government as a strategic pipeline class. Besides, Xinjiang Shengli has installed φ219–φ1420 anti-corrosion equipment for future production. Riding on its exceptional advantage in terms of geographical location, Xinjiang Shengli is well-positioned to undertake the production of the above pipelines of which development have been heavily invested by the PRC government.

The construction work in Hunan Shengli Xianggang Steel Pipe Co., Ltd.* (湖南勝利湘鋼鋼管有限公司) ("Hunan Shengli") , of which the Group is the holding company, has been progressing well. In respect of two existing SSAW pipes production lines, the trial manufacturing of φ1219×18.4mm X80 and φ820×10mm Q235B standard steel pipes has now been completed. As for the longitudinal submerged arc welded ("LSAW") pipe production lines, the plant construction and installation of equipment will be completed in the third quarter of 2013. With the construction of SSAW pipes production line at Hunan Shengli, the total annual production capacity of SSAW pipes of the Group will reach 1.45 million tonnes. The commencement of LSAW production will further optimize the Group's products offering portfolio and solidify the Company's foundation for market exploration and undertaking of large-scale pipeline construction projects.

EMPHASIZING ON R&D AND INNOVATION TO STAY AHEAD AS THE INDUSTRY EVOLVES

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 2012, our pre-welding and precision-welding production line

successfully completed trial production of 5 new products, namely the steel pipe of 0.8 design factor for Third West to East Natural Gas Pipeline（西氣東輸三線）Project, the φ1219×14.8mm X100 steel grade pipe, the φ1219×16.3mm X90 steel grade pipe, the φ1219×16.3mm X80 steel grade pipe, and the φ1422×21.4mm X80 steel grade pipe. In the first half of 2013, small batch production of φ1219×16.3mm X90 steel grade pipes was completed. This further testified our standard in technological research and development (R&D). In particular, the successful trial production of X100 and X90 steel pipes has asserted our leadership in pre-welding and precision-welding technology in the PRC and vindicated our leading position in the pipeline industry. 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.

Technology plays a key part in the life development of a corporation. The Group has been fully committed to R&D and innovation and investing heavily in technology over the years. We are proud to have achieved various milestones that serve to exemplify our strength as well as fill up the gaps left in technological field in our past. In September 2012, the application by Shandong Shengli Steel Pipe Co., Ltd. ("Shandong Shengli Steel Pipe") for academician workstations (院士站) has been approved by the 5 competent authorities including the Party Organisation Department of the Shandong Provincial Committee of China Communist Party (中共山東省委組織部) and the Science and Technology Department of Shandong Province (山東省科學技術廳). In December 2012, the application for the High-tech Enterprise status has been passed for public notice by the Science and Technology Department of Shandong Province (山東省科學技術廳), Finance Department of Shandong Province (山東省財政廳), State Tax Bureau, Shandong Province Branch(山東省國家税務局) and Tax Bureau of Shandong Province (山東省地方税務局). Also in 2012, the Group made applications for 5 utility model patents including one on Welding Equipment for Tab Precision Welding, and a technique invention patent on high shearing force three-layer polyethylene anti-corrosion thermal insulation steel pipe and manufacturing technique thereof. The 5 utility model patents have been granted by the State Intellectual Property Office.

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

Zhang Bizhuang
Chairman of the Board & 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

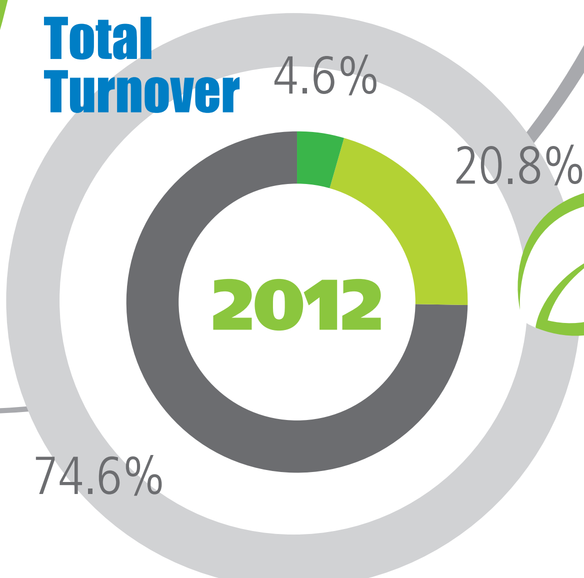
which is estimated to account for about one third of the current total capacity of all Qualified Manufacturers in China and the Group is one of the largest oil and gas pipeline manufactures in China.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET OVERVIEW

China will become one of the countries in the world that undergo the most oil and gas pipeline 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 at the end of 2012, the total length of its constructed oil and gas pipelines reached 100,000 km. 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, transported approximately 58.2% of its refined oil as of the end of 2010, 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 natural gas backbone pipelines in China.

Total Turnover



The Group's **profit** and total comprehensive income for the years ended 31 December 2012 and 31 December 2011 were **RMB55.6 million** and **RMB91.9 million**.

- SSAW Pipes
- Cold-Formed Section Steel
- Metal Commodity Trading

Supply of approximately

226,104 tonnes of SSAW pipes in 2012

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 50,000 km of oil and gas pipelines in total during the period from 2013 to 2015.

As Western China is most richly endowed with oil and natural gas reserves, it is important for China to establish a sound long-distance pipeline transmission system. Benefiting from the state policies, 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

The Group is one of the largest oil and natural gas pipe manufacturers in China. During the year, the Group endeavoured to enhance its production capacity and expand the diversity of products and services. Xinjiang Shengli has now acquired the required technical prowess and capacity for major projects of the PRC government, while Hunan Shengli has completed the installation of equipment of its SSAW pipe production line. Our LSAW pipe production line will undergo equipment fine-tuning and testing process in the third quarter of 2013, so as to meet the opportunities arising from rapidly growing demand and to further consolidate our market leadership.

As at the end of 2012, the Group's annual production capacity of SSAW pipes reached 1.15 million tonnes, and the Group retained its position as one of the largest oil and gas pipeline producers in China in terms of production capacity.

The Group's revenue increased by 5.4% from RMB1,821,836,000 for the year ended 31 December 2011 to RMB1,920,855,000 for the year ended 31 December 2012. 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 RMB1,433,322,000 (2011: RMB1,655,764,000), representing a year-on-year decrease of approximately 13.4%; and (2) cold-formed section steel business (including processing service business) reported a turnover of RMB88,148,000 (2011: RMB166,072,000), representing a year-on-year decrease of approximately 46.9%. In order to fully utilize the business chain capacity of our existing customers and other storage resources available, the Group has commenced metal commodity trading business. For the year ended 31 December 2012, the turnover amounted to RMB399,385,000 (for the year ended 31 December 2011: Nil).

After the installation of the pre-welding and precision-welding steel pipes production facilities with an annual production capacity of 360,000 tonnes, our annual SSAW pipe production capacity will reach 1,150,000 tonnes, making us the biggest SSAW pipe producer in China.

SSAW pipes business

As one of the largest oil and natural gas pipeline manufacturers in China, the Group is also 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. During the year, the Group successfully produced steel pipes, which are of the highest material quality, maximum wall thickness and greatest diameter across the country, in a trial production with pre-welding and precision welding technology. The Group is privately owned enterprise among a handful of qualified domestic oil and gas pipeline manufacturers in the PRC ("Qualified Manufacturers").

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.

For the year ended 31 December 2012, an accumulative length of approximately 22,000 km of the Group's SSAW pipes were installed in the world's major oil and gas pipelines, of which 94.5% were installed in China and the remaining 5.5% were installed abroad. During the period under review, the Group has supplied SSAW pipes for a number of national pipeline projects, including the Third West to East Natural Gas Pipeline（西氣東輸三線）, China-Myanmar Natural Gas Backbone Pipeline（中緬天然氣管線）, China-Asia Line C（中亞C線）, Zhongwei-Guiyang Pipeline（中衛貴陽管線）and Changqing-Huhhot Pipeline（長慶至呼和浩特管線）, amongst others. The Group has also supplied SSAW pipes for a number of regional branch pipeline projects, including Beijing Gas（北京燃氣）, Hebei Natural Gas Pipeline（河北天然氣管線）and Yantai Port-Zibo Pipeline（烟台港至淄博管線）, amongst others. The Group has also provided anti-corrosion services for various projects, such as the Third West to East Natural Gas Pipeline （西氣東輸三線）, China-Myanmar Natural Gas Backbone Pipeline（中緬天然氣管線）, China-Asia Line C（中亞C線）, Zhongwei-Guiyang Pipeline（中衛貴陽管線）and Yantai Port-Zibo Pipeline（烟台港至淄博管線）.

The SSAW pipes business mainly comprised of (1) sales of SSAW pipes; (2) processing services of SSAW pipes; and (3) anti-corrosion treatment services. Due to the delay of the commencement of some pipeline projects, for the year ended 31 December 2012, the total revenue derived from the SSAW pipelines business amounted to RMB1,433,322,000, which was slightly less than that of 2011 (2011: RMB1,655,764,000), representing approximately 74.6% of the Group's total revenue (2011: 90.9%).

For the year ended 31 December 2012, turnover derived from sales of SSAW pipes amounted to RMB1,346,927,000 (2011: RMB1,514,706,000), representing a year-on-year decrease of approximately 11.1%. Turnover from processing services of SSAW pipes was RMB1,191,000 (2011: RMB5,605,000), representing a decrease of 78.8% when compared to the corresponding period of 2011. Turnover from anti-corrosion services was RMB85,204,000 (2011: RMB135,453,000), representing a decrease of 37.1% when compared to the corresponding period of 2011.

For the year ended 31 December 2012, the total sales volume of SSAW was 226,104 tonnes (2011: 270,197 tonnes), representing a year-on-year decrease of 16.3%. Percentage of the Group's SSAW pipes sold to national pipeline projects increased 13.7 percentage points to 60.7% in 2012 from 47.0% in 2011.

Sales volume tonnes	**2012**	2011	**Change** %
Sales of SSAW pipes	**223,863**	259,341	-13.7%
Processing services of SSAW pipes	**2,241**	10,856	-79.4%
Total	**226,104**	270,197	-16.3%
Anti-corrosion services (square meters)	**1,398,211**	2,251,621	-37.9%

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 2012, turnover from the sales of cold-formed section steel amounted to RMB88,148,000 (2011: RMB166,072,000), representing a decrease of 46.9% when compared to 2011. The decrease in turnover was due to the expansion into new business by the Group. Following the technological improvement in both construction sector and automobile manufacturing industry, the Board believes that cold-formed steel could be gradually replaced by other new products in the future. As such, for better and more flexible resource allocation, and the Group's exploration into wider business horizons, the Group will convert part of the cold-formed steel warehouse into a dome integration house manufacturing plant.

Sales volume tonnes	**2012**	2011	**Change** %
Cold-formed steel	**21,036**	35,262	-40.34%

Metal commodity trading business

In order to fully utilize the business chain capacity of our existing customers and other storage resources available, the Group set up a wholly-owned subsidiary in the second half of 2012, which engages in metal commodity trading business. For the year ended 31 December 2012, the turnover amounted to RMB399,385,000 (2011: Nil) and the gross profit was RMB11,724,000 (2011: Nil). By virtue of metal commodity trading business, the Group expects to consolidate, expand and deepen its relationship with pipeline business-related customers and domestic and international financial institutions, which in turn will introduce a well-organized sales platform for pipelines export in future, and maximize shareholders' return.

Other business

To stabilize business growth and profitability, the Group has been gradually extending its product offering and business reach to a wide diversity of aspects. In September 2012, the Group established Dome Integration Housing Industrial Holding Co. Ltd. as a joint venture (40% equity interest owned by the Group) with a number of companies including Prodigy International Limited. Warehouse of Rizhao's subsidiary has been converted into a integration house manufacturing plant, and is planned to be used for the design, manufacture, installation and sales of dome integration houses.

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 2011 to 8% in 2015. In addition, the total length of national oil and gas pipelines in China is expected to increase from approximately 100,000 km in 2012 to approximately 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 boom cycle 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 Group will actively seize the business opportunities emerging from the rapid growth of the industry to ensure the steady growth of the earnings of the Group 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. 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 brought 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 is 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 coming few years. Among them, CNPC plans to build five pipelines initiating from Xinjiang, and Sinopec will construct two pipelines under the "Xinjiang-East Gas Transmission Project". The Group will take advantage of the favourable geographical location of Xinjiang Shengli in establishing a solid base for the Group to undertake production tasks for major pipeline projects. At the same time, armed with the 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 Group will dedicate great efforts to facilitate and monitor the construction undertaken by Hunan Shengli relating to the LSAW pipe production line with a capacity of 200,000 tonnes, thereby diversifying its product offering, and meeting various needs of its existing customers. The installation of plants and equipments under LSAW production line is expected to be completed in the third quarter of 2013.

While tapping into the future growth opportunities arising from the national oil and gas transmission backbone pipelines, the Group will also vigorously enlarge its market share in the regional branch pipeline segment and urban pipeline network. Moreover, leveraging on our 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, the Group 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 us 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 our overall earnings.

FINANCIAL REVIEW

Revenue

The Group's revenue for the year ended 31 December 2012 was RMB1,920,855,000, representing an increase of approximately 5.4% when compared to RMB1,821,836,000 in 2011. For the year ended 31 December 2012, the Group's major sales segments, namely, (1) SSAW pipes business reported revenue of RMB1,433,322,000 (2011: RMB1,655,764,000); (2) cold-formed section steel business recorded a revenue of RMB88,148,000 (2011: RMB166,072,000); and (3) the newly setup metal commodity trading business recorded a revenue of approximately RMB399,385,000 (2011: nil).

Cost of sales

The Group's cost of sales increased by 10.2% from RMB1,678,436,000 for the year ended 31 December 2011 to RMB1,850,284,000 for the year ended 31 December 2012. During the year ended 31 December 2012, the Group's sales segment primarily consisted of (1) the sales cost of SSAW pipe business of RMB1,371,246,000 (2011: RMB1,515,816,000); (2) the sales cost of cold-formed section steel of RMB91,377,000 (2011: RMB162,620,000); and (3) the sales cost of metal commodity trading business of approximately RMB387,661,000 (2011: nil).

Gross profit

The gross profit of the Group decreased from RMB143,400,000 for the year ended 31 December 2011 to RMB70,571,000 for the year ended 31 December 2012. Meanwhile, the gross profit margin of the Group decreased from 7.9% for the year ended 31 December 2011 to 3.7% for the year ended 31 December 2012. The decrease was primarily due to the low profit margin of metal commodity trading business and the increase in cost of sales of domestic production of SSAW pipe which resulted in a general lower gross profit margin. In 2012, sales of SSAW pipes accounted for 97.1% of the gross profit of SSAW pipes (2011: 79.2%), followed by anti-corrosion services which represented 2.8% (2011: 20.7%). The remaining 0.1% (2011: 0.1%) of the gross profit was derived from the processing services of SSAW pipes.

Other income

Other income of the Group increased from RMB96,247,000 for the year ended 31 December 2011 to RMB155,609,000 for the year ended 31 December 2012, among which, the largest contribution was from the non-recurring government subsidy amounting to approximately RMB72,230,000, which was attributed to the Group's contribution to the development of Zibo, Shandong Province, followed by the interest income of entrusted loans amounting to approximately RMB30,823,000. As at 31 December 2012, the Board considered that, based on the valuation by an independent valuer, gains from changes in fair value of derivative financial instrument for the year was RMB19,000,000.

Selling and distribution expenses

Selling and distribution expenses of the Group decreased from RMB42,146,000 for the year ended 31 December 2011 to RMB22,946,000 for the year ended 31 December 2012. The decrease in selling and distribution expenses was mainly because the sales in the first half year was generally affected by the delay of the commencement of large-scale domestic pipeline construction projects, which resulted in lower sales of the Group's SSAW pipes and anti-corrosion service business when compared to the corresponding period in 2011.

Administrative expenses

The Group's administrative expenses increased by 55.7% from RMB54,207,000 for the year ended 31 December 2011 to RMB84,380,000 for the year ended 31 December 2012, mainly because the steel pipe project of Hunan Shengli was under construction during the year, while the industrial capacity of Xinjiang Shengli Steel Pipe cannot be fully utilised.

Finance costs

The Group incurred finance costs of RMB36,053,000 (2011: RMB20,183,000) for the year ended 31 December 2012, which was mainly due to the increase of loans to meet the Group's capital requirement for development of the metal commodity trading business.

Income tax expenses

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

Profit for the year

Combining the foregoing factors, the audited consolidated profit of the Group decreased from RMB91,917,000 for the year ended 31 December 2011 to RMB55,588,000 for the year ended 31 December 2012.

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 2011 and 2012 were primarily related to the purchase of property, plant and equipment.

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

	2012 RMB'000	2011 RMB'000
Purchase of property, plant and equipment	**335,793**	301,215
Prepaid land lease payments	**108,089**	118,873
	443,882	420,088

Indebtedness

Interest-bearing bank loans

The following table sets forth information of the bank loans of the Group as at 31 December:

	2012 RMB'000	2011 RMB'000
Bank loans due within one year:		
— Unsecured	**423,800**	50,000
— Secured	**210,333**	194,090
— Long-term bank loans due within one year — unsecured	**354,328**	387,710
Total	**988,461**	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:

	2012 %	2011 %
Effective interest rate per annum	**2.76 to 6.00**	3.2 to 8.53

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

Financial management and fiscal policy

During the year ended 31 December 2012, the Group's turnover, expenses, assets and liabilities were primarily denominated in Renminbi. The Board considers that the Group currently has limited foreign currency exposure and has not entered into any hedging arrangement for its foreign currency risks. The Group will 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 2011, the net proceeds of the IPO increased to RMB1,269,900,000. As at 31 December 2012, RMB648,356,000 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 RMB621,544,000 remains 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 at 31 December 2012, the accumulated use of proceeds is set out below:

	Amount allocated RMB'000	**Actual expenditure as at 31 December 2012** RMB'000
Project		
construction of one set of SSAW production lines with a total annual production capacity of 360,000 tonnes and two anti-corrosion coating lines	440,000	482,753
construction of one LSAW pipe production line with an annual production capacity of 200,000 tonnes and one anti-corrosion coating line	650,000	153,000
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	Plan has been suspended
working capital and other general corporate purposes	129,900	12,603
Total	1,269,900	648,356

The Group intended to continue to apply the proceeds in the same manner as disclosed in the Prospectus, except that the timing of upgrading one cold-formed section steel production line had been postponed, as the Group had been closely monitoring the various proposals on the introduction of such production line, including alternative proposals that may help attaining the same strategic goal. In the event that a final decision is made on this matter, a separate announcement will be made by the Group.

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. The Group has not entered into any hedging arrangement.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Zhang Bizhuang, aged 45, was appointed as executive Director and chief executive officer in July 2009, and has been the chairman of the Board since August 2012, responsible for the overall management of our Group's business operations. Mr. Zhang joined Shengli Steel Pipe Co., Ltd., (勝利鋼管有限公司) ("Shengli Steel Pipe", known as Shengli Factory and Shengli Administration of Petroleum Steel Pipe Factory (勝利石油管理局鋼管廠) and Shengli Oilfield Zibo Pipe Co., Ltd. (勝利油田淄博制管有限公司) before reconstruction of state-owned enterprise) in July 1990, and served as the department head of technical supervision department and quality control inspection department, deputy general manger, general manager and chairman. From December 2007, Mr. Zhang has been appointed as the general manager of Shandong Shengli Steel Pipe, and he is currently the chairman and general manager of Shandong Shengli Steel Pipe.

Mr. Zhang graduated from Chongqing University with a bachelor's degree in 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, and obtained the Chinese Career Manager qualification in July 2005.

Mr. Jiang Yong, aged 45, was appointed as executive Director and vice president in August 2012, responsible for the Group's finance management and trading business. Prior to 2012, he was a director and chief executive of the China region of Times Fashion Technology Company Limited (天時服飾科技有限公司) for over three years. From January to June 2012, he served as a director of Shandong Demian Incorporated Company (山東德棉股份有限公司), a company listed on the Shenzhen Stock Exchange.

Mr. Jiang Yong graduated from Jinan University (暨南大學) in June 1989 with a bachelor's degree in economics. He also received a master's degree in banking from Massey University in New Zealand in November 2003.

Mr. Liu Yaohua, aged 41, was appointed as our executive Director and vice president in June 2011, currently in charge of the overall management of Shandong Shengli Steel Pipe's business operation in Zibo region. Mr. Liu joined Shengli Steel Pipe in July 1995, serving as the deputy head of the quality control office, the deputy officer and officer of factory, the general manager assistant and the deputy general manager. Since December 2007, he has been serving as a deputy general manager of Shandong Shengli Steel Pipe, responsible for production and technology management, the construction of new projects and market sales. He currently serves as the director and deputy general manager of Shandong Shengli Steel Pipe.

Mr. Liu graduated from the North China Institute of Technology in July 1995 with a bachelor's degree in 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 in January 2007.

Ms. Han Aizhi, aged 45, was appointed as our executive Director in July 2009, and has been serving as vice president from March 2011, responsible for the Group's external investment business and operational supervision, listing compliance, investor and public relation matters. Ms. Han joined Shengli Steel Pipe in July 1988, and had held various positions such as head of the technology supervision division, officer of enterprise management department, the officer of the general manager's office, general manager assistant, deputy general manager and management representative, Ms. Han has been serving as a deputy general manager of Shandong Shengli Steel Pipe since December 2007, responsible for overseeing quality management, environment, occupational health and safety system management, investor relations, listing compliance, public relations, external investment business and operational supervision. She is currently the director and deputy general manager of Shandong Shengli Steel Pipe.

Ms. Han graduated from Chengde Petroleum College in July 1988 with a major in professional welding technology and graduated from the Party School of the Shandong Province Committee of CPC in December 2002 with a major in professional economic management. Ms. Han had obtained a master's degree in business administration from the Open University of Hong Kong in June 2004. She was certified as an engineer in September 2000, and had obtained the PRC Registered Quality Professional Technician Qualification (middle tier) Certificate in December 2001.

Mr. Song Xichen, aged 48, was appointed as an executive Director in April 2012, and has been serving our vice president since August 2012. He is responsible for the corporate management and finance management of Shandong Shengli Steel Pipe. Mr. Song joined Shengli Steel Pipe in July 1988, and served as deputy head of quality inspection department, deputy supervisor and supervisor of the corporate management department, deputy general manager and general manager until March 2012. Starting from March 2012, Mr. Song has been served as the deputy general manager of Shandong Shengli Steel Pipe, responsible for the corporate management, finance management, infrastructure and management of the back office.

Mr. Song graduated from China University of Petroleum (East China) in July 1988 with a bachelor's degree in applied physics. 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 economist in September 2000.

Non-executive Director

Mr. Yan Tangfeng, aged 42, is our non-executive Director and joined our Group in July 2008. Mr. Yan 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 senior vice president. From June 2012 to May 2013, Mr. Yan was an non-executive director of Silverman Holdings Limited (Stock code: 1616.HK). 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 with a bachelor's degree in engineering.

Independent Non-executive Directors

Mr. Guo Changyu, aged 63, 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. Prior to 2000, Mr. Guo had served various positions under Shengli Petroleum Administrative Bureau 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. He was 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 2007. 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. Wang Xueyou, aged 52, is our independent non-executive Director and joined our Group in October 2012. He currently serves as the general manager of Tianjin Economic Development Zone Branch of COSCO Tianjin International Freight Forwarding Co., Ltd. ("COSCO Tianjin"). From 1990 to 2001, Mr. Wang held various positions at COSCO Tianjin, including as the division chief of the transportation division and a deputy general manager of the storage and transportation department of COSCO Tianjin. From 2001 to 2003, Mr. Wang served as the general manager of COSCO Xi'an International Freight Forwarding Co., Ltd. From 2003 to 2010, Mr. Wang worked as the general manager of the Customs Broker Co., Ltd. of COSCO Tianjin.

Mr. Wang received a diploma in law from Tianjin Open University in 1988, an Assistant Engineer Certificate in 1989 and an Advance Professional Executive Certificate in 2007.

Mr. Chen Junzhu, aged 37, is our independent non-executive Director and joined our Group in May 2013. He currently serves as a partner of the Guangdong Zheng Yuan Public Accountants. Mr. Chen served as a certified public accountant and senior accountant for Deloitte Touche Tohmatsu CPA Ltd from August 2001 to August 2004. He was an audit manager of the internal audit department in Wal-Mart (China) Investment Co., Ltd. from September 2004 to June 2006. From July 2006 to June 2007, Mr. Chen was certified public accountant and a manager of transaction advisory service department in Ernst & Young Certified Public Accountants. He has been a partner of the Guangdong Zheng Yuan Public Accountants since July 2007, and a director and the chief financial officer of Huakang Insurance Agency Co., Ltd. since September 2011. He has also been an independent director and the chairman of audit committee of Guangdong Tapai Group Co. Ltd., the A shares of which are listed on the Shenzhen Stock Exchange (stock code: 002233.SZ), since May 2013.

Mr. Chen graduated from China Foreign Affairs University and obtained a Bachelor's degree in arts in June 1998, and graduated from the Southwest University of Political Science & Law and obtained a Master's degree in law in January 2003. Mr. Chen is a member of Chinese Institute of Certified Public Accountants and a member of Association of Chartered Certified Accountants.

Senior Management

Mr. Ng Kam Tsun, Jeffrey, aged 39, is the chief financial officer and company secretary of our Company, and is responsible for corporate finance management and corporate governance. He joined the Group in May 2010 and has been serving as company secretary since June 2010. From October 2010 to March 2011, he was the deputy CFO of the Group and subsequently promoted to our CFO in March 2011. From 1993 to 1995, Mr. Ng worked for Far East Hotels and Entertainment Limited (Stock code: 0037.HK) in the area of financial accounting for the Group. From 1995 to 2000, he was the chief representative of China region of a Germany testing and certification corporation. From 2000 to 2004, he was the deputy general manager of the finance department of an associate of Liu Chong Hing Investment Limited (Stock code: 0194.HK). From 2004 to 2006, he was the general manager of the finance and human resources department of a rental company. From 2006 to 2010, he was previously a joint company secretary and an authorized representative of China COSCO Holdings Company Limited (Stock code: 1919.HK), and was responsible for corporate governance matters and investor relations. He was involved in internal control matters as well as compliance.

Mr. Ng graduated from Monash University in Australia 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.

REPORT OF THE DIRECTORS

The Directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2012.

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 20 to the financial statements.

DIVIDENDS

The Directors has recommended the payment of a dividend of RMB0.672 cents per share (equivalent to HK0.843 cents per share) (2011: RMB0.94 cents per share (equivalent to HK1.16 cents per share)) for the year ended 31 December 2012, which will be charged to the share premium account and will be subject to shareholders' approval at the forthcoming annual general meeting.

CLOSURE OF REGISTER OF MEMBERS

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

(i) from Wednesday, 7 August 2013 to Friday, 9 August 2013, 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 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, 6 August 2013.

(ii) On Monday, 30 September 2013, 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 Friday, 27 September 2013.

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 69.8% (2011: 78.9%) of the Group's total sales and the top five suppliers accounted for approximately 48.0% (2011: 67.2%) of the total purchases for the year. In addition, the Group's largest customer accounted for approximately 39.5% (2011: 58.3%) of the total sales and the largest supplier of the Group accounted for approximately 23.3% (2011: 28.2%) 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.

CHARITABLE DONATION

For the year ended 31 December 2012, the Company and its subsidiaries' donation amounted to RMB0.2 million, all of which has been applied towards poverty, elderly, education, disability and medical assistance, disaster relief and other charitable activities.

FINANCIAL STATEMENTS

The result of the Group for the year ended 31 December 2012 and the financial status of the Company and the Group as at 31 December 2012 are set out in the financial statements on pages 51 to 123.

DISTRIBUTABLE RESERVE

The Company's reserves available for distribution represent the share premium, contributed surplus and profit which in aggregate amounted to RMB1,032 million as at 31 December 2012 (2011: RMB1,063 million). Details of the reserves of the Company as at 31 December 2012 are set out in note 36 to the financial statements.

FIXED ASSETS

Details of movements in fixed assets during this financial year are set out in note 17 to the financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 35 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 *(Chairman and Chief Executive Officer)*
Mr. Jiang Yong *(Vice President)* (appointed on 9 August 2012)
Mr. Liu Yaohua *(Vice president)*
Ms. Han Aizhi *(Vice President)*
Mr. Song Xichen *(Vice President)* (appointed on 1 April 2012)
Mr. Wang Xu *(Vice President)* (resigned on 9 August 2012)

Non-executive Director

Mr. Yan Tangfeng

Independent Non-executive Directors

Mr. Guo Changyu
Mr. Wang Xueyou (appointed on 1 October 2012)
Mr. Chen Junzhu, *ACCA, CICPA* (appointed on 30 May 2013)
Mr. Leung Ming Shu, *FCCA, FCPA* (resigned on 9 April 2013)
Mr. Huo Chunyong (resigned on 30 August 2012)

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 a term of three years. Pursuant to the Articles of Association, Mr. Zhang Bizhuang, Mr. Liu Yaohua and Mr. Yan Tangfeng shall retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting of the Company.

Pursuant to Article 83(3) of the Articles of Association of the Company, Mr. Jiang Yong, Mr. Wang Xueyou and Mr. Chen Junzhu were appointed as Executive Director, Independent Non-executive Director and Independent Non-executive Director on 9 August 2012, 1 October 2012 and 30 May 2013 respectively, whose term of office will expire at the forthcoming annual general meeting, and they 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 "Listing Rules"). 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 2012, 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:

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 at 31 December 2012
Jiang Yong	Interest in controlled corporation(1)	620,000,000	—	24.99%
Yan Tangfeng	Interest in controlled corporation(2)	393,563,200	—	15.87%
Zhang Bizhuang	Interest in controlled corporation(3)	153,130,224		6.173%
	Beneficial owner		8,400,000(8)	0.339%
Wang Xu	Interest in controlled corporation(4)	37,392,264		1.507%
	Beneficial owner		4,200,000(8)	0.169%
Liu Yaohua	Interest in controlled corporation(5)	26,708,760		1.077%
	Beneficial owner		2,700,000(8)	0.109%
Han Aizhi	Interest in controlled corporation(6)	26,708,760		1.077%
	Beneficial owner		4,200,000(8)	0.169%
Song Xichen	Interest in 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, representing 24.99% of the issued shares in the Company. Mr. Jiang Yong owns the entire issued share capital of Valuable Tactics and is therefore deemed to be interested in the shares of the Company held by Valuable Tactics by virtue of the SFO.

(2) Aceplus Investments Limited ("Aceplus Investments") holds 393,563,200 shares of the Company, representing 15.87% of the issued shares in the Company. Mr. Yan Tangfeng owns the entire issued share capital of Aceplus Investments Limited and is therefore deemed to be interested in the shares of the Company held by Aceplus Investments by virtue of the SFO.

(3) Goldmics Investments Limited ("Goldmics Investments") holds 153,130,224 shares of the Company, representing 6.173% of the issued shares in 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 virtue of the SFO.

(4) Funsteps International Limited ("Funsteps International") holds 37,392,264 shares of the Company, representing 1.507% of the issued shares in the Company. Mr. Wang Xu owns the entire issued share capital of Funsteps International and is therefore deemed to be interested in the shares held by Funsteps International by virtue of the SFO.

(5) Ocean Prosperity Limited ("Ocean Prosperity") holds 26,708,760 shares of the Company, representing 1.077% of the issued shares in 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 virtue of the SFO.

(6) Crownova Limited ("Crownova") holds 26,708,760 shares of the Company, representing 1.077% of the issued shares in the Company. Ms. Han Aizhi owns the entire issued share capital of Crownova and is therefore deemed to be interested in the shares of the Company held by Crownova by virtue of the SFO.

(7) Winfun Investments Limited ("Winfun Investments") holds 26,708,760 shares of the Company, representing 1.077% of the issued shares in the Company. Mr. Song Xichen holds 50% interest of the issued share capital of Winfun Investments and his spouse Ms. Xu Li holds the remaining 50% interest. Therefore, Mr. Song Xichen is deemed to be interested in the shares of the Company held by Winfun Investments by virtue of the SFO.

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

Save as disclosed above, as at 31 December 2012, 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 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 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 senior management and other personnel approved by the Board, including five 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. Immediately preceding the date of grant, the closing price of the Company's shares is HK$1.988.

In addition, on 3 January 2012, the Board granted 24,000,000 share options to 81 Directors, senior management and other personnel approved by the Board, including five Directors of the Company and its subsidiaries, at an exercise price of HK$0.80 per Share under the Share Option Scheme. Immediately preceding the date of grant, the closing price of the Company's shares is HK$0.778.

For the year ended 31 December 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	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2012	Approximate percentage of the issued share capital of the Company as at 31 December 2012	Notes
Directors										
Zhang Bizhuang	Beneficial owner	HK$2.03	7,200,000	0	0	0	0	7,200,000	0.290%	(1)
Zhang Bizhuang	Beneficial owner	HK$0.80	0	1,200,000	0	0	0	1,200,000	0.048%	(2)
Wang Xu	Beneficial owner	HK$2.03	3,000,000	0	0	0	0	3,000,000	0.121%	(1)
Wang Xu	Beneficial owner	HK$0.80	0	1,200,000	0	0	0	1,200,000	0.048%	(2)
Liu Yaohua	Beneficial owner	HK$2.03	1,500,000	0	0	0	0	1,500,000	0.060%	(1)
Liu Yaohua	Beneficial owner	HK$0.80	0	1,200,000	0	0	0	1,200,000	0.048%	(2)
Han Aizhi	Beneficial owner	HK$2.03	3,000,000	0	0	0	0	3,000,000	0.121%	(1)
Han Aizhi	Beneficial owner	HK$0.80	0	1,200,000	0	0	0	1,200,000	0.048%	(2)
Song Xichen	Beneficial owner	HK$2.03	1,500,000	0	0	0	0	1,500,000	0.060%	(1)
Song Xichen	Beneficial owner	HK$0.80	0	960,000	0	0	0	960,000	0.039%	(2)
Employees										
Employees	Beneficial owner	HK$2.03	6,300,000	0	0	0	0	6,300,000	0.254%	(1)
Employees	Beneficial owner	HK$0.80	0	18,240,000	0	0	0	18,240,000	0.735%	(2)
Total			22,500,000	24,000,000	0	0	0	46,500,000	1.875%	

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.

(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$0.80 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 37 to the financial statements.

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

As at 31 December 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 of 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%

Note:

(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 31 December 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.

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance had been entered into between the Company and the controlling shareholders or any of its subsidiaries during the year ended 31 December 2012.

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 8 July 2013 (the latest practicable date prior to the issue of this annual report), 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 at 31 December 2012, cash and cash equivalents of the Group amounted to approximately RMB166,056,000 (2011: RMB381,832,000). As at 31 December 2012, the Group had interest-bearing bank loans of approximately RMB988,461,000 (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 bank deposits) divided by total capital plus net debt. As at 31 December 2012, the gearing ratio of the Group was 25.0% (2011: 18.0%).

CHARGES AND CONTINGENT LIABILITIES

Except the aforesaid secured bank borrowings, as at 31 December 2012, the Group did not have other charges on its assets or any material contingent liabilities.

FOREIGN EXCHANGE RISK

For the year of 2012, 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 2012, the Group employed 1,314 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.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities and non-controlling interests of the Group for the last five financial years, is set out on page 124. This summary does not form part of the audited financial statements.

RETIREMENT SCHEMES

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

CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 40 to the financial statements constituted connected transactions under Chapter 14A of the Listing Rules. The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules with respect to such transactions. Details of the transactions 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, entered into a lease agreement with Shengli Steel Pipe on 26 July 2009, pursuant to which, Shengli Steel Pipe agreed to lease to Shandong Shengli Steel Pipe certain land and buildings in Zibo, Shandong Province where the Group's SSAW production facilities are located. 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 Steel Pipe. Shandong Shengli Steel Pipe and Shengli Steel Pipe entered into supplemental lease agreements on 28 September 2010, 29 April 2011 and 20 December 2011, respectively, pursuant to which the parties adjusted the scope of properties to be lease and the rental payable under the lease agreement. The rent is adjustable every three years with reference to the then market value which shall be confirmed by an independent property valuer jointly appointed by the parties. The annual cap for the transactions under the lease agreement as amended by the supplemental lease agreements for each of the three years from 1 January 2012 to 31 December 2014 is RMB8.12 million.

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. Accordingly, the transactions under the lease agreement as amended by the supplemental lease agreements constitute continuing connected transactions of the Company, and are subject to reporting, announcement and annual review requirements but exempt from independent shareholders' approval requirements 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.

The Board has received a letter from the auditors of the Company confirming that during the reporting period, the above continuing connected transactions:

(1) have received the approval of the Board of the Company;

(2) have been entered into in accordance with the relevant agreement governing the transactions; and

(3) have not exceeded the cap disclosed in previous announcements.

Road engineering work by Hunan Xianggang Hongsheng Municipal Engineering Co., Ltd. ("Hongsheng Engineering")

The Company's non-wholly owned subsidiary, Hunan Shengli, entered into a construction agreement with Hongsheng Engineering on 13 August 2012, 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 contract price of RMB12,960,000.

Xiangtan Steel Group Co., Ltd. ("Xiangtan Steel") owns 40% of the equity interests of Hunan Shengli and is a connected person of the Company. Hongsheng Engineering is an associate of Xiangtan Steel, and is also a connected person of the Company. Accordingly, the transaction under the construction agreement constitutes a connected transaction of the Company, and is subject to reporting and announcement requirements but exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of their respective listed securities during the year ended 31 December 2012.

AUDITORS

The consolidated financial statements of the Group for the financial year ended 31 December 2010 were audited by Deloitte Touche Tohmatsu. On 29 June 2011, Ernst & Young ("EY") was appointed as the auditors of the Company, in place of Deloitte Touche Tohmatsu, as the latter and the Company failed to reach consensus over the audit fee for the financial year ended 31 December 2011.

At the annual general meeting held on 15 June 2012, the Company appointed EY as auditors of the Company for the year ended 31 December 2012.

At the extraordinary general meeting held on 6 June 2013, a special resolution was passed for the removal of EY as auditors of the Company. The reason for the proposed removal of EY as auditors of the Company was disclosed in the announcement on 14 May 2013.

At the extraordinary general meeting held on 6 June 2013, an ordinary resolution was passed for the appointment of ANDA CPA Limited ("ANDA") as auditors of the Company. A resolution will be proposed for approval by shareholders at the forthcoming annual general meeting to re-appoint ANDA as auditors of the Company.

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

7 July 2013

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. Save as disclosed below, the Company has applied the principles and complied with all code provisions and, where applicable, the recommended best practices of the Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code (the "Code") during the period from 1 April 2012 to 31 December 2012 as set out in Appendix 14 of the Listing Rules.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules as the required standard for securities transactions by Directors. The Company has made specific enquiries of all Directors and all Directors confirmed that for the year ended 31 December 2012, they have complied with the required standards set out in the Model Code and the code of conduct of the Company regarding directors' securities transactions.

BOARD OF DIRECTORS

Composition of the Board of Directors

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

Non-executive Director

Mr. Yan Tangfeng

Independent non-executive Directors

Mr. Huo Chunyong (resigned on 30 August 2012)
Mr. Guo Changyu
Mr. Wang Xueyou (appointed on 1 October 2012)
Mr. Leung Ming Shu (resigned on 9 April 2013)
Mr. Chen Junzhu (appointed on 30 May 2013)

The biographical details of all Directors are set out in pages 22 to 25 of 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 2012, the Board held 15 meetings, four of which 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, 15 Board meetings were held. Details of the attendance of each Director are as follows:

Name of the Director	Attendance
Executive Directors	
Mr. Zhang Bizhuang *(Chairman and Chief Executive Officer)*	15/15
Mr. Jiang Yong *(Vice President)* (appointed on 9 August 2012)	7/7
Mr. Liu Yaohua *(Vice President)*	15/15
Ms. Han Aizhi *(Vice President)*	15/15
Mr. Song Xichen *(Vice President)* (appointed on 1 April 2012)	11/11
Mr. Wang Xu *(Vice President)* (resigned on 9 August 2012)	8/8
Non-executive Director	
Mr. Yan Tangfeng	15/15
Independent non-executive Directors	
Mr. Guo Changyu	15/15
Mr. Wang Xueyou (appointed on 1 October 2012)	2/2
Mr. Chen Junzhu (appointed on 30 May 2013)	0/0
Mr. Leung Ming Shu (resigned on 9 April 2013)	15/15
Mr. Huo Chunyong (resigned on 30 August 2012)	9/11

Directors' Appointment, Re-election and Removal

Each of the Directors has entered into a service contract or an appointment letter with the Company for a term of three years. The service contract and appointment letter are subject to termination in accordance with the provisions contained therein by one party 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 Rules 3.10 and 3.10A 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. Guo Changyu, Mr. Leung Ming Shu, Mr. Wang Xueyou and Mr. Chen Junzhu to be independent from the Company.

Mr. Huo Chunyong, a former independent non-executive Director, chairman of the Remuneration Committee and member of the Audit Committee and Nomination Committee, tendered his resignations on 30 August 2012. The Board noted that following the resignations of Mr. Huo, the number of independent non-executive Directors and the members of the Audit Committee would fall below the minimum number required under Rule 3.10(1) and Rule 3.21 of the Listing Rules. In addition, the position of the chairman of the Remuneration Committee would be left vacant and the number of independent non-executive Directors of the Remuneration Committee and Nomination Committee would fall below a majority required under Rule 3.25 of the Listing Rules and Code Provision A.5.1 in Appendix 14 to the Listing Rules.

The Company appointed Mr. Wang Xueyou as an independent non-executive Director on 1 October 2012 and in replacement of Mr. Huo Chunyong in all of his positions within the Board. From then on, the Company has re-complied with requirements of Rule 3.10(1), Rule 3.21 and Rule 3.25 of the Listing Rules as well as Code Provision A.5.1 in Appendix 14 to the Listing Rules.

Continuous Professional Development

The Directors have been informed of the requirement under code provision A.6.5 of the Code regarding continuous professional development. Arrangement was made by the Company to have all the Directors participated in a training session on internal control, risk management and finance practices conducted by the former auditors in June 2012. In addition, all the existing Directors had completed a 24-hour training session on 8 core subjects and a 4-hour training session on continuous responsibility organised by the Hong Kong Institute of Directors in May 2013.

Chairman and Chief Executive Officer

Under code provision A.2.1 of the Code, the roles of the Chairman and the chief executive officer should be separated and should not be performed by the same individual. The roles of the chairman and the chief executive officer of the Company are performed by Mr. Zhang Bi Zhuang, as the Board considers this arrangement is beneficial to the Company's daily operations, while splitting the two roles will involve a separation of power and authority under the existing structure. The Board will review the existing structure from time to time and make necessary arrangements as and when necessary.

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 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 one non-executive Director Mr. Yan Tangfeng (appointed on 16 January 2012) and two independent non-executive Directors, namely Mr. Chen Junzhu (appointed on 30 May 2013) and Mr. Wang Xueyou (appointed on 1 October 2012), with Mr. Chen Junzhu as chairman. The Audit Committee has reviewed the consolidated financial statements for the year ended 31 December 2012.

During the year ended 31 December 2012, the Audit Committee held three meetings. Details of the attendance of each member are as follows:

Name of audit committee members	Attendance
Mr. Chen Junzhu *(Chairman)* (appointed on 30 May 2013)	0/0
Mr. Yan Tangfeng (appointed on 16 January 2012)	3/3
Mr. Wang Xueyou (appointed on 1 October 2012)	0/0
Mr. Leung Ming Shu *(Former Chairman)* (resigned on 9 April 2013)	3/3
Mr. Huo Chunyong (resigned on 30 August 2012)	2/3

During the year ended 31 December 2012, the Audit Committee had performed the following functions: reviewing the half-year and full year results, approving of the audit proposal of the auditors, reviewing the report of the auditors, formulating the plan of internal audit for 2012, reviewing the internal audit report summary for 2011 and the internal audit report for first half of 2012, as well as reviewing the internal control system.

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 two independent non-executive Directors, namely Mr. Wang Xueyou (appointed on 1 October 2012) and Mr. Chen Junzhu (appointed on 30 May 2013) and one non-executive Director Mr. Yan Tangfeng. Mr. Wang Xueyou currently serves as the chairman.

During the year ended 31 December 2012, the Remuneration Committee held one meeting. Details of the attendance of each member are as follows:

Name of remuneration committee members	Attendance
Mr. Wang Xueyou *(Chairman)* (appointed on 1 October 2012)	0/0
Mr. Yan Tangfeng	1/1
Mr. Chen Junzhu (appointed on 30 May 2013)	0/0
Mr. Huo Chunyong *(Former Chairman)* (resigned on 30 August 2012)	0/1
Mr. Leung Ming Shu (resigned on 9 April 2013)	1/1

During the year ended 31 December 2012, the Remuneration Committee had performed the following functions: formulating the remuneration policies for Directors, approving the terms in service contracts of Directors, and reviewing the distribution of bonus for the year based on assessment on performances of the executive Directors and senior management.

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 31 to 34 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 two independent non-executive Directors, namely, Mr. Guo Changyu and Mr. Wang Xueyou and one executive Director, namely, Mr. Zhang Bizhuang. Mr. Guo Changyu currently serves as the chairman.

During the year ended 31 December 2012, the Nomination Committee held five meetings. Details of the attendance of each member are as follows:

Name of nomination committee members	Attendance
Mr. Guo Changyu *(Chairman)*	5/5
Mr. Zhang Bizhuang	5/5
Mr. Wang Xueyou (appointed on 1 October 2012)	0/0
Mr. Huo Chunyong (resigned on 30 August 2012)	3/4

During the year ended 31 December 2012, the Nomination Committee had performed the following functions: advising the Board on selection of candidates to fill the vacancy of the Board, reviewing the structure, size and composition of the Board, and giving full review on the professional qualifications and career background of all candidates to directorship and members of the Board committees as well as the independence of the independent Directors.

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 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.

During the year ended 31 December 2012, the Board had instructed the management to update the policies on information disclosure and such policy formulation has been completed in the first quarter of 2013.

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 2012, 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.

AUDITORS' REMUNERATION

During the year ended 31 December 2012, the remuneration paid or payable to EY, former auditors of the Company and ANDA, in respect of their audit and non-audit services were as follows:

Type of Services	**EY** RMB'000	**ANDA** RMB'000	**Total** RMB'000
Audit Services	1,180	1,302	2,482
Non-audit Services			
— Review on interim report	500	—	500
— Report on continuing connected transaction	—	12	12
— Review on preliminary result announcement	—	12	12
	500	24	524
Total	1,680	1,326	3,006

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 2012.

On 29 November 2012, at the request of the Stock Exchange, the Company appointed an independent professional adviser to conduct a thorough review of and make recommendations to improve the Company's internal control in respect of the areas including the procedures relating to disclosure of inside information, procedures in relation to dealing with unusual price and turnover movement, procedures regarding maintenance of confidentiality, and policies and procedures of communication. Amendments and supplements have been made towards the Company's internal control systems based on recommendations from the adviser.

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 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. All the Directors and members of the Board Committees had attended the annual general meeting on 15 June 2012 and the extraordinary general meeting on 6 June 2013 to answer questions. Separate resolutions on each distinct issue would be proposed at the general meeting.

During the year, we took part in 1 road-show, participated in 158 meetings, met 373 investors, analysts and media representatives, and arranged 8 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	12 March 2012	2011 Annual Result Analyst Meeting	Hong Kong	√	
2	13-15 March 2012	2011 Post Result Non-Deal Roadshow	Hong Kong		√
3	25 April 2012	DBS Vickers Pulse of Asia Conference	Hong Kong		√
4	8-10 May 2012	Bank of America Merrill Lynch PRC Energy & Clean Environment Day	Hong Kong		√
5	1 June 2012	Oriental Patron The Golden Age of China's Natural Gas	Shenzhen		√
6	13-15 June 2012	J.P. Morgan China Conference 2012	Beijing		√
7	20-21 June 2012	Standard Chartered 2nd Earth Resources Conference	Hong Kong		√
8	20 August 2012	2012 Interim Result Analyst Meeting	Hong Kong	√	
9	4 September 2012	Nomura Oil & Gas Corporate Day	Hong Kong		√
10	19 October 2012	Mirae Asset Securities China Energy Access Day	Hong Kong		√

Analysts Contact Information

No.	Company Name	Analyst	Email address
1	Citigroup Global Market Asia Limited	Danny Huang	danny.huang@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 Holdings 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	Nomura International (Hong Kong) Limited	Ding Hanzhi	hanzhi.ding@nomura.com
11	Oriental Patron Securities Limited	Yuji Fung	yuji.fung@oriental-patron.com.hk
12	Standard Chartered Bank (Hong Kong) Limited	Dennis Ip	dennis.ip@sc.com

Shareholders' Rights

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 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 secretary of the Company will forward 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.

Significant Change in Constitutional Documents

During the year ended 31 December 2012, there has been no significant change in the Company's constitutional documents.

INDEPENDENT AUDITOR'S REPORT

ANDA
CPA Limited
安達會計師事務所有限公司

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 (collectively referred to as the "Group") set out on pages 51 to 123, which comprise the consolidated statement of financial position as at 31 December 2012, 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 ("the Directors") are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's 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 auditor considers internal control relevant to the entity's preparation of the 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 Group as at 31 December 2012, 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.

ANDA CPA Limited
Certified Public Accountants
Sze Lin Tang
Practising Certificate Number P03614

Hong Kong, 7 July 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	9	1,920,855	1,821,836
Cost of sales		(1,850,284)	(1,678,436)
Gross profit		70,571	143,400
Other income and gains	9	155,609	96,247
Selling and distribution costs		(22,946)	(42,146)
Administrative expenses		(84,380)	(54,207)
Other expenses		(3,893)	(3,077)
Share of profit and losses of:			
Jointly controlled entities		(751)	(792)
Associate		(6,198)	(3,746)
Finance costs	10	(36,053)	(20,183)
PROFIT BEFORE TAX	11	71,959	115,496
Income tax expense	13	(16,371)	(23,579)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		55,588	91,917
ATTRIBUTABLE TO:			
Owners of the Company	14	62,775	93,780
Non-controlling interests		(7,187)	(1,863)
		55,588	91,917
EARNINGS PER SHARE (RMB cents)	15		
— Basic		2.53	3.77
— Diluted		2.53	3.77

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	17	984,322	710,133
Prepaid land lease payments	18	164,457	60,745
Goodwill	19	9,910	9,910
Deposits paid for acquisition of investments	21	41,483	—
Investment in jointly controlled entities	22	45,400	17,208
Investment in an associate	23	237,056	243,254
Available-for-sale investment	24	15,000	—
Derivative financial instrument	23	94,000	75,000
Other assets		8,797	1,322
Deferred tax assets	25	13,495	9,039
		1,613,920	1,126,611
CURRENT ASSETS			
Inventories	26	276,084	392,741
Trade and bills receivables	27	749,158	685,854
Prepayments, deposits and other receivables	28	405,358	113,280
Loan receivable	29	—	300,000
Investment held for sale		—	4,793
Prepaid land lease payments	18	3,406	1,134
Pledged deposits	30	373,502	36,246
Cash and cash equivalents	30	166,056	381,832
		1,973,564	1,915,880
CURRENT LIABILITIES			
Trade payables	31	128,312	95,020
Other payables and accruals	32	169,489	135,874
Interest-bearing bank loans	33	988,461	631,800
Tax payable		14,752	15,812
Deferred income	34	854	258
		1,301,868	878,764
NET CURRENT ASSETS		671,696	1,037,116
TOTAL ASSETS LESS CURRENT LIABILITIES		2,285,616	2,163,727
NON-CURRENT LIABILITIES			
Deferred income	34	9,880	11,965
Deferred tax liabilities	25	10,675	5,943
		20,555	17,908
NET ASSETS		2,265,061	2,145,819

	Notes	2012 RMB'000	2011 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Issued capital	35	**218,786**	218,786
Reserves	36	**1,855,583**	1,809,154
		2,074,369	2,027,940
Non-controlling interests		**190,692**	117,879
Total equity		**2,265,061**	2,145,819

The consolidated financial statements on pages 51 to 123 were approved and authorised for issue by the board of directors on 7 July 2013 and are signed on its behalf by:

Approved by:

Zhang Bizhuang	**Han Aizhi**
Director	*Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the Company									
	Issued capital RMB'000	Share premium* RMB'000	Statutory surplus reserve* RMB'000	Share option reserve* RMB'000	Other reserve* RMB'000	Retained profits* RMB'000	Proposed final dividend* RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2011	219,572	1,133,012	50,824	13,296	(9)	523,154	21,817	1,961,666	—	1,961,666
Establishment of a non-wholly-owned subsidiary	—	—	—	—	—	—	—	—	49,000	49,000
Acquisition of a subsidiary	—	—	—	—	—	—	—	—	70,742	70,742
Repurchase of shares	(786)	(10,450)	—	—	—	—	—	(11,236)	—	(11,236)
Share-based payment	—	—	—	5,547	—	—	—	5,547	—	5,547
Final 2010 dividend paid	—	—	—	—	—	—	(21,817)	(21,817)	—	(21,817)
Proposed final 2011 dividend	—	(23,317)	—	—	—	—	23,317	—	—	—
Transfer from retained profits	—	—	11,660	—	—	(11,660)	—	—	—	—
Total comprehensive income/(loss) for the year	—	—	—	—	—	93,780	—	93,780	(1,863)	91,917
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
At 1 January 2012	**218,786**	**1,099,245**	**62,484**	**18,843**	**(9)**	**605,274**	**23,317**	**2,027,940**	**117,879**	**2,145,819**
Capital contribution from non-controlling shareholders	—	—	—	—	—	—	—	—	**80,000**	**80,000**
Share-based payment	—	—	—	**6,971**	—	—	—	**6,971**	—	**6,971**
Final 2011 dividend paid	—	—	—	—	—	—	**(23,317)**	**(23,317)**	—	**(23,317)**
Proposed final 2012 dividend	—	**(16,676)**	—	—	—	—	**16,676**	—	—	—
Total comprehensive income/(loss) for the year	—	—	—	—	—	**62,775**	—	**62,775**	**(7,187)**	**55,588**
At 31 December 2012	**218,786**	**1,082,569**	**62,484**	**25,814**	**(9)**	**668,049**	**16,676**	**2,074,369**	**190,692**	**2,265,061**

* These reserve accounts comprise the consolidated reserves in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	71,959	115,496
Adjustments for:		
Finance costs	36,053	20,183
Interest income	(38,047)	(47,324)
Share of profit and losses of jointly controlled entities	751	792
Share of profit and losses of an associate	6,198	3,746
Depreciation	61,446	33,780
Amortization of prepaid land lease payments	2,105	992
(Gain)/loss on disposal of items of property, plant and equipment, net	(248)	102
Write down of inventories	2,337	196
Share option expenses	6,971	5,547
Change in fair value of a derivative financial instrument	(19,000)	(22,000)
Recognise of deferred income	(1,489)	(86)
	129,036	111,424
Change in inventories	114,320	(216,463)
Change in trade and bills receivables	(63,304)	(220,222)
Change in prepayments, deposits and other receivables and other assets	(292,802)	208,090
Change in pledged deposits	—	(11,250)
Change in trade and bills payables	33,292	26,491
Change in other payables and accruals	33,615	8,386
Cash used in operations	(45,843)	(93,544)
Income tax paid	(17,155)	(17,790)
Net cash used in operating activities	(62,998)	(111,334)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of items of property, plant and equipment	(335,793)	(277,205)
Additions of prepaid land lease payments	(108,089)	(172)
Acquisition of a subsidiary, net of cash acquired	—	(98,910)
Investment in a jointly controlled entity	(28,943)	(18,000)
Investment held for sale	4,793	(4,900)
Proceeds from disposal of items of property, plant and equipment	406	498
Available-for-sale investment	(15,000)	—
Deposits paid for acquisition of investments	(41,483)	—
(Increase)/decrease in pledged deposits	(362,252)	57,300
Interest received	38,047	48,580
Loans to a third party	—	(300,000)
Repayment of a loan from third party	300,000	100,000
Advances to a jointly controlled entity	(6,751)	—
Net cash flows used in investing activities	(555,065)	(492,809)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loans	356,661	781,164
Repayment of bank loans	—	(154,364)
Interest paid	(36,053)	(18,739)
Repurchase of shares	—	(11,236)
Capital contribution from non-controlling interests	80,000	49,000
Dividends paid	(23,317)	(21,817)
Net cash flows generated from financing activities	377,291	624,008
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(240,772)	19,865
Cash and cash equivalents at beginning of year	406,828	386,963
Cash and cash equivalents at end of year	166,056	406,828
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	166,056	381,832
Pledged time deposits with original maturity of less than three months when acquired	—	24,996
	166,056	406,828

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2012

1. GENERAL INFORMATION

The Company is a limited company incorporated in the Cayman Islands on 3 July 2009. The address of its registered office is located at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal places of business of the Company in Hong Kong and PRC are located at Unit 2310, 23rd Floor, COSCO Tower, 183 Queen's Road Central, Hong Kong and Zhongbu Town, Zhangdian District, Zibo City, Shandong province 255082, PRC; respectively.

The Company acts as an investment holding company. The principal activities of its subsidiaries are set out in note 20 to the financial statements.

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 and the trading in the shares of the Company has been suspended since 14 March 2013.

2. BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs") and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the disclosure requirements of the Hong Kong Companies Ordinance.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised IFRSs that are relevant to its operations and effective for its accounting year beginning on 1 January 2012. IFRSs comprise International Financial Reporting Standards; International Accounting Standards and Interpretations. The adoption of these new and revised IFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised IFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised IFRSs but is not yet in a position to state whether these new and revised IFRSs would have a material impact on its results of operations and financial position.

4. SIGNIFICANT ACCOUNTING POLICIES

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.

The preparation of financial statements in conformity with IFRSs requires the use of certain key assumptions and estimates. It also requires the Directors to exercise their judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements are disclosed in note 5 to these financial statements.

The significant accounting policies applied in the preparation of these financial statements are set out below.

Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has control.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

The gain or loss on the disposal of a subsidiary that results in a loss of control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that subsidiary and (ii) the Company's share of the net assets of that subsidiary plus any remaining goodwill relating to that subsidiary and any related accumulated foreign currency translation reserve.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests represent the equity in subsidiaries not attributable, directly or indirectly, to the Company. Non-controlling interests are presented in the consolidated statement of financial position and consolidated statement of changes in equity within equity. Non-controlling interests are presented in the consolidated statement of comprehensive income as an allocation of profit or loss and total comprehensive income for the year between the non-controlling shareholders and owners of the Company.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling shareholders even if this results in the non-controlling interests having a deficit balance.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Consolidation (continued)

Changes in the Company's ownership interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions (i.e. transactions with owners in their capacity as owners). The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to the owners of the Company.

Jointly controlled entities

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over the economic activity when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control (the "venturers").

A jointly controlled entity is a joint venture that involves the establishment of a separate entity in which each venturer has an interest.

Investment in a jointly controlled entity is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the jointly controlled entity in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the jointly controlled entity's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of a jointly controlled entity's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled entity. If the jointly controlled entity subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of a jointly controlled entity that results in a loss of joint control represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that jointly controlled entity and (ii) the Group's share of the net assets of that jointly controlled entity plus any remaining goodwill relating to that jointly controlled entity and any related accumulated foreign currency translation reserve.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly controlled entities (continued)

Unrealised profits on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interests in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policies of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group has significant influence.

Investment in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

The gain or loss on the disposal of an associate that results in a loss of significant influence represents the difference between (i) the fair value of the consideration of the sale plus the fair value of any investment retained in that associate and (ii) the Group's share of the net assets of that associate plus any remaining goodwill relating to that associate and any related accumulated foreign currency translation reserve.

Unrealised profits on transactions between the Group and its associate are eliminated to the extent of the Group's interests in the associate. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the associate have been changed where necessary to ensure consistency with the policies adopted by the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

In a business combination achieved in stages, the previously held equity interest in the subsidiary is remeasured at its acquisition-date fair value and the resulting gain or loss is recognised in consolidated profit or loss. The fair value is added to the cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, available-for-sale investment), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

The non-controlling interests in the subsidiary are initially measured at the non-controlling shareholders' proportionate share of the net fair value of the subsidiary's identifiable assets and liabilities at the acquisition date.

Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi, which is the Company's presentation currency and the functional currency of the principal operating subsidiaries of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

(b) *Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

Non-monetary items that are measured at fair values in foreign currencies are translated using the exchange rates at the dates when the fair values are determined.

When a gain or loss on a non-monetary item is recognised in other comprehensive income, any exchange component of that gain or loss is recognised in other comprehensive income. When a gain or loss on a non-monetary item is recognised in profit or loss, any exchange component of that gain or loss is recognised in profit or loss.

(c) *Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and

(iii) All resulting exchange differences are recognised in the foreign currency translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currency translation (continued)

(c) Translation on consolidation (continued)

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.

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. 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.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation is provided to write off the cost of items of property, plant and equipment, over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method. The estimated useful lives of property, plant and equipment are as follows:

Buildings	20–30 years
Plant and machinery	10 years
Electronic equipment and others	4–5 years
Motor vehicles	6 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.

The residual values, useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

Construction in progress represents items of property, plant and equipment under construction, which is stated at cost less any impairment losses, and is 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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Operating leases

The Group as lessee

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

The Group as lessor

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis. The cost of finished goods and work in progress comprises raw materials, direct labour and an appropriate proportion of all production overhead expenditure, and where appropriate, subcontracting charges. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the statement of financial position when the Group becomes a party to the contractual provisions of the instruments.

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid is recognised in profit or loss.

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Recognition and derecognition of financial instruments (continued)

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

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are either investments classified as held for trading or designated as at fair value through profit or loss upon initial recognition. These investments are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in profit or loss.

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets not classified as trade and other receivables, held-to-maturity investments or financial assets at fair value through profit or loss. Available-for-sale financial assets are subsequently measured at fair value. Gains or losses arising from changes in fair value of these investments are recognised in other comprehensive income, until the investments are disposed of or there is objective evidence that the investments are impaired, at which time the cumulative gains or losses previously recognised in other comprehensive income are recognised in profit or loss. Interest calculated using the effective interest method is recognised in profit or loss.

Impairment losses recognised in profit or loss for equity investments classified as available-for-sale financial assets are not subsequently reversed through profit or loss. Impairment losses recognised in profit or loss for debt instruments classified as available-for-sale financial assets are subsequently reversed and recognised in profit or loss if an increase in the fair value of the instruments can be objectively related to an event occurring after the recognition of the impairment loss.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivate contract date is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the carrying amount of the receivables and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the recoverable amount of the receivables can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value. Bank overdrafts which are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under IFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

Loans and Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching 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, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual installments.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

(a) Revenues from the sales of goods are recognised on the transfer of significant risks and rewards of ownership, which generally coincides with the time when the goods are delivered and the title has passed to the customers.

(b) Service income is recognised when the services are provided.

(c) Rental income is recognised on a straight-line basis over the lease term.

(d) Interest income is recognised on a time-proportion basis using the effective interest method.

(e) Dividend income is recognised when the shareholders' right to receive payment has been established.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

(a) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(b) Pension obligations

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme ("MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme in Hong Kong. Contributions are made based on 5% of the employees' relevant income, subject to a ceiling of monthly relevant income of HK$20,000 (increased to HK$25,000 starting from 1 June 2012) and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The Group also participates in a defined contribution retirement scheme organised by the government in the People's Republic of China (the "PRC"). The Group is required to contribute a specific percentage of the payroll of its employees to the retirement scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the retirement scheme. No forfeited contributions may be used by the employers to reduce the existing level of contributions.

(c) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

Share-based payments

The Group issues equity-settled share-based payments to certain employees (including directors). Equity-settled share-based payments are measured at the fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

To the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalisation is determined by applying a capitalisation rate to the expenditures on that asset. The capitalisation rate is the weighted average of the borrowing costs applicable to the borrowings of the Group that are outstanding during the period, other than borrowings made specifically for the purpose of obtaining a qualifying asset.

All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Related parties

A related party is a person or entity that is related to the Group.

(a) A person or a close member of that person's family is related to the Group if 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 Company or of a parent of the Company.

(b) An entity is related to the Group (reporting entity) if any of the following conditions applies:

 (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

 (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

 (iii) Both entities are joint ventures of the same third party.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) (continued)

(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. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(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).

Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources to, and assessing the performance of the Group's various lines of business in different geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of productions processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except goodwill, investments, deferred tax assets, inventories and receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of assets (continued)

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow is remote.

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.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

5. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4 to the consolidated financial statements, the Directors are required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

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

(a) Legal titles of certain lands and buildings

As stated in notes 17 and 18 to these financial statements, the legal titles of certain lands and buildings have not been transferred to the Group as at 31 December 2012. Despite the fact that the Group has not obtained the relevant certificates of legal titles, the Directors determine to recognise those lands and buildings under property, plant and equipment and prepaid land lease payments, on the grounds that they expect the transfer of legal titles in future should have no major difficulties and the Group is in substance controlling those lands and buildings.

5. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty

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

(a) Deferred tax assets

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, unused tax losses or unused tax credits 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 2012 was RMB13,495,000 (2011: RMB9,039,000).

(b) 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 2012 were approximately RMB736,854,000 (2011: RMB643,915,000) and RMB405,358,000 (2011: RMB113,280,000), respectively.

(c) 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 2012 was RMB276,084,000 (2011: RMB392,741,000).

5. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

(d) 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 2012 was RMB9,910,000 (2011: RMB9,910,000). More details are given in note 19.

(e) Property, plant and equipment and depreciation

The Group determines the estimated useful lives, residual values and related depreciation/amortization charges for the Group's property, plant and equipment. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment and of similar nature and functions. The Group will revise the depreciation/amortization charge where useful lives and residual values are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(f) Impairment loss recognised in respect of interests in an associate and jointly controlled entities

Interests in an associate and jointly controlled entities are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Value-in-use calculations are used for assessing the recoverable amount of these interests. These calculations require use of judgments and estimates.

Management judgment is required for assessing impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related carrying value of interests may not be recoverable; and (ii) whether the carrying value of the interests can be supported by the recoverable amount. Changing the estimations used by management in assessing impairment could materially affect the recoverable amount used in the impairment test and as a result affect the Group's consolidated financial position and results of operations. At the end of the reporting period, the carrying value of interests in the associate and jointly controlled entities were RMB237,056,000 (2011: RMB243,254,000) and RMB45,400,000 (2011: RMB17,208,000); respectively.

5. CRITICAL ACCOUNTING JUDGMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

(g) Fair value of derivative financial instrument

Derivative financial instrument was carried in the consolidated statement of financial position at the end of the reporting period at their fair value of approximately RMB94,000,000 (2011: RMB75,000,000). The fair value was based on a valuation on this derivative financial instrument conducted by an independent firm of professional valuers using the Monte Carlo Simulation method which involve certain assumptions of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's derivative financial instrument and corresponding adjustments to the amount of gain or loss reported in the consolidated profit or loss.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance.

During the reporting period, the capital structure of the Group consist of debt which includes interest-bearing bank loans and equity attributable to owners of the Company, comprising issued share capital and reserves. The Directors review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the associated risks, and take appropriate actions to adjust the Group's capital structure. The Group's overall strategy remains unchanged from prior periods.

7. 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, price 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:

(a) 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 has minimal exposure to foreign currency risk.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(b) 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 2012 and 2011, so the Group was not exposed to the risk of changes in market interest rates.

(c) Price risk

The Group's derivative financial instrument represented the guarantee return and right to sell the interest in an associate. This is measured at fair value at the end of each reporting period. Therefore, the Group is exposed to equity security price risk. The directors manage this exposure by regularly reviewing the financial performance of the associate.

(d) 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.

The Group's other financial assets include cash and cash equivalents, and other receivables. Substantial amounts of the Group's cash and cash equivalents are held in major reputable financial institutions located in the PRC and Hong Kong, which management believes are of high credit quality. The credit risk of the Group's other receivables arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group has no other financial assets which carry significant exposure to credit risk.

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Liquidity risk

The Group monitors its exposure to a shortage of funds by considering the maturity of both its financial liabilities and financial assets and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank loans and its own funding sources.

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 maturity profile of the Group's financial liabilities as at the end of each reporting period, based on the contractual undiscounted payment, is as follows:

2012

	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	988,461	—	—	—	988,461
Trade payables	128,312	—	—	—	128,312
Financial liabilities included in other payables and accruals	124,498	—	—	—	124,498
	1,241,271	—	—	—	1,241,271

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(e) Liquidity risk (continued)

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	57,572	—	—	—	57,572
	784,392	—	—	—	784,392

(f) Categories of financial instruments

	2012 RMB'000	2011 RMB'000
Financial assets:		
Financial assets at fair value through profit or loss		
— held for trading		
Derivative financial instrument	94,000	75,000
Available-for-sale financial assets	15,000	—
Loans and receivables		
Trade and bills receivables	749,158	685,854
Financial assets included in prepayments, deposits and other receivables	27,855	14,891
Loan receivable	—	300,000
Pledged deposits	373,502	36,246
Cash and cash equivalents	166,056	381,832
	1,316,571	1,418,823
Financial liabilities:		
Financial liabilities at amortised cost		
Trade payables	128,312	95,020
Financial liabilities included in other payables and accruals	124,498	57,572
Interest-bearing bank loans	988,461	631,800
	1,241,271	784,392

7. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

(g) Fair value

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

8. OPERATING SEGMENT INFORMATION

For management purposes, the Group has three (2011: two) reportable segments: spiral submerged arc welded pipe operation ("SSAW Pipes Business"), cold-formed section steel operation ("Cold-formed Section Steel Business") and trading of metal commodity. The trading of metal commodity segment commenced during the year and mainly involved trading of commodity electrolytic copper, aluminium ingot and aluminum oxide. 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.

8. OPERATING SEGMENT INFORMATION (continued)

Segment revenue and results

For the year ended 31 December 2012

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Trading of metal commodity RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment revenue:					
Sales to external customers	**1,433,322**	**88,148**	**399,385**	**—**	**1,920,855**
Intersegment sales	**—**	**—**	**—**	**—**	**—**
Total revenue	**1,433,322**	**88,148**	**399,385**	**—**	**1,920,855**
Segment results	**135,206**	**(5,280)**	**4,389**		**134,315**
Interest income					**38,047**
Unallocated expenses (note)					**(64,350)**
Finance costs					**(36,053)**
Profit before tax					**71,959**

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

Note:

Included in unallocated expenses of approximately to RMB5,570,000 (2011: nil) which were related to LSAW pipes business and the related operation has not yet commenced during the reporting period.

8. OPERATING SEGMENT INFORMATION (continued)

Segment assets

For the year ended 31 December 2012

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Trading of metal commodity RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment assets	**1,794,879**	**79,396**	**477,689**	**—**	**2,351,964**
Unallocated assets (note)					**1,235,520**
Total consolidated assets					**3,587,484**

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 assets	2,276,577	134,103	(660,892)	1,749,788
Unallocated assets				1,292,703
Total consolidated assets				3,042,491

Segment liabilities

For the year ended 31 December 2012

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Trading of metal commodity RMB'000	Eliminations RMB'000	Consolidated RMB'000
Segment liabilities	**197,956**	**4,502**	**62,221**	**—**	**264,679**
Unallocated liabilities (note)					**1,057,744**
Total consolidated liabilities					**1,322,423**

8. OPERATING SEGMENT INFORMATION (continued)

Segment liabilities (continued)

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 liabilities	731,812	152,070	(660,892)	222,990
Unallocated liabilities				673,682
Total consolidated liabilities				896,672

Note:

Included in unallocated assets and liabilities were assets amounted approximately to RMB237,081,000 and liabilities amounted approximately to RMB29,871,000 which were related to LSAW pipes business and the related operation has not yet commenced as at the end of the reporting period.

Other segment information

As at 31 December 2012

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Trading of metal commodity RMB'000	Unallocated RMB'000	Consolidated RMB'000
Share of profits and losses of:					
Jointly controlled entities	—	—	—	(751)	(751)
Associate	(6,198)	—	—	—	(6,198)
Write down of inventories	1,238	1,099	—	—	2,337
Depreciation and amortisation	58,314	5,092	37	108	63,551
Investment in jointly controlled entities	—	—	—	45,400	45,400
Investment in an associate	237,056	—	—	—	237,056
Capital expenditure*	204,333	1,064	1,343	237,142	443,882

8. OPERATING SEGMENT INFORMATION (continued)

Other segment information (continued)

As at 31 December 2011

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Unallocated RMB'000	Consolidated 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

* Capital expenditure consists of additions of property, plant and equipment and prepaid land lease payments. During the year, the Group incurred capital expenditure approximately of RMB237,142,000 for the LSAW pipes business which operation has not yet commenced at the end of the reporting period. Such amount was included in unallocated capital expenditure.

Geographical information

(a) Revenue from external customers

	2012 RMB'000	2011 RMB'000
Mainland China	**1,307,185**	1,338,638
Other countries	**613,670**	483,198
	1,920,855	1,821,836

8. OPERATING SEGMENT INFORMATION (continued)

Geographical information (continued)

(b) Non-current assets

	2012 RMB'000	2011 RMB'000
Mainland China	1,491,209	1,042,246
Hong Kong	216	326
	1,491,425	1,042,572

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

Information about major customers

Revenue from major customers, each of whom accounted for 10% or more of the total revenue is set out below:

	Segment	2012 RMB'000	2011 RMB'000
Customer A (note)	SSAW Pipes Business	759,089	1,062,204
Customer B	Trading of metal commodity	265,215	—
Customer C	SSAW Pipes Business	222,733	*

Note: Revenue of approximately RMB759,089,000 (2011: RMB1,062,204,000) 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.

* Less than 10% of total revenue of the Group

9. REVENUE, OTHER INCOME AND GAINS

	2012 RMB'000	2011 RMB'000
Revenue		
Sales of steel pipes	1,520,363	1,816,231
Trading of metal commodity	399,385	—
Rendering of services related to pipe business	1,107	5,605
	1,920,855	1,821,836
Other income		
Interest income	38,047	47,324
Rental income	2,878	457
Government grant for achieved energy saving standard	72,230	219
Quality inspection and testing service income	—	94
Others	424	447
	113,579	48,541
Gains		
Gain on sales of materials	18,406	25,643
Fair value gains of derivative financial instrument	19,000	22,000
Exchange gains, net	393	—
Gain on disposal of property, plant and equipment, net	248	—
Others	3,983	63
	42,030	47,706
	155,609	96,247

10. FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Interest on bank loans wholly repayable within five years	36,053	21,469
Less: interests capitalised	—	(1,286)
	36,053	20,183

11. PROFIT BEFORE TAX

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

	2012 RMB'000	2011 RMB'000
Cost of inventories sold*	**1,849,689**	1,672,953
Cost of services rendered	**595**	5,483
Employees benefits expenses:		
Wages, salaries and bonus	**66,273**	57,005
Performance related bonus	**3,784**	4,936
Pension scheme contributions	**5,601**	4,520
Welfare and other expenses	**6,751**	6,194
Equity-settled share option expense	**6,971**	5,547
	89,380	78,202
Depreciation of items of property, plant and equipment	**61,446**	33,780
Amortisation of prepaid land lease payments	**2,105**	992
(Gain)/loss on disposal of property, plant and equipment	**(248)**	102
Operating lease payments	**10,638**	7,224
Exchange (gains)/losses, net	**(393)**	805
Auditors' remuneration	**2,482**	1,530

* Included in the cost of inventories sold is an amount of RMB2,337,000 (2011: RMB196,000) related to the write down of inventories in year 2012.

12. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL REMUNERATION

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

		For the year ended 31 December 2012					
		Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Performance related bonus RMB'000	Social security contribution RMB'000	Equity settled share option expense RMB'000	Total remuneration RMB'000
Executive directors:							
Zhang Bizhuang	(x)	81	1,056	376	21	1,181	2,715
Jiang Yong	(i)	32	321	110	—	—	463
Wang Xu	(ii)	49	821	263	21	606	1,760
Han Aizhi		81	813	263	21	606	1,784
Song Xichen	(iii)	61	683	263	21	361	1,389
Liu Yaohua		81	803	263	21	400	1,568
Non-executive directors:							
Yang Tangfeng		244	—	—	—	—	244
Independent non-executive directors:							
Guo Changyu		244	—	—	—	—	244
Wang Xueyou	(iv)	61	—	—	—	—	61
Huo Chunyong	(vii)	163	—	—	—	—	163
Leung Ming Shu	(vi)	244	—	—	—	—	244
Chen Junzhu	(v)	—	—	—	—	—	—
		1,341	4,497	1,538	105	3,154	10,635

12. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL REMUNERATION (continued)

(a) (continued)

		For the year ended 31 December 2011					
		Fees RMB'000	Salaries, allowances and other benefits in kind RMB'000	Performance related bonus RMB'000	Social security contribution RMB'000	Equity settled share option expense RMB'000	Total remuneration RMB'000
Executive directors:							
Zhang Bizhuang	(x)	165	911	790	17	1,775	3,658
Wang Xu	(ii)	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
Non-executive directors:							
Yang Tangfeng		165	—	—	—	—	165
Teo Yi-Dar	(viii)	165	—	—	—	—	165
Ling Yong Wah	(ix)	84	—	—	—	—	84
Independent non-executive directors:							
Huo Chunyong	(vii)	165	—	—	—	—	165
Guo Changyu		165	—	—	—	—	165
Leung Ming Shu	(vi)	165	—	—	—	—	165
		1,486	2,981	2,419	65	3,625	10,576

Notes:

(i) Appointed on 9 August 2012

(ii) Resigned on 9 August 2012

(iii) Appointed on 1 April 2012

(iv) Appointed on 1 October 2012

(v) Appointed on 30 May 2013

(vi) Appointed on 1 January 2011 and resigned on 9 April 2013

(vii) Resigned on 30 August 2012

(viii) Resigned on 9 August 2011

(ix) Resigned on 29 June 2011

(x) Mr. Zhang Bizhuang was also the chairman and chief executive officer of the Company during the year. His emoluments disclosed above included those for services rendered by him as the chairman and chief executive officer.

12. DIRECTORS' AND FIVE HIGHEST PAID INDIVIDUAL REMUNERATION (continued)

(b) Five Highest Paid Individuals' emoluments

All (2011: Four) of the five highest paid individuals of the Group were the directors whose emolument is set out in the above. The details of the remaining employees' emoluments of the Company were as follows:

	2012 **RMB'000**	2011 RMB'000
Salaries, allowances and other benefits in kind	—	819
Performance related bonus	—	518
Social security contributions	—	16
Equity-settled share option expense	—	370
	—	1,723

Their emoluments fell within the following bands:

	Number of employee **2012**	2011
Emolument band:		
HK$1,500,001–HK$2,000,000	—	1
	—	1

(c) No emoluments have been paid by the Group to the Directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during the two years ended 31 December 2012 and 2011.

13. INCOME TAX EXPENSE

	2012 RMB'000	2011 RMB'000
Current — the PRC		
— Charge for the year	**16,067**	22,138
Current — Hong Kong	**28**	—
Deferred tax (note 25)	**276**	1,441
	16,371	23,579

Hong Kong profits tax is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the year.

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 2012 and 2011.

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.

13. INCOME TAX EXPENSE (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:

	2012 RMB'000	2011 RMB'000
Profit before tax	**71,959**	115,496
Tax at the applicable tax rate of companies within the Group	**17,990**	28,874
Expenses not deductible for tax	**1,023**	503
Tax loss not recognised	**1,073**	6,417
Profits and losses attributable to jointly controlled entities and an associate	**1,737**	1,135
Others	**6,259**	3,118
Effect of tax relief	**(11,711)**	(16,468)
Tax at the Group's effective rate	**16,371**	23,579

Notes:

No deferred tax assets have been recognised for tax losses of RMB4,292,000 (2011: RMB25,668,000) 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.

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 2011 and 31 December 2012, 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 RMB738,000,000 and RMB840,000,000, 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.

14. TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated total comprehensive income attributable to owners of the Company for the year ended 31 December 2012 includes a loss of approximately RMB14,724,000 (2011: RMB22,842,000), which has been dealt with in the financial statements of the Company (note 36).

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

(a) Basic earnings per share

The calculation of basic earnings per share attributable to equity holders of the Company is based on the profits for the year attributable to equity holders of the Company of approximately RMB62,775,000 (2011: RMB93,780,000) and the weighted average number of 2,480,580,000 (2011: 2,484,726,000) ordinary shares in issue during the year.

(b) Diluted earnings per share

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2012 and 2011 in respect of a dilution as there were no dilutive potential ordinary share.

16. DIVIDEND

The dividends for the years ended 31 December 2012 and 2011 are set out below:

	2012 **RMB'000**	2011 RMB'000
Proposed final 2012: RMB0.672 cent (2011: RMB0.94 cent) per ordinary share	**16,676**	23,317

On 7 July 2013, the directors proposed a final dividend of RMB0.672 cent per share (equivalent to HK0.843 cent) for the year ended 31 December 2012 (2011: approximately RMB0.94 cent per share (equivalent to approximately HK1.16 cents 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.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Electronic equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2012						
COST:						
At 1 January 2012	143,984	318,567	11,345	4,775	322,808	801,479
Additions	10,569	24,376	4,809	1,292	294,747	335,793
Transfers	74,019	252,993	—	92	(327,104)	—
Disposal	(397)	(405)	(529)	(70)	—	(1,401)
At 31 December 2012	228,175	595,331	15,625	6,089	290,451	1,135,871
ACCUMULATED DEPRECIATION:						
At 1 January 2012	6,339	77,683	5,223	2,101	—	91,346
Provided during the year	8,104	49,973	2,342	1,027	—	61,446
Disposal	(385)	(285)	(506)	(67)	—	(1,243)
At 31 December 2012	14,058	127,371	7,059	3,061	—	151,549
CARRYING AMOUNTS:						
At 31 December 2012	214,117	468,160	8,566	3,028	290,451	984,322

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Electronic equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2011						
COST:						
At 1 January 2011	42,507	247,954	9,220	3,787	90,851	394,319
Additions	6,232	10,476	1,890	742	281,875	301,215
Transfers	57,468	3,936	—	—	(61,404)	—
Acquisition of a subsidiary	37,777	56,798	235	249	11,486	106,545
Disposals	—	(597)	—	(3)	—	(600)
At 31 December 2011	143,984	318,567	11,345	4,775	322,808	801,479
ACCUMULATED DEPRECIATION:						
At 1 January 2011	3,777	49,010	3,498	1,281	—	57,566
Provided during the year	2,562	28,673	1,725	820	—	33,780
Disposals	—	—	—	—	—	—
At 31 December 2011	6,339	77,683	5,223	2,101	—	91,346
CARRYING AMOUNTS:						
At 31 December 2011	137,645	240,884	6,122	2,674	322,808	710,133

17. PROPERTY, PLANT AND EQUIPMENT (continued)

As at 31 December 2012, the Group was in the process of applying for the title certificates of buildings with an aggregate net book value of approximately RMB112,682,000 (2011: RMB101,708,000). The directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the abovementioned 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 2012.

18. PREPAID LAND LEASE PAYMENTS

	2012 **RMB'000**	2011 RMB'000
Carrying amount at 1 January	**61,879**	50,543
Additions	**108,089**	194
Acquisition of a subsidiary (note 38)	**—**	12,134
Amortisation for the year	**(2,105)**	(992)
Carrying amount at 31 December	**167,863**	61,879
Current portion	**(3,406)**	(1,134)
Non-current portion	**164,457**	60,745

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 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 RMB138,171,000 (2011: RMB37,718,000). 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 2012.

19. GOODWILL

	2012 RMB'000	2011 RMB'000
Carrying amount at 1 January	**9,910**	2,525
Acquisition of a subsidiary	**—**	7,385
At end of year	**9,910**	9,910

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 14% (2011: 16%) 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.

19. GOODWILL (continued)

Impairment testing of goodwill (continued)

Xinjiang business cash-generating unit (continued)

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

	2012 RMB'000	2011 RMB'000
SSAW Pipes business	**2,525**	2,525
Xinjiang business	**7,385**	7,385
	9,910	9,910

Key assumptions were used in the value in use calculation of the SSAW Pipes business and Xinjiang business cash-generating units for 31 December 2012 and 2011. 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.

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.

20. SUBSIDIARIES

Particulars of the Company's major subsidiaries are set out below:

Company name	Place of incorporation/ registration	Nominal value of issued and paid-up share/registered paid-up capital	Percentage of equity interests attributable to the Company	Principal activities
Directly held:				
Shengli (BVI) Ltd. ("BVI")	BVI	USD1 of nil paid	100%	Investment holding
Siu Thai Holdings Limited ("Siu Thai")	BVI	USD1	100%	Investment holding
Indirectly held:				
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	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	RMB30,000,000	100%	Equity investment, investment management, and investment consultation
Guangdong Shengli Trading Co., Ltd. ("Guangdong Shengli")# (廣東勝利貿易有限公司)	PRC	RMB100,000,000	100%	Trading of metal commodity
Xinjiang Shengli Steel Pipe Co., Ltd. ("Xinjiang Shengli")# (新疆勝利鋼管有限公司)	PRC	RMB180,000,000	56.428%	Manufacturing and selling of pipes for oil and gas, pipe components
Hunan Shengli Xianggang Steel Pipe Co., Ltd. ("Hunan Shengli")# (湖南勝利湘鋼鋼管有限公司)	PRC	RMB500,000,000	54.26%	Manufacturing, processing and sale of LSAW and SSAW pipelines and provision of anti-corrosion service
Shengli Investment Company	United States of America/Texas	USD100,000	100%	Investment holding
Shengli Enterprise Holdings Limited ("Shengli Enterprise")	Hong Kong	HK$10,000	100%	Trading of metal commodity

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21. DEPOSITS PAID FOR ACQUISITION OF INVESTMENTS

	2012 RMB'000	2011 RMB'000
Deposit paid for acquisition of the equity interest of:		
— EVER Growing Energy Service LLC	11,483	—
— Minfu Microfinance Co., Ltd.# 高青縣民福小額貸款有限公司 ("Mingfu Microfinance") (note)	30,000	—
	41,483	—

Note:

The amount represented deposits paid for acquisition of additional 20% equity interest in Minfu Microfinance, an available-for-sale investment of the Group as stated in note 24 to the financial statements. As at the end of the reporting period and up to the date of this report, the share transfer is still subject to approval from the local authority.

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22. INVESTMENT IN JOINTLY CONTROLLED ENTITIES

	2012			2011
	Shenzhen Taihe RMB'000	Dome RMB'000	Total RMB'000	Shenzhen Taihe RMB'000
Share of net assets	16,766	28,634	45,400	17,208

Particulars of the jointly controlled entities are as follows:

Company name	Place of establishment/ operations	Registered paid-up capital	Percentage of equity interests attributable to the Group	Principal activities
Shenzhen Taihe Tiandi Investment Partnership# ("Shenzhen Taihe") (深圳市泰和天地投資合夥企業)	the PRC	RMB20,000,000	90%	Equity investment, investment management, and investment consultation
Dome Integration Housing Industrial Holding Co. Ltd. ("Dome") (哆咪集成房屋工業控股有限公司)	the BVI	USD200	40%	Processing, manufacturing and distribution of dome integration houses

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22. INVESTMENT IN A JOINTLY CONTROLLED ENTITIES (continued)

(a) Shenzhen Taihe

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 2012 and 2011, the Group's share of loss of Shenzhen Taihe approximately to RMB442,000 and RMB792,000, respectively.

(b) Dome

On 17 September 2012, Siu Thai, a direct wholly-owned subsidiary of the Company, entered into a shareholders' agreement with Dome and four other parties, according to which Siu Thai and each of the four other parties (collectively referred to as the "JV Shareholders") will subscribe for, and Dome will allot and issue shares to the JV Shareholders, such that Dome has become a joint venture company between the JV Shareholders.

Pursuant to the shareholders' agreement, Siu Thai will subscribe for 40% and the other four other parties will subscribe for 35%, 7.75%, 4.75% and 12.5% of the share capital of Dome for a consideration of RMB100,000,000, RMB87,500,000, RMB19,375,000, RMB11,875,000 and RMB31,250,000, respectively, payable by way of cash within one year from the date of the shareholders' agreement. Upon completion of the issuance of shares by Dome to the JV Shareholders, Siu Thai will have 40% interest in Dome and Dome will become a joint venture company of the Group.

22. INVESTMENT IN A JOINTLY CONTROLLED ENTITIES (continued)

(b) Dome (continued)

According to the shareholders' agreement, Dome will further establish a limited liability company to be incorporated under the laws of Hong Kong (the "HK Holdco") and the HK Holdco will in turn establish a limited liability company under the laws of the PRC (the "Project Company"). The Project Company will primarily be engaged in the business of the processing, manufacturing and distribution of dome integration houses. Dome, the HK Holdco and the Project Company are collectively referred to as the "JV Group").

The return on investment of the JV Group will be distributed to the JV Shareholders by way of dividends. The JV Shareholders will take all steps to ensure that each company of the JV Group will distribute by way of dividends in each of its financial year its profit available for distribution, provided that its cash requirements for its daily operation are well satisfied. The amount of the dividend to be distributed shall be determined by the JV Shareholders by written resolutions from time to time, which shall be no less than 30% of the profits available for distribution of each company of the JV Group for the financial year.

Up to the end of the reporting period, the Group has invested RMB28,943,000 to the JV Group and the JV Group has not yet commenced its operation. During the year ended 31 December 2012, the Group's share of loss of Dome approximately of RMB309,000.

The following table illustrates the summarised financial information of the Group's jointly controlled entities:

	2012			2011
	Shenzhen Taihe RMB'000	Dome RMB'000	Total RMB'000	Shenzhen Taihe RMB'000
Share of the jointly controlled entities' assets and liabilities:				
Current assets	12,949	11,518	24,467	15,069
Non-current assets	3,833	17,215	21,048	2,139
Current liabilities	(16)	(99)	(115)	—
Net assets	16,766	28,634	45,400	17,208
Share of the jointly controlled entities' results:				
Total expenses and loss for the year	442	309	751	792

23. INVESTMENT IN AN ASSOCIATE AND DERIVATIVE FINANCIAL INSTRUMENT

(a) Investment in an associate

	2012 RMB'000	2011 RMB'000
Share of net assets	**115,988**	122,186
Goodwill on acquisition	**121,068**	121,068
	237,056	243,254

Particulars of the associate of the Group are as follows:

Company name	Place of establishment/ operations	Registered paid-up capital	Percentage of equity interests attributable to 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	RMB222,910,000	25%	Natural gas distribution and gas pipeline construction

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

	2012 RMB'000	2011 RMB'000
Total assets	**1,270,834**	1,314,647
Total liabilities	**(755,366)**	(796,609)
Revenues	**800,703**	487,926
Net losses	**(24,794)**	(18,461)

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(b) Derivative financial instrument

	2012 RMB'000	2011 RMB'000
Guaranteed return and right to sell of Golden Fortune	**94,000**	75,000

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

(b) Derivative financial instrument (continued)

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

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

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

Subsequent to the end of the reporting period, the controlling shareholder of Golden Fortune further issued a letter of undertaking to Shandong Shengli, in which the controlling shareholder guaranteed that if the transfer of cash dividend from certain shareholders of Golden Fortune is insufficient to make up the Shortfall, the controlling shareholder will compensate the remaining portion by cash.

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 Roma Appraisals Limited, an independent professional valuer. The valuation was performed based on a 3 years' financial projection provided by the management, using the Monte Carlo simulation method, under which the possible outcomes of the value of Guaranteed Return and the Right to Sell were simulated based on an assumed volatility of future revenues.

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

(b) Derivative financial instrument (continued)

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

Discount rate	15%
Expected volatility	8%

The changes in fair value of the derivative financial instrument were recognised in the consolidated profit or loss for the year ended 31 December 2012.

The derivative financial instrument is measured at fair value based on valuation techniques, under which all the inputs which have been generally adopted in the valuation techniques and have a significant effect on the recorded fair value are observable, either directly or indirectly (level 2).

24. AVAILABLE FOR SALE INVESTMENT

	2012 RMB'000	2011 RMB'000
An unlisted equity investment, at cost	**15,000**	—

On 31 May 2012, Shandong Muxin, a wholly-owned subsidiary of the Company, signed an agreement with Zibo Minan Plastics Co., Ltd.# (淄博民安塑料製品有限公司) ("Minan"), pursuant to which Shandong Muxin agreed to acquire 10% equity interest in Minfu Microfinance from Minan for a consideration of RMB15,000,000.

As at 31 December 2012, the equity investment in Minfu Microfinance which was held on behalf by Minan had a carrying amount of RMB15,000,000 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.

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25. DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

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

	2012 RMB'000	2011 RMB'000
Deferred tax assets:		
As at 1 January	9,039	—
Acquisition of a subsidiary (note 38)	—	4,995
Deferred tax credit to the consolidated profit or loss during the year (note 13)	4,456	4,044
Gross deferred tax assets as at 31 December	13,495	9,039
Deferred tax liabilities:		
As at 1 January	5,943	458
Deferred tax charged to the consolidated profit or loss during the year (note 13)	4,732	5,485
Gross deferred tax liabilities as at 31 December	10,675	5,943
Net deferred tax assets as at 31 December	2,820	3,096

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

	2012 RMB'000	2011 RMB'000
Deferred tax assets:		
Accrued interest on borrowings	3,718	2,955
Government grants received but not yet recognised as income	2,683	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	1,867
Others	66	—
Tax losses	5,161	1,138
Gross deferred tax assets	19,196	9,039
Deferred tax liabilities:		
Excess of fair value of identifiable assets and liabilities over carrying value in acquisition of subsidiaries	425	443
Fair value gains of a derivative financial instrument	10,250	5,500
Gross deferred tax liabilities	10,675	5,943
Net deferred tax assets	2,820	3,096

26. INVENTORIES

	2012 RMB'000	2011 RMB'000
Raw materials	87,804	195,435
Work in progress	4,765	4,832
Finished and semi-finished goods	183,515	192,474
	276,084	392,741

27. TRADE AND BILLS RECEIVABLES

	2012 RMB'000	2011 RMB'000
Trade receivables	736,854	643,915
Bills receivable	12,304	41,939
	749,158	685,854

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

The Group generally allows a credit period of 90 to 120 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:

	2012 RMB'000	2011 RMB'000
Within 3 months	475,694	598,796
3 to 6 months	148,563	23,535
6 months to 1 year	102,181	2,962
1 to 2 years	10,416	15,109
2 to 3 years	—	3,513
	736,854	643,915

27. 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:

	2012 RMB'000	2011 RMB'000
Neither past due nor impaired	**649,824**	618,572
1 to 3 months past due	**33,928**	—
3 to 6 months past due	**48,432**	22,728
6 months to 1 year and past due	**4,670**	2,615
	736,854	643,915

Receivables that were neither past due nor impaired relate to 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 33 to the financial statements below.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

Details of the prepayments, deposits and other receivables are as follows:

	2012 RMB'000	2011 RMB'000
Advance to suppliers	267,610	64,048
Advance to a jointly controlled entity (note a)	6,751	—
Loans to employee (note b)	4,880	—
Deposits paid for development of sales network	74,960	—
Tender deposits to customers	1,990	1,517
Other tax receivables*	19,650	34,341
Rent prepaid to a related company	8,110	—
Others	21,407	13,374
	405,358	113,280

Notes:

(a) The advance is unsecured, non-interest bearing and has no fixed repayment term.

(b) Loans to employee are secured by cash guarantee deposits of RMB930,000, bearing interests at 6% per annum and have no fixed repayment term.

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

29. LOAN RECEIVABLE

	2012 RMB'000	2011 RMB'000
Loan receivable, within one year	—	300,000

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) RMB70,000,000 before 30 April 2012; (ii) RMB25,000,000 before 31 May 2012; (iii) RMB25,000,000 before 30 June 2012; and (iv) RMB180,000,000 before 31 July 2012. The loan receivable has been fully repaid during the reporting period.

30. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2012 RMB'000	2011 RMB'000
Cash and bank balances	**539,558**	418,078
Less: Time deposits with original maturity of more than three months when acquired, pledged for		
— Letter of guarantee	**(73,502)**	(11,250)
— Letter of credit	**—**	—
	(73,502)	(11,250)
Less: Time deposits with original maturity of less than three months when acquired, pledged for		
— Letter of guarantee	**—**	(12,186)
— Letter of credit	**(300,000)**	(12,810)
	(300,000)	(24,996)
Cash and cash equivalents	**166,056**	381,832

Cash and cash equivalents and pledged deposits denominated in:

	2012 RMB'000	2011 RMB'000
RMB	**519,558**	413,207
USD	**16,933**	2,038
HK$	**1,843**	1,360
SGD	**1,224**	1,473
	539,558	418,078

The RMB is not freely convertible into other currencies, however, under the PRC'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.

31. TRADE PAYABLES

	2012 RMB'000	2011 RMB'000
Trade payables	**128,312**	95,020

An aged analysis of trade payables at the end of the reporting period, based on the invoice date is as follows:

	2012 RMB'000	2011 RMB'000
Outstanding balances with ages:		
Within 3 months	**116,808**	87,803
3 to 6 months	**5,030**	6,138
6 months to 1 year	**5,178**	438
1 to 2 years	**833**	641
2 to 3 years	**48**	—
3 to 4 years	**415**	—
	128,312	95,020

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

32. OTHER PAYABLES AND ACCRUALS

	2012 RMB'000	2011 RMB'000
Receipt in advances from customers	**39,882**	73,401
Payable on acquisition of property, plant and equipment	**96,808**	34,442
Security deposits received from employees	**930**	—
Other tax payables	**5,109**	4,901
Others	**26,760**	23,130
	169,489	135,874

33. INTEREST-BEARING BANK LOANS

	2012 Effective interest rate (%)	2012 Maturity	2012 RMB'000	2011 Effective interest rate (%)	2011 Maturity	2011 RMB'000
Current						
Bank loans — Unsecured	6.00%	2013	423,800	5.08%–8.53%	2012	50,000
Bank loans — Secured	2.76%–6.00%	2013	210,333	6.06%–6.88%	2012	194,090
Current portion of long-term bank loans — Unsecured	3.20%–3.70%	2013	354,328	3.20%	2012	387,710
			988,461			631,800

The carrying amounts of the interest-bearing bank loans were denominated in the following currencies:

	2012 RMB'000	2011 RMB'000
RMB	800,128	631,800
USD	93,528	—
HK$	94,805	—
	988,461	631,800

The Group's bank loans of RMB93,800,000 as at 31 December 2012 (2011: RMB180,090,000) were pledged by certain of the Group 's trade receivables amounting to RMB137,119,000 (2011: RMB103,024,000).

The Group's bank loans of RMB22,000,000 as at 31 December 2012 (2011: RMB14,000,000) were guaranteed by independent third parties (2011: Shengli Steel Pipe Co., Ltd, a related party and independent third parties).

Subsequent to the end of the reporting period, the Group has breached certain financial covenants ("Event of Default") in respect of unsecured loans with an outstanding balance of RMB354,328,000. Before issuance of this report, the Group has received a waiver of the Event of Default from this bank, and fulfilled the requirements by providing a pledged bank deposit and letter of credits.

In addition, subsequent to the end of the reporting period, the Group obtained a loan of USD16,500,000 from a bank and has breached certain financial covenants in respect of this loan. The Group is in the process of negotiation with the bank for a relief of penalty form such breach of covenants.

34. DEFERRED INCOME

	2012 RMB'000	2011 RMB'000
Government grants:		
As at 1 January	**12,223**	—
Acquisition of a subsidiary	**—**	12,309
Recognised as other income during the year	**(1,489)**	(86)
As at 31 December	**10,734**	12,223
Less: Current portion	**(854)**	(258)
Non-current portion	**9,880**	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.

35. ISSUED SHARE CAPITAL

	Number of shares	HK$'000
Ordinary shares of HK$0.1 each		
Authorised:		
At 31 December 2012 and 2011	5,000,000,000	500,000

	Number of shares	RMB'000
Issued and fully paid:		
At 31 December 2011	2,480,580,000	218,786
At 31 December 2012	2,480,580,000	218,786

35. ISSUED SHARE CAPITAL (continued)

During the year, the movements in the Company's share capital were as follows:

	Number of shares in issue	Issued capital HK$'000	Issued capital RMB'000
At 1 January 2011	2,490,000,000	249,000	219,572
Repurchase of shares*	(9,420,000)	(942)	(786)
At 31 December 2011 and 2012	2,480,580,000	248,058	218,786

* 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.

36. RESERVES

(a) 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.

(b) Share options reserve

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

(c) Other reserve

Other reserve represents the reserve arising from Group Reorganisation.

36. RESERVES (continued)

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

The amounts of the Company's reserves and the movements therein for the year ended 31 December 2012 are as follows:

	Share premium RMB'000	Share option reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
At 1 January 2011	1,155,168	13,296	(55,598)	1,112,866
Repurchase of shares	(10,450)	—	—	(10,450)
Final 2010 dividend paid	(21,817)	—	—	(21,817)
Share-based payment	—	5,547	—	5,547
Total comprehensive loss for the year	—	—	(22,842)	(22,842)
At 31 December 2011	1,122,901	18,843	(78,440)	1,063,304
Final 2011 dividend paid	(23,317)	—	—	(23,317)
Share-based payment	—	6,971	—	6,971
Total comprehensive loss for the year	—	—	(14,724)	(14,724)
At 31 December 2012	1,099,584	25,814	(93,164)	1,032,234

37. 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:

	2012	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

37. SHARE-BASED PAYMENTS (continued)

(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 (%)	67.0%
Dividend yield (%)	0.00%
Risk-free interest rate (%)	2.87%

1,500,000 share options out of the total 24,000,000 share options granted on 10 February 2010 forfeited already during 2011.

37. SHARE-BASED PAYMENTS (continued)

(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 year ended 31 December 2012, the Group recognized share-based payments of RMB6,971,000 (2011: RMB5,547,000), which has been charged to the consolidated profit or loss.

38. 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:

	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)
Net assets	162,357
Non-controlling interests	(70,742)
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.

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.

38. BUSINESS COMBINATION (continued)

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 for the year ended 31 December 2011.

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 ended 31 December 2011, the revenue and the profit of the Group for the year ended 31 December 2011 would have been RMB1,821,836,000 and RMB85,974,000, respectively.

39. COMMITMENTS

(a) Commitments under operating leases

As lessor

The Group leases its factory properties under an operating lease arrangement ranged from four months to one year.

At 31 December 2012, the Group had future minimum lease receivable under non-cancellable operating leases with its tenant falling due as follows:

	2012 **RMB'000**	2011 RMB'000
Within one year	—	212

39. COMMITMENTS (continued)

(a) Commitments under operating leases (continued)

As lessee

At each end of reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2012 RMB'000	2011 RMB'000
Within one year	**1,334**	24,850
In the second to fifth years, inclusive	**549**	214
Over five years	**—**	
	1,883	25,064

Operating lease payments as at 31 December 2011 mainly represent rentals payable by the Group to a related party for factory premises in Shandong Province, the PRC. Details of this arrangement were disclosed in the announcements of the Company dated 29 April 2011 and 20 December 2011.

Leases are negotiated for lease terms of three years, and the Group has prepaid the lease payments for the three financial years from 2012 to 2014 during the reporting period.

(b) 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:

	2012 RMB'000	2011 RMB'000
Contracted, but not provided for	**243,379**	60,945
Authorised, but not contracted for	**—**	26,000
	243,379	86,945

39. COMMITMENTS (continued)

(c) Investment commitments

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

	2012 RMB'000	2011 RMB'000
Contracted, but not provided for	**182,000**	204,000

(d) Others

During the reporting period, the Group entered into separate cooperation contracts with four parties (the "Partners") to develop sales networks. Pursuant to these contracts, the Group will invest an aggregate amount of RMB185,000,000.

In September 2012, the Group determined not to continue with the remaining contract terms and has mutually agreed with the Partners to cancel the sales network development projects. Up to 31 December 2012, RMB74,960,000 had been paid by the Group and the amounts have been fully refunded subsequent to the end of the reporting period. The directors consider that there would be no further obligation nor liabilities arising from these contractual arrangements.

40. 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")	Jointly-controlled by a Director of the Company
Zibo Shengli Coating Engineering Co., Ltd. ("Shengli Coating")	With common directors and associate of Shengli Steel Pipe
Aceplus	Shareholder of the Company
Valuable Tactics	Major shareholder of the Company
SEAVI Advent Equity V(A) Ltd.	Shareholder of the Company and with a representative in Company's board of directors
Golden Fortune	Associate of the Company
Shenzhen Taihe	Jointly-controlled entity of the Company

40. RELATED PARTY TRANSACTIONS (continued)

(b) Significant related party transactions

During the years ended 31 December 2012 and 2011, the Group had the following material transactions with related parties:

	2012 RMB'000	2011 RMB'000
Rental expense paid to Shengli Steel Pipe	**8,110**	6,850

The rented expenses were made according to an independent valuer's reports dated on 2 April 2009 and 20 November 2011.

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

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

Shandong Shengli entered into a lease agreement and the supplemental agreements with Shengli Steel Pipe to rent factory premises for production purposes. The annual rental for year 2013 and 2014 is approximately RMB8.11 million. Details of the operating lease arrangement are disclosed in note 39(a) to the financial statements.

(d) Balances with related parties

Other than disclosed elsewhere in the financial statements, the Group has the balances with the following related parties as at the end of the reporting period:

	2012 RMB'000	2011 RMB'000
Other assets:		
— Shengli Steel Pipe	**7,114**	—
Other receivables:		
— Aceplus	**—**	14

40. RELATED PARTY TRANSACTIONS (continued)

(e) Key management compensation

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

	2012 RMB'000	2011 RMB'000
Fees	1,343	1,487
Salaries, allowances and other benefits in kind	5,344	5,077
Performance related bonus	1,538	3,520
Social security contributions	114	106
Equity-settled share option expense	3,310	4,363
	11,649	14,553

Further details of directors' emoluments are included in note 12 to the financial statements.

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY AS AT 31 DECEMBER

	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	214	321
Investments in subsidiaries	1,799,949	1,678,529
	1,800,163	1,678,850
CURRENT ASSETS		
Prepayments, deposits and other receivables	722	213
Cash and cash equivalents	2,145	7,733
	2,867	7,946
CURRENT LIABILITIES		
Other payables and accruals	9,349	16,996
Interest-bearing bank loans	542,661	387,710
	552,010	404,706
NET CURRENT LIABILITIES	(549,143)	(396,760)
TOTAL ASSETS LESS CURRENT LIABILITIES	1,251,020	1,282,090
NET ASSETS	1,251,020	1,282,090
EQUITY		
Issued capital	218,786	218,786
Reserves	1,032,234	1,063,304
Total equity	1,251,020	1,282,090

42. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the Board of Directors on 7 July 2013.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements is set out below.

	Year ended 31 December				
	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
RESULTS					
CONTINUING OPERATIONS					
Turnover	**1,920,855**	1,821,836	1,126,923	2,999,092	1,070,747
Profit before tax	**71,959**	115,496	108,116	335,888	148,797
Income tax	**(16,371)**	(23,579)	(18,952)	—	—
Profit for the year	**55,588**	91,917	89,164	335,888	148,797
Attributable to:					
Owners of the Company	**62,775**	93,780	89,164	335,888	148,797
Non-controlling interests	**(7,187)**	(1,863)	—	—	—
	55,588	91,917	89,164	335,888	148,797

	As at 31 December				
	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
ASSETS AND LIABILITIES					
Total assets	**3,587,484**	3,042,491	2,086,619	2,167,961	1,304,251
Total liabilities	**(1,322,423)**	(896,672)	(124,953)	(437,552)	(1,155,325)
Net assets	**2,265,061**	2,145,819	1,961,666	1,730,409	148,926
Attributable to:					
Owners of the Company	**2,074,369**	2,027,940	1,961,666	1,730,409	148,926
Non-controlling interests	**190,692**	117,879	—	—	—
	2,265,061	2,145,819	1,961,666	1,730,409	148,926