SHENGLI OIL & GAS PIPE HOLDINGS LIMITED

勝利油氣管道控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 1080

Interim Report 2013

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Zhang Bizhuang *(Chairman and Chief Executive Officer)*
Mr. Jiang Yong *(Vice President)*
Mr. Liu Yaohua *(Vice President)*
Ms. Han Aizhi *(Vice President)*
Mr. Song Xichen *(Vice President)*

Non-executive Director

Mr. Yan Tangfeng

Independent non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

Mr. Guo Changyu *(Chairman)*
Mr. Zhang Bizhuang
Mr. Wang Xueyou

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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KY1-1111
Cayman Islands

HEADQUARTERS IN CHINA

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Shandong Province
the PRC
Postal Code 255082

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 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)
The Hong Kong and Shanghai Banking Corporation Limited

Corporate Information (cont'd)

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

- Revenue was approximately RMB1,341,413,000, representing an increase of approximately 117.3% compared to the corresponding period in 2012.
- Gross profit margin was 3.0%, representing a decrease of approximately 1.8 percentage points compared to the corresponding period in 2012.
- Profit before tax was approximately RMB14,784,000, after taking into consideration gain on fair value of derivative financial instrument of approximately RMB44,000,000 in relation to the Group's investment in its non-core investment/operations.
- Profit attributable to the owners of the Company was approximately RMB11,614,000, representing a decrease of approximately 7.2% compared to the corresponding period in 2012.
- Basic earnings per share attributable to owners of the Company was approximately RMB0.47 cents, representing a decrease of approximately 6.0% compared to the corresponding period in 2012.
- The Board does not recommend the declaration of an interim dividend for the six months ended 30 June 2013.

Chairman's Statement

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Shengli Oil & Gas Pipe Holdings Limited (the "Company"), I would like to present the unaudited interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2013 to the shareholders of the Company ("Shareholder(s)").

With a view to grasping the enormous opportunities arising from the "12th Five-Year Plan", the Group has been, in recent years, making proactive efforts to pave a solid path for itself. Thus far, efforts have been made to expand the capacity of our main products — spiral submerged arc welded ("SSAW") pipes, to add longitudinal submerged arc welded ("LSAW") pipe production lines, to install a spiral submerged arc welded (SSAW) pipes production line using pre-welding and precision-welding technique, and to continuously enhance our product quality and efficiency. To promptly react to cyclical fluctuations in the oil and gas pipeline industry, the Group has also stepped into new business lines such as metal commodity trading and integration houses through the best use of resources. With a well-diversified business development, the Group has undertaken a reorganisation in June 2013 through setting up of Shengguan Group* (勝管集團) to improve the efficiency of corporate governance, to ensure the full utilization of various resources, and to reinforce our time-to-market capabilities in offering customers with high-quality steel pipelines.

CONSTRUCTION OF OIL AND GAS PIPELINE NETWORK TO BE STEPPED UP AT AN ACCELERATED PACE

According to the "12th Five-Year Plan", the central government of the People's Republic of China (the "PRC") 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.

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 outbound pipelines from Xinjiang, including the 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 also a major supplier of CNPC and Sinopec for their oil and gas transmission pipeline projects.

To cater for robust demand, last year, the Group expanded the SSAW production capacity and add the LSAW production lines on a massive scale.

BOLSTERING UP SALES EFFORT AND REAPING MORE PROMINENT PERFORMANCE OF MAIN BUSINESS OPERATIONS

In the first half of 2013, the Group won a total of 77 tenders, whereby we are responsible for the provision of SSAW pipes and related anti-corrosion services with total contract value amounted to approximately RMB500 million.

Chairman's Statement (cont'd)

Among these successful tenders, 72 of them were from 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 have 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 the near term.

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

Xinjiang Shengli Steel Pipe Co., Ltd.* (新疆勝利鋼管有限公司) ("Xinjiang Shengli"), a subsidiary of the Company, has already received certifications on operational quality, environmental protection, occupational health and safety from the China Classification Society Quality Assurance Ltd. (中國船級社質量認證公司) as well as the license for special equipment manufacturing from the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (中國國家質量監督檢驗檢疫總局). It is well equipped for the production of high standard oil and gas transmission pipes. During the first half of 2013, Xinjiang Shengli completed the manufacturing and delivery of four pipelines contracts, involving six different sets of specifications. Riding on its exceptional geographical advantage, Xinjiang Shengli is well-positioned to undertake the production of the outbound pipelines of Xinjiang, 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"), a subsidiary of the 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 LSAW pipe production lines, the plant construction and installation of equipment is expected to be completed in the third quarter of 2013. With the construction of SSAW pipes production line at Hunan Shengli, it is expected that 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 RESEARCH AND DEVELOPMENT ("R&D") AND INNOVATION TO RETAIN OUR ROLE AS A LEADER IN THE INDUSTRY

With the development of the PRC natural gas industry, the requirement for transportation equipment of oil and gas pipelines also becomes higher. The Group took the lead 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 five 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 technological R&D capabilities. 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.

Chairman's Statement (cont'd)

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, making up for the Group's previous lack of participation in this department. In September 2012, approvals were granted by the five competent authorities, namely, the Party Organisation Department of the Shandong Provincial Committee of China Communist Party* (中共山東省委組織部), Department of Science and Technology of Shandong Province* (山東省科學技術廳), Department of Finance of Shandong Province* (山東省財政廳), Department of Human Resources and Social Security of Shandong Province* (山東省人力資源和社會保障廳) and Shandong Association for Science and Technology* (山東省科學技術協會) for the establishment of the academician workstations (院士工作站). In November 2012, with the approvals by way of public notices from the Department of Science and Technology of Shandong Province, Department of Finance of Shandong Province, State Tax Bureau, Shandong Province Branch* (山東省國家稅務局) and Tax Bureau of Shandong Province* (山東省地方稅務局), we acquired the status of "High-tech Enterprise in Shandong Province". The Group has also made applications for five utility model patents in the PRC in 2013, including one on LSAW production technique and one on a hydraulic oil purification system.

BOLSTERING UP GOVERNANCE EFFICIENCY BY STRENGTHENING ORGANIZATIONAL STRUCTURE

With the business diversification of the Group, the management is well aware of the need to ensure the operational management of various business segments is in alignment with with its development. In this regard, the Group, through its domestic subsidiary, Shandong Shengli Steel Pipe Co., Ltd* (山東勝利鋼管有限公司) ("Shandong Shengli"), established the Shengguan Group, controlling five subsidiaries in China which are engaged in the businesses of production, sales, anti-corrosion processing as well as investment and trading. Following the name verification by State Administration for Industry and Commerce* (國家工商行政管理總局) and registration with the Administration for Industry and Commerce of Zibo* (淄博市工商局), Shengguan Group was formed in June 2013. The formation of Shengguan Group will help rationalise the management procedures, realising synergy from the integration of the Group's coordination and supervising functions with the independent operations of each of the group companies, which shall set us up favourably with a corporate structure headed by our oil and gas pipe principal business and synchronous development of a range of other business lines and to consolidate our leading niche in the market whenever opportunities arise.

Finally, I would like to take this opportunity to express thanks to the 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 the Shareholders.

Zhang Bizhuang
Chairman, Executive Director and Chief Executive Officer

* *For identification purpose only*

Management Discussion and Analysis

BUSINESS REVIEW

The Group is one of the largest oil and natural gas pipe manufacturers in China. During the period under review, the Group endeavoured to enhance its production capacity and expand the diversity of products and services. Xinjiang Shengli has now acquired the requisite qualification 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 June 2013, 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 117.3% from RMB617,431,000 for the six months ended 30 June 2012 to RMB1,341,413,000 for the six months ended 30 June 2013. 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 RMB470,085,000 (for the six months ended 30 June 2012: RMB552,396,000), representing a year-on-year decrease of approximately 14.9%; and (2) cold-formed section steel business (including processing service business) reported a turnover of RMB3,604,000 (for the six months ended 30 June 2012: RMB65,035,000), representing a year-on-year decrease of approximately 94.5%. 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 six months ended 30 June 2013, the turnover from this segment amounted to RMB867,724,000 (for the six months ended 30 June 2012: Nil). Despite the increased in costs, the Group reported a profit before tax of approximately RMB14,784,000, after taking into consideration gain on fair value of derivative financial investment in relation to its investment in a non-core investment operations.

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 wide diameter requirements for the transportation of (among other things) crude oil, refined petroleum products and natural gas over long distances. The Group successfully produced steel pipes, which are of the highest grade of steel (X100) and high material quality, high wall thickness and large diameter of ф1422 x 21.4mm x 80 steel pipes , in a trial production with pre-welding and precision-welding technology. The Group is one of the privately owned enterprises among a handful of qualified domestic oil and gas pipeline manufacturers in the PRC.

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.

Management Discussion and Analysis (cont'd)

As at 30 June 2013, SSAW pipes of the Group comprised approximately 22,600 km of the total length of the world's major oil and gas pipelines, of which 94.2% have been installed domestically in China and the remaining 5.8% have been installed overseas. During the period under review, the Group took part in the production of a number of SSAW national pipeline projects, including the Tanzania Pipeline (坦桑尼亞管線), the Third West to East Natural Gas Pipeline (西氣東輸三線), the China-Myanmar Natural Gas Pipeline (中緬天然氣管線) , and the China-Asia Line C (中亞C線). For regional pipeline projects, there were, among others, the Beijing Heating Pipeline (北京熱力管線), the Hebei Natural Gas Pipeline (河北天然氣管線), the Shanxi Natural Gas Pipeline (山西天然氣管線) and CNOOC Yantai Pipeline (中海油煙台港管線). For pipeline anti-corrosion services, there were, amongst others, the Tanzania Pipeline (坦桑尼亞管線), the Third West to East Natural Gas Pipeline (西氣東輸三線), the Hebei Natural Gas Pipeline (河北天然氣管線) and the Shanxi Natural Gas Pipeline (山西天然氣管線).

For the six-month ended 30 June 2013, the total turnover of the SSAW pipes business was RMB470,085,000 (for the six months ended 30 June 2012: RMB552,396,000), accounting for approximately 35.0% of the Group's total turnover (for the six months ended 30 June 2012: 89.5%). The SSAW pipes business is mainly divided into (1) sales of SSAW pipes; (2) processing services of SSAW pipes; and (3) anti-corrosion services.

Turnover from sales of SSAW pipes amounted to RMB436,208,000 (for the six months ended 30 June 2012: RMB512,060,000), representing a year-on-year decrease of 14.8% as compared to the same period last year. Turnover from processing services of SSAW pipes amounted to RMB1,685,000 (for the six months ended 30 June 2012: RMB1,191,000), representing an increase of 41.4% as compared to the same period last year.

For the six-month ended 30 June 2013, turnover from anti-corrosion services was RMB32,192,000 (for the six months ended 30 June 2012: RMB39,144,000), representing a decrease of 17.8% as compared to the same period last year.

The SSAW pipes business segment reported loss of RMB2,861,000 for the six-month ended 30 June 2013 (for the six-months ended 30 June 2012: profit of RMB27,994,000), which are attributable to the drop in income from SSAW pipes business as a result of delay in commencement of construction work of large oil and gas pipeline project and increasing cost of manufacturing SSAW pipes in the PRC.

For the six months ended 30 June 2013, total sales volume of SSAW was 88,077 tonnes (for the six months ended 30 June 2012: 82,132 tonnes), representing a 7.2% increase as compared with the same period last year. Of which, the proportion of national pipeline projects reduced from 47.4% in the same period last year to 40.2%. Although there was an increase in the total sales volume of SSAW pipes, the number of national pipeline projects with higher profit per tonne is fewer than the same period of last year. As a result, the aggregated turnover of SSAW pipe business was less than the same period of last year.

Sales volume (tonnes)	**First half of 2013**	First half of 2012	Change (%)
Sales of SSAW pipes	**85,029**	79,891	+6.4%
Processing services of SSAW pipes	**3,048**	2,241	+36%
Total	**88,077**	82,132	+7.2%
Anti-corrosion services (square meter)	**510,571**	712,555	–28.3%

Management Discussion and Analysis (cont'd)

Cold-formed Section Steel

In addition to the major business of SSAW pipes, the Group also utilizes welding technologies and different equipment to produce cold-formed section steel. Cold-formed section steel is one of the major materials applied in modern construction. Our cold-formed section steel is mainly used in the construction industry and the manufacture of trucks and 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 square and rectangular tubes, round steel pipes as well as other cold-formed section steel.

For the six months ended 30 June 2013, turnover from the sales of cold-formed section steel amounted to RMB3,604,000 (for the six months ended 30 June 2012: RMB65,035,000), representing a decrease of 94.5% as compared with the same period last year. The decrease in turnover was due to the expansion into new business segment by the Group. In light of the increasingly booming development of the construction sector and the advancement in techniques of the automobile manufacturing industry, the Board considers that cold-formed steel may be gradually replaced by other new products in the future. Accordingly, the Group had ceased the production of cold-formed section steel in the latter part of last year and leased the plant, certain equipment and office facilities (previously used for the operation in Rizhao City, Shandong) to its joint venture for the dome integrated housing operation, with a view to achieve a better overall efficiency.

Sales volume (tonnes)	First half of 2013	First half of 2012	Change (%)
Cold-formed section steel	915	15,101	–93.9%

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 2012, which would be engaged in metal commodity trading business. For the six months ended 30 June 2013, the turnover amounted to RMB867,724,000 (for the six months ended 30 June 2012: Nil) and the gross profit was RMB30,321,000 (for the six months ended 30 June 2012: 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 the Shareholders' return.

Other business

To stabilize business growth and profitability, the Group has been gradually extending its product offering and business reach to a variety of industries. The Group had established Dome Integration Housing Industrial Holding Co. Ltd. (哆咪集成房屋工業控股有限公司) as a joint venture (40% equity interest owned by the Group) with a number of companies including Prodigy International Limited (普帝龍國際有限公司). A domestic company Prodigy Dome Integration Housing Manufacturing (Shandong) Co., Ltd. (普帝龍哆咪集成房屋製造(山東)有限公司) has been incorporated at the end of 2012. Warehouse of our Rizhao's Branch has been converted into an integration house manufacturing plant to be used for the design, manufacture, installation and sales of dome integration houses. Production operation of this project has been duly commenced in March 2013 and it is expected that the business venture will bring a new source of revenue growth for the Company.

Management Discussion and Analysis (cont'd)

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 2012 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 2013 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 Fourth West-East Pipelines (西氣東輸管道四線) and the Sino-Russian Natural Gas Pipeline Project (中俄天然氣管道工程).

Building 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 and 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. Currently, SSAW pipes are in widespread use among the majority of domestic oil and gas pipeline projects. As the Group stays in the top spot among its peers in terms of production volume and technology capability, the Group is confident of further expanding its market share.

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 portfolio, 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. Overseas oil and gas pipelines (particularly subsea pipelines) tend to use LSAW pipes. With our forthcoming launch of LSAW pipes, together with our newly built sales team, we look forward to our first contract for international pipeline to be awarded solely to the Group in the near term.

In June 2013, China and Russia entered into a package of up to 102 long-term oil supply agreements, being the largest crude oil trading contracts ever, whereby Russia will supply a total of 365 million tonnes of oil to China with a sum of up to US$270 billion in the coming 25 years, implying that a large-scale construction of cross-border oil and gas pipelines is about to be achieved between China and Russia. Leveraging on our rich experience in supplying products for a number of long-distance and cross-border oil and gas pipelines, and building on our industry-leading production capacity and eligibility verification, the Group is well-positioned to win tenders for the related projects to a certain extent. In addition, the Group will vigorously enlarge its market share in the regional branch pipeline segment and urban pipeline network, in an effort to further expand 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 a promising and versatile enterprise that is based on oil and gas transmission pipe products, as well as providing support to related industries, which will help us ensure a steady growth in our overall earnings.

Management Discussion and Analysis (cont'd)

FINANCIAL REVIEW

Revenue

The Group's unaudited turnover for the six months ended 30 June 2013 was RMB1,341,413,000, representing an increase of approximately 117.3% when compared to RMB617,431,000 in the same period last year. The increase was mainly attributable to the commencement of the newly setup metal commodity trading business by the Group in the second half of last year, whilst lower turnover was reported for the SSAW pipes due to the delay in the construction of certain oil and gas pipeline projects in China. For the six months ended 30 June 2013, in the Group's three core businesses, (1) SSAW pipes business reported a revenue of RMB470,085,000 (for the six months ended 30 June 2012: RMB552,396,000), representing a decrease of approximately 14.9% when compared to the same period last year; (2) cold-formed section steel business recorded a revenue of RMB3,604,000 (for the six months ended 30 June 2012: RMB65,035,000), representing a decrease of approximately 94.5% when compared to the same period last year; and (3) revenue from metal commodity trading business amounted to RMB867,724,000 (for the six months ended 30 June 2012: nil).

Cost of sales

The Group's cost of sales increased by approximately 121.4% from RMB587,975,000 for the six months ended 30 June 2012 to RMB1,301,834,000 for the six months ended 30 June 2013. The increase was primarily due to the commencement of the newly setup metal commodity trading business in the second half of last year.

Gross profit

During the interim period, the gross profit of the Group increased from RMB29,456,000 for the six months ended 30 June 2012 to RMB39,579,000 for the six months ended 30 June 2013. However, the gross profit margin of the Group decreased from 4.8% for the six months ended 30 June 2012 to 3.0% for the six months ended 30 June 2013. The decrease was primarily due to the increase in revenue of metal commodity trading business at a relatively low profit margin and the increase in domestic production cost of SSAW pipe which resulted in a generally lower gross profit margin.

Other income and gains

Other income of the Group reported a revenue of RMB65,686,000 for the six months ended 30 June 2013, representing an increase of approximately 13.2% as compared to the same period last year. The increase was mainly attributable to a RMB44,000,000 gain arising from the fair value change in derivative financial instrument related to the Group's investment in Beijing Golden Fortune Investment Co., Ltd. (北京慧基發展投資有限公司).

Management Discussion and Analysis (cont'd)

Selling and distribution expenses

Selling and distribution expenses of the Group increased from RMB9,587,000 for the six months ended 30 June 2012 to RMB15,308,000 for the six months ended 30 June 2013. The increase in these expenses was mainly due to the commencement of the newly setup metal commodity trading business in the second half of last year and the speedy development of such business in the first half of this year, which resulted in an increase in the related costs. The increase in selling and distribution expenses was also partly attributable to higher transportation cost.

Administrative expenses

The Group's administrative expenses increased by 21.5% from RMB34,597,000 for the six months ended 30 June 2012 to RMB42,043,000 for the six months ended 30 June 2013. The increase was mainly attributable to that the steel pipe project of Hunan Shengli was under construction, while the industrial capacity of Xinjiang Shengli had yet been fully exploited. The inception of metal commodity trading business also brought about a corresponding increase in administrative expenses.

Finance costs

The finance costs of the Group increased by 56.8% from RMB18,443,000 for the six months ended 30 June 2012 to approximately RMB28,918,000 for the six months ended 30 June 2013, which primarily represented interest payment for the bank loans repaid within the period. The increase in interest payment was mainly due to the rise in the bank loans of the Group since the second quarter of 2012, which increased to RMB1,435,869,000 as at 30 June 2013 from RMB730,510,000 as at 30 June 2012.

Income tax expenses

As a foreign invested enterprise, Shandong Shengli, the major operating entity and a wholly-owned subsidiary of the Company, was eligible for certain tax holidays and concessions, namely a two-year exemption from PRC enterprise income tax starting from 2008, which was the Group's first profitable year, and followed by a 50% deduction on PRC enterprise income tax for three years from 2010 to 2012. Starting from the current year, Shandong Shengli is subject to enterprise income tax rate of 25.0%.

Profit

The profit of the Group decreased from RMB9,821,000 for the six months ended 30 June 2012 to approximately RMB7,827,000 for the six months ended 30 June 2013. The decrease was primarily due to the fact that the profit contribution from the newly setup metal commodity trading business to the Group could not offset the decrease in revenue and profit of SSAW pipe business as a result of the delay in the construction of certain oil and gas pipelines in China. Furthermore, operating expenses continued to surge as Hunan Shengli, a subsidiary of the Company, was still under construction and development. The increase in bank loans of the Group also led to an increase in finance costs compared to the same period in 2012.

Management Discussion and Analysis (cont'd)

As previously anticipated in the Group's profit warning announcement dated 4 July 2013, the Group reported an unaudited consolidated loss on its SSAW business segment (i.e. a primary business and operation of the Group) of approximately RMB2,861,000 for the six months ended 30 June 2013 (for the six months ended 30 June 2012 : a profit of RMB27,994,000). The Group's unaudited consolidated profit for the six months ended 30 June 2013 amounted to RMB7,827,000 (for the six months ended 30 June 2012: RMB9,821,000) was attributable mainly to other income and gains, primarily the fair value gains of derivative financial instruments related to the investment in Golden Fortune in the amount of RMB44,000,000 as detailed in earlier section of this interim report.

Assets and liabilities

As of 30 June 2013, the total assets of the Group were approximately RMB4,404,538,000 (31 December 2012: RMB3,587,484,000) and the net assets of the Group were approximately RMB2,354,035,000 (31 December 2012: RMB2,265,061,000). Net assets per share amounted to RMB0.95, representing an increase of RMB4 cents when compared to that of 31 December 2012.

The total liabilities of the Group were RMB2,050,503,000 as of 30 June 2013 (as of 31 December 2012: RMB1,322,423,000). The increase in total liabilities was due to the increase in interest-bearing bank loans and trade payables.

As at 30 June 2013, the increase in inventories, trade receivables and deposit prepayments to suppliers was due to the growth of the metal commodity trading business in the first half of the year. Since all inventories are stocked in accordance with the actual sales order, there is no inventory expense. In addition, due but not impaired trade receivables are related to a number of independent customers who have established good track record with the Group. Based on past experience, the Directors consider that no impairment provision is required to be made for these balances, as there is no significant change in credit quality and the balances are still considered recoverable in full.

Liquidity and financial resources

As of 30 June 2013, cash and cash equivalents of the Group amounted to approximately RMB228,740,000 (as of 31 December 2012: RMB166,056,000). As of 30 June 2013, the Group had interest-bearing bank loans of approximately RMB1,435,869,000 (as of 31 December 2012: RMB988,461,000).

The gearing ratio is defined as net debt (represented by interest-bearing bank loans, trade payables and other payables and accruals net of cash and cash equivalents and pledged deposits) divided by total equity plus net debt. As of 30 June 2013, the gearing ratio of the Group was 33.6% (as of 31 December 2012: 25.0%).

Management Discussion and Analysis (cont'd)

Charges and contingent liabilities

Except the aforesaid secured bank borrowings, the Group did not have other charges on its assets or any material contingent liabilities as of 30 June 2013.

Financial management and fiscal policy

During the six months ended 30 June 2013, the Group's turnover, expenses, assets and liabilities were primarily denominated in Renminbi (RMB). The Directors consider that the Group currently has limited foreign currency exposure and thus has not entered into any hedging arrangement for its foreign currency risks. The Group would closely monitor the foreign currency movement and will assess the need to adopt any measures in relation to foreign currency risks from time to time.

INTERIM DIVIDEND

The Board does not recommend the declaration of an interim dividend for the six months ended 30 June 2013 (for the six months ended 30 June 2012: nil).

Report of the Directors

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

As at 30 June 2013, the interests or short positions of the Directors or chief executives in the shares ("Share(s)"), 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 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:

Long Position in issued Shares and underlying Shares

Name of Director	Capacity	Number of issued ordinary Shares held	Number of shares subject to the Share Options granted under the Share Option Scheme	Total percentage of the issued share capital of the Company as at 30 June 2013
Jiang Yong	Interest in a controlled corporation[1]	620,000,000	—	24.99%
Yan Tangfeng	Interest in a controlled corporation[2]	393,563,200	—	15.87%
Zhang Bizhuang	Interest in a controlled corporation[3]	153,130,224		6.173%
	Beneficial owner		8,400,000[7]	0.339%
Liu Yaohua	Interest in a controlled corporation[4]	26,708,760		1.077%
	Beneficial owner		2,700,000[7]	0.109%
Han Aizhi	Interest in a controlled corporation[5]	26,708,760		1.077%
	Beneficial owner		4,200,000[7]	0.169%
Song Xichen	Interest in a controlled corporation[6]	26,708,760		1.077%
	Beneficial owner		2,460,000[7]	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 therefore is deemed to be interested in the Shares of the Company held by Valuable Tactics by the virtue of the SFO.

(2) Aceplus Investments Limited ("Aceplus Investments") holds 393,563,200 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 and is therefore deemed to be interested in the Shares of the Company held by Aceplus Investments by the virtue of the SFO.

Report of the Directors (cont'd)

(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 thereof. Therefore, Mr. Zhang Bizhuang is deemed to be interested in the Shares of the Company held by Goldmics Investments by the virtue of the SFO.

(4) 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 the virtue of the SFO.

(5) 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 the virtue of the SFO.

(6) 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 Investment and his spouse Ms. Xu Li holds the remaining 50% thereof. Therefore, Mr. Song Xichen is deemed to be interested in the Shares of the Company held by Winfun Investments by the virtue of the SFO.

(7) Underlying Shares subject to the Share Options (as defined below) issued pursuant to the Share Option Scheme (as defined below).

Save as disclosed above, as at 30 June 2013, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company and its associated corporations within the meaning of Part XV of the SFO which were required to be recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHT TO ACQUIRE SHARES

Save as disclosed above, at no time during the period under review 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 interests or short positions in the Shares or underlying Shares in, or debentures of, the Company or its associated corporations (within the meaning of Part XV of the SFO).

SHARE OPTION SCHEME

The Company adopted a share option scheme on 21 November 2009 ("Share Option Scheme"). The purpose of the Share Option Scheme is to give the Eligible Persons (as defined in the Share Option Scheme) an opportunity to have a personal stake in the Company and help motivate them to optimize their future performance and efficiency to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain ongoing relationships with such eligible persons who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group, and additionally in the case of Executives, to enable the Group to attract and retain individuals with experience and ability and/or to reward them for their past contributions.

Report of the Directors (cont'd)

Participants referred below are the "Eligible Persons" under the Share Option Scheme, including:

(a) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in any member of the Group ("Executive"), any full-time or part-time employee, a person for the time being seconded to work full-time or part-time for any member of the Group;

(b) A director or proposed director (including an independent non-executive director) of any member of the Group;

(c) A direct or indirect shareholder of any member of the Group;

(d) A supplier of goods or services to any member of the Group;

(e) A customer, consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group;

(f) a person or entity that provides design, research, development or other support or any advisory, consultancy, professional or other services to any member of the Group; and

(g) An associate (as defined under the Listing Rules) of any of the persons referred to in paragraphs (a) to (c) above.

The principal terms of the Share Option Scheme are summarized as follows:

The Share Option Scheme is valid for a period of 10 years from the date of adoption on 21 November 2009 and will remain in force until 20 November 2019. The Company may by resolution in general meeting at any time terminate the operation of the Share Option Scheme. Upon the termination of the Share Option Scheme as aforesaid, no further options may be granted but the provisions of the Share Option Scheme shall otherwise remain in force and effect. All share options ("Share Options") granted prior to such termination and remain outstanding shall continue to be valid and exercisable subject to and in accordance with the Share Option Scheme. The offer of a grant of Share Options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 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 Share Options shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Share Options (and shall be stated in the letter containing the offer of the grant of the Share Options) 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.

Report of the Directors (cont'd)

The maximum number of Shares which may be issued upon exercise of all Share 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 Share Options 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. Share Options previously granted under the Share Option Scheme and any other schemes of the Company (including those outstanding, cancelled, lapsed or exercised in accordance with the terms of the Share Option Scheme or any other schemes of the Company) shall not be counted for the purpose of calculating the Scheme Mandate Limit as refreshed. The Company shall send to our Shareholders a circular setting out the details and information required under the Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing Rules").

(b) The Company may seek separate approval from the Shareholders of the Company in general meeting for granting Share Options beyond the Scheme Mandate Limit, provided that the Share 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 Share Options may be granted to any one person such that the total number of Shares issued and to be issued upon exercise of Share 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 Share Options granted and to be granted to such Eligible Person in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant shall be separately approved by the Shareholders of the Company in general meeting with such Eligible Person and his associates abstaining from voting. The Company shall send a circular to our Shareholders disclosing the identity of the Eligible Person, the number and terms of the options to be granted (and options previously granted) to such Eligible Person, and containing the details and information required under the Hong Kong Listing Rules. The number and terms (including the subscription price) of the options to be granted to such Eligible Person must be fixed before the approval of the Shareholders of the Company and the date of the Board meeting proposing such grant shall be taken as the offer date for the purpose of calculating the subscription price of those Share Options.

On 10 February 2010, the Board granted 24,000,000 Share Options to 19 directors, chief executives and other personnel approved by the Board, including four directors of the Company and its subsidiaries at an exercise price of HK$2.03 per Share under the Share Option Scheme. 1,500,000 share options held by a member of the senior management were lapsed following his departure in 2011.

Report of the Directors (cont'd)

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

As of 30 June 2013, movements of Share Options granted under the Share Option Scheme are set out below:

Name	Capacity	Exercise Price	Outstanding as at 1 January 2013	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding as at 30 June 2013	Approximate percentage of the issued share capital of the Company as at 30 June 2013	Notes
Directors										
Zhang Bizhuang	Beneficial owner	HK$2.03	7,200,000	—	—	—	—	7,200,000	0.290%	(1)
Zhang Bizhuang	Beneficial owner	HK$0.80	1,200,000	—	—	—	—	1,200,000	0.048%	(2)
Liu Yaohua	Beneficial owner	HK$2.03	1,500,000	—	—	—	—	1,500,000	0.061%	(1)
Liu Yaohua	Beneficial owner	HK$0.80	1,200,000	—	—	—	—	1,200,000	0.048%	(2)
Han Aizhi	Beneficial owner	HK$2.03	3,000,000	—	—	—	—	3,000,000	0.121%	(1)
Han Aizhi	Beneficial owner	HK$0.80	1,200,000	—	—	—	—	1,200,000	0.048%	(2)
Song Xichen	Beneficial owner	HK$2.03	1,500,000	—	—	—	—	1,500,000	0.060%	(1)
Song Xichen	Beneficial owner	HK$0.80	960,000	—	—	—	—	960,000	0.039%	(2)
Employees	Beneficial owner	HK$2.03	9,300,000	—	—	—	—	9,300,000	0.375%	(1)
Employees	Beneficial owner	HK$0.80	19,440,000	—	—	—	—	19,440,000	0.784%	(2)
Total			46,500,000					46,500,000	1.875%	

Notes:

(1) The Share Options granted by the Company are exercisable for 10 years. The grantees may exercise up to one-third, two-third and 100% of the respective total Share Options granted from the first, second and third anniversaries of the date of grant (i.e. 10 February 2010). These Share options are exercisable at HK$2.03 each according to the rules of the Share Option Scheme during the period from 10 February 2010 to 9 February 2020.

(2) The Share Options granted by the Company are exercisable for 10 years. The grantees may exercise up to one-third, two-third and 100% of the respective total share options granted from the first, second and third anniversaries of the date of grant (i.e. 3 January 2012). These Share Options are exercisable at HK$0.80 each according to the rules of the Share Option Scheme during period from 3 January 2012 to 3 January 2022.

Report of the Directors (cont'd)

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

As at 30 June 2013, the following persons (other than Directors or chief executives of the Company) were interested in 5% or more of the issued share capital of the Company which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or to be disclosed under the provisions of Divisions 2 and 3 of Part XV of the SFO and the Listing Rules on the Stock Exchange:

Long Position in issued Shares and underlying Shares

Name of Shareholder	Capacity	Number of issued ordinary Shares/ underlying Shares held	Percentage of the issued share capital of the Company
Valuable Tactics Development Limited	Beneficial owner(1)	620,000,000	24.99%
Aceplus Investments Limited	Beneficial owner(2)	393,563,200	15.87%
Goldmics Investments	Beneficial owner	153,130,224	6.173%
Du Jichun	Interest in controlled corporation(3)	153,130,224	6.173%
	Spouse's interest(4)	8,400,000	0.339%

Notes:

(1) 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 therefore is deemed to be interested in the Shares of the Company held by Valuable Tactics by the virtue of the SFO.

(2) Aceplus Investments 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 the virtue of the SFO.

(3) 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.

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

Save as disclosed above, as at 30 June 2013, 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.

Report of the Directors (cont'd)

CONTRACTS WITH CONTROLLING SHAREHOLDERS

No contract of significance had been entered into between the Company and the controlling Shareholders or any of its subsidiaries for the six months ended 30 June 2013.

COMPETING BUSINESS

During the period and up to the date of this 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 6 September 2013 (the latest practicable date prior to the issue of this interim 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 period under review or at any time during the period under review.

INTERIM DIVIDEND

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2013.

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

11 September 2013

Corporate Governance

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 has strived to uphold good corporate governance and adopted 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 Corporate Governance Code (the "Code") during the period from 1 January 2013 to 30 June 2013 as set out in Appendix 14 of the Listing Rules.

Currently, Mr. Zhang Bizhuang serves as the Chairman and Chief Executive Officer of the Company. This deviates from the code provision A.2.1 of the CG Code, which provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. In view of the relative uniqueness of the Group's oil and gas pipeline business, especially our business in Mainland China, our Chairman and Chief Executive Officer must be familiar with and sensitive to relevant policies and market changes, in order to guide the Group to promptly react to the ever-changing environment. The Board considers that the segregation of the role of the Chairman and Chief Executive Officer may result in unnecessary costs for the daily operation of the Company. Besides, all major decisions are made in consultation with members of the Board and appropriate committees, as well as the senior management team. Chief management officers and senior executives are invited to attend Board meetings from time to time to make presentations and answer the Board's enquiries. In addition, Directors are encouraged to participate actively in all Board and committee meetings of which they are members, and the Chairman ensures that adequate time is available for the discussion for all items. The Chairman and non-executive Directors (including independent non-executive Directors) have been maintaining direct communication. Non-executive Directors put forward ideas in diversified perspectives to the Chairman from time to time. The Board is therefore of the view that there are adequate balance of power and safeguards in place. Nevertheless, the Board will continue to monitor and review the Company's current structure and to make necessary changes as and when appropriate.

Mr. Leung Ming Shu, a former independent non-executive Director, chairman of the Audit Committee and member of the Remuneration Committee, tendered his resignations on 9 April 2013. The Board noted that following the resignations of Mr. Leung, the number of independent non-executive Directors and the members of the Audit Committee would fall below the lower limit requirement of three members, and the number of independent non-executive Directors accounts for less than one-third of the members of the Board required under Rule 3.10(1), Rule 3.10A and Rule 3.21 of the Listing Rules. The position of the chairman of the Audit Committee would be left vacant and no any one independent non-executive Director with appropriate professional qualifications or accounting or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. In addition, the number of independent non-executive Directors of the Remuneration Committee would fall below a majority as required under Rule 3.25 of the Listing Rules.

The Company appointed Mr. Chen Junzhu as an independent non-executive Director on 30 May 2013 and in replacement of Mr. Leung in all of his positions within the Board. From then on, the Company has re-complied with requirements of Rules 3.10(1), 3.10(2), 3.10A, 3.21 and 3.25 of the Listing Rules.

Corporate Governance (cont'd)

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules as the required standard for securities transactions by the Directors. The Company has made specific enquiries of all the Directors and all the Directors confirmed that for the six months ended 30 June 2013, they had complied with the required standards set out in the Model Code and the code of conduct of the Company regarding Directors' securities transactions.

AUDIT COMMITTEE

The Audit Committee was established on 21 November 2009 with written terms of reference in compliance with the Listing Rules. The primary duties of the Audit Committee are to review and supervise the financial reporting process. All members of the Audit Committee are appointed by the Board. The Audit Committee currently consists of two independent non-executive Directors, namely Mr. Chen Junzhu and Mr. Wang Xueyou and one non-executive Director, namely Mr. Yan Tangfeng. Mr. Chen Jun Zhu serves as the chairman of the Audit Committee.

The Audit Committee has reviewed the Group's unaudited consolidated financial statements for the six months ended 30 June 2013.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed with the Company's management and external auditor the accounting principles and practices adopted by the Group and discussed auditing, internal controls, and financial reporting matters including the review of the unaudited interim financial statements for the period under review. The external auditor has reviewed the interim financial information for the six months ended 30 June 2013 in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

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

INDEPENDENT REVIEW REPORT

ANDA
CPA Limited
安達會計師事務所有限公司

TO THE BOARD OF DIRECTORS OF
SHENGLI OIL & GAS PIPE HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 26 to 48 which comprises the condensed consolidated statement of financial position of the Shengli Oil & Gas Pipe Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") as at 30 June 2013 and the related condensed consolidated statement of profit or loss and other comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

ANDA CPA Limited
Certified Public Accountants
Sze Lin Tang
Practising Certificate Number P03614
Hong Kong, 30 August 2013

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income (Unaudited)

For the six months ended 30 June 2013

	Notes	For the six months ended 30 June 2013 RMB'000 (Unaudited)	 2012 RMB'000 (Unaudited)
REVENUE	4	**1,341,413**	617,431
Cost of sales and services		**(1,301,834)**	(587,975)
Gross profit		**39,579**	29,456
Other income and gains	5	**65,686**	58,041
Selling and distribution costs		**(15,308)**	(9,587)
Administrative expenses		**(42,043)**	(34,597)
Other expenses		**(994)**	(4,969)
Share of losses of:			
Joint ventures		**(1,541)**	(69)
Associate		**(1,677)**	(3,810)
Finance costs	6	**(28,918)**	(18,443)
PROFIT BEFORE TAX	7	**14,784**	16,022
Income tax expense	8	**(6,855)**	(6,201)
PROFIT FOR THE PERIOD		**7,929**	9,821
Other comprehensive loss that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**(102)**	—
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**7,827**	9,821
PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		**11,614**	12,519
Non-controlling interests		**(3,685)**	(2,698)
		7,929	9,821
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO:			
Owners of the Company		**11,512**	12,519
Non-controlling interests		**(3,685)**	(2,698)
		7,827	9,821
EARNINGS PER SHARE (RMB cents)	9		
— Basic		**0.47**	0.50
— Diluted		**0.47**	0.50

Interim Condensed Consolidated Statement of Financial Position (Unaudited)

As at 30 June 2013

	Notes	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	11	**1,089,913**	984,322
Prepaid land lease payments	12	**164,688**	164,457
Goodwill		**9,910**	9,910
Deposits paid for acquisition of investments		**41,863**	41,483
Investment in joint ventures		**43,859**	45,400
Investment in an associate		**235,379**	237,056
Available-for-sale investment		**15,000**	15,000
Derivative financial instrument	13	**138,000**	94,000
Other assets		**4,631**	8,797
Deferred tax assets		**20,024**	13,495
		1,763,267	1,613,920
CURRENT ASSETS			
Inventories		**315,436**	276,084
Trade and bills receivables	14	**1,004,280**	749,158
Prepayments, deposits and other receivables	15	**500,797**	405,358
Prepaid land lease payments	12	**3,727**	3,406
Pledged deposits	16	**588,291**	373,502
Cash and cash equivalents		**228,740**	166,056
		2,641,271	1,973,564
CURRENT LIABILITIES			
Trade payables	17	**404,673**	128,312
Other payables and accruals		**168,212**	169,489
Borrowings	18	**1,435,869**	988,461
Tax payable		**9,767**	14,752
Deferred income		**854**	854
		2,019,375	1,301,868

Interim Condensed Consolidated Statement of Financial Position (Unaudited) (cont'd)

As at 30 June 2013

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
NET CURRENT ASSETS	621,896	671,696
TOTAL ASSETS LESS CURRENT LIABILITIES	2,385,163	2,285,616
NON-CURRENT LIABILITIES		
Deferred income	9,453	9,880
Deferred tax liabilities	21,675	10,675
	31,128	20,555
NET ASSETS	2,354,035	2,265,061
EQUITY		
Equity attributable to owners of the Company		
Issued capital	218,786	218,786
Reserves	1,868,242	1,855,583
	2,087,028	2,074,369
Non-controlling interests	267,007	190,692
Total equity	2,354,035	2,265,061

Interim Condensed Consolidated Statement of Changes in Equity (Unaudited)

For the six months ended 30 June 2013

	Attributable to owners of the Company										
	Issued capital RMB'000	Share premium* RMB'000	Statutory surplus reserve* RMB'000 (note i)	Share option reserve* RMB'000 (note ii)	Other reserve* RMB'000 (note iii)	Foreign currency translation 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 2012 (Audited)	218,786	1,122,562	62,484	18,843	(9)	—	605,274	—	2,027,940	117,879	2,145,819
Total comprehensive income/ (loss) for the period	—	—	—	—	—	—	12,519	—	12,519	(2,698)	9,821
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	40,000	40,000
Share-based payment	—	—	—	3,938	—	—	—	—	3,938	—	3,938
Final dividend declared	—	(23,317)	—	—	—	—	—	—	(23,317)	—	(23,317)
At 30 June 2012 (Unaudited)	218,786	1,099,245	62,484	22,781	(9)	—	617,793	—	2,021,080	155,181	2,176,261
At 1 January 2013 (Audited)	218,786	1,082,569	62,484	25,814	(9)	—	668,049	16,676	2,074,369	190,692	2,265,061
Total comprehensive income/ (loss) for the period	—	—	—	—	—	(102)	11,614	—	11,512	(3,685)	7,827
Capital contribution from non-controlling interests	—	—	—	—	—	—	—	—	—	80,000	80,000
Share-based payment	—	—	—	1,147	—	—	—	—	1,147	—	1,147
At 30 June 2013 (Unaudited)	218,786	1,082,569	62,484	26,961	(9)	(102)	679,663	16,676	2,087,028	267,007	2,354,035

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

Notes:

(i) STATUTORY SURPLUS RESERVE

As stipulated by the relevant law and regulations for foreign investment enterprises in the People's Republic of China (the "PRC"), the Company's PRC subsidiaries are required to maintain a statutory surplus reserve which is non-distributable. Appropriation to such reserve is made out of net profit after tax expenses as shown in the statutory financial statements of the relevant PRC subsidiaries and after making up prior year cumulative losses. The amounts and allocation basis are decided by the board of directors of the respective subsidiaries annually. The statutory surplus reserve can be applied in conversion into issued capital by means of capitalisation issue.

(ii) SHARE OPTION RESERVE

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

(iii) OTHER RESERVE

Other reserve represents the reserve arising from group reorganization to rationalize the structure of the Group in preparation for the listing of the Company in 2009.

Interim Condensed Consolidated Statement of Cash Flows (Unaudited)

For the six months ended 30 June 2013

	For the six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES	**(89,448)**	32,436
NET CASH USED IN INVESTING ACTIVITIES	**(346,358)**	(182,875)
NET CASH GENERATED FROM FINANCING ACTIVITIES	**498,490**	120,303
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	**62,684**	(30,136)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**166,056**	406,828
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**228,740**	376,692

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited)

For the six months ended 30 June 2013

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 225082, PRC; respectively.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 18 December 2009. Trading in the shares of the Company was suspended between 14 March 2013 and 8 July 2013 at the request of the Company, mainly due to the delay in publishing its annual audited results (the "Suspension").

The unaudited condensed consolidated financial statements are presented in Renminbi (the "RMB"), which is the same as the functional currency of the Company and its subsidiaries (collectively the "Group").

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

2. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements ("Interim Financial Statements") have been prepared in accordance with International Accounting Standard 34 ("IAS 34") issued by International Accounting Standard Board and the applicable disclosure requirements of Appendix 16 of the Rules Governing the Listing of Securities on the The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Interim Financial Statements do not include all the information and disclosures required in a full set of financial statements, and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2012 ("2012 Annual Report").

The accounting policies adopted in the preparation of the Interim Financial Statements are consistent with those followed in the preparation of 2012 Annual Report of the Company except the following new accounting policies.

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs")

In the current period, 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 2013. 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 and prior periods except as stated below.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (cont'd)

For the six months ended 30 June 2013

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

a. Amendments to IAS 1 "Presentation of Financial Statements"

Amendments to IAS 1 titled Presentation of Items of Other Comprehensive Income introduce new terminology for statement of comprehensive income and income statement. Under the amendments to IAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

The amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the change. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

b. IFRS 13 "Fair Value Measurement"

The Group has applied IFRS 13 for the first time in the current interim period. IFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various IFRSs. Consequential amendments have been made to IAS 34 to require certain disclosures to be made in the interim unaudited condensed consolidated financial statements.

The scope of IFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. IFRS 13 contains a new definition for 'fair value' and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. Disclosures of fair value information are set out in note 19.

Except as described above, the application of the other new or revised IFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these unaudited condensed consolidated financial statements.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (cont'd)

For the six months ended 30 June 2013

3. ADOPTION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRSs") (continued)

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. REVENUE AND OPERATING SEGMENT INFORMATION

Revenue

	For the six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Sales of steel pipes	**472,004**	616,239
Trading of metal commodity	**867,724**	—
Rendering of services related to pipe business	**1,685**	1,192
	1,341,413	617,431

For management purposes, the Group has three (for the six months ended 30 June 2012: 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 business was commenced during the second-half year of 2012 mainly involving trading of electrolytic copper, aluminium ingot and aluminum oxide. The SSAW Pipes Business 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 results represent the profit earned by each segment without allocation of interest income, finance costs, fair value gains of derivative financial instrument, and central administration costs including directors' fees, share-based payments, foreign currency exchange gains/losses, share of losses of joint ventures and associates, and items not directly related to the core business of the segments.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (cont'd)

For the six months ended 30 June 2013

4. REVENUE AND OPERATING SEGMENT INFORMATION (continued)

Segment revenue and results

For the six months ended 30 June 2013 (unaudited)

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Trading of metal commodity RMB'000	Consolidated RMB'000
Segment revenue	470,085	3,604	867,724	1,341,413
Segment results	(2,861)	494	13,293	10,926
Interest income				7,246
Fair value gains of derivative financial instrument				44,000
Unallocated expenses				(18,470)
Finance costs				(28,918)
Profit before tax				14,784

For the six months ended 30 June 2012 (unaudited)

	SSAW Pipes Business RMB'000	Cold-formed Section Steel Business RMB'000	Consolidated RMB'000
Segment revenue	552,396	65,035	617,431
Segment results	27,994	(627)	27,367
Interest income			27,846
Fair value gains of derivative financial instrument			18,000
Unallocated expenses			(38,748)
Finance costs			(18,443)
Profit before tax			16,022

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (cont'd)

For the six months ended 30 June 2013

5. OTHER INCOME AND GAINS

	For the six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest income	**7,246**	27,846
Rental income	**4,347**	—
Government grant	**427**	1,862
Gain on sales of materials	**5,297**	7,835
Fair value gains of derivative financial instrument	**44,000**	18,000
Gain on disposal of property, plant and equipment	**1,860**	112
Dividend income received from available-for-sale investment	**727**	—
Others	**1,782**	2,386
	65,686	58,041

6. FINANCE COSTS

	For the six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest of loans wholly repayable within five years:		
— Bank loans	**27,875**	18,443
— Other loan from a financial institution in the PRC	**3,038**	—
Less: interest capitalised	**(1,995)**	—
	28,918	18,443

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (cont'd)

For the six months ended 30 June 2013

7. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2013 **RMB'000** **(Unaudited)**	2012 RMB'000 (Unaudited)
Cost of inventories sold*	**1,300,414**	587,338
Cost of services	**1,420**	637
	1,301,834	587,975
Employees benefits expenses including directors' remunerations	**38,419**	38,875
Depreciation of property, plant and equipment	**37,293**	22,901
Amortisation of prepaid land lease payments	**1,812**	708
Gain on disposal of an investment held for sale	**—**	(107)
Operating lease payments	**5,645**	5,127
Exchange (gains)/losses	**(1,447)**	347
Auditors' remuneration	**382**	579

* Included in the cost of inventories sold is an amount of RMB659,000 (write down of inventories for the six months ended 30 June 2012: RMB2,488,000) related to the recovery from sale in respect of previously written-down of inventories during the period.

8. INCOME TAX EXPENSE

	For the six months ended 30 June	
	2013 **RMB'000** **(Unaudited)**	2012 RMB'000 (Unaudited)
Current — PRC Enterprise Income Tax ("EIT")		
— Charge for the period	**280**	3,057
— Under-provision in prior years	**50**	—
Current — Hong Kong	**2,054**	—
Deferred tax	**4,471**	3,144
	6,855	6,201

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for the six months ended 30 June 2013. No provision for Hong Kong profits tax has been made as the Group did not have any assessable profit in Hong Kong for the six months ended 30 June 2012.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (cont'd)

For the six months ended 30 June 2013

8. INCOME TAX EXPENSE (continued)

The statutory tax rate of China Petro Equipment Holdings Pte Ltd., a subsidiary of the Company incorporated in the Republic of Singapore, was 17% for the six months ended 30 June 2013 and 2012.

Under the Law of the PRC on EIT and Implementation Regulations of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards. The income tax rate of 25% is applicable to all of the Group's PRC subsidiaries, except for Shandong Shengli Steel Pipe Co., Ltd. ("Shandong Shengli"), a subsidiary of the Company established in the PRC, which entitled to an exemption from income tax for the two years commencing from its first profit-making year of operations and thereafter entitled to a 50% relief for the subsequent three years. Shandong Shengli was exempted from income tax in 2008 and 2009 and enjoyed a 50% relief in 2010, 2011 and 2012. The income tax rate of Shandong Shengli is 25% in 2013.

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the unaudited condensed consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

9. EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

(a) Basic earnings per share

The calculation of basic earnings per share attributable to owners of the Company is based on the profits for the six months ended 30 June 2013 attributable to owners of the Company of approximately RMB11,614,000 (for the six months ended 30 June 2012: RMB12,519,000) and the number of 2,480,580,000 (for the six months ended 30 June 2012: 2,480,580,000) ordinary shares in issue during the six months ended 30 June 2013.

(b) Diluted earnings per share

No adjustment has been made to the basic earnings per share amounts presented for the six months ended 30 June 2013 in respect of a dilution as there was no dilutive potential ordinary share.

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

10. DIVIDEND

During the annual general meeting of the Company held on 11 August 2013, the Company's shareholders approved the payment of a final dividend of RMB0.672 cent per share (equivalent to HK0.843 cent) for the year ended 31 December 2012 (2011: RMB0.94 cent per share (equivalent to approximately HK1.16 cents per share)), amounting to approximately RMB16,676,000 (2012: approximately RMB23,317,000).

The Directors do not recommend the payment of any interim dividend for the six months ended 30 June 2013 (for the six months ended 30 June 2012: Nil).

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (cont'd)

For the six months ended 30 June 2013

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2013, the Group acquired property, plant and equipment at a total cost of RMB155,726,000 (for the six months ended 30 June 2012: RMB56,804,000).

Property, plant and equipment with a carrying amount of RMB12,842,000 (for the six months ended 30 June 2012: RMB4,034,000) were disposed by the Group during the six months ended 30 June 2013.

As at 30 June 2013, the Group was in the process of applying for title certificates for certain buildings with an aggregate carrying amount of approximately RMB122,602,000 (as at 31 December 2012: RMB112,682,000). The directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the above-mentioned buildings in due course, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 30 June 2013.

12. PREPAID LAND LEASE PAYMENTS

As at 30 June 2013, the Group was in the process of applying for title certificates for certain land acquired by the Group with an aggregate carrying amount of approximately RMB95,785,000 (as at 31 December 2012: RMB138,171,000). 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 30 June 2013.

13. DERIVATIVE FINANCIAL INSTRUMENT

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Guaranteed Return and Right to Sell of Golden Fortune	**138,000**	94,000

In conjunction with the Group's investment in Beijing Golden Fortune Investment Co., Ltd., (the "Golden Fortune", an associate company of the Group) in 2010, the Group is entitled to a guaranteed return on its investment of RMB300,000,000 at a rate of not less than 5%, 10%, 15%, 20% and 25% for the years 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 "Guaranteed Return"). The return on the Group's investment for a given year is equal to its pro rata share of Golden Fortune's net profit as shown in its consolidated statement of profit or loss for that year divided by the amount of the investment. If the average return on investment falls short of the Guaranteed Return of 15% over the five years ending 31 December 2015, the Group will be compensated by certain shareholders of Golden Fortune. The Group may choose to be compensated for the shortfall in one of the following ways:

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

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (cont'd)

For the six months ended 30 June 2013

13. DERIVATIVE FINANCIAL INSTRUMENT (continued)

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

During the reporting period, the Group obtained further undertaking from the controlling shareholder of Golden Fortune provided further undertaking to the Group, guaranteeing the shortfall from the above-mentioned compensation (if any) to meet the Guaranteed Return.

The above-mentioned arrangements are collectively referred to as the "Guaranteed Return and Right to Sell of Golden Fortune".

The fair value of Investment Return Arrangement was determined by the directors of the Company with reference to the valuation performed by Roma Appraisals Limited, an independent professional valuer to the Group. 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 were simulated.

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

Time to expiry	2.5 years
Discount rate	14.63%
Expected volatility	8.09%
Marketability discount	21.00%

The changes in fair value of the derivative financial instrument were recognised in the unaudited condensed consolidated profit or loss and comprehensive income for the period ended 30 June 2013.

14. TRADE AND BILLS RECEIVABLES

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Trade receivables	**989,854**	736,854
Bills receivable	**14,426**	12,304
	1,004,280	749,158

The Group's trading terms with its customers are mainly on credit generally ranging from 90 to 180 days. All of the bills receivable are due within 90 to 180 days.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (cont'd)

For the six months ended 30 June 2013

14. TRADE AND BILLS RECEIVABLES (continued)

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

	2013 RMB'000 (Unaudited)	2012 RMB'000 (Audited)
Within 3 months	715,356	475,694
3 to 6 months	171,553	148,563
6 months to 1 year	37,591	102,181
1 to 2 years	65,354	10,416
	989,854	736,854

Receivables that were past due but not impaired relate to a number of independent customers which have a good track record. 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 the credit quality.

Certain trade receivables are pledged to secure general banking facilities granted to the Group as set out in note 18.

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

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

	Notes	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Advance to suppliers		80,697	267,610
Trade deposits paid to metal commodity suppliers	(a)	319,356	—
Deposit paid for acquisition of an investment	(b)	9,898	—
Advance to a joint venture	(c)	20,480	6,751
Loan to employees	(d)	2,130	4,880
Deposits paid for development of sales network	(e)	—	74,960
Tender deposits to customers		4,846	1,990
Other tax receivables	(f)	29,998	19,650
Rent prepaid to a related company		8,110	8,110
Others		25,282	21,407
		500,797	405,358

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (cont'd)

For the six months ended 30 June 2013

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

Notes:

(a) These trade deposits were paid to metal commodity suppliers to secure trade payables of approximately RMB324,050,000 as at the end of the reporting period. The deposits are interest-free and are refundable within one year. These metal commodity suppliers are independent third parties of the Group.

(b) During the six months ended 30 June 2013, the Group paid approximately of RMB9,898,000 (equivalent to approximately of HK$12,302,000) to acquire 51% equity interest of Much Rise Holdings Limited, a company incorporated in Hong Kong. The transaction was cancelled in accordance with a shareholder resolution and the deposit is under negotiation to be refunded.

(c) Included in the advance to a joint venture is a loan of RMB20,231,000 (as at 31 December 2012: Nil) which is unsecured, bears an interest rate of 3% per annum and repayable within one year. The remaining balance is unsecured, non-interest bearing and has no fixed repayment term.

(d) Loan to employees are secured by cash deposits of RMB930,000, bear interests at 6% per annum and have no fixed repayment term.

(e) These deposits have been refunded during the reporting period after the development of sales network contracts were terminated.

(f) The Group's other tax receivables mainly represent value-added tax receivables.

16. PLEDGED DEPOSITS

The Group's deposits are pledged to banks for issue of bills payable (included in other payables) to suppliers for acquisition of property, plant and equipment and raise of bank loans.

17. TRADE PAYABLES

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

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Within 3 months	**319,144**	116,808
3 to 6 months	**78,430**	5,030
6 months to 1 year	**3,160**	5,178
1 to 2 years	**2,526**	833
2 to 3 years	**995**	48
3 to 4 years	**418**	415
	404,673	128,312

The trade payables are non-interest-bearing. The payment terms with suppliers are normally on credit ranging from 90 to 180 days from the time when goods are received from suppliers.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (cont'd)

For the six months ended 30 June 2013

18. BORROWINGS

		As at 30 June 2013 (Unaudited)			As at 31 December 2012 (Audited)		
	Notes	Effective interest rate (%)	Maturity (Year)	RMB'000	Effective interest rate (%)	Maturity (Year)	RMB'000
Bank loans — Unsecured		6.00%	2013–2014	605,000	6.00%	2013	423,800
Bank loans — Secured	(a)	2.76%–6.00%	2014	534,524	2.76%–6.00%	2013	188,333
Current portion of long-term bank loans — Unsecured	(b)	3.20%–3.70%	2013–2014	96,345	3.20%–3.70%	2013	354,328
Other loan — Unsecured	(c)	5.88%	2014	200,000			—
Bank loans — Guaranteed	(d)			—	6.00%	2013	22,000
				1,435,869			988,461

Notes:

(a) The Group's bank loans were secured by pledge of certain of the Group's trade receivables amounting to RMB156,875,000 (as at 31 December 2012: RMB137,119,000) and bank deposits of RMB530,000,000 (as at 31 December 2012: RMB300,000,000).

Due to the Suspension during the period ended 30 June 2013, the Group breached its undertaking in respect of a secured loan of USD15,255,000 (equivalent to RMB94,256,000). The Group is in the process of negotiating remedial measures with this bank.

(b) In respect of unsecured loans of RMB354,328,000 in aggregate as at 31 December 2012, the Group triggered an event of default due to the Suspension during the period ended 30 June 2013. The Group has received a waiver by providing pledged bank deposits and letter of credits to secure partial of these loans and restructure of new borrowing terms, as such the restructured loans were classified as secured loans as at 30 June 2013.

Following the issuance of the 2012 Annual Report in July 2013, the Group was found breach in certain financial covenants (based on its audited consolidated financial statements) and thereon triggered an event of default in respect of the remaining unsecured loan of RMB96,345,000 as at 30 June 2013. The Group is in the process of negotiating remedial measures with this bank.

(c) The loan is borrowed from a financial institution in the PRC.

(d) As at 31 December 2012, the bank loans of RMB22,000,000 were guaranteed by independent third parties.

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (cont'd)

For the six months ended 30 June 2013

19. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categorises into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the condensed consolidated statement of financial position approximate their respective fair values, except for its available-for-sale investment, which is measured at cost less impairment losses.

(a) Disclosures of level in fair value hierarchy

The Group's financial asset involving recurring fair value measurements represents its derivative financial instrument for the Guaranteed Return and Right to Sell of Golden Fortune, details of which are set out in note 13. The fair value of the derivative financial instrument is measured using Level 3 inputs and there was no transfer in or transfer out of the measurement level. The fair values of the derivative financial instrument as at the end of the reporting periods are as follows:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Fair value of the derivative financial instrument	**138,000**	94,000

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (cont'd)

For the six months ended 30 June 2013

19. FAIR VALUE MEASUREMENTS (continued)

(b) Reconciliation of assets measured at fair value based on level 3

	Derivative financial instrument RMB'000
At 1 January 2012	75,000
Total gain recognised in profit or loss for the period#	18,000
At 30 June 2012	93,000
Total gain recognised in profit or loss for the period#	1,000
At 31 December 2012	94,000
Total gain recognised in profit or loss for the period#	44,000
At 30 June 2013	138,000

Included gains or losses for asset held at end of reporting periods.

The total gains recognised in profit or loss are presented in other income and gains in the statement of profit or loss and other comprehensive income.

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements

The Group's financial controller is responsible for the fair value measurements of assets required for financial reporting purposes, including level 3 fair value measurements. The financial controller reports directly to the Board of Directors for these fair value measurements. Discussions of valuation processes and results are held between the financial controller and the Board of Directors at least twice a year.

For level 3 fair value measurements, the Group will normally engage external valuation experts with the recognised professional qualifications and recent experience to perform the valuations.

Key unobservable inputs used in level 3 fair value measurements are mainly:

— weighted average cost of capital (estimated based on Capital Asset Pricing Model of 14.63%)

— long-term revenue growth rate (estimated based on management's experience and knowledge of market conditions of the specific industry of 2%)

— discount for lack of marketability (estimated based on reference to the share price of listed entities in similar industry of 21%)

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (cont'd)

For the six months ended 30 June 2013

19. FAIR VALUE MEASUREMENTS (continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements (continued)

Level 3 fair value measurements

Description	Valuation Technique	Unobservable inputs	Effect on fair value for increase of input	Fair value as at 30 June 2013 RMB'000
Derivative financial instrument in respect of the Guaranteed Return and Right to Sell of Golden Fortune	Discount cash flow	Long-term revenue growth rate 2.86%	Decrease	
		Weighted average cost of capital 14.63%	Decrease	
		Discount of lack of marketability 21.00%	Decrease	138,000

20. COMMITMENTS

(a) Commitments under operating leases

As lessor

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

At 30 June 2013, the Group had future minimum lease receivable under non-cancellable operating leases with its tenant falling due as follows:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Within one year	**3,177**	—

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (cont'd)

For the six months ended 30 June 2013

20. 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:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Within one year	825	1,334
In the second to fifth years, inclusive	—	549
	825	1,883

(b) Capital commitments

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

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Contracted, but not provided for	176,292	243,379

(c) Investment commitments

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

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Contracted, but not provided for	71,000	182,000

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (cont'd)

For the six months ended 30 June 2013

21. RELATED PARTY TRANSACTIONS

(a) The Group had the following material transactions with related parties during the reporting period:

Name of related party	Description	For the six months ended **30 June 2013 RMB'000 (Unaudited)**	 30 June 2012 RMB'000 (Unaudited)
Shengli Steel Pipe Co., Ltd. ("Shengli Steel Pipe")* (note (i))	Rental expense	**4,055**	4,055
Prodigy Dome Integration Housing Manufacturing (Shandong) Co., Ltd.# (note (ii)) (普帝龍哆咪集成房屋製造(山東)有限公司)	Rental income	**3,177**	—
	Proceeds from disposal of property, plant and equipment	**14,636**	—
	Interest income	**184**	—

Notes:

(i) A company jointly controlled by a director of the Company

(ii) A wholly owned subsidiary of Dome Integration Housing Industrial Holding Co. Ltd., a joint venture of the Group

The English name is for identification only

The rental expenses paid to Shengli Steel Pipe constitutes continuing connected transactions as defined in Chapter 14A of the Listing Rules.

(b) Balances with related parties

Other than disclosed elsewhere in the unaudited condensed consolidated financial statements, the Group has the balances representing prepayment for renting premises with the following related party as at the end of the reporting period:

	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
Other assets:		
— Shengli Steel Pipe	**3,059**	7,114

Notes to the Interim Condensed Consolidated Financial Statements (Unaudited) (cont'd)

For the six months ended 30 June 2013

21. RELATED PARTY TRANSACTIONS (continued)

(c) Key management compensation

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

	For the six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fees	**650**	671
Salaries, allowances and other benefits in kind	**3,382**	3,073
Social security contributions	**49**	75
Equity-settled share option expense	**436**	1,982
	4,517	5,801

22. APPROVAL OF THE INTERIM FINANCIAL STATEMENTS

These interim condensed consolidated financial statements were approved and authorized for issue by the Board of Directors on 30 August 2013.