MANAGEMENT DISCUSSION AND ANALYSIS OF THE TRADING RECORD

Investors should read the following discussion and analysis in conjunction with the audited financial statements of the Company, including notes thereto, as set forth in Appendix I "Accountants' report" to this prospectus. The financial statements have been prepared in accordance with IFRS.

Overview of the Company's operations

The Company was ranked seventh among oil well pipe manufacturers in China in terms of output for 2005 and it was also one of the largest oil well pipe manufacturers in China for 2005. The Company has more than 13 years of experience in manufacturing specialized seamless pipe and is principally engaged in the design, production and sales of oil well (mainly oil transfer pipes and casing pipes etc.) and petrochemical pipes, as well as other specialized seamless pipes including vessel pipes and boiler pipes. Major customers of the Company are various major oil fields and trading companies which supplied oil well pipe products, large ship-building, petrochemical companies and boiler manufacturing enterprises.

The Company has been engaged in the design and manufacture of specialized seamless pipes since 1993 thereby giving it a strong capability and substantial expertise in specialized seamless pipe manufacturing. As part of its ongoing review of corporate strategies and in light of market conditions in 2000, the Company devoted its focus to enhancing its profitability by increasing sales of higher margin products. As a consequence, the Company focused on the production of oil well pipes in light of strong demand and higher profit margins for such specialized seamless pipe products. In the process of its research and development, the Company was also accredited with the quality control management certificate ISO 9001. Between 2002 and 2004, the Company focused on the planning for the establishment of its oil well pipe production line. The Company's hot-rolled oil well pipe production line in Chuzhou was established at the end of 2004 and it then began production of oil well pipes in January 2005. Significant sales of oil well pipes began in 2005.

The Company intends to focus on selling its products to meet the domestic demand as well as expanding its overseas market when suitable opportunities arise. The Company's cost of sales remained at approximately 86.3%, 84.1% and 81.8% of its turnover for the two years ended 31 December 2005 and the six months ended 30 June 2006 respectively despite the significant fluctuations in the price of steel billets over the same period. The decrease in cost of sales as a percentage of turnover is due in part to the fact that the Company has been able to pass most of the increased production costs onto its customers and, at the same time, increased efficiencies in its production process which reduced production costs. Furthermore, the Company had modified its product mix to include higher margin oil well pipes. Lower cost of sales for the six months ended 30 June 2006 can also be attributable to the inventory of raw materials (mainly steel billets) which had been purchased in March 2006 when costs for such raw materials were relatively low.

BASIS OF PRESENTATION

The following financial information is prepared as if the Company's structure as at the date of this prospectus had been in existence throughout the two years ended 31 December 2005 and the six months ended 30 June 2006, or from the respective dates of establishment or incorporation of the Company or its predecessor.

The financial information set out in this report, including the income statements, statements of changes in equity and cash flow statements for the Track Record Period and the balance sheets of the Company as at 31 December 2004 and 2005 and 30 June 2006, has been prepared based on the audited financial statements and, where appropriate, management accounts of the Company, after making such adjustments as appropriate to comply with IFRS.

Critical Accounting Policies

The methods, estimates and judgements the Directors use in applying the Company's accounting policies have a significant impact on the Company's operating results. Some of the accounting policies require the Company to make difficult and subjective judgements, often as a result of the need to make estimates of matters that are inherently uncertain. Below is a summary of the accounting policies that the Directors believe are both important to the presentation of the Company's financial results and involve a need to make estimates about the effect of matters that are inherently uncertain. The Company also has other policies that the Directors consider to be key accounting policies. However, since these policies do not generally require the Directors to make estimates or judgements that are difficult or subjective, they are not discussed below.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before the revenue is recognised. For sales, revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. For interest income, revenue is recognised on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

Depreciation, amortisation and valuation of fixed assets

The recorded value of fixed assets are affected by a number of management estimates, including estimated useful lives, residual values and impairment charges. The Directors assess the need for any impairment write-down only if information indicates that an impairment might exist. Such information may include a significant decrease in market value or a significant deterioration of market conditions such that the carrying value of fixed assets may not be recovered through future cash flows. The Company did not record any impairment charge on fixed assets in the two years ended 31 December 2005 and the six months ended 30 June 2006.

Inventories

Inventories are recorded at cost when acquired and stated at the lower of cost or net realisable value at the balance sheet date. Net realisable value is determined on the basis of anticipated sales proceeds less estimated distribution expenses. Cost, calculated on a weighted average basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure.

The Directors estimate the net realisable value for such finished goods and work-in-progress based primarily on the latest invoice prices and current market conditions. The management carries out an inventory review on a product-by-product basis at each year-end and makes adequate provision for spare parts and raw materials which are confirmed to be irrelevant for production. The provisions are recorded as expenses in the year which they are identified.

Trade receivable and provision for bad and doubtful debts

The provision for bad and doubtful debts is provided based on the evaluation of collectibility and aging analysis of accounts and management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer. If the financial condition of the Company's customers were to deteriorate, resulting in an impairment of their ability to make payments, additional provision may be required.

Statutory surplus reserve and statutory reserve fund

In accordance with the Company Law of the PRC and the Articles of Association, the Company is required to allocate 10% of their profit after tax, as determined in accordance with PRC GAAP, to the statutory surplus reserve ("SSR") until such reserve reaches 50% of the registered capital of the Company. SSR is non-distributable other than in the event of liquidation and, subject to certain restrictions set out in the relevant PRC regulations, can be used to offset accumulated losses or be capitalised as paid-in capital.

Statutory public welfare fund

According to the paper issued by the Ministry of Finance on 15 March 2006 (Cai Zhi [2006] No. 67), "enterprises established pursuant to the Company Law that conducts profit appropriation in accordance with Article 167 of the Company Law shall cease to allocate profit to statutory public welfare fund with effect from 1 January 2006. At the same time, in order to maintain the consistency in financial policies among enterprises, both state-owned enterprises and other enterprises shall cease to follow the public welfare fund system. The balance in public welfare funds as at 31 December 2005 for enterprises shall be transferred to general surplus reserve funds for administration and application." Hence, the Company has ceased transfer of funds to public welfare fund.

Taxes

No provision for Hong Kong profits tax has been made as the Company had no assessable profits arising in Hong Kong during the two years ended 31 December 2005 and the six months ended 2006.

The applicable income tax rate of the Company in the PRC was 33% for the years ended 31 December 2004, 2005 and the six months ended 2006.

TRADING RECORD

The table below summarises the audited results of the Company for each of the two years ended 31 December 2005, the six months ended 30 June 2006 and the unaudited results for the six months ended 30 June 2005. The audited results should be read in conjunction with the accountants' report, the text of which is set out in Appendix I to this prospectus.

Income Statement

	Year ended 31 December		**Six months ended 30 June**	
	2004	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Revenue	333,645	906,590	390,603	596,129
Cost of sales	(288,053)	(762,409)	(335,863)	(487,883)
Gross profit	45,592	144,181	54,740	108,246
Other income	1	8	–	523
Selling and distribution costs	(8,162)	(24,249)	(10,119)	(19,440)
Administrative expenses	(10,198)	(19,506)	(9,601)	(6,370)
Other expenses	(25)	(279)	(155)	(370)
Finance revenue	217	2,290	514	1,588
Finance costs	(2,810)	(6,163)	(3,391)	(3,092)
Share of loss of an associate	(16)	(17)	(1)	(23)
Profit before income tax	24,599	96,265	31,987	81,062
Income tax income/(expense)	49,501	(24,391)	(11,637)	(27,640)
Profit attributable to the equity holders	74,100	71,874	20,350	53,422
Earnings per share – basic *(Note)*	RMB0.93	RMB0.26	RMB0.08	RMB0.16

Note: The calculation of basic earnings per share are based on the net profit for the year/period attributable to ordinary equity holders and the weighted average number of Domestic Shares outstanding during the Track Record Period. The weighted average number of Domestic Shares for the years ended 31 December 2004, 2005 and six-month periods ended 30 June 2005 and 2006 are 80,000,000, 273,590,000, 250,166,000 and 340,000,000, respectively which are calculated as if the subdivision of the Company's Domestic Shares from one share of nominal value of RMB1.00 each into two Domestic Shares of RMB0.50 each, as described more fully in the paragraph headed "Statutory and General Information" in Appendix VIII to the Prospectus, had been in issue throughout the Track Record Period.

Diluted earnings per share amounts for the Track Record Period have not been calculated as there were no diluting events during the Track Record Period.

Factors affecting the Company's results of operations and financial condition

The Company's results of operations and financial condition have been and will continue to be affected by a number of factors, including those set out below.

I. Oil and Gas Exploration Activity

In light of global economic growth, increases in global consumption of energy as well as prices of crude oil, most countries have increased their investment in the exploration for oil and gas. For the drilling of oil wells, oil well pipes are key to the petroleum extraction equipment and as such, the increased oil exploration activities will serve to drive a strong demand for high quality oil well pipes.

The Company's products are mainly used in oil and natural gas exploration activities. As the utilization of oil and natural gas in the world has grown as a whole, global oil prices have remained at a relatively high level. High oil prices have stimulated rapid growth in the production of each oil well and the number of producing wells of petroleum enterprises. This has led to a corresponding increase in the demand for oil well pipes. As a result, the Company has benefited from such increased market demand and has experienced significant growth in profitability since it commenced sales of oil well pipes in 2005. The Company believes it is well positioned to capture the expected growth in the oil and natural gas industry, particularly in China.

II. Commencement of the oil well pipe production line and production capacity

In response to market demand and market trends, the Company completed its establishment of an oil well pipe production line in Chuzhou in 2004 and also began production in January 2005. This new production line was to effectively cater for the customers in the oil and natural gas industry and to meet their demand for oil well pipes. The capital expenditure on the oil well pipe production line was approximately RMB123 million in 2004 and sales of oil well pipes commenced in 2005 with the then production capability of 150,000 tonnes.

In general, the Company believes that the increase in production capacities and utilization rates will have a positive impact on its profitability and business prospects. The following table indicates the production capacities and the utilization rates for the year ended 31 December 2005 and the six months ended 30 June 2006.

	2004	**2005**	**30 June 2006** (half year statistics)	**30 September 2006** (9 months statistics)
Designed Production Capacity ('000 tonnes)	25	200	150*	225*
Production Volume ('000 tonnes)	25.3	135	92.3	149.3
Utilization Rate	>100%	67.5%	61.5%	66.4%

* The designed production capacity for the six months ended 30 June 2006 is derived, for illustration purposes only, by way of dividing the 2006 annual production of 300,000 tonnes capacity by 2. Similarly the production capacity for the nine months ended 30 September 2006 is illustrated by pro rating three quarters of the 2006 annual production capacity.

The above utilisation rates are for reference only and are calculated by dividing production volume by designed production capacity. The utilization rate was greater than 100% in 2004 as the Company enhanced the production equipment beyond the original designed capacity via technological upgrades. The utilization rate decreased to 67.5% in 2005 because the Company just commenced production of oil well pipes and various factors affected the optimal production. These included the experience of the employees in operating various parts of the new production line and calibrating the various technological parameters of the production line. Utilisation rates for the first six months ended 30 June 2006 had declined when compared to 2005. This was attributable to both the production technology upgrades in the Chuzhou production line (increased capacity of which cannot be utilised at the optimal level at the time) and the Tianchang new production line implemented in the first half of 2006 and which would only contribute to increased production in the second half of 2006. As at the Latest Practicable Date, the Company's designed capacity was 300,000 tonnes, while its expected output in 2006 will be 210,000 tonnes, representing a utilization rate of approximately 70%. This would also indicate an increase in production from approximately 135,000 tonnes for the full year of 2005. The actual production volume for the nine months up to 30 September 2006 is approximately 149,300 tonnes. The indicative production levels for 2006 are for reference only and there is no assurance that it will be met. For further information about the Company's production capacity, please see the section headed "Business" in this prospectus.

III. Product Mix

Product mix refers to the proportion of sales volume among the Company's two major product categories, namely oil well and petrochemical pipes and other specialized seamless pipes. Product mix is critical to the Company's success as the ability to increase sales of products with higher margins would enhance its overall profitability.

The Company has made continuous efforts to increase profitability by selling higher margin products. With strong technology know-how and long-established industry knowledge, the Company is able to adjust its product mix to meet the changing needs of customers' preference. The Company's flexibility and responsiveness to market demand was reflected by its emphasis on the production of oil well pipes in 2005. In response to the expected long-term growth in the oil and gas industry brought about by strong demand for petroleum and increasing oil prices, the Company focused on the production of oil well pipes in 2005. As at the Latest Practicable Date, in addition to both oil well pipes (including oil transfer pipes and casing pipes) and petrochemical pipes which generate higher profit margins, the Company kept on manufacturing and selling vessel pipes, high pressure boiler pipes and other specialized seamless pipes.

For each of the two years ended 31 December 2005 and the six months ended 30 June 2006, sales of the oil well pipes and petrochemical pipes accounted for approximately 22.5%, 60.3% and 63.7% of the Company's turnover. The Company's sales of other specialized seamless pipes for the two years ended 31 December 2005 and the six months ended 30 June 2006 represented approximately 77.5%, 39.7% and 36.3% of the Company's total turnover.

The following table sets out the sales breakdown of the Company in the two years ended 31 December 2005 and the six months ended 30 June 2005 (unaudited) and 30 June 2006:

	Year ended 31 December					
	2004			2005		
	Tonnes	*RMB '000*	*% of sales*	*Tonnes*	*RMB '000*	*% of sales*
Self-produced						
Oil well pipes	255.5	2,255	0.7%	94,063.1	469,529	51.8%
Petrochemical pipes	5,594.7	37,671	11.3%	6,642.7	44,868	4.9%
Other specialized seamless pipes	17,266.1	110,913	33.2%	27,804.6	161,120	17.8%
Sub-total	23,116.3	150,839	45.2%	128,510.4	675,517	74.5%
Sourcing and distribution						
Oil well pipes	607.6	3,240	1.0%	–	–	–
Petrochemical pipes	5,297.5	31,726	9.5%	5,334.1	33,020	3.6%
Other specialized seamless pipes	24,765.7	147,840	44.3%	31,315.3	198,053	21.9%
Sub-total	30,670.8	182,806	54.8%	36,649.4	231,073	25.5%
Total	53,787.1	333,645	100%	165,159.8	906,590	100%

	Six months ended 30 June					
	2005			2006		
	Tonnes	*RMB '000 (unaudited)*	*% of sales*	*Tonnes*	*RMB '000*	*% of sales*
Self-produced						
Oil well pipes	37,417.4	177,004	45.3%	67,878.4	338,386	56.8%
Petrochemical pipes	3,209.8	20,631	5.3%	4,041.9	25,255	4.2%
Other specialized seamless pipes	14,022.6	81,207	20.8%	17,936.3	99,637	16.7%
Sub-total	54,649.8	278,842	71.4%	89,856.6	463,278	77.7%
Sourcing and distribution						
Oil well pipes	–	–	–	–	–	–
Petrochemical pipes	3,103.8	19,833	5.1%	2,709.4	16,286	2.7%
Other specialized seamless pipes	16,181.7	91,928	23.5%	21,810.4	116,565	19.6%
Sub-total	19,285.5	111,761	28.6%	24,519.8	132,851	22.3%
Total	73,935.3	390,603	100%	114,376.4	596,129	100%

In 2004, there was small scale manufacturing of oil well pipes in Tianchang plant produced by using cold-drawn technology. In 2005, production of oil well pipes using hot-rolled technology commenced in the Company's Chuzhou plant. Although the Chuzhou oil well pipe production line came into operation in 2005, there was a production period in 2005 during which production was not optimum. As such the percentage of sales attributable to self-produced oil well pipes to the Company's total turnover continued to increase throughout the Track Record Period. As the proportion of sales for self-produced specialized seamless pipes increases, the proportion for sourcing and distribution decreases correspondingly.

IV. Pricing of the Company's Products

Market forces of supply and demand generally determine the pricing of the Company's products. During the two years ended 31 December 2005 and the six months ended 30 June 2006, most of the Company's products were sold in the domestic market in China. A majority of the Company's customers have entered into annual framework agreements with the Company with indications of the total quantities to be purchased in the forthcoming year. However, actual prices, being the prevailing market price, and quantities are specified in their monthly purchase orders. Fluctuations in raw material prices have affected and will continue to affect the Company's pricing policy. Nevertheless, the Directors believe that the Company will continue to be able to pass on the fluctuations in the cost of raw materials to customers, as it has successfully done so in the past. Similar arrangements are made with both the suppliers and the customers whereby there is flexibility for the Company to change its indicative selling price to its customers as a result of the increase in the price of raw materials. The average selling price for each product spans a range, depending on whether the product is self-produced or purchased as part of its sourcing and distribution businesses or the differences in cost of sales depending on product specification even within the same category.

V. *Cost of Sales*

The Company's costs of sales principally comprise steel costs, fuel, utilities, depreciation, staff costs and repair charges.

The tables below sets out the breakdown of its costs of sales of self produced pipes during the two years ended 31 December 2005 and the six months ended 30 June 2005 (unaudited) and 30 June 2006 indicated:

	Year ended 31 December				Six months ended 30 June			
	2004		2005		2005		2006	
	RMB'000	%	*RMB'000*	%	*RMB'000* *(unaudited)*	%	*RMB'000*	%
Cost of Sales Breakdown								
Raw Materials	109,788	85.4%	490,259	88.3%	210,064	87.8%	326,632	88.0%
Fuels and Utilities	10,673	8.3%	36,409	6.5%	17,066	7.1%	24,639	6.6%
Depreciation and amortisation	1,701	1.3%	17,050	3.1%	7,415	3.1%	10,367	2.8%
Staff cost	4,909	3.8%	9,038	1.6%	4,152	1.7%	7,080	1.9%
Repairing and Others	1,491	1.2%	2,527	0.5%	600	0.3%	2,485	0.7%
Total	128,562	100.0%	555,283	100.0%	239,297	100%	371,203	100.0%

The raw materials under the heading "Cost of Sales Breakdown" represent the cost of sale for raw materials for self produced pipes.

(i) Raw materials

The raw materials of the Company are mainly steel billets. The Company has been able to meet most of its steel billets requirements by sourcing them from Tianjin Steel Limited and Wuxi Xuelang Steel Group Co., Ltd. which are both Independent Third Parties. For the two years ended 31 December 2005 and the six months ended 30 June 2006, raw materials represented 85.4%, 88.3% and 88.0% of the costs of sales of the Company's self produced pipes. However, as a percentage of turnover, such raw material costs represented 72.8%, 72.6% and 70.5% of the Company's self produced pipes turnover for the two years ended 31 December 2005 and six months ended 30 June 2006 respectively. The percentage of raw material costs to sales for the Company's self produced pipes have been relatively stable. This was primarily attributable to the Company's relative strong bargaining power with suppliers as a result of the large quantity of purchase of raw materials by the Company. Together with the Company's ability to transfer fluctuations in raw material cost to customers and its adoption of a centralized purchasing strategy to ensure relatively lower purchase prices, the Company's ratios referred to above demonstrate that raw materials as a percentage of sales of the Company's self produced pipes had remained steady despite market fluctuations of steel billet prices. This has allowed the Company to maintain a relatively stable profit margin.

(ii) Fuel and utilities

The primary fuels that the Company uses for its production are natural gas and coal. The Company has been able to meet its fuel requirements for production by sourcing from domestic suppliers including XinAo Gas Limited and Tianchang City Natural Industry & Trading Co., Ltd. The Company's production line in Chuzhou uses mainly natural gas and for the two years ended 31 December 2005, the Company spent RMBnil and RMB14.1 million on natural gas respectively. Expenditure on natural gas by the Chuzhou plant for 30 June 2006 was RMB9.3 million as compared to RMB8 million (unaudited) for the six months ended 30 June 2005. As for the production line in Tianchang, it uses mainly coal as its fuel for production. For the two years ended 31 December 2005, the Tianchang production line spent RMB7.5 million and RMB8.3 million on coal respectively. Expenditure on coal by the Tianchang plant for 30 June 2006 was RMB7.1 million as compared to RMB3.6 million (unaudited) for the six months ended 30 June 2005. The substantial use of coal in the six months ended 30 June 2006 was due to the implementation of a new oil well pipe production line in Tianchang. For electricity, the Company purchases most of the electricity it requires for its production from a local power station. As there is sufficient supply of electricity in Anhui, the Company can enjoy relatively steady power supply for its production purposes. For the two years ended 31 December 2005, the electricity costs attributable to Tianchang production line was RMB2.7 million and RMB5.0 million respectively whilst electricity for each of the six months ended 30 June 2005 and 30 June 2006 were RMB1.9 million (unaudited) and RMB2.6 million respectively. Electricity costs attributable to the Chuzhou plant for the two years ended 31 December 2005 were RMBNil and RMB8.1 million respectively whilst the expenditure for the six months ended 30 June 2005 and 30 June 2006 were RMB3.2 million (unaudited) and RMB5.3 million respectively.

Although there was an increase in electricity and natural gas costs since the commencement of the automated oil well pipe production line in Chuzhou, the automated processes allow for production that are more environmentally friendly, which in turn allow for more efficient and higher quality products to be produced. Automation further allows staff costs per tonne to be reduced.

Margin Analysis

The following table summarises a breakdown of the Company's gross margins for the 2 years ended 31 December 2005 and the six months ended 30 June 2005 (unaudited) and 30 June 2006:

	Year ended 31 December		Six months ended	
	2004	**2005**	**2005**	**2006**
	Gross Margin	*Gross Margin*	*Gross Margin (unaudited)*	*Gross Margin*
Self-produced				
Oil well pipes	8.9%	18.4%	15.5%	21.4%
Petrochemical pipes	19.8%	21.4%	15.1%	24.8%
Other specialized seamless pipes	13.2%	15.0%	11.0%	13.5%
Sub-total ***(note)***	14.8%	17.8%	14.2%	19.9%
Sourcing and distribution				
Oil well pipes	8.2%	–	–	–
Petrochemical pipes	15.0%	14.5%	11.6%	13.8%
Other specialized seamless pipes	12.4%	9.7%	14.0%	11.9%
Sub-total ***(note)***	12.8%	10.4%	13.6%	12.2%
Total ***(note)***	13.7%	15.9%	14.0%	18.2%

Note: The sub-total and total from gross margin are not the sub-total of the gross margins in the columns above it but do represent gross margins of the relevant products which are self produced or are part of the Company's sourcing and distribution business, as the case may be.

There is a general upward trend of gross margin for the self-produced oil well pipes, petrochemical pipes and other specialized seamless pipes. The sharp increase in gross margin of oil well pipes from 8.9% for the year ended 31 December 2004 to 18.4% for the year ended 31 December 2005 was due to the commencement of production in late 2004 where more costs were spent on the early production of oil well pipes. As the Company accumulates more experience in the production of oil well pipes the cost of production decreased and efficiency enhanced which resulted in the moderate increase of gross margin from 18.4% for the year ended 31 December 2005 to 21.4% for the six months ended 30 June 2006. Margin for self-produced petrochemical pipes also has a stable increasing trend which is accountable for better cost control and production efficiency. Gross margin for self-produced other specialized seamless pipes should experience an increase from 11.0% for the six months ended 30 June 2005 (unaudited) to 13.5% for the six months ended 30 June 2006 because of the benefit from economies of scale of increasing production volume of other specialized seamless pipe.

For sourcing and distribution, the Company stopped sourcing and distributing oil well pipes since 2005 since it commenced production on its own. The gross margin for sourcing and distributing of petrochemical pipes decreased in 2005 but increased for the six months ended 30 June 2006. As set out in the paragraph headed "Sourcing and Distribution" in the ″Business″ section of this prospectus, the pricing of products sourced from suppliers will generally be subject to a gross margin range from 10% to 15% to their costs of sourcing those products. In relation to the sales of petrochemical pipes, its gross margin fluctuates within the 10% to 15% range and the decrease in gross margin from 15.0% in 2004 to 14.5% in 2005 was related to the change in product mix where there was an increase in sales volume of relatively lower gross margin products. However, such decreasing trend was reversed for the six months ended 30 June 2006 where gross margin grew from 11.6% for the six months ended 30 June 2005 to 13.8% (unaudited).

As for sourcing and distribution of other specialized seamless pipes, there is a gradual decrease in gross margin from 12.4% for the year ended 31 December 2004 to 9.7% for the year ended 31 December 2005; from 14% for the six months ended 30 June 2005 (unaudited) to 11.9% for the six months ended 30 June 2006. As set out in the paragraph headed "Sourcing and Distribution" in the "Business" section of this prospectus, the pricing of products sourced from suppliers will generally be subject to a gross margin range from 10% to 15% to their costs of sourcing those products. In relation to sales of other specialized seamless pipes, its gross margin fluctuates within the 10% to 15% range. The gradual decrease was a result of the change in product mix where the Company increased its sales volume for certain types of products with a relatively lower gross margin.

The following table summarises the Company's margins and per tonne profits for the two years ended 31 December 2005 and the six months ended 30 June 2005 (unaudited) and 30 June 2006:

	Year ended 31 December		**Six months ended 30 June**	
	2004	**2005**	**2005**	**2006**
			(unaudited)	
Operating margin	8.2%	11.0%	8.9%	13.9%
Net margin before tax	7.4%	10.6%	8.2%	13.6%
Net margin after tax without tax credit in respect of purchase of domestically-produced property, plant and equipment	4.9%	6.9%	5.2%	9.0%
Net margin after tax	22.2%	7.9%	5.2%	9.0%
Gross profit per tonne *(RMB)*	847.6	873.0	740.4	946.4
Operating profit per tonne *(RMB)*	505.8	606.4	471.6	722.1
Net profit per tonne before tax *(RMB)*	457.3	582.9	432.6	708.7
Net profit per tonne after tax *(RMB)*	1,377.7	435.2	275.2	467.1

Generally, the gross profit per tonne of the Company's products for the two years ended 31 December 2005 and the six months ended 30 June 2006 were RMB847.6, RMB873.0 and RMB946.4 respectively.

In 2004, the Company was mainly engaged in the production and sales of other specialized seamless steel pipes. Gross profit margin of the product was 13.7%. As the output was low and the market was subject to further development and adjustment at that time, economies of scale was not achieved. Sourcing and distribution (as opposed to self produced pipes) accounted for 54.8% of total sales in 2004. The gross profit margin for trading was low, therefore the overall profit margin was relatively lower.

The hot-rolled production line officially commenced operation in 2005. The products of the Company were mainly oil well pipes. Sales of oil well pipes for the year were 94,063 tonnes, and accounted for 51.8% of the total sales. As oil well pipes were products requiring more sophisticated technology, it commanded a better market price and the gross profit margin was 18.4%. By leveraging on the hot-rolled production line at Chuzhou in 2006, the Company fully utilised its production capacity and achieved economies of scale. Profit margin for the oil well pipe of the Company was 21.4%.

The Company's gross margin, operating margin, and net margin before tax have steadily improved due to a change in the Company's product mix, increased economies of scale and stringent cost control. The sale percentage of oil well pipes whose margin was higher than other specialized pipes increased to 51.8% in 2005 from 0.7% in 2004 and continued to increase to 56.8% in 2006, therefore the operating margin in the Track Record Period steadily increased. In general, the Company is able to pass on the increase of raw material costs to customers. However, as the Company had a net tax income of RMB49.5 million, for the year ended 31 December 2004 but a net charge of RMB24.4 million for the year ended 31 December 2005, both net margins after tax and net profit per tonne after tax declined in 2005 when compared to 2004. Details of income tax expense/income is discussed below. Without the effect of such income tax credits, the Company's net margins after tax without tax credits in respect of purchase of domestically-produced property, plant and equipment, had increased over the relevant periods.

In November 2005, Tianjin Dajin became an equity holder in Tianda Special Steel Pipe Company by injecting RMB30,000,000. Such injection of money from Tianjin Dajin was used by the Company to finance its new project on oil well pipes.

DISCUSSION OF PERFORMANCE ON A PERIOD AGAINST PERIOD BASIS

Year ended 31 December 2005 compared to year ended 31 December 2004

Turnover

The Company's turnover for the year ended 31 December 2005 was RMB906.6 million, representing approximately 2.7 times of that in 2004 of RMB333.6 million. This increase was primarily attributable to the Company's increased sales volume. The Company's sale volume of self-produced pipes, was approximately 128,510 tonnes in 2005, representing approximately 5.6 times of the 23,116 tonnes in 2004. The increase in production was as a result of the launch of one newly established hot-rolled oil well pipe production line in Chuzhou to produce oil well pipes in 2005. For self-produced oil well and petrochemical pipes, turnover in 2005 was RMB514.4 million, representing approximately 12.9 times of that in 2004 of RMB40.0 million. For self-produced other specialized seamless pipes, turnover increased by 45.3% from RMB110.9 million in 2004 to RMB161.1 million in 2005. As for trading of specialized seamless pipes, turnover of the Company increased by 26.4% from RMB182.8 million in 2004 to RMB231.1 million in 2005.

Cost of sales

The Company's cost of sales for the year ended 31 December 2005 was RMB762.4 million, representing approximately 2.6 times of that in 2004 of RMB288.1 million. However, the rate of increase was lower than the increase in the Company's turnover as a result of change of product mix. The rise in cost of sales was primarily due to the substantial increase in sales in 2005 as a result of the commencement of the Chuzhou hot-rolled oil well pipe production line. For self-produced oil well and petrochemical pipes, cost of sales was RMB418.3 million for the year ended 31 December 2005, representing approximately 13 times of that in 2004 of RMB32.3 million. For self-produced other specialized seamless pipes, cost of sales increased by 42.3% from RMB96.3 million in 2004 to RMB137.0 million in 2005. As for trading of specialized seamless pipes, cost of sales of the Company increased by 29.8% from RMB159.5 million in 2004 to RMB207.1 million in 2005.

Gross profit

The Company's gross profit for the year ended 31 December 2005 was RMB144.2 million, representing approximately 3.2 times of that in 2004 of RMB45.6 million. This was primarily attributable to the substantial increase in production volume as a result of the commencement of commercial production of oil well pipes in the new Chuzhou hot-rolled oil well pipe production line. In addition, unit gross profit increased by 3.0% from RMB847.6 per tonne in 2004 to RMB873.0 per tonne in 2005. The Company's gross profit margin also increased from 13.7% for the year ended 31 December 2004 to 15.9% for the year ended 31 December 2005.

Selling and distribution costs

The Company's selling and distribution costs for the year ended 31 December 2005 was RMB24.2 million, representing approximately 3 times of that in 2004 of RMB8.2 million. Such increase was in line with the increase in turnover and sales volume. The increased selling and distribution costs were primarily attributable to the increased transportation costs of RMB21.4 million for the year ended 31 December 2005, representing approximately 3.4 times of that in 2004 of RMB6.3 million.

Administrative expenses

The Company's administrative expenses increased by 91.2% from RMB10.2 million in the year ended 31 December 2004 to RMB19.5 million in the year ended 31 December 2005, primarily as a result of the commencement of the Chuzhou production plant, which resulted in a higher management fee paid to Tianda Holding and an increase in the size of the administration team from 14 personnel in 2004 to 32 personnel in 2005.

Pursuant to an agreement between Tianda Holding and the Company, the Company was required to pay management fees to Tianda Holding which were calculated based on the rate of 1.5% and 1% of the total sales or RMB5.0 million and RMB9.1 million for the year ended 31 December 2004 and 2005; of 1% of the total sales or RMB3.9 million for the six months ended 30 June 2005 (unaudited) respectively. Effectively on 1 January 2006 and after, no such management fees need to be paid as agreed between Tianda Holding and the Company. Management fees covered services from Tianda Holding including public relations work with the government, arranging legal, tax, commerce and financing activities, feasibility study and management of major investments, employee administration, remunerating directors, providing road and other facilities etc. The provision of public facilities such as road and afforestation has now been undertaken by Tianda Holdings free of charge while the remaining management services previously handled by Tianda Holding for the Company will be handled by the Company itself.

Profit from operating activities

The Company's profit from operating activities for the year ended 31 December 2005 was RMB100.2 million, representing approximately 3.7 times of that in 2004 of RMB27.2 million. This was primarily attributable to the commencement of commercial production of oil well pipes in Chuzhou which substantially increased sales volume. The Company's operating margin (profit from operating activities expressed as a percentage of sales) also increased slightly from 8.2% to 11.0% during the same period.

Finance revenue

The Company's finance revenue for the year ended 31 December 2005 was RMB2.3 million, representing approximately 11.5 times of that in 2004 of RMB0.2 million. This was primarily attributable to increased interest on the balance of RMB108.8 million due from Tianda Holding.

Finance costs

The Company's finance costs for the year ended 31 December 2005 was RMB6.2 million, representing approximately 2.2 times of that in 2004 of RMB2.8 million. The lower finance cost in 2004 was a result of capitalization of interest of RMB2.8 million due to the establishment of the Chuzhou branch production operation. Without taking capitalized interest into account, finance costs increased by 10.7% from RMB5.6 million for the year ended 31 December 2004 to RMB6.2 million for the year ended 31 December 2005. The increase was primarily attributable to the increase in interest expense in 2005, which was due to an increase in long term borrowings from RMB65.0 million in 2004 to RMB85.0 million in 2005.

Profit before taxation

The Company's profit before taxation for the year ended 31 December 2005 was RMB96.3 million, representing approximately 3.9 times of that in 2004 of RMB24.6 million. The Company's profit before taxation margin (profit before taxation expressed as a percentage of sales) increased from 7.4% in the year ended 31 December 2004 to 10.6% in the year ended 31 December 2005, primarily as a result of the higher gross profit margin of oil well pipes produced by the Chuzhou production line in 2005 and the changes in the items discussed above.

Income tax expense/income

The Company had an income tax income of RMB49.5 million in the year ended 31 December 2004 as a result of an investment tax credit of RMB57.8 million, being 40% of qualified capital expenditures of RMB144.5 million for using domestically made equipment on technical innovative projects, being the Company's Chuzhou hot-rolled oil well pipe production line. The law and regulation for the set-off of enterprise income tax with allowances from domestically-made equipment for technology upgrade purpose is mainly the Notice relating to the Publication of the Provisional Measures on the Set-off of Enterprise Income Tax with Allowances from Domestically-made Equipment for Technology Upgrade Purpose《關於印發＜技術改造國產設備投資抵免企業所得稅暫行辦法＞的通知》promulgated on 8 December 1999 and effective from 1 July 1999. The Company accounted for such tax benefit when the amount and timing for the tax deduction could be estimated with reasonable certainty. There was also another one-off investment tax credit of RMB8.9 million for similarly qualified capital expenditure in 2005. Such investment tax credits were granted pursuant to the relevant approval documents from the local PRC tax authorities in line with policies to purchase equipment domestically for technology upgrades. Such credits can be utilised to the extent of the relevant enterprise income tax allowance and may be carried forward for a maximum of five years. Without the effect of such income tax credit, the Company's income tax expenses for the year ended 31 December 2005 was RMB33.3 million, representing approximately 4.0 times of that in 2004 of RMB8.3 million. Such increase was primarily due to the substantial increase in profit before tax, which was a result of the commencement of the production and sales of oil well pipes from the plant in Chuzhou.

The Company was subject to income tax at the rate of 33% during the Track Record Period. The major components of income tax expenses for the Track Record Period are as follows:

	Year ended 31 December	
	2004	**2005**
	RMB'000	*RMB'000*
Current income tax charge	8,295	5,146
Deferred income tax relating to origination and reversal of temporary differences	(57,796)	19,245
Income tax expenses/(income) reported in the income statement	(49,501)	24,391

The effective tax rate for the year ended 31 December 2005 was 25.3%. However, in view of the net income tax income for the year ended 31 December 2004, there was no effective tax rate for the year ended 31 December 2004. Excluding the recognition of one-off investment tax credits in 2004 and in 2005 as mentioned in the preceeding paragraph, the effective tax rate was slightly higher in 2005 than 2004. The slight increase on the effective tax rate was mainly attributable to the increased undeductible payroll expenditures. As approved by Anhui Local Tax Bureau, the monthly tax deductible payroll per head in 2004 and 2005 was RMB960. The Company paid more than RMB960 to the majority of employees on a monthly basis since 1 January 2004. Furthermore, the employees' salaries continued to increase because of the better operating performance of the Company in 2005, which in turn resulted in more undeductible payroll expenditures.

Net profit attributable to equity holders

The Company's net profit attributable to equity holders decreased by 3.0% from RMB74.1 million in the year ended 31 December 2004 to RMB71.9 million in the year ended 31 December 2005. The Company's profit margin (net operating profit expressed as a percentage of sales) decreased from 22.2% in the year ended 31 December 2004 to 7.9% in the year ended 31 December 2005, primarily as a result of income tax credits of RMB57.8 million in respect of the purchases of domestic-produced property, plant and equipment in 2004.

The Company's profit before income tax for the year ended 31 December 2005 was RMB96.3 million, representing approximately 3.9 times of that in 2004 of RMB24.6 million. Such increase was primarily due to the substantial increase in sales volume as a result of the increasing production of the Chuzhou oil well pipe production line in 2005 and substantial improvement of profit margin.

Six months ended 30 June 2006 compared to six months ended 30 June 2005 (unaudited)

Turnover

The Company's overall turnover increased by 52.6% from RMB390.6 million for the six months ended 30 June 2005 (unaudited) to RMB596.1 million for the six months ended 30 June 2006. This increase was primarily attributable to the Company's increased sales as a result of increased production from the new oil well pipe production line in Tianchang in early 2006 and better utilisation of the production line launched in Chuzhou in the later part of 2005 and early 2006. Although the production line was also in operation in early 2005, the production was not optimum during the six months ended 30 June 2005.

Cost of sales

The Company's cost of sales increased by 45.3% from RMB335.9 million for the six months ended 30 June 2005 (unaudited) to RMB487.9 million for the six months ended 30 June 2006, slightly lower than the increase in the Company's turnover. The above increase in cost of sales are primarily attributable to the increase in sales of oil well pipes and petrochemical pipes which is enabled by its increased production capacity as a result of the more optimal performance of the Chuzhou production line as compared with 2005 and the new oil well pipe production line in Tianchang launched in early 2006.

Gross profit

The Company's gross profit increased by 97.8% from RMB54.7 million for the six months ended 30 June 2005 (unaudited) to RMB108.2 million for the six months ended 30 June 2006. The Company's gross profit margin increased from 14.0% for the six months ended 30 June 2005 (unaudited) to 18.2% for the six months ended 30 June 2006, primarily as a result of the increase of one production line in Tianchang for the production of oil well pipes and higher utilization rate of the Chuzhou oil well pipe production line which was established in 2005.

Selling and distribution costs

The Company's selling and distribution costs increased by 92.1% from RMB10.1 million for the six months ended 30 June 2005 (unaudited) to RMB19.4 million for the six months ended 30 June 2006. The increased selling and distribution costs were mainly due to the Company's increased turnover which in turn led to a higher transportation cost of 71.0% from RMB9.3 million for the six months ended 30 June 2005 (unaudited) to RMB15.9 million for the six months ended 30 June 2006. The increase in transportation cost was attributable to the expansion of the Company's new client base covering the areas of Tianjin, Hebei and overseas. The Company has also since 30 June 2005 increased its marketing efforts such as online advertising after the commencement of operation of the Chuzhou oil well pipe production line in 2005.

The significant increase in transportation and storage expenses for the year ended 2005 and six months ended 30 June 2006 was mainly due to the increase of sales. In addition, with more and more oil well pipes were sold to Shandong, Tianjin and Hebei, where the Chinese large oil fields are located, longer transportation distances simultaneously increased freight costs. The Company's other specialized seamless pipes are usually sold in nearby region including Anhui, Jiangsu and Shanghai. Furthermore, the Company had to bear more expensive international freight for its increased overseas sales in 2006.

Administrative expenses

The Company's administrative expenses decreased by 33.3% from RMB9.6 million for the six months ended 30 June 2005 (unaudited) to RMB6.4 million for the six months ended 30 June 2006, primarily as a result of discontinuance of the monthly management fee paid by the Company to Tianda Holding in 2005. From 1 January 2006, it was agreed between Tianda Holding and the Company that no such management fees continue to be paid.

Profit from operating activities

The Company's profit from operating activities for the six months ended 30 June 2005 was RMB82.6 million (unaudited), representing approximately 2.4 times of that for the corresponding period in 2005 of RMB34.9 million. The Company's operating margin (profit from operating activities expressed as a percentage of sales) increased slightly from 8.9% for the six months ended 30 June 2005 (unaudited) to 13.9% for the six months ended 30 June 2006, primarily as a result of the substantial increase in turnover from RMB390.6 million to RMB596.1 million attributable to both of the new oil well pipe production line in Tianchang launched in early 2006 and the higher utilization rate of the Chuzhou oil well pipe production line which was established in 2005 for the six months ended 30 June 2006.

Finance revenue

The Company's finance revenue for the six months ended 30 June 2006 was RMB1.6 million, representing approximately 3.2 times of that for the corresponding period in 2005 of RMB0.5 million (unaudited). This was primarily attributable to increases in interest on balances due from Tianda Holding. Tianda Holding has repaid all balances due to the Company before 30 June 2006.

Finance costs

The Company's finance costs decreased by 8.8% from RMB3.4 million for the six months ended 30 June 2005 (unaudited) to RMB3.1 million for the six months ended 30 June 2006, primarily as a result of the more discounting charges of bank drafts negotiated with banks in 2005.

Profit before taxation

The Company's overall profit before taxation for the six months ended 30 June 2006 was RMB81.1 million, representing approximately 2.5 times of that for the corresponding period in 2005 of RMB32.0 million (unaudited). The Company's overall profit before taxation margin (profit before taxation expressed as a percentage of sales) increased from 8.2% for the six months ended 30 June 2005 (unaudited) to 13.6% for the six months ended 30 June 2006, primarily as a result of increased sales volume contributed by both of the new oil well pipe production line in Tianchang launched in early 2006 and the higher utilisation rate of the Chuzhou oil well pipe production line which was established in 2005 together with the changes in the items discuss above.

Income tax expense

Income tax expense for the six months ended 30 June 2006 was RMB27.6 million, representing approximately 2.4 times that for the corresponding period in 2005 of RMB11.6 million (unaudited). This increase in income tax expense was in line with the increase of profit before taxation over the same period. The effective tax rate for the six months ended 30 June 2006 was 34.1%.

The corporate tax rates applicable to the Company's income or profits for the six months ended 30 June 2005 (unaudited) and 2006 was 33%. The major components of income tax expenses for the Track Record Period are as follows.

	Six months period ended 30 June	
	2005	**2006**
	RMB'000 *(unaudited)*	*RMB'000*
Current income tax		
Current income tax charge	5,146	5,146
Deferred income tax relating to origination and reversal of temporary differences	6,491	22,494
Income tax expenses reported in the income statement	11,637	27,640

The effective tax rate for the six months ended 30 June 2005 (unaudited) and the six months ended 30 June 2006 was 36.4% and 34.1% respectively. A slightly higher effective tax rate for the six months ended 30 June 2005 was primarily resulted from one-off undeductible inventory impairment of RMB1.8 million.

Net profit attributable to the equity holders

The Company's net profit attributable to the equity holders for the six months ended 30 June 2006 was RMB53.4 million, representing approximately 2.6 times of that for the corresponding period in 2005 of RMB20.4 million (unaudited). The Company's profit margin (net profit expressed as a percentage of sales) increased from 5.2% for the six months ended 30 June 2005 (unaudited) to 9.0% for the six months ended 30 June 2006, primarily as a result of increased sales of oil well pipes with higher margins and increased scale of economies.

Dividends

The Company declared a dividend of RMB56.7 million on 20 March 2006 representing approximately 78.9% of the net profit for year ended 31 December 2005. Of the RMB56.7 million, RMB1.6 million was paid in cash to Tianda Trade Union and the balance by way of set off against the funds due from Tianda Holding prior to 30 June 2006. The Directors consider that, taking into account of the available banking facilities and internal financial resources at that time, the payment of such dividend did not affect the sufficiency of the Company's working capital.

Analysis of Financial Position

The following table illustrates major balance sheet items and key financial ratios of the Company during the two years ended 31 December 2005 and the six months ended 30 June 2006.

Balance Sheet

	31 December		30 June
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Property, plant and equipment	206,084	230,689	263,758
Prepaid land premiums	11,091	10,852	28,460
Investment in an associate	471	454	–
Deferred tax assets	57,796	38,551	16,057
Total non-current assets	275,442	280,546	308,275
Current assets			
Inventories	27,907	131,385	198,812
Trade and notes receivables	8,096	22,214	10,571
Prepayments, deposits and other receivables	46,900	138,755	25,985
Cash and cash equivalents	3,604	12,749	28,289
Total current assets	86,507	305,103	263,657
Total assets	361,949	585,649	571,932
Equity attributable to equity holders			
Paid-up capital/share capital	40,000	170,000	170,000
Reserves	86,469	141,302	138,061
Total equity	126,469	311,302	308,061
Current liabilities			
Interest-bearing loans and borrowings	25,000	25,000	75,000
Trade and notes payable	24,549	45,874	30,382
Income tax payable	923	914	3,237
Accrued liabilities and other payables	120,008	117,559	120,252
Total current liabilities	170,480	189,347	228,871
Non-current liabilities			
Interest-bearing loans and borrowings	65,000	85,000	35,000
Total equity and liabilities	361,949	585,649	571,932

Key Financial Ratios

	Year ended 31 December		Six months ended 30 June	
	2004	2005	2005	2006(7)
			(unaudited)	
Current Ratio(1)	50.7%	161.1%	120.0%	115.2%
Inventories turnover days(2)	34 days	38 days	36 days	61 days
Debtor turnover days(3)	8 days	6 days	9 days	5 days
Creditor turnover days(4)	18 days	17 days	21 days	14 days
Interest cover(5)	9.8 times	16.6 times	10.4 times	27.2 times
Gearing ratio(6)	25%	19%	21%	19%

1 $\frac{\text{Current asset}}{\text{Current liabilities}}$ x 100%

2 $\frac{\text{Average Inventories}}{\text{Cost of sales}}$ x 365 days

3 $\frac{\text{Average Trade and notes receivables}}{\text{Turnover}}$ x 365 days

4 $\frac{\text{Average Trade and notes payables}}{\text{Cost of sales}}$ x 365 days

5 $\frac{\text{Profit before interest and tax}}{\text{Interest}}$

6 $\frac{\text{Interest-bearing loans and other borrowings}}{\text{Total assets}}$ x 100%

7. For the above formulas, where they are to be used for sixth months ended 30 June 2006, the number of days shall be 181 instead of 365.

ANALYSIS OF MAJOR BALANCE SHEET ITEMS AND FINANCIAL RATIOS

Capital Expenditures and Investment

Property, plant and equipment

The Company's property, plant and equipment has substantially increased by RMB24.6 million from RMB206.1 million in 2004 to RMB230.7 million in 2005, primarily as a result of the additions of RMB42.8 million worth of property and equipment, offset by the depreciation charge of RMB18.2 million in 2005. The addition of fixed assets is attributable to the completion of its oil well pipe production line with a total investment cost amounting to RMB29.2 million for the production facilities in Tianchang as at 31 December 2005. The remaining RMB13.6 million was used to pay off the additional capital expenditure for the construction of the Chuzhou production line which commenced production in early 2005.

Leasehold land

The Company's leasehold land has decreased in carrying value by RMB0.2 million from RMB11.1 million in 2004 to RMB10.9 million in 2005, primarily as a result of the amortisation in 2005.

Working Capital

The Directors are of the opinion that, taking into account the net proceeds of the International Placing (further details are set out in the section headed "Statement of Business Objectives" for more information) and other financing sources, the Company has sufficient working capital for the requirements currently and for the period ending 12 months from the date of this prospectus.

Current Ratios

The current ratio for the six months ended 30 June 2005 (unaudited) was 120.0%. The low current ratio as at 31 December 2004 of 50.7% was mainly due to the large capital expenditures on the new oil well pipe production line in Chuzhou. As the production line started to generate operating cash in the six months ended 30 June 2005, the Company's current ratio as at 31 December 2005 and 30 June 2006 improved to 161.1% and 115.2% respectively.

Inventory Analysis

The following table sets forth a summary of average inventory turnover for the periods indicated:

	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2005**	**2006**
Turnover of inventory (days)(1)	34	38	36	61

Note 1: Average inventory equals inventory at the beginning of the year plus inventory at the end of the year (or as at 30 June 2005 and 2006 as the case may be) and divided by 2. Turnover of inventory equals average inventory divided by cost of sales and multiplied by 365 (or 181 for the six months ended 30 June 2005 and 2006).

The turnover of inventory days increased by 4 days from 34 days in 2004 to 38 days in 2005. Inventories increased by RMB103.5 million from RMB27.9 million in 2004 to RMB131.4 million in 2005 due to the increase of raw material inventory as a result of the increase in production and sales of oil well pipes after the Chuzhu oil well pipe production line commenced commercial production in 2005. In addition, the Company strategically bulk purchased a substantial amount of its raw materials at the end of 2005, anticipating, at the time, that the price of raw materials would thereafter increase. These raw materials bought are solely for the self production of specialized seamless pipes. This also contributed to the increase of the number of inventory turnover days in 2005. For the six months ended 30 June 2006, the higher turnover ratio compare to that ratio for the six months ended 30 June

2005 was primarily attributable to the Company's decision to increase inventories as a result of a new production line which came into production in Tianchang in early 2006, anticipation of overall increased production requirements for the second half of 2006 and potential increases in the price of raw materials. The inventory was RMB198.8 million and RMB187.7 million as at 30 June 2006 and 31 October 2006 respectively. The inventory is classified into different categories. Of the inventory as at 30 June 2006, 73%, 100% and 83% of raw materials, work in progress and finished products respectively had been consumed as at 31 October 2006. Taking into account sales of RMB596.1 million for the six months ended 30 June 2006 and the planned production schedules for the second half of 2006, the Directors are of the view that the cash committed to inventory is reasonable and did not materially and adversely affect the Company's cash flow for the relevant period.

Any decisions relating to the levels of inventory and the related procurement of raw materials is premised on the Company's assessment of market conditions for such raw materials. This is monitored by the Company's procurement team and the procurement manager submits an application for the general manager's review if he considers appropriate. After obtaining the general manager's approval, the application will be subject to further vetting by personnel in the managers' office who are responsible for conducting a final market analysis before confirmation is given that the raw material purchase may be proceeded with. For inventory applications which represent over 1.5 times of the normal stock level, the chairman of the Company must also be consulted.

Trade and Notes Receivables

Turnover of Trade and Notes Receivables

The following table sets forth a summary of average trade and notes receivables turnover for the periods indicated:

	Year ended 31 December		**Six months ended 30 June**	
	2004	**2005**	**2005**	**2006**
Turnover of trade and notes receivables (days)[1]	8	6	9	5

Note 1: Average trade and notes receivables equal trade and notes receivables at the beginning of the year plus trade and notes receivables at the end of the year (or 30 June 2005 and 2006 as the case may be) and divided by 2. Turnover of trade and notes receivables (in days) equal average trade and notes receivables divided by revenue and multiplied by 365 (or 181 for the six months ended 30 June 2005 and 2006).

The trade and notes receivables turnover days decreased by 2 days from 8 days in 2004 to 6 days in 2005 and continuously decreased to 5 days in 2006, primarily attributable to the launch of the production and sales of oil well pipes in 2005 and the sales with sale term of advance payment before delivery of products continuously increased in the Track Record Period. The Company only delivers its products after receiving the full purchase price from the customers. However, the Company still has a small trade and notes receivables turnover period mainly because customers usually make prepayments for their orders but the final invoice amount is only determined at the time of delivery when the final cost is determined.

Thus discrepancies between the invoice amount and the prepaid amount resulted in a trade and notes receivables turnover period which was related to sales by the Company to its major and long term customers.

Average Age of Trade and Notes Receivables

The following table sets forth a summary of average age of the Company's trade and notes receivables for the periods indicated:

	31 December		30 June
	2004	**2005**	**2006**
Age of Trade and Notes Receivables			
Within 1 year	90.5%	96.3%	92.8%
0 – 3 months	74.7%	92.5%	88.3%
3 – 6 months	0.3%	2.9%	–%
6 – 9 months	2.5%	–%	2.3%
9 – 12 months	13.0%	0.9%	2.2%
Over 1 year	9.5%	3.7%	7.2%
Total	100.0%	100.0%	100.0%

Generally, the Company requires all customers to settle their payments prior to the delivery. There may be a discrepancy between the prepayment from the customer and the final total selling price. This is because original orders made by the Company's customers are in estimated tonnes whilst the final products delivered to the customers are pipes with a specific tonnage, determined after actual production is finished. It is only for these discrepancies in tonnage where the Company has a general credit period for its customers of up to 30 days or in other specific cases, a credit period is granted to customers with a long relationship or credit worthy history. Trade receivables as at 31 December 2004, 31 December 2005 and 30 June 2006 were RMB8.1 million, RMB22.2 million and RMB10.6 million respectively. As at ended 31 December 2004, 31 December 2005 and 30 June 2006, approximately 90.5%, 96.3%, and 92.8% of the balance of trade receivables was due and receivable within a period of one year. In respect of the trade receivables of RMB5.3 million as at 30 June 2006, RMB3.9 million was subsequently settled as at 31 October 2006. These receivables include the discrepancy between the prepayment from customer and the final total selling price as well as the bank drafts received by the Company but were yet to be cashed. For clients of substantial size and those with credit worthy history, the Company may allow up to 30 days for settlement of the aforesaid discrepancy between prepayment and final total sales price.

The accumulated balance of the Company's provisions for bad and doubtful debts as at 31 December 2004, as at 31 December 2005 and as at 30 June 2006 amounted to approximately RMB0.8 million, RMB1.1 million and RMB1.1 million respectively.

Prepayments, deposits and other receivables

The following table presents the balances of prepayments, deposits and other receivables as at the dates presented:

	31 December		30 June
	2004	2005	2006
		(RMB millions)	
Deposits pledged to bank for bank drafts issued	12.0	–	–
Prepayments	34.8	29.2	23.5
Other receivables	0.1	0.8	2.5
Due from Tianda Holding	–	108.8	–
	46.9	138.8	26.0

The Company's balance of total prepayments, deposits and other receivables increased by RMB91.9 million, from RMB46.9 million in 2004 to RMB138.8 million in 2005, primarily attributed to the increase in amount due from Tianda Holding in 2005. Receivable due from Tianda Holding was a result of the current account between Tianda Holding and the Company prior to the establishment of the Company as a joint stock limited company on 13 April 2006. Prior to such reorganisation, Tianda Holding centralised administration of cash utilised by itself and its subsidiaries, including the Company. Tianda Holding helped finance the capital investment for the hot-rolled oil well production line in Chuzhou resulting in an amount due to Tianda Holding of RMB43.4 million as at 31 December 2004. In 2005, surplus cash generated by the launch of the new oil well pipe production line in Chuzhou was transferred to Tianda Holding as part of the central administration of funds, resulting in an amount of RMB108.8 million due from Tianda Holding as at 31 December 2005. Such current account transfers between Tianda Holding and the Company did not comply with the provisions under PRC law as neither of their approved business scopes include the authority to advance monies. Such transactions have been properly recorded in the accounts of the Company. As the Company is not qualified to engage in lending business, the provision of loan by the Company to Tianda Holding was in breach of the Rules for Loans published by the People's Bank of China on 28 June 1996 and which became effective on 1 August 1996 ("Loan Rules"). According to the Loan Rules, the loans arranged by the enterprises themselves are subject to a penalty the amount of which is between over one time but under five times of the amount of proceeds received by the lender. Based on the interest received by the Company from Tianda Holding, the maximum penalty is RMB18,700,000. The People's Bank of China has not prepared any implementation regulations for the Loan Rules. According to the understanding of the Company, the People's Bank of China or other administrative authorities had never commenced any investigation on the Company with regard to the loans made to Tianda Holding. The Company had not received any notice from the People's Bank of China or other administrative authorities with respect to investigating matters related to the loan above and issuing penalty to the Company. However, the entire amount from Tianda Holding was settled as at 30 June 2006 and no further advances of this nature to Tianda Holding took place after 30 June 2006. As the matter has been rectified, the PRC Legal Advisor is of the view that this would not constitute a material non-compliance or material legal impediment to the listing of the Company. All such funds were transferred back to the Company by 30 June 2006 and no new advances were made after this same date. In any event, Tianda Holding has undertaken that it will indemnify the Company for any penalty or loss arising from the loans made to Tianda Holding incurred by the Company and the Company has undertaken that no such advances will be made by it after the Listing Date.

In addition to the assessment by the Company's audit committee, details of which are set out in the paragraph headed "Audit Committee" in the section headed "Directors, Supervisors and Senior Management", any application of the Company's funds will require the approval of Mr. Zhang Hu Ming, the Deputy Chairman and General Manager of the Company and the financial management tasks will be handled by Ms. Huang Yao Qi, the Financial Controller of the Company. Further, Mr. Kelvin Ho, the Qualified Accountants of the Company who has no equity interest in Tianda Holding, will assess, review and approve any application of fund of the Company which is related to any business or transaction with Tianda Holding and/or its subsidiaries. The approval of Mr. Ho will be required in each and every single usage of funds by the Company if it is related to Tianda Holding and/or its subsidiaries and will be subject to review by the Audit Committee quarterly. This measure has been incorporated into the internal control manual of the Company to ensure the Company's cash assets will not be deployed for use by Tianda Holding and/or its subsidiaries.

The Directors confirmed that during the Track Record Period, all the related party transactions were conducted in the ordinary course of business, on normal commercial terms or better and on terms which were fair and reasonable to the Company.

ACCOUNTS PAYABLE

Turnover of Trade and Notes Payables

Turnover of trade and notes payable remained between 14 to 21 days during the two years ended 31 December 2005 and the six months ended 30 June 2005 and 2006. The following table sets forth the Company's turnover of trade and notes payables for the periods indicated:

	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2005**	**2006**
Turnover of trade and notes payables (days)[1]	18	17	21	14

Note 1: Average trade and notes payables equal trade and notes payables at the beginning of the year plus trade and notes payables at the end of the year (or 30 June 2005 and 2006 as the case may be) and divided by 2. Turnover of trade and notes payables (in days) equal average trade and notes payables divided by cost of sales and multiplied by 365 (or 181 for the six months ended 30 June 2005 and 2006).

As suppliers usually require full payment prior to delivery, these trade and notes payables are as a result of the discrepancy between prepayments made by the Company and the final total purchase price of the raw materials from suppliers determined at the time of delivery. Suppliers of the Company usually allow 30 days for the Company to settle the above discrepancy. The slight fluctuation of turnover ratio in each period was primarily as the result of timing of payment.

Average Age of Trade and Notes Payables

The following table sets forth the average age of trade and notes payables for the periods indicated:

	31 December		30 June
	2004	**2005**	**2006**
Age of Trade and Notes Payables			
Within 1 year	99.31%	99.64%	99.45%
0 – 3 months	98.36%	99.64%	99.45%
3 – 6 months	–%	–%	–%
6 – 9 months	0.46%	–%	–%
9 – 12 months	0.49%	–%	–%
Over 1 year	0.69%	0.36%	0.55%
Total	100.0%	100.0%	100.0%

The Company's trade and notes payable is mainly related to the transportation costs and sourcing of raw materials and other essential materials from various suppliers.

Accrued Liabilities and Other Payables

The following table presents the balance of accrued liabilities and other payables for the periods indicated:

	31 December		30 June
	2004	**2005**	**2006**
		(RMB millions)	
Advances from customers	17.0	66.1	62.7
Payroll payables	2.1	2.5	4.3
Welfare payables	2.7	3.5	4.5
Other payables *(note)*	54.8	44.7	48.7
Due to Tianda Holding	43.4	–	0.1
Due to other related party	–	0.8	–
	120.0	117.6	120.3

Note: Other payables comprise mainly payables for property, plant and equipment, miscellaneous tax payables including value added tax and accrued transportation and utility payables.

The amount due to Tianda Holding of RMB43.4 million as at 31 December 2004 was attributable to Tianda Holding's financing of the capital investment for the hot-rolled production line in Chuzhou. The Company's accrued liabilities and other payables slightly decreased by RMB2.4 million from RMB120.0 million in 2004 to RMB117.6 million in 2005, and is primarily attributable to the decrease of RMB43.4 million due to Tianda Holding, the decrease of RMB8.5 million as the result of repayment of construction costs. The above decrease of RMB51.9 million was offset by the increase of RMB49.1 million in advance receipts from goods due to increase in sales of the products and the advances paid by the customers.

On 9 January 2006, Tianda Trade Union made a non-interest bearing advance of RMB17 million to the Company and which is included in the "Other payables" as at 30 June 2006. The Company settled the advance from Tianda Trade Union by a full repayment in July 2006.

Interest-bearing loans and borrowings

In order to finance the construction of the oil well pipe production line in 2004 with total investment cost of RMB185.0 million, the debt position increased in both 2003 and 2004. The bank loans increased by RMB65 million to RMB90 million as at 31 December 2004. In 2005, bank loans further increased by RMB20 million to RMB110 million as at 31 December 2005. Due to the significant improvement in the operating results of the Company, the gearing ratio improved from 25% for the year ended 31 December 2004 to 19% and 19% for the year ended 2005 and the six months ended 30 June 2006 since there were no additional production lines for the six months ended 30 June 2006.

As at the Latest Practicable Date, none of the banks have requested for early repayment. The cash position of the Company will be significantly improved after the International Placing with the receipt of the placing proceeds and the cash and receivables generated from business operations. The Company consider the profitability will continue to improve with the increasing sales volume. Therefore, if any of the lenders demand repayment of the outstanding loans, the directors are confident that the Company will have sufficient cashflow to repay the loans.

Contingent liabilities

Contingent liabilities increased from RMB34.2 million as at 31 December 2004 to RMB227.2 million, as at 31 December 2005. This was mainly due to the guarantee granted to a related party, Tianda Company Limited, a subsidiary of Tianda Holding, for certain of its bank loans of RMB40 million (such loans were repaid before their maturity dates on 7 July 2006 and the guarantee was terminated accordingly), as well as increase of endorsed bank drafts received from the Company's customers which were transferred to the Company's suppliers for payment. The Company utilises as part of the Company's normal trade financing, bank drafts issued by banks in China which entitle holders thereof to unconditional payment by the bank upon presentation. Such bank drafts usually mature six months after there issue. If any banks default on such payment, the holders of the bank drafts have recourse to the Company. The increase of bank drafts is due to the increase of sales of the Company. Prior to 30 June 2006, Tianda Holding had arranged for such bank drafts to be issued on behalf of its subsidiaries, including the Company but Tianda Holding has ceased such practice from 1 July 2006. The reason Tianda Holding arranged for bank drafts to be issued on behalf of its subsidiaries (including the Company) for the period prior to 30 June 2006 due to the practice at that time for Tianda Holding to centrally administer its subsidiaries' use of funds. As at 30 June 2006, the contingent liabilities of the Company was RMB336.9 million comprising RMB55 million in respect of a guarantee provided to Tianda Company Limited (such loans were repaid before their maturity dates on 7 July 2006 and the relevant guarantees were terminated accordingly) and RMB281.9 million in respect of recourse liability under bank drafts. The capital commitments of the Company as at 30 June 2006 was RMB56.6 million. The nature of this capital commitments is mainly the result of purchases of heat processing and threading production equipment.

LIQUIDITY AND CAPITAL RESOURCES

The Company has historically met its working capital and other capital requirements principally from cash provided by operations, while raising the remainder of the requirements through long term and short term debt.

Net Current Assets/Liabilities

The Company had net current liabilities of approximately RMB84.0 million as at 31 December 2004 and the current ratio, which is the ratio of current assets to current liabilities, was 50.7%. The low current ratio in 2004 was primarily attributable to the payable of RMB43.4 million due to Tianda Holding, utilised by the Company for the funding of the construction of the Chuzhou oil well pipe production line in 2004. When the amount due to Tianda Holding was excluded in the calculation, current ratio becomes 68.1%. Another reason for the low current ratio was due to the fact that the payables to third party contractors for the establishment of the Chuzhou production line was not fully settled in 2004 and part of the cost was settled in 2005.

As at 30 June 2006, the Company's current assets and current liabilities were RMB263.7 million and RMB228.9 million respectively. The following table summarizes the details of the Company's current assets and liabilities as at 30 June 2006:

	30 June 2006
	(RMB million)
Current assets	
Inventories	198.8
Trade and notes receivables	10.6
Prepayments, deposits and other receivables	26.0
Cash and cash equivalents	28.3
	263.7
Current liabilities	
Interest-bearing loans and borrowings	75.0
Trade and notes payables	30.4
Income taxation payable	3.2
Accrued liabilities and other payables	120.3
	228.9
Net current assets	**34.8**

The following table summarises the details of the Company's net current assets as at 30 September 2006:

	30 September 2006 *(RMB million)* (unaudited)
Current assets	
Inventories	194.9
Trade and notes receivables	29.3
Prepayment, deposits and other receivables	54.6
Cash and cash equivalent	11.8
Total current assets	290.6
Current liabilities	
Interest-bearing loans and borrowings	75.0
Trade and notes payables	73.9
Income taxation payable	4.2
Accrued liabilities and other payables	78.0
Total current liabilities	231.1
Net current assets	**59.5**

Cash Flows

The following discussion is based on the cash flow statements of the Company for the two years ended 31 December 2005 and the six months ended 30 June 2006.

The following table summarizes the Company's cash flows for each of the two years ended 31 December 2005 and the six months ended 30 June 2006:

	Year ended 31 December		**Six months ended 30 June**	
	2004	**2005**	**2005**	**2006**
	RMB million	*RMB million*	*RMB million (unaudited)*	*RMB million*
Net cash inflow from operating activities	14.6	83.6	16.6	49.3
Net cash outflow from investing activities	(72.5)	(101.2)	(17.8)	(29.1)
Net cash inflow/(outflow) from financing activities	58.5	26.8	16.6	(4.7)
Cash and cash equivalent at end of year	3.6	12.7	19.0	28.3

As at 30 June 2006, the Company had cash and cash equivalent of RMB28.3 million and reported a net cash inflow from operating activities of RMB49.3 million during 2006. As most of the Company's sales are paid before delivery, the level of sales is an important indicator of cash generated by the Company. It would also have to ensure there was no mismatch in payments to suppliers but to the extent it utilises some trade financing in the form of bank drafts issued to suppliers, the Company's cash position would be improved enabling it to better manage its cash flow to meet working capital requirements. Capital expenditure is financed by bank debt as and where appropriate.

Operating Activities

Net cash inflow from operating activities increased by RMB32.7 million from RMB16.6 million for the six months ended 30 June 2005 (unaudited) to RMB49.3 million for the six months ended 30 June 2006. This is evidenced by the increasing trend of the operating profit before working capital which were RMB29.0 million, RMB120.7 million and RMB93.9 million for the two financial years ended 31 December 2005 and the six months ended 30 June 2006. Such increases in production and sales were also matched by increases in accrued liabilities and other payables (including prepayments by customers) for the same period.

Net cash inflow from operating activities increased by RMB69.0 million from RMB14.6 million in 2004 to RMB83.6 million in 2005, primarily attributed to an increase of RMB71.7 million from operating profit before income tax due to the increase in sales as a result of the increased production capacity from the Chuzhou production line.

Changes of cash inflow from operating activities during the Track Record Period are mainly due to the following factors:

The steady increase of inventories during the Track Record Period which offsets partial cash inflow was mainly due to the increase of raw material purchases for the increasing production, primarily as two new oil well pipe production lines were launched in 2005 and 2006 respectively.

Generally the Company only delivers its products after receiving advance payments from the customers. Some customers usually make prepayment by way of endorsing 6-month bank drafts rather than by cash, hence the Company recorded undue notes receivable on the balance sheet date if it did not endorse the received bank drafts to its suppliers at the time. The sales of the Company significantly increased throughout the Track Record Period, which caused the increase in trade receivables balance from RMB7.8 million as at 31 December 2004 to RMB10.2 million as at 31 December 2005, as well as the increase in note receivables balance from RMB0.1 million as at 31 December 2004 to RMB12.3 million as at 31 December 2005. The decrease of trade receivables balance as at 30 June 2006 was mainly due to the Company's strict control on pursuing customers to make adequate advance payment before delivery of products during the six months ended 30 June 2006 so as to keep more cash on hand. The decrease of note receivables balance as at 30 June 2006 is primarily due to the Company endorsing more bank drafts in order to purchase more raw materials for future production.

As at 31 December 2004, the Company obtained 6-month interest-free bank drafts which were used to pay off the creditors. RMB12 million cash deposited with the bank was pledged to the bank, which increased the balance of prepayments, deposits and other receivable. After the expiry of the 6-month interest-free bank drafts in 2005, the Company has not requested any new bank drafts. In this connection, no cash deposits for bank drafts was incurred and recorded in the balance of prepayments, deposits and other receivables. In addition, the Company paid more prepayment as at 31 December 2004 for the purchase of raw materials with the launch of the new oil well pipe production line in Chuzhou in early 2005. As the Company urged the suppliers to deliver more raw materials for its increasing production after 1 January 2005, the prepayment balance for raw materials steadily decreased primarily as a result of the increase in stocking of raw materials as at each of 31 December 2004, 31 December 2005 and 30 June 2006.

The balance of trade and notes payables steadily increased as at 31 December 2004 and 2005, primarily as a result of the increase in raw material purchases to accommodate the increasing production. The Company endorsed more bank drafts to the suppliers as at 30 June 2006 for payment of the raw material purchases, therefore the balance of trade and notes payables decreased accordingly.

With the significant increase in sales during the Track Record Period, the Company received more prepayment from its customers, which resulted in a significant increase in the balance of advance from customers. In addition, a non-interest bearing advance from Tianda Trade Union approximately of RMB17 million also increased the balance of other payables as at 30 June 2006 which was repaid in full by the Company in July 2006.

Investing Activities

Net cash outflow from investing activities increased by RMB11.3 million from RMB17.8 million for the six months ended 30 June 2005 (unaudited) to RMB29.1 million for the six months ended 30 June 2006. The increase of RMB11.3 million was primarily attributed to the purchase of the equipments in Chuzhou for the purpose of setting up heat treatment and threading production lines of oil well pipes.

Net cash outflow from investing activities increased by RMB28.7 million from RMB72.5 million in 2004 to RMB101.2 million in 2005, primarily attributed to the payment of RMB51.4 million for the Chuzhou production line of oil well pipe. For the two years ended 31 December 2005, approximately RMB46.6 million and RMB50.0 million were shared with Tianda Holding prior to the completion of the reorganisation and restructuring as stated in the "Business" section.

Financing Activities

Net cash inflow from financing activities decreased by RMB21.3 million from a net cash inflow of RMB16.6 million for the six months ended 30 June 2005 (unaudited) to a net cash outflow of RMB4.7 million for the six months ended 30 June 2006. The decrease of RMB21.3 million was primarily attributable to new bank loan of RMB20.0 million borrowed in 2005 for the purpose of general working capital to accommodate the increased production volume but no new loans was taken out in 2006.

Net cash inflow from financing activities decreased by RMB31.7 million from RMB58.5 million in 2004 to RMB26.8 million in 2005, primarily attributed to an increase of RMB45.0 million in new bank loans and borrowings in 2004 used to finance the increase in working capital. On the other side, Tianjin Dajin injected capital of RMB30.0 million in 2005, which was offset by the higher repayment of dividends of RMB17.0 million as a result of a declaration of dividend in 2005.

MARKET RISKS

Interest rate risk

The Company's exposure to market risk for changes in interest rates relates primarily to its interest-bearing loans and borrowings. The Company does not use derivative financial instruments to hedge its interest rate risk.

Credit risk

It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Company does not offer credit terms without the specific approval of management. The Company has no exposure to significant concentration of credit risk.

With respect to credit risk arising from cash and cash equivalents, substantial amounts of the cash and bank balances are deposited with China Construction Bank, Bank of China, Industrial and Commercial Bank of China and Agricultural Bank of China.

Since the Company trades only with recognised third parties, there is no requirement for collateral.

Foreign Exchange Rate Risk

Since 2003, the Company has begun selling its products to overseas customers where payments have been made in US$. The Company's turnover from overseas customers may be affected to the extent its customers' payment are subject to foreign currency fluctuations. See "Risk Factor – Risks Relating to China – The Company is subject to the foreign exchange control imposed by the PRC government."

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2006

The following sets forth certain forecasts of the Company for the year ending 31 December 2006. See Appendix III for further information.

Forecast profit attributable to equity holders
of the Company[(1)] .... not less than RMB110.0 million

Forecast earnings per Share[(2)]
(a) weighted average[(3)] .... not less than RMB0.31 (HK$0.31)
(b) pro forma[(4)] .... not less than RMB0.23 (HK$0.22)

Notes:

(1) The forecast profit attributable to equity holders of the Company for the year ending 31 December 2006 is based on our audited results for the six months ended 30 June 2006, our unaudited results for the three months ended 30 September 2006 and a forecast of the results for the three months ending 31 December 2006. The bases and assumptions on which the above profit forecast has been prepared are set out in Appendix III.

(2) Forecast earnings per Share is converted into Hong Kong dollars at the Exchange of HK$1.00 to RMB1.01 prevailing on the Latest Practicable Date.

(3) The calculation of weighted average forecast earnings per Share is based on the forecast profit attributable to equity holders of the Company of RMB110.0 million for the year ending 31 December 2006 on the basis of the issued share capital of 352,376,000 Shares, being the weighted average number of Shares in issue during the year. The Shares to be issued under the International Placing are assumed to be issued on 30 November 2006. This calculation assumes that Over-allotment Option will not be exercised.

(4) The calculation of pro forma forecast earnings per Share is based on the forecast profit attributable to equity holders of the Company for the year ending 31 December 2006 and assuming that the Company had been listed on the Hong Kong Stock Exchange since 1 January 2006 and a total of 485,714,000 Shares were in issue throughout the year. This calculation assumes that the Over-allotment Option will not be exercised.

DISCLOSURE UNDER CHAPTER 17 OF THE GEM LISTING RULES

The Directors have confirmed that, as at the Latest Practicable Date, they are not aware of any circumstances which would give rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

PROPERTY INTERESTS

Particulars of the Company's property interests are set out in Appendix IV to this prospectus. DTZ Debenham Tie Leung has valued the property interests of the Company as at 30 September 2006. The text of its letter, summary of valuations and the valuation certificates are set at in Appendix IV to this prospectus.

According to the valuation by DTZ Debenham Tie Leung Limited, the valuation of the Company's property interests as at 30 September 2006 amounted to RMB151,900,000. This resulted in revaluation surplus of approximately RMB31,796,000 when comparing with the net book value of approximately RMB120,104,000 as at 30 September 2006. The above adjustment does not take into account the surplus arising from the revaluation of the Company's property interests. Such revaluation surplus will not be included in the Company's consolidated accounts for the year ended 31 December 2006. If the valuation surplus was recorded in the Company's financial statements, the Company's depreciation expense for the year ending 31 December 2006 would be increased by approximately RMB600,000.

A reconciliation of the net book value of the relevant property interests as at 30 June 2006 to their market value as required under the Rule 8.30 of the GEM Listing Rules is as follows:

	RMB'000
Net book value as at 30 June 2006	120,914
Depreciation for the 3 months ended 30 September 2006	810
Net book value as at 30 September 2006	120,104
Valuation surplus	31,796
Valuation amounts as at 30 September 2006	151,900

The net book value of RMB120.9 million as at 30 June 2006 consisted of buildings of RMB92.4 million recorded in property, plant and equipment and prepaid land premiums of RMB28.5 million in the balance sheets of the Company.

DISTRIBUTABLE RESERVES

As at 30 June 2006, there were approximately RMB118.2 million reserves available for distribution to the equity holders of the Company.

The statutory accounts of PRC subsidiaries are prepared in accordance with the accounting principles and financial regulations applicable to enterprises established in the PRC ("PRC GAAP"). The dividends which PRC subsidiaries can legally distribute are determined by reference to the profits reflected in the PRC statutory accounts. These profits may differ from those reflected in the audited accounts of the Company which are prepared in accordance with IFRS. The dividends to be distributed by the Company will be determined based on the lower of profits determined under IFRS and PRC GAAP.

DIVIDEND POLICY

On 20 March 2006, the Company declared dividends representing approximately 46.7% of the distributable reserves as at 31 December 2005. Such distributable profit was based on the audited accounts of the Company for the period ended 31 December 2005 which showed a positive retained earnings as at 31 December 2005 after the allocation of 10% and 5% of its profit after tax, as determined in accordance with PRC GAAP, to the statutory surplus reserve ("SSR") and the statutory public welfare fund ("PWF"), respectively.

The Company declared a dividend of RMB17.0 million in 2005 representing approximately 23% of the net profit for 2004 and declared a dividend of approximately RMB56.7 million in 20 March 2006 representing approximately 78.9% of the distributable profit for 2005. The directors consider that, taking into account of the available banking facilities and internal financial resources at that time, the payment of such dividend did not affect the sufficiency of the Company's working capital. The Company's PRC legal adviser has confirmed that the distribution of dividends of the Company in 2004, 2005 and 2006 was legal pursuant to PRC laws and regulations enforced at that time and complied with the articles of association of Company. Of the RMB56.7 million dividend declared in 2006, RMB1.6 million was paid to Tianda Trade Union by way of cash and the balance to Tianda Holding by way of set off to the funds due from Tianda Holding.

The Directors expect that in future, interim and final dividends (if any) will be paid in or about September and April of each year respectively. The Company currently intends to pay annual cash dividends of about 25% of the profit attributable to equity holders of the Company for the applicable year. However, any decision to pay such dividends will be made at the discretion of the Board and will be based on the Company's earnings, cash flow, financial condition, capital requirements and any other conditions that the Board deems relevant.

Should dividends be declared, the holders of the H Shares will share proportionately, on a per Share basis, all dividends and other distributions declared by the board of Directors after the listing of the H Shares on GEM. For holders of the H Shares, cash dividend payments, if any, shall be declared by the Board in RMB and paid in Hong Kong dollars. If the Company does not have sufficient foreign exchange reserves to pay dividends in Hong Kong dollars, it intends to exchange the required Hong Kong dollars from authorised banks in the PRC or through other legal means. The declaration, payment, and amount of dividends will be subject to the discretion of the Directors and will be dependent on the Company's earnings, financial condition, cash requirements and availability, the provisions of relevant laws and all other relevant factors. There can be no assurance that the Company will be able to declare or distribute any dividend in the amount set out in any plan of the

Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Company in the future.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The unaudited pro forma adjusted net intangible assets has been prepared, on the basis of the notes set out below, to illustrate how the International Placing may have affected the Company's net tangible assets had it occurred as at 30 June 2006.

The unaudited pro forma adjusted net tangible assets has been prepared for illustrative purpose only and, because of its nature, may not give a true picture of the financial position and results of the Company.

	Audited net tangible assets of the Company as at 30 June 2006	**Estimated net proceeds from the International Placing**	**Unaudited pro forma adjusted net tangible assets**	**Unaudited pro forma adjusted net tangible assets per Share**	**Unaudited pro forma adjusted net tangible assets per Share**
	RMB'000	*RMB'000*	*RMB'000*	*(RMB)*	*(HK$)*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*
Based on an Offer Price of HK$2.40 per H Share	308,061 (equivalent to about HK$305,011)	312,811 (equivalent to about HK$309,714)	620,872	1.28	1.27
Based on an Offer Price of HK$3.00 per H Share	308,061 (equivalent to about HK$305,011)	401,113 (equivalent to about HK$397,142)	709,174	1.46	1.45

Notes:

(1) The financial information as at 30 June 2006 is extracted from the balance sheet of the Company set out in "Appendix I – Accountants' Report" to this prospectus.

(2) The unaudited pro forma adjusted net tangible assets reflects the estimated proceeds from the International Placing, net of related expenses, to be received by the Company. This has been shown on the basis of both the upper and lower limits of the range of Offer Price, being HK$2.40 and HK$3.00 per Share.

(3) The number of Shares is based on a total of 485,714,000 Shares issued and outstanding during the entire year, adjusted as if the International Placing had occurred at 1 January 2006, excluding any Shares that might be issued under the Over-allotment Option.

(4) The translation of Hong Kong dollars into Renminbi was at HK$1.00 to RMB1.01.

(5) Our property interests as of 30 September 2006 have been valued by DTZ Debenham Tie Leung Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV "Property Valuation". The above adjustment does not take into account the surplus attributable to us arising from the revaluation of our property interests amounting to RMB32 million. The revaluation surplus will not be incorporated in our financial statements for the six months ended

30 June 2006. If the valuation surplus was recorded in our financial statements, our depreciation expense for the year ending 31 December 2006 would be increased by approximately RMB0.6 million.

NO MATERIAL ADVERSE CHANGE

The Directors confirm that they have performed sufficient due diligence on the Company to ensure that, up to the date of this prospectus, there has been no material adverse change in the financial position or prospects of the Company since 30 June 2006 (being the date to which the latest audited financial statements of the Company have been made up) and there is no event since 30 June 2006 which would materially and adversely affect the information shown in Appendix I "Accountants' Report" to this prospectus.

INDEBTEDNESS

As at 30 September 2006 (being the latest practicable date for preparing the information in this section), the Company's total indebtedness amounted to RMB131 million as analysed below:

		RMB million
Bank loans, guaranteed	*(a)*	110

(a) As at 30 September 2006, the Company's bank loans amounted to RMB110 million, of which RMB5 million is repayable by 8 December 2006, RMB20 million is repayable by 14 September 2007, RMB30 million is repayable by 10 March 2007, RMB20 million is repayable by 26 April 2007, RMB18 million is repayable by 30 October 2008, and the remaining of RMB17 million is repayable by 16 November 2008. All the above bank loans are guaranteed by 安徽天大企業(集團)有限公司 (Tianda Holding) and the relevant banks have in-principle agreed to the release of such guarantees upon listing. The Directors and related banks have confirmed that these bank guarantees will be released before listing.

	RMB million
Notes payable:	21

As at 30 September 2006, the Company has the following capital commitments:

	RMB million
Acquisition of property, plant and equipment	67

All of these commitments were contracted but not provided for.

As at 30 September 2006, the Company has the following contingent liabilities:

	RMB million
Bank drafts endorsed with recourse	206

The Directors have confirmed that save as disclosed above, as at the close of business on 30 September 2006, the Company did not have outstanding loan capital, bank borrowings and liabilities under acceptances or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits or hire purchase commitments, guarantees or other material contingent liabilities.