ERNST & YOUNG
安永會計師事務所

18th Floor
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8 Finance Street
Central
Hong Kong

27 November 2006

The Directors
Anhui Tianda Oil Pipe Company Limited
Cazenove Asia Limited

Dear Sirs,

We set out below our report on the financial information regarding Anhui Tianda Oil Pipe Company Limited (安徽天大石油管材股份有限公司, formerly known as 安徽天大企業集團天長市無縫鋼管廠 (Tianda Tianchang Seamless Steel Pipe Factory) and 安徽天大企業集團特種鋼管有限公司 (Tianda Special Steel Pipe Company), hereinafter the "Company") for the years ended 31 December 2004 and 2005 and the six months ended 30 June 2006 (the "Relevant Periods") and the six months ended 30 June 2005 for inclusion in the prospectus of the Company dated 27 November 2006 (the "Prospectus") in connection with the international placing of the Company.

As set out in the section headed "History and Active Business Pursuits – History and Development" in the Prospectus, Tianda Tianchang Seamless Steel Pipe Factory was incorporated as a collective enterprise in June 1999. On 23 June 2004, the Company was incorporated by 安徽天大企業(集團)有限公司 (the "Tianda Holding") as a limited liability company named Tianda Special Steel Pipe Company by taking over the business undertakings and the assets and liabilities of Tianda Tianchang Seamless Steel Pipe Factory (the "Reorganisation"). On 13 April 2006, the Company was re-registered as a joint stock company with limited liability by the issuance of 170,000,000 fully paid Domestic Shares with a nominal value of RMB1 each to the then shareholders.

The Company is principally engaged in the design, manufacturing and sale of specialized seamless pipes for the oil and natural gas industry, including oil well pipes (oil transfer pipes and casing pipes) and petrochemical pipes, as well as other specialized seamless pipes for vessels, boilers and other purposes. The registered office and principal place of business of the Company is Zhenxing Road, Tongcheng Town, Tianchang City, Anhui Province, the People's Republic of China (the "PRC").

The financial statements of the Company for the years ended 31 December 2004 and 2005, which were prepared in accordance with the accounting principles and financial regulations applicable to PRC enterprises (the "PRC GAAP"), were audited by Ernst & Young Hua Ming, Certified Public Accountants in the PRC. No audited financial statements of the Company for the six months ended 30 June 2006, which were prepared in accordance with the PRC GAAP, have been issued.

The financial information set out in this report, including the income statements, statements of changes in equity and cash flow statements of the Company for the years ended 31 December 2004 and 2005 and the six months ended 30 June 2006 and the balance sheets of the Company as at 31 December 2004 and 2005 and 30 June 2006, together with the notes thereto (collectively referred to as the "Financial Information") 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 the International Financial Reporting Standards (the "IFRSs").

The Financial Information and financial statements which give a true and fair view are the responsibility of the Directors of the Company who approve their preparation and issuance. The Directors of the Company are responsible for the preparation of the financial statements and, where appropriate, management accounts which give a true and fair view. In preparing the Financial Information, financial statements and management accounts which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that the judgements and estimates made are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated. It is our responsibility to form an independent opinion solely on the Financial Information and to report our opinion to solely you as a body and for no other purpose.

We have audited the financial statements of the Company for the Relevant Periods as prepared in accordance with IFRSs.

We have examined the audited financial statements of the Company for the Relevant Periods in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Pubic Accountants (the "HKICPA") and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the HKICPA.

The income statement, cash flow statement and statement of changes in equity of the Company for the six months ended 30 June 2005 together with the notes thereto have been extracted from the Company's unaudited financial information for the period (the "30 June 2005 Comparative Financial Information"), and was prepared by the Directors of the Company solely for the purpose of this report.

For the purpose of this report, we have performed a review of the 30 June 2005 Comparative Financial Information in accordance with Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the HKICPA. A review consists principally of making enquires of management and applying analytical procedures to the financial information and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as test of controls and verification of assets and liabilities and transactions. It is substantially less in scope and provides a lower level of assurance than the audit or examination procedures described in the preceding paragraphs and accordingly, we do not express an opinion on the 30 June 2005 Comparative Financial Information.

In our opinion, the Financial Information together with the notes set out below, for the purpose of this report, gives a true and fair view of the results and cash flows of the Company for each of the Relevant Periods and of the balance sheets of the Company as at 31 December 2004 and 2005 and 30 June 2006.

On the basis of our review, for the purpose of this report, we are not aware of any material modification that should be made to the income statement, cash flow statement and statement of changes in equity of the Company as set out in the 30 June 2005 Comparative Financial Information.

I. FINANCIAL INFORMATION

Income statements

		Year ended 31 December		Six months ended 30 June	
	Notes	**2004**	**2005**	**2005**	**2006**
		RMB'000	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Revenue	*4*	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	*5*	217	2,290	514	1,588
Finance costs	*5*	(2,810)	(6,163)	(3,391)	(3,092)
Share of loss of an associate	*14*	(16)	(17)	(1)	(23)
Profit before income tax	*6*	24,599	96,265	31,987	81,062
Income tax income/ (expense)	*8*	49,501	(24,391)	(11,637)	(27,640)
Profit attributable to the equity holders		74,100	71,874	20,350	53,422
Dividends	*10*	886	17,041	17,041	56,663
Earnings per share – basic	*9*	RMB0.93	RMB0.26	RMB0.08	RMB0.16

Balance sheets

		31 December		30 June
	Notes	**2004**	**2005**	**2006**
		RMB'000	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	*12*	206,084	230,689	263,758
Prepaid land premiums	*13*	11,091	10,852	28,460
Investment in an associate	*14*	471	454	–
Deferred tax assets	*8*	57,796	38,551	16,057
Total non-current assets		275,442	280,546	308,275
Current assets				
Inventories	*15*	27,907	131,385	198,812
Trade and notes receivables	*16*	8,096	22,214	10,571
Prepayments, deposits and other receivables	*17*	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
Current liabilities				
Interest-bearing loans and borrowings	*18*	25,000	25,000	75,000
Trade and notes payables	*19*	24,549	45,874	30,382
Income tax payable	*8*	923	914	3,237
Accrued liabilities and other payables	*20*	120,008	117,559	120,252
Total current liabilities		170,480	189,347	228,871
Net current assets/(liabilities)		(83,973)	115,756	34,786
Total assets less current liabilities		191,469	396,302	343,061
Non-current liabilities				
Interest-bearing loans and borrowings	*18*	65,000	85,000	35,000
Equity attributable to equity holders				
Paid-up capital/share capital	*21*	40,000	170,000	170,000
Reserves	*22*	86,469	141,302	138,061
Total equity		126,469	311,302	308,061
Total equity and liabilities		361,949	585,649	571,932

Statements of changes in equity

	Notes	Year ended 31 December 2004	Year ended 31 December 2005	Six months ended 30 June 2005	Six months ended 30 June 2006
		RMB'000	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Attributable to equity holders					
Paid-up capital/share capital	*21*				
At beginning of year/period		40,000	40,000	40,000	170,000
Additions		–	130,000	100,000	–
At end of year/period		40,000	170,000	140,000	170,000
Statutory surplus reserve	*22*				
At beginning of year/period		2,665	4,295	4,295	13,269
Transferred from retained earnings		1,630	8,974	–	–
At end of year/period		4,295	13,269	4,295	13,269
Statutory public welfare fund	*22*				
At beginning of year/period		1,332	2,147	2,147	6,634
Transferred from retained earnings		815	4,487	–	–
Transferred to general surplus reserve		–	–	–	(6,634)
At end of year/period		2,147	6,634	2,147	–
General surplus reserve	*22*				
At beginning of year/period		–	–	–	–
Transferred from statutory public welfare fund		–	–	–	6,634
At end of year/period		–	–	–	6,634

	Notes	Year ended 31 December 2004	Year ended 31 December 2005	Six months ended 30 June 2005	Six months ended 30 June 2006
		RMB'000	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
Retained earnings					
At beginning of year/period		9,258	80,027	80,027	121,399
Net profit for the year/period		74,100	71,874	20,350	53,422
Transferred to statutory surplus reserve		(1,630)	(8,974)	–	–
Transferred to statutory public welfare fund		(815)	(4,487)	–	–
Dividends	*10*	(886)	(17,041)	(17,041)	(56,663)
At end of year/period		80,027	121,399	83,336	118,158
Reserves		86,469	141,302	89,778	138,061
Total equity		126,469	311,302	229,778	308,061

Cash flow statements

	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(unaudited)	
Cash flows from operating activities				
Profit from operations before income tax	24,599	96,265	31,987	81,062
Adjustments for:				
Share of loss of an associate	16	17	1	23
Gain from sale of an equity interest in an associate	–	–	–	(69)
Depreciation and amortisation	1,797	18,460	8,206	10,863
Provision for bad and doubtful debts	–	235	–	553
Provision for obsolete inventories	–	1,800	1,800	–
Interest expenses	2,810	6,163	3,391	3,092
Interest income	(217)	(2,290)	(514)	(1,588)
Operating profit before working capital changes	29,005	120,650	44,871	93,936
Increase in inventories	(2,911)	(105,278)	(79,206)	(67,427)
Decrease/(increase) in trade and notes receivables	(1,625)	(14,353)	(21,549)	11,643
Decrease/(increase) in prepayments, deposits and other receivables	(32,541)	16,938	11,963	3,424
Increase/(decrease) in trade and notes payables	20,543	21,325	28,456	(15,492)
Increase in accrued liabilities and other payables	10,934	49,453	34,634	26,044
Cash generated from operating activities	23,405	88,735	19,169	52,128
Income tax paid	(8,788)	(5,155)	(2,558)	(2,823)
Net cash inflow from operating activities	14,617	83,580	16,611	49,305

	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
			(unaudited)	
Net cash inflow from operating activities	14,617	83,580	16,611	49,305
Cash flows from investing activities				
Interest received	217	99	57	39
Proceeds from sale of an equity interest in an associate	–	–	–	500
Purchases of property, plant and equipment and prepaid land premiums	(26,117)	(51,368)	(22,268)	(48,339)
Funds collected from/(transferred to) Tianda Holding	(46,611)	(49,962)	4,373	18,748
Net cash outflow from investing activities	(72,511)	(101,231)	(17,838)	(29,052)
Cash flows from financing activities				
New interest-bearing loans and borrowings	90,000	45,000	20,000	–
Repayment of interest-bearing loans and borrowings	(25,000)	(25,000)	–	–
Interest paid	(5,658)	(6,163)	(3,391)	(3,092)
Dividends paid	(886)	(17,041)	–	(1,621)
Capital contribution by an equity holder	–	30,000	–	–
Net cash inflow/(outflow) from financing activities	58,456	26,796	16,609	(4,713)
Net increase in cash and cash equivalents	562	9,145	15,382	15,540
Cash and cash equivalents at beginning of year/period	3,042	3,604	3,604	12,749
Cash and cash equivalents at end of year/period	3,604	12,749	18,986	28,289

II. NOTES TO FINANCIAL INFORMATION

1. Basis of presentation

The Financial Information is based on the audited financial statements of the Company and is prepared on a continuing basis as if the Reorganisation had been completed as at the beginning of the Relevant Periods.

The Financial Information has been prepared in accordance with IFRSs, which comprise standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect, and under the historical cost convention. This basis of accounting differs from that used in the statutory and management accounts of the Company, which were prepared in accordance with the PRC GAAP.

2. Principal accounting policies

Impact of issued but not yet effective IFRSs

The Company has not applied the following new and revised IFRSs that has been issued but is not yet effective, in the Financial Information unless otherwise stated. These IFRSs are effective for annual periods beginning on or after 1 January 2007.

IAS 1 amendment	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures

The revised standards will affect the disclosures about qualitative information about the Company's objective, policies and processes for managing capital; quantitative data about what the Company's regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

Investment in an associate

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Company has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Company's share of the post-acquisition results and reserves of an associate is included in the income statement and reserves, respectively. The Company's investment in an associate is stated in the balance sheet at the Company's share of net assets under the equity method of accounting, less any impairment losses.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in future economic benefits expected to be obtained from the use of the item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

Depreciation of a heater kiln included in plant and machinery with a gross cost of RMB19,600,000 is calculated on a double-declining-balance basis by reference to its expected physical wear and tear in an overloaded operation. Depreciation of the remaining property, plant and equipment is calculated on a straight-line basis to write-off the cost of each item of property, plant and equipment over the expected useful life of the asset, after taking into account its estimated residual value, as follows:

Buildings	35 years
Plant and machinery	10 years
Motor vehicles	10 years
Office equipment and other equipment	5 to 10 years

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate, at each financial year end.

An item of property, plant and equipment is derecognised upon disposal or when no further economic benefits are expected to arise from the continued use of the item. Any gain or loss arising on the derecognition of the item (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

Construction in progress

Construction in progress represents property, plant and machinery during the course of acquisition and/or under construction and is stated at cost less any impairment losses. The acquisition period of an asset includes the period when the asset is under construction, installation and testing. Cost comprises direct costs of acquisition or construction, installation and testing as well as interest expenses on the related borrowings during the period of construction, installation and testing.

Construction in progress is transferred to the appropriate category of property, plant and equipment when it is completed and ready for its intended use. No depreciation is provided on construction in progress until the asset is completed and is ready for its intended use.

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Company is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the unexpired lease terms of 50 years.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, that is, assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use.

Other borrowing costs are recognised as expenses when incurred.

Impairment of assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in the period in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is credited to the income statement in the period in which it arises. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Research and development costs

Research and development costs are expensed as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliability the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on weighted average basis. The costs of raw materials, low value consumptions and merchandise comprise the purchasing costs of the materials and merchandises. The costs of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads.

Net realisable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

Trade and other receivables

Trade receivables, which generally have credit terms of 1 to 30 days are recognised and carried at original invoice amounts less allowances for any uncollectible amounts.

Provision is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

Prepayments, deposits and other receivables are recognised and carried at cost less allowance for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Receivables from related parties are recognised and carried at cost.

Trade and other payables

Liabilities for trade and other payables are carried at cost which is the fair value of the consideration to be paid in future for goods and services received, whether or not billed to the Company.

Amounts due to related parties are recognised and carried at cost.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the income statement.

Interest-bearing loans and borrowings

All interest-bearing loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest rate method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when liabilities are derecognised, as well as through the amortisation process.

Dividends

Dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Foreign currency transactions

The Company's functional and presentation currency is Renminbi ("RMB").

Foreign currency transactions are recorded at the applicable exchange rates ruling at the transaction dates.

Retirement benefits

Obligatory retirement benefits in the form of contributions under a defined contribution retirement scheme administered by local government agencies are charged to the income statement as incurred.

Cash and cash equivalents

Cash and cash equivalents in the balance sheet comprise cash at banks and on hand and short term deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above.

Derecognition of financial assets and liabilities

Financial assets

A financial asset is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the rights to receive cash flows from the asset, but has assumed an obligation to pay in full without material delay to a third party under a "pass-through" arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the income statement or in equity if it relates to items that are recognised in the same or a different period directly in equity.

Current tax assets and liabilities for the current year and prior periods are measured at the amounts expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with an investment in an associate, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred income tax asset relating to the deductible temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with an investment in an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profits will be available to allow all or part of the deferred tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

Interest income

Revenue is recognised on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

Government grants

Government grants are recognised at fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the period necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual instalments.

Related parties

A party is considered to be related to the Company if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Company; (ii) has an interest in the Company that gives it significant influence over the Company; or (iii) has joint control over the Company;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Company or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Use of estimates and assumptions

The preparation of the financial statements in conformity with IFRSs requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

3. Segment information

The primary format for reporting the segment information is by business segments, with each segment representing a product line. The business segments are organised as follows:

- Manufacturing of seamless steel pipes
- Sourcing and distribution of seamless steel pipes

There are no intersegment sales. No further geographical segment information is presented as over 97% of the Company's revenue for the six months ended 30 June 2006 (year ended 31 December 2005: 97%; year ended 31 December 2004: 99%) is derived from customers based in the PRC.

Certain assets and all liabilities can not be directly attributable to individual segments and it is impractical to allocate them to the segments.

Year ended 31 December 2004

	Manufacturing of seamless steel pipes	Sourcing and distribution of seamless steel pipes	Total
	RMB'000	*RMB'000*	*RMB'000*
Revenue	150,839	182,806	333,645
Results			
Segment results	22,277	23,315	45,592
Unallocated other income			1
Unallocated expenses			(18,385)
Net finance costs			(2,593)
Share of loss of an associate			(16)
Profit before income tax			24,599
Income tax income			49,501
Net profit for the year			74,100
Assets			
Segment assets	235,320	9,762	245,082
Investment in an associate			471
Unallocated assets			116,396
Total assets			361,949
Other segment information			
Capital expenditures	124,360	–	124,360
Depreciation and amortisation	1,797	–	1,797

Year ended 31 December 2005

	Manufacturing of seamless steel pipes	Sourcing and distribution of seamless steel pipes	Total
	RMB'000	*RMB'000*	*RMB'000*
Revenue	675,517	231,073	906,590
Results			
Segment results	120,234	23,947	144,181
Unallocated other income			8
Unallocated expenses			(44,034)
Net finance costs			(3,873)
Share of loss of an associate			(17)
Profit before income tax			96,265
Income tax expense			(24,391)
Net profit for the year			71,874
Assets			
Segment assets	362,417	10,509	372,926
Investment in an associate			454
Unallocated assets			212,269
Total assets			585,649
Other segment information			
Capital expenditures	42,826	–	42,826
Depreciation and amortisation	18,460	–	18,460
Impairment of assets recognised	2,035	–	2,035

Six months ended 30 June 2005 (unaudited)

	Manufacturing of seamless steel pipes *RMB'000*	**Sourcing and distribution of seamless steel pipes** *RMB'000*	**Total** *RMB'000*
Revenue	278,842	111,761	390,603
Results			
Segment results	39,545	15,195	54,740
Unallocated other income			–
Unallocated expenses			(19,875)
Net finance costs			(2,877)
Share of loss of an associate			(1)
Profit before income tax			31,987
Income tax expense			(11,637)
Net profit for the period			20,350
Assets			
Segment assets	319,635	8,515	328,150
Investment in an associate			470
Unallocated assets			187,597
Total assets			516,217
Other segment information			
Capital expenditures	13,868	–	13,868
Depreciation and amortisation	8,206	–	8,206
Impairment of assets recognised	1,800	–	1,800

Six months ended 30 June 2006

	Manufacturing of seamless steel pipes	Sourcing and distribution of seamless steel pipes	Total
	RMB'000	*RMB'000*	*RMB'000*
Revenue	463,278	132,851	596,129
Results			
Segment results	92,075	16,171	108,246
Unallocated other income			523
Unallocated expenses			(26,180)
Net finance costs			(1,504)
Share of loss of an associate			(23)
Profit before income tax			81,062
Income tax expense			(27,640)
Net profit for the period			53,422
Assets			
Segment assets	478,127	12,903	491,030
Investment in an associate			–
Unallocated assets			80,902
Total assets			571,932
Other segment information			
Capital expenditures	61,540	–	61,540
Depreciation and amortisation	10,863	–	10,863
Impairment of assets recognised	553	–	553

4. Revenue

Revenue represents the net invoiced value of goods sold, net of value-added tax, after allowance for returns, trade discounts and various types of government surcharges where applicable.

	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Sales of goods	334,462	907,519	391,147	597,599
Less: Government surcharges	(817)	(929)	(544)	(1,470)
Revenue	333,645	906,590	390,603	596,129

5. Finance revenue and costs

	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Finance revenue				
Interest from banks	217	99	57	39
Interest on balance due from Tianda Holding	–	2,191	457	1,549
Total	217	2,290	514	1,588
Finance costs				
Interest on bank loans wholly payable within five years	4,202	6,163	3,391	3,092
Interest on balance due to Tianda Holding	1,456	–	–	–
Total interest expense	5,658	6,163	3,391	3,092
Less: Interest capitalised	(2,848)	–	–	–
Total	2,810	6,163	3,391	3,092

6. Profit before income tax

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

	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Costs of sales	288,053	762,409	335,863	487,883
Depreciation	1,778	18,221	8,071	10,625
Amortisation of prepaid land premiums	19	239	135	238
Provision for bad and doubtful debts	–	235	–	553
Provision for obsolete inventories	–	1,800	1,800	–
Research and development costs	405	526	160	1,012
Auditors' remuneration	2	2	–	–
Staff costs (including Directors', supervisors' and senior executives' remuneration as set out in note 7):				
Salaries and other staff costs	5,877	10,579	5,093	8,434
Retirement costs – defined contribution fund	616	1,077	503	560

7. Directors', supervisors' and senior executives' remuneration

Details of the remuneration of Directors and supervisors during the Relevant Periods are as follows:

	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Fees	–	–	–	–
Other emoluments				
Salaries, allowances, bonuses and other benefits	–	–	–	57
Pension scheme contributions	–	–	–	3
	–	–	–	60

An analysis of Directors' and supervisors' remuneration by each individual is as follows:

	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2005**	**2006**
Name	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Directors:				
Ye Shi Qu	–	–	–	24
Zhang Hu Ming	–	–	–	24
Zhang Jian Huai	–	–	–	–
Xie Yong Yang	–	–	–	–
Liu Peng	–	–	–	–
	–	–	–	48
Supervisors:				
Yong Jin Gui	–	–	–	–
Yang Quan Fu	–	–	–	–
Liu Jun Chang	–	–	–	12
	–	–	–	12

The numbers of directors and supervisors and non-directors and non-supervisors employees included in the five highest paid employees during the Relevant Periods are as follows:

	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2005** *(unaudited)*	**2006**
Directors and supervisors	–	–	–	2
Non-directors and non-supervisors employees	5	5	5	3
	5	5	5	5

The details of the remuneration of the remaining non-director, non-supervisor five highest paid employees for the Relevant Periods are as follows:

	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Salaries, allowances, bonuses and other benefits	113	120	61	52
Pension scheme contributions	5	6	3	3
	118	126	64	55

8. Income tax

No provision for Hong Kong profits tax has been made as the Company had no assessable profits arising in Hong Kong during the Relevant Periods.

The Company was subject to income tax at the rate of 33% during the Relevant Periods.

The major components of income tax expense for the Relevant Periods are as follows:

	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Current income tax charge	8,295	5,146	5,146	5,146
Deferred income tax relating to origination and reversal of temporary differences	(57,796)	19,245	6,491	22,494
Income tax expense/(income) reported in the income statement	(49,501)	24,391	11,637	27,640

A reconciliation of the tax expense/(income) applicable to profit before tax using the statutory rate for the country in which the Company is domiciled to the tax expense/(income) at the effective tax rate is as follows:

	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Accounting profit before income tax	24,599	96,265	31,987	81,062
Tax at an applicable tax rate of 33%	8,118	31,767	10,556	26,750
Investment tax credits in respect of purchases of domestically-produced property, plant and equipment *(note (1))*	(57,796)	(8,900)	–	–
Tax effect of expense items which are not deductible for income tax purposes	177	1,524	1,081	890
Income tax expense/(income) reported in the income statement	(49,501)	24,391	11,637	27,640
Effective tax rate	(201.23%)	25.34%	36.38%	34.10%

The movements in income tax payable during the Relevant Periods are as follows:

	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
At beginning of year/period	1,416	923	923	914
Provision for the year/period	8,295	5,146	5,146	5,146
Payment during the year/period	(8,788)	(5,155)	(2,558)	(2,823)
At end of year/period	923	914	3,511	3,237

The movements in deferred tax assets arising from the investment tax credits during the Relevant Periods are as follows:

	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
At beginning of year/period	–	57,796	57,796	38,551
Deferred tax credited/(charged) to the income statement during the year/period	57,796	(19,245)	(6,491)	(22,494)
At end of year/period	57,796	38,551	51,305	16,057

Note (1) The Company was granted of investment tax credits of RMB57,796,000 and RMB8,900,000 for the purchases of domestically-produced property, plant and equipment in 2004 and 2005. In accordance with the relevant approval documents from the local PRC tax authorities, such investment tax credits can be utilised to offset incremental income tax over the approved tax base within five years starting from the following year of the purchases. Since there is reasonable assurance that the Company will comply with all the conditions of the tax credits, and it is probable that future taxable profit will be available against which the tax credits can be utilised, a deferred tax asset was recognised.

9. Earnings per share

The calculation of basic earnings per share are based on the net profit for the year/period attributable to the equity holders and the weighted average number of Domestic Shares outstanding during the Relevant Periods. 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 Relevant Periods.

Diluted earnings per share amounts for the Relevant Periods have not been calculated as there were no diluting events during the Relevant Periods.

10. Dividends

	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Dividends	886	17,041	17,041	56,663

Pursuant to a resolution of an extraordinary shareholders' meeting on 20 March 2006, the Company's shareholders approved the proposed final dividend for the year ended 31 December 2005 of RMB56,663,000 in aggregate to the then shareholders. Of the RMB56,663,000, RMB1,621,000 was paid in cash to Tianda Trade Union and the balance to Tianda Holding by way of set off against the funds due from Tianda Holding prior to 30 June 2006.

Pursuant to a resolution of an extraordinary shareholders' meeting on 20 March 2005, the Company's shareholders approved the proposed dividend for the year ended 31 December 2004 of RMB17,041,000 in aggregate to the then shareholders.

Pursuant to a resolution of an extraordinary shareholders' meeting on 14 March 2004, the Company's shareholders approved the proposed dividend for the year ended 31 December 2003 of RMB886,000 in aggregate to the then shareholders.

11. Retirement benefits

As stipulated by the PRC state regulations, the Company participates in a defined contribution retirement scheme. All formal employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount earned of their last employment at their retirement date. The Company is required to make contributions to the local social security bureau at a rate of 20% of the average basic salaries earned where the employees to whom the defined contributions retirement plan is applicable are under the employment of the Company. The Company has no obligations for the payment of pension benefits beyond the annual contributions to the local social security bureau as set out above.

12. Property, plant and equipment

	Buildings *RMB'000*	Plant and machinery *RMB'000*	Motor vehicles *RMB'000*	Office equipment and other equipment *RMB'000*	Construction in progress *RMB'000*	Total *RMB'000*
Cost:						
As at 1 January 2004	11,657	10,242	–	4,995	63,153	90,047
Additions	–	12,653	93	367	110,202	123,315
Transferred from construction in progress	47,313	122,502	–	–	(169,815)	–
As at 31 December 2004 and 1 January 2005	58,970	145,397	93	5,362	3,540	213,362
Additions	–	7,890	–	4,706	30,230	42,826
Transferred from construction in progress	15,045	14,448	–	–	(29,493)	–
As at 31 December 2005 and 1 January 2006	74,015	167,735	93	10,068	4,277	256,188
Additions	22,788	2,305	–	72	18,529	43,694
Transferred from construction in progress	176	6,903	8	1,056	(8,143)	–
As at 30 June 2006	96,979	176,943	101	11,196	14,663	299,882
Accumulated depreciation:						
As at 1 January 2004	1,430	2,324	–	1,746	–	5,500
Charge for the year	317	981	–	480	–	1,778
As at 31 December 2004 and 1 January 2005	1,747	3,305	–	2,226	–	7,278
Charge for the year	1,623	16,047	9	542	–	18,221
As at 31 December 2005 and 1 January 2006	3,370	19,352	9	2,768	–	25,499
Charge for the period	1,155	8,927	4	539	–	10,625
As at 30 June 2006	4,525	28,279	13	3,307	–	36,124
Net book value:						
As at 31 December 2004	57,223	142,092	93	3,136	3,540	206,084
As at 31 December 2005	70,645	148,383	84	7,300	4,277	230,689
As at 30 June 2006	92,454	148,664	88	7,889	14,663	263,758

All buildings of the Company are located in the PRC.

13. Prepaid land premiums

	Year ended 31 December		Six months ended 30 June	
	2004	2005	2005	2006
	RMB'000	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Cost:				
At beginning of year/period	10,275	11,320	11,320	11,320
Additions	1,045	–	–	17,846
At end of year/period	11,320	11,320	11,320	29,166
Accumulated amortisation:				
At beginning of year/period	210	229	229	468
Charge for the year/period	19	239	135	238
At end of year/period	229	468	364	706
Net book value at end of year/period	11,091	10,852	10,956	28,460

14. Investment in an associate

	31 December		30 June
	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*
Share of the associate's balance sheet			
Current assets	1,402	840	–
Current liabilities	(931)	(386)	–
Net assets	471	454	–
Disposal of an associate	–	–	500
Carrying amount of the investment	471	454	–

	Year ended 31 December		Six months ended 30 June	
	2004	2005	2005	2006
	RMB'000	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Share of the associate's revenue and loss				
Revenue	5,145	5,354	4,560	1,269
Loss	(16)	(17)	(1)	(23)

Particulars of the associate, which is a limited liability company, established in the PRC on 18 September 2003 are as follows:

Company name	Percentage of equity attributable to the Company	Principal activities
Anhui Tianda Import and Export Co., Ltd. ("Tianda Import and Export")	25	Import and export trading

Pursuant to the equity transfer agreement between Anhui Tianda Group Plastic Compound Products Company Limited ("Tianda Plastic Company") and the Company in March 2006, the Company disposed its equity interest in Tianda Import and Export in entirety to Tianda Plastic Company for a consideration of RMB500,000. On 4 April 2006, Tianda Plastic Company settled the consideration in full to the Company.

15. Inventories

	31 December		30 June
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials, at cost	9,615	85,071	147,724
Work in progress, at cost	2,346	2,223	8,452
Finished goods and merchandises, at cost	15,946	45,891	44,436
	27,907	133,185	200,612
Less: Provision for obsolete inventories	–	(1,800)	(1,800)
	27,907	131,385	198,812

16. Trade and notes receivables

	31 December		30 June
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables	7,773	10,207	5,331
Notes receivables	100	12,260	6,310
Due from an associate	911	817	–
Due from related parties	147	–	–
	8,931	23,284	11,641
Less: Provision for bad and doubtful debts	(835)	(1,070)	(1,070)
	8,096	22,214	10,571

An ageing analysis of the trade and notes receivables as at the balance sheets date, based on the invoice date, is as follows:

	31 December		30 June
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Outstanding balances with ages:			
Within one year	8,084	22,429	10,806
Between one year and two years	40	18	–
Between two years and three years	207	39	–
Over three years	600	798	835
	8,931	23,284	11,641
Less: Provision for bad and doubtful debts	(835)	(1,070)	(1,070)
	8,096	22,214	10,571

The Company usually requires customers to pay advances before products are delivered. The Company sometimes grants a credit term of 1 to 30 days to certain customers for the difference between advances received and invoiced amounts. The balances of trade and notes receivables are unsecured and interest-free.

17. Prepayments, deposits and other receivables

	31 December		30 June
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Bank deposits pledged for bank drafts issued	12,000	–	–
Prepayments	34,786	29,211	23,543
Other receivables	114	751	2,442
Due from Tianda Holding	–	108,793	–
	46,900	138,755	25,985

Balance due from Tianda Holding is unsecured, has no fixed terms of repayment and bears an interest rate of 6.14% per annum.

All balances, except for the balance due from Tianda Holding, are unsecured and interest-free.

18. Interest-bearing loans and borrowings

	31 December 2004 *RMB'000*	31 December 2005 *RMB'000*	30 June 2006 *RMB'000*
Bank loans, unsecured	90,000	110,000	110,000
Repayable:			
Within one year	25,000	25,000	75,000
In the second year	–	50,000	3,000
In the third to fifth years, inclusive	65,000	35,000	32,000
	90,000	110,000	110,000
Portion classified as current liabilities	(25,000)	(25,000)	(75,000)
Long term portion	65,000	85,000	35,000

Bank loans bear interest at commercial rates ranging from 5.58% to 5.859% per annum.

As of 30 June 2006, the bank loans of the Company of RMB110,000,000 (31 December 2004: RMB90,000,000; 31 December 2005: RMB110,000,000) were guaranteed by Tianda Holding. The Directors and related banks have confirmed that these bank guarantees will be released before listing.

19. Trade and notes payables

	31 December 2004 *RMB'000*	31 December 2005 *RMB'000*	30 June 2006 *RMB'000*
Trade payables	12,549	45,874	30,382
Notes payables	12,000	–	–
	24,549	45,874	30,382

All remaining trade payable balances are unsecured, interest-free and are generally on a term of 30 days.

All notes payable balances are interest-free, payable within 6 months, and secured by bank deposits.

An ageing analysis of the trade and notes payables as at the balance sheets date, based on the invoice date, is as follows:

	31 December 2004 *RMB'000*	31 December 2005 *RMB'000*	30 June 2006 *RMB'000*
Outstanding balances with ages:			
Within one year	24,381	45,707	30,217
Between one year and two years	10	51	50
Between two years and three years	45	3	2
Over three years	113	113	113
	24,549	45,874	30,382

20. Accrued liabilities and other payables

	31 December		30 June
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Advances from customers	17,030	66,071	62,697
Payroll payables	2,075	2,529	4,248
Welfare payables	2,659	3,467	4,482
Other payables	54,884	44,690	48,695
Due to Tianda Holding	43,360	–	130
Due to other related party	–	802	–
	120,008	117,559	120,252

Balance due to Tianda Holding as of 31 December 2004 is unsecured with no fixed terms of repayment and bears interest rate of 5.35% per annum (Refer to note 24(e) for further information of fund transfers between the Company and Tianda Holding).

Balance due to Tianda Holding as of 30 June 2006 is trading in nature for the purchase of water from Tianda Holding.

Except for balance due to Tianda Holding as of 31 December 2004, all balances of accrued liabilities and other payables are unsecured, interest-free and have no fixed terms of repayment.

21. Paid-up capital/share capital

On 28 January 2005, the paid-up capital of the Company was increased by RMB100,000,000 by the capitalisation of an amount due to Tianda Holding of an equal amount.

On 11 November 2005, the paid-up capital of the Company was increased by RMB40,000,000 by a cash injection from Tianjin Dajin Electrical Appliance Co., Ltd..

The Company was re-registered as a joint stock company on 13 April 2006 by the issuance of 170,000,000 fully paid Domestic Shares with a nominal value of RMB1.00 each to the then shareholders.

On 7 September 2006, the China Securities Regulatory Commission approved the Company's subdivision of one Domestic Share of nominal value of RMB1.00 each into two Domestic Shares of RMB0.50 each.

22. Reserves

Statutory surplus reserve

In accordance with the Company Law of the PRC and the articles of association of the Company, the Company is required to allocate 10% of its profit after tax, as determined in accordance with in PRC GAAP applicable to the Company, to the statutory surplus reserve (the "SSR") until such reserve reaches 50% of the registered capital of the Company. Subject to certain restrictions set out in the Company Law of the PRC, part of the SSR may be converted to increase paid-up capital of the Company, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Statutory public welfare fund

In accordance with the Company Law of the PRC and the articles of association of the Company, the Company is required to transfer 5% of its profits after tax, as determined in accordance with PRC GAAP applicable to the Company, to the statutory public welfare fund (the "PWF") which is a non-distributable reserve other than in the event of liquidation of the Company. The PWF must be used for capital expenditure on staff welfare facilities and these facilities remain the properties of the Company.

When the PWF is utilised, an amount equal to the lower of the cost of the assets and the balance of the PWF is transferred from the PWF to the general surplus reserve ("GSR"). The GSR is non-distributable other than in liquidation. On disposal of the relevant assets, the original transfers from the PWF are reversed.

According to the revised Company Law of the PRC effective from 1 January 2006, the Company is not required to transfer its profit after tax to PWF. All unutilised PWF as of 1 January 2006 was converted to GSR.

Distributable reserve

For dividend purpose, the amount which the Company can legally distribute by the way of dividend is determined by reference to its profits as reflected in its PRC statutory financial statements prepared in accordance with PRC GAAP. These profits differ from those that are reflected in this report, which are prepared in accordance with IFRSs.

Upon the listing of the Company's H Shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited, the Company is required to distribute dividends based on the lower of the Company's profits determined under PRC GAAP and those under IFRSs.

In accordance with the Company Law of the PRC, profit after tax can be distributed as dividends after the transfers to the SSR and PWF as set out above.

23. Financial instruments

The Company's principal financial instruments comprise cash and cash equivalents and interest-bearing loans. The main purpose of these financial instruments is to raise finance for the Company's operations. The Company has various other financial assets and liabilities such as trade and notes receivables, prepayments, deposits and other receivables, trade and notes payables, as well as accrued liabilities and other payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

It is, and has been, throughout the Relevant Periods under review, the Company's policy that no trading in financial instruments should be undertaken.

The main risks arising from the Company's financial instruments are cash flow interest rate risk and credit risk. The Company does not hold or issue derivative financial instruments either for hedging or for trading purposes. The board reviews and agrees policies for managing each of the risks and they are summarised below:

Cashflow 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 are required to pay advances before products are delivered. A credit term of 1 to 30 days is granted to customers for the difference between advances received and invoiced amounts, subject to the credit verification procedures. In addition, receivable balances are monitored on an ongoing basis, therefore, the result that the Company's exposure to bad debts is not significant. 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.

Fair values

The fair values of the Company's financial instruments are not materially different from their carrying amounts. Fair value estimates are made at a specific point in time and are based on relevant market information and information about the financial instruments. These estimates are subjective in nature, involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

The carrying amounts of financial assets and liabilities of the Company at balance sheet dates approximated their fair values.

24. Related party transactions

During the Relevant Periods, the Company had the following material transactions with related parties.

	Year ended 31 December		Six months ended 30 June	
	2004	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Discontinuing:				
Purchase of property, plant and equipment and prepaid land premiums from:				
Tianda Holding *(note b)*	–	–	–	36,552
related parties *(note a)*	–	30	–	7
	–	30	–	36,559
Disposal of an associate to a related party *(note c)*	–	–	–	500
Management fees paid/payable to Tianda Holding *(note d)*	5,017	9,075	3,911	–
Interest expense paid/payable to Tianda Holding *(note e)*	1,456	–	–	–
Interest income received/receivable from Tianda Holding *(note e)*	–	2,191	457	1,549
Guarantees for the bank loans provided to a related party *(note f)*	–	40,000	–	55,000
Guarantees for the bank loans provided by Tianda Holding *(note g)*	90,000	110,000	110,000	110,000
Continuing:				
Sales of goods to:				
Tianda Holding *(note a)*	–	–	–	193
an associate *(note a)*	3,766	698	–	–
related parties *(note a)*	404	614	404	53
	4,170	1,312	404	246
Purchases of water from Tianda Holding *(note h)*	513	838	391	298
Purchases of goods from related parties *(note a)*	1,582	33	15	1,975

In the opinion of the Directors, the above transactions were conducted in the ordinary course of business and will continue after the listing of the Company's H Shares on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited.

Notes:

(a) These transactions were carried out based on costs incurred, as agreed between the Company and Tianda Holding as well as the related parties.

(b) Pursuant to an agreement entered into between Tianda Holding and the Company, the Company acquired certain property, plant and equipment as well as a piece of land from Tianda Holding for a consideration of RMB36,552,000.

(c) Pursuant to the equity transfer agreement between Tianda Plastic Company and the Company in March 2006, the Company disposed its equity interest in Tianda Import and Export in entirety to Tianda Plastic Company for a consideration of RMB500,000 that was equal to the Company's initial investment. On 4 April 2006, Tianda Plastic Company settled the consideration in full to the Company. Tianda Plastic Company is a subsidiary of Tianda Holding, the controlling shareholder of the Company.

(d) Pursuant to an agreement entered into between Tianda Holding and the Company, the Company was required to pay management fees to Tianda Holding which are calculated based on the rate of 1.5% and 1% of the total sales for the year ended 31 December 2004 and 2005, respectively. 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, as well as providing road and other facilities etc. Effectively on 1 January 2006 and after, no such management fees need to be paid as agreed between Tianda Holding and the Company.

(e) During the Relevant Periods, there were fund transfers between the Company and Tianda Holding. As of 30 June 2006, the balance payable to Tianda Holding amounted to RMB130,000 (31 December 2004: payable of RMB43,360,000; 31 December 2005: receivable of RMB108,793,000). During the six months ended 30 June 2006, the maximum balance receivable from Tianda Holding amounted to RMB100,559,000 (2004: maximum payable of RMB43,360,000; 2005: maximum receivable of RMB108,793,000). The funds transfers were unsecured and of no fixed terms of repayments, bearing the interest rate of approximately 6.14% per annum (2005: 5.35% to 6.14%; 2004: 5.35%). No such fund transfer has been made after 30 June 2006.

(f) As at 31 December 2005 and 30 June 2006, the Company, together with Tianda Holding, provided corporate guarantees in connection with bank borrowings to 安徽天大(集團)股份有限公司 (Tianda Company Limited), a fellow subsidiary of the Company. The bank loans were repaid before their maturity dates on 7 July 2006 and the guarantees were terminated accordingly.

(g) During the Relevant Periods, Tianda Holding provided corporate guarantees to the Company in connection with bank loans as disclosed in note 18.

(h) The purchases were conducted based on mutually agreed terms with reference to market price.

(i) During the Relevant Periods, Tianda Holding endorsed bank accepted drafts to the Company that were subsequently endorsed to suppliers by the Company. As at 30 June 2006, the undue bank accepted drafts endorsed by Tianda Holding to the Company aggregated to RMB179,710,000 (31 December 2004: RMB17,652,000; 31 December 2005: RMB80,185,000).

25. Significant non-cash transactions

On 28 January 2005, the paid-up capital of the Company was increased by RMB100,000,000 by the capitalisation of an amount due to Tianda Holding of an equal amount.

In June 2006, a receivable of RMB91,594,000 due from Tianda Holding was directly offset with:

– a dividend payable of RMB55,042,000; and

– a payable of RMB36,552,000 which arose from the Company's purchase of property, plant and equipment and a piece of land from Tianda Holding in June 2006, as disclosed in note 24(b).

26. Capital commitments

	31 December		30 June
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Contracted, but not provided for	5,605	3,534	56,581

27. Contingent liabilities

As at 31 December 2004 and 2005 and 30 June 2006, the Company had the following contingent liabilities:

	31 December		30 June
	2004	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Guarantees given in connection with bank loans to a related party *(Note a)*	–	40,000	55,000
Bank accepted drafts endorsed with recourse	34,188	187,189	281,867

Note:

(a) The bank loans were repaid before their maturity dates on 7 July 2006 and the guarantees were terminated accordingly.

28. Subsequent events

On 7 September 2006, the China Securities Regulatory Commission approved the Company's subdivision of one Domestic Share of nominal value of RMB1.00 each into two Domestic Shares of RMB0.50 each.

29. Subsequent financial statements

No audited financial statements have been prepared by the Company in respect of any period subsequent to 30 June 2006.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong