



THE STOCK EXCHANGE OF HONG KONG LIMITED
(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)
(the “Exchange”)

29 November 2012

The Listing Committee of The Stock Exchange of Hong Kong Limited (the “Listing Committee”) censures:

- (1) Shengli Oil & Gas Pipe Holdings Limited (the “Company”) (Stock Code:1080) for its breach of Rule 13.09 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Exchange Listing Rules”);**
- (2) Mr Zhang Bi Zhuang, an executive director of the Company (“Mr Zhang”) for breaching his obligations under the Declaration and Undertaking with regard to Directors given to the Exchange in the form set out in Appendix 5 Form B to the Exchange Listing Rules by failing to use best endeavours to procure the Company’s compliance with the Exchange Listing Rules (the “Director’s Undertaking”);**
- (3) Ms Han Ai Zhi, an executive director of the Company (“Ms Han”) for her breach of the Director’s Undertaking; and**
- (4) Mr Wang Xu, a former executive director of the Company (“Mr Wang”), resigned on 9 August 2012, for his breach of the Director’s Undertaking.**

The Listing Committee further criticises:

- (5) Mr Guo Chang Yu, an independent non-executive director of the Company (“Mr Guo”); and**
- (6) Mr Huo Chun Yong, a former independent non-executive director of the Company (“Mr Huo”), resigned on 9 August 2012,**

for their breach of the Director’s Undertakings.

(Mr Zhang, Ms Han, Mr Wang, Mr Guo and Mr Huo, together the “Directors”)

On 30 October 2012, the Listing Committee conducted a hearing into the conduct of the Company and the Directors in relation to their obligations under the Exchange Listing Rules and the Director’s Undertakings.

Facts

The Company's shares were listed on the Exchange on 18 December 2009. Its prospectus of 9 December 2009 contained a profit forecast for FY2009 (ending 31 December 2009) of no less than RMB330 million. The Company's FY2009 results announced on 16 April 2010 reported RMB335.88 million net profit meeting the profit forecast.

Since the first month in the six month period ended 30 June 2010 (the "**Interim Period**"), the Company's monthly management accounts of the three main operating subsidiaries prepared on PRC GAAP ("**Monthly Accounts**") circulated to Mr Zhang had been recording a significant drop in turnover and net profit compared to the corresponding period in FY2009.

10 April 2010

On 10 April 2010, the Monthly Accounts for the three months to 31 March 2010 were circulated to Mr Zhang. Year-to-Date turnover and net profit was RMB39.4 million and RMB4.4 million, representing a respective 96 per cent and 93 per cent drop compared to the corresponding period in FY2009. In March 2010, the Company had also been informed by its major customer that projects expected to commence in first quarter of 2010 were delayed and might be postponed to May/June 2010. On the other hand, analyst reports in the market at the time estimated the Company's first half of 2010 net profit to be RMB182.68 million.

21 April 2010

On 21 April 2010, the Company published a Rule 13.09 announcement regarding delay in production capacity expansion but did not disclose the significant deterioration in the Company's performance since the beginning of the Interim Period (the "**21 April Announcement**"). On 22 April 2010, an analyst report was published which continued to give a robust profit estimate of \$210 million for first half of 2010. However, at the time, as known to Mr Zhang, there had been significant deterioration in the Company's performance.

10 May 2010

On 10 May 2010, the Monthly Accounts for the four months to 30 April 2010 were circulated to Mr Zhang. Year-to-Date turnover and net profit was RMB145.29 million and RMB18.37 million representing a respective 86.36 per cent and 76.41 per cent drop compared to the corresponding period in FY2009. The Company had yet to receive any orders from the expected projects, the commencement date of which was still uncertain.

10 June 2010

On 10 June 2010, the Monthly Accounts for five months to 31 May 2010 were circulated to Mr Zhang. Year-to-Date turnover and net profit was RMB314.08 million and RMB38.1 million respectively, representing a respective 80.64 per cent and 67.85 per cent drop compared to the corresponding period in FY2009. There was no indication that the expected projects might commence before the Interim Period end.

18 June 2010

On 18 June 2010 a board meeting was held attended by Mr Zhang and other directors of the Company (“**June Board Meeting**”). The Group’s first quarter of 2010 Results (to 31 March 2010), prepared under International Financial Reporting Standards (IFRS), were presented. They recorded a 66 per cent and 47 per cent drop in turnover and net profit compared to first quarter of 2009.

Mr Zhang also had with him a profit and loss statement of Shandong Shengli Steel Pipe Co., Ltd. (“**Shandong Shengli**”) (the Company’s top operating subsidiary whose performance, according to the Company, was highly representative of the Group’s performance). The document captured actual performance in the five months to 31 May 2010 and June 2010 estimated figures, also prepared under IFRS. On this basis, Shandong Shengli’s estimated first half of 2010 turnover and net profit were RMB656 million and RMB84.6 million respectively, representing a respective drop of 63 per cent and 41 per cent compared to the Company’s 2009 Interim Results as published.

Equipped with such information and in response to other directors’ enquiries as to the estimated first half of 2010 results and whether a profit warning would be required, Mr Zhang informed the other directors that the Group’s estimated profit for the Interim Period would be approximately RMB100 million and that on this basis, no profit warning was required at that point in time.

10 July 2010

On 10 July 2010, the Monthly Accounts for six months to 30 June 2010 were circulated to Mr Zhang. Year-to-Date turnover and net profit was RMB443.37 million and RMB49.69 million respectively, representing a respective 75.55 per cent and 66.82 per cent drop compared to the corresponding period in FY2009. On the other hand, an analyst report published on 23 June 2010 estimated the Company’s first half of 2010 net profit to be RMB217 million.

23 July 2010

The Company published a profit warning announcement (“**PWA**”) on 23 July 2010 after trading hours, disclosing that the Group’s net profit for the Interim Period might decrease by approximately 50 per cent compared to first half of 2009, mainly due to tightening measures adopted by the PRC Government which had led to delays in the commencement of construction of a number of major national oil and gas pipelines in the PRC.

On the next trading day, 26 July, the closing price of the Company’s shares dropped to \$1.7, approximately 16.7 per cent down from \$2.04 on 23 July. Trading volume was 77,521,000, 3.67 times the 10-day average. On 27 July, the Company’s closing share price further dropped to \$1.61, representing a cumulative decrease of 21.1 per cent from the closing price of \$2.04 on 23 July.

On 20 August 2010, the Company announced its 2010 Interim Results reporting RMB449.69 million turnover and RMB69.33 million net profit, a respective 64.2 per cent and 52 per cent decline compared to first half of 2009.

Listing Rule requirements

Rule 13.09 requires issuers to disclose, as soon as reasonably practicable, any information which (a) is necessary to enable shareholders and the public to appraise the position of the group; (b) is necessary to avoid the establishment of a false market in the Company's securities; or (c) which might be reasonably expected materially to affect market activity in and the price of its securities.

Note 11(ii) to Rule 13.09 further elaborates that the obligation must be discharged without delay where there is such a change in the Company's financial condition or the performance of its business or the expectation of its performance that knowledge of the change is likely to lead to substantial price movement.

Findings of breach by the Listing Committee

The Listing Committee considered the written and oral submissions of the Listing Division, the Company and the Directors and concluded as follows:

Breach of Rule 13.09

- (1) The significant deterioration in the Group's business and financial performance during the Interim Period as reflected in the Monthly Accounts described above (a) was information necessary to enable shareholders and the public to appraise the position of the Company and (b) might be reasonably expected materially to affect market activity in and the price of the Company's shares. It was therefore discloseable as soon as reasonably practicable under Rule 13.09. Such degree of performance deterioration was also a change in the Company's business and financial performance which was likely to lead to substantial price movement, and was therefore discloseable without delay under Note 11(ii) to Rule 13.09.
- (2) The Company's obligation to publish an announcement disclosing the performance deterioration arose on 10 April 2010, when Mr Zhang had in his possession the first quarter of 2010 Monthly Accounts which reported a 96 per cent drop in profit and 93 per cent drop in turnover compared to the corresponding period in first quarter of 2009. Analyst reports published at the time estimated the Company's net profit for the Interim Period to be RMB182.68 million. In fact, the Company's profit for first quarter of 2010 was only RMB4.45 million. The Company had also been informed that projects which were expected to commence in February 2010 might be postponed to May/June 2010.
- (3) Further or in the alternative, the disclosure obligation arose:
 - (a) on 21 April 2010, as the Company published the 21 April Announcement regarding delays in production capacity expansion. It was obliged to disclose all price sensitive information it was aware of at the time, including the significant deterioration in the Company's performance in the course of the Interim Period;
 - (b) shortly after 21 April 2010, as Macquarie's report published on 22 April 2010 taking into account the 21 April Announcement still gave a robust profit estimate for the Interim Period of \$210 million;

- (c) on 10 May 2010, when Mr Zhang had in his possession the April Monthly Accounts which reported Year-to-Date turnover and net profit of RMB145.28 million and RMB18.36 million respectively, representing a respective 86 per cent and 76 per cent drop compared to the corresponding period in FY2009; and no order had been received for the Company's supply of pipelines and services for the expected projects;
 - (d) on 10 June 2010, when Mr Zhang was provided with the May Monthly Accounts which showed that the Company's financial/business performance had not improved, with Year-to-Date turnover and net profit respectively 80 per cent and 67 per cent below the corresponding period in FY2009; and with no indication that any of the expected projects would commence in June 2010, it was not credible to expect that performance would improve in June 2010 to produce similar if not better results in first half of 2010 compared to first half of 2009;
 - (e) on 18 June 2010, when the Group's first quarter of 2010 results (prepared on IFRS basis) reported turnover and profit drop of 66 per cent and 47 per cent respectively; and estimated first half of 2010 turnover and profit were respectively 63 per cent and 41 per cent below the first half of 2009 results; or
 - (f) on 10 July 2010 when Mr Zhang was provided with the June Monthly Accounts which reported a Year-to-Date turnover and net profit drop of 75 per cent and 66 per cent compared to the corresponding period in FY2009.
- (4) Publication by the Company of the PWA on 23 July 2010 was not publication "*as soon as reasonably practicable*" and "*without delay*". The Company therefore breached Rule 13.09 and Note 11(ii) to Rule 13.09.

Inadequate Internal Controls

- (5) The Listing Committee was of the view that the Company's internal controls (at the relevant time and currently) might not have been adequate and effective to ensure the Company's Exchange Listing Rule compliance.

Breach of the Director's Undertaking by Mr Zhang

- (6) The Listing Committee found that Mr Zhang breached his Director's Undertaking to use his best endeavours to ensure the Company's compliance with the Exchange Listing Rules. He was the only Director circulated with the Monthly Accounts. Given Mr Zhang's actual knowledge of the Company's financial and business performance reflected from the Monthly Accounts circulated to him, he had clear responsibility to closely and carefully monitor the Company's business and financial performance in order to consider and assess the Company's Rule 13.09 obligations and escalate the issue to the Board for consideration.

- (7) In the course of the Interim Period, especially since 10 April 2010 after receipt of the Monthly Accounts for March 2010, the Listing Committee was of the view that a prudent director in his position using his “*best endeavours*” would have:
- (a) brought the significant performance deterioration to the attention of the Board to enable the Board to discuss the Company’s operational and performance issues as well as any Rule compliance issues arising from the performance deterioration;
 - (b) proactively liaised or caused the Company to liaise with its customers as to the expected projects, kept the Board informed of the communication, and discussed with the Board its likely impact on the Company’s performance in the Interim Period and FY2010 and any rule implications arising from it;
 - (c) provided more detailed information in his possession to the other Directors in relation to the estimated first half of 2010 profit of RMB100 million either before or after the June Board Meeting to enable the other Directors to make an informed evaluation of the need for a possible PWA at or after the meeting;
 - (d) kept the other Directors informed of the Company’s business performance after the June Board Meeting to enable the Board to make an informed evaluation of the need for a PWA;
 - (e) taken steps to verify the estimated first half of 2010 results shortly after 18 June 2010, arranged to expedite the preparation of the first half of 2010 results and followed up, reviewed and discussed with the other Directors as to whether a PWA was required; and
 - (f) procured the Company to consult the Exchange and/or professional advisers as to the Company’s Rule 13.09 disclosure obligation arising from the performance change in the course of first half of 2010 much earlier than mid July 2010, when the Company sought advice from its Compliance Adviser and legal adviser.
- (8) There was no submission or evidence that Mr Zhang took any of the steps outlined above. His conduct was inconsistent with using his best endeavours to ensure the Company’s Exchange Listing Rule compliance.

Breach of the Director’s Undertakings by Ms Han and Mr Wang

- (9) The Listing Committee found that Ms Han and Mr Wang breached their Director’s Undertakings to use their best endeavours to ensure the Company’s compliance with the Exchange Listing Rules. Mr Wang and Ms Han were regularly kept informed by Mr Zhang of the Company’s business and financial performance during informal management meetings held. They were therefore aware of the significant performance deterioration, albeit perhaps later in time than Mr Zhang. Mr Wang was also aware of the delay in the expected projects, information of which he relayed to Mr Zhang and Ms Han.

- (10) In the course of the Interim Period, especially since being informed of the delay in the Three Projects in March 2010, the Listing Committee was of the view that prudent directors in their position using their “*best endeavours*” would have:
- (a) taken steps to ascertain whether the Company’s business and financial performance during the Interim Period might be or might have been adversely affected by the delays of the expected projects, and what if any compliance issues might arise;
 - (b) taken the same steps as set out in paragraphs 7(a), (b), (d), (e) and (f) above.
- (11) There was no submission or evidence that Ms Han and Mr Wang took any of the steps outlined above. Their conduct was inconsistent with using their best endeavours to ensure the Company’s Exchange Listing Rule compliance.

Breach of the Director’s Undertakings by Mr Guo and Mr Huo

- (12) The Listing Committee found that Mr Guo and Mr Huo breached their Director’s Undertakings to use their best endeavours to ensure the Company’s compliance with the Exchange Listing Rules. Mr Guo and Mr Huo were not involved in the Company’s daily operations and were not circulated with the Monthly Accounts. They did not attend the June Board Meeting. They became aware of the Company’s performance deterioration on 23 July 2010.
- (13) The Listing Committee was of the view that prudent directors in their position using their “*best endeavours*” would have:
- (a) enquired about and discussed with the Board any compliance issues arising out of the matter discussed at the June Board Meeting; and proactively ensured they were kept updated as to the Company’s operations and management;
 - (b) ensured they were aware of the general picture of how the Company’s business had been performing given they were board members (and in the case of Mr Huo, also an Audit Committee member); and
 - (c) taken the same steps as set out in paragraphs 7(e) and (f) above.
- (14) There was no submission or evidence that Mr Guo and Mr Huo took any of the steps outlined above. Their conduct was inconsistent with using their best endeavours to ensure the Company’s Exchange Listing Rule compliance.

Conduct giving rise to regulatory concern

The Hong Kong securities market is disclosure based. Investors and shareholders rely on information in the public domain to make their investment decisions. Timely disclosure by listed issuers of relevant information of their financial performance is thus crucial to enable shareholders and investors to make informed investment decisions. The Listing Committee strongly disapproves of the conduct of the Company and expresses particular concern that:

- (1) The Company was listed on the Exchange on 18 December 2009. Since the beginning of 2010, the Monthly Accounts had reported a significant deterioration in the Company's business and financial performance. The drop in turnover and net profit manifested in the Monthly Accounts during the Interim Period were respectively in the region of 75 to 98 per cent and 62 to 98 per cent compared to the corresponding period in FY2009. This was substantial and persistent.
- (2) Analyst reports published from January to April 2010 projected robust performance in the Interim Period. Despite the 21 April Announcement which disclosed a delay in capacity expansion, analyst reports published continued to expect a positive performance from the Company in the Interim Period.
- (3) Unbeknown to the market, by April 2010, the Company already had information to suggest its performance in the Interim Period would be significantly below market expectations. By then, the Company had also been informed that the projects which were expected to commence during the Interim Period from which significant revenue was to be derived had been delayed with no estimated commencement day.
- (4) During the Interim Period, many investment houses were closely tracking the Company and frequently publishing reports commenting on its expected performance during FY2010. Had the Company monitored its share price and any news, comments or reports relating to them circulated in the market, it should have been clear that its performance was significantly below market expectations.
- (5) The Company also had frequent briefings and conferences with investment houses in the Interim Period. The Company had ample opportunity to correct market misperception as to the overall trends in its business, but did not do so. The message the Company gave was that demand for pipelines remained strong and that performance was unchanged.
- (6) There was a substantial delay of up to 15 weeks in publishing the PWA on 23 July 2010, which ought to have been announced on or shortly after 10 April 2010. Those investors and shareholders of the Company who traded in the Company's shares between 10 April and 23 July 2010 did so on an uninformed basis. They had been prejudiced by the non-disclosure of the significant deterioration in the Company's business/financial performance during the Interim Period.

The breach of the Director's Undertakings by Mr Zhang, Mr Wang and Ms Han were serious, warranting public sanctions. Having knowledge of the Company's performance deterioration at all material times in the Interim Period, they failed to ensure timely publication of the Rule 13.09 Announcement to inform the market of the information.

Mr Guo and Mr Huo did not proactively ensure they were aware of the general picture of how the Company's business had been performing, enquire about the matter discussed at the June Board Meeting, or consider and discuss with the Board any compliance issues arising from the information obtained. Their respective breaches of the Director's Undertakings were also serious, warranting public sanctions. However their level of culpability was less than the three executive directors, given the differences in their roles in the Company's operations.

The Listing Committee considered that the breaches also called for directions to be made to ensure the Company and the Directors have advice and assistance from external professional advisers on Rule 13.09 related matters, and that the Directors receive training on corporate governance matters.

Sanctions

Having made the findings of breach stated above, and having concluded that the breaches were serious, the Listing Committee decided to:

- (1) censure the Company for its breach of Rule 13.09;
- (2) censure Mr Zhang, Ms Han and Mr Wang for their respective breaches of the Director's Undertakings; and
- (3) criticise Mr Guo and Mr Huo for their respective breaches of the Director's Undertakings.

Further, the Listing Committee directed as follows:

- (1) that the Company:
 - (a) retain an independent professional adviser satisfactory to the Listing Division (the "**Adviser**") to conduct a thorough review of and make recommendations to improve the Company's internal controls to ensure compliance with Rule 13.09 within two weeks from the date of publication of this News Release; and provide the Listing Division with the written report of the Adviser containing such recommendations within two months from the publication of the News Release. The Company is to submit the proposed scope of retainer to the Listing Division for comment before appointment of the Adviser;
 - (b) furnish the Listing Division with the Adviser's written report on the Company's full implementation of the Adviser's recommendations within a further period of two months; and

- (c) appoint an independent professional adviser satisfactory to the Listing Division on an ongoing basis for consultation on compliance with the Exchange Listing Rules (the “**Compliance Adviser**”) for a period for two years within two weeks from the publication of the News Release. The Company is to submit the proposed scope of retainer to the Listing Division for comment before appointment of the Compliance Adviser. The Compliance Adviser shall be accountable to the Audit Committee of the Company.
- (2) Each of Mr Zhang, Ms Han and Mr Guo, who are current directors of the Company, is to attend 24 hours of training covering eight core topics together with four hours on continuing obligations provided by Hong Kong Institute of Chartered Secretaries, Hong Kong Institute of Directors or other course providers approved by the Listing Division, to be completed within 180 days from the publication of this News Release. The Company is to provide the Listing Division with the training provider’s written certification of full compliance with this training requirement by these directors within two weeks after their full compliance with the training requirement.
- (3) as a pre-requisite of any future appointment as a director of any company listed on the Exchange, Mr Wang and Mr Huo (who are no longer directors of the Company) are to attend 24 hours of training covering eight core topics together with four hours on continuing obligations provided by Hong Kong Institute of Chartered Secretaries, Hong Kong Institute of Directors or other course providers approved by the Listing Division, to be completed before the effective date of any such appointment. These Directors are to provide the Listing Division with evidence satisfactory to the Listing Division of full compliance with this training requirement upon the Listing Division’s request.
- (4) The Company is to publish an announcement to confirm that each of the directions in paragraphs (1) to (2) above has been fully complied with within one week after the respective fulfillment of each of those directions. The last announcement required to be published under this requirement is to include the confirmation that all directions in paragraphs (1) to (2) above have been complied with.
- (5) The Company is to submit drafts of the announcements referred to in paragraph (4) above for the Listing Division’s comment and may only publish the announcements after the Listing Division has confirmed it has no further comment on them.

For the avoidance of doubt, the Exchange confirms that the above public censure and public statement which involves criticism apply only to the Company and the Directors identified above and not to any other past or present members of the Board of Directors.