
IMPORTANT

If you are in any doubt about any of the contents of this prospectus, you should obtain independent professional advice.



Anhui Tianda Oil Pipe Company Limited

安徽天大石油管材股份有限公司

(a joint stock company incorporated in the People's Republic of China with limited liability)

LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF INTERNATIONAL PLACING

Number of Placing Shares : 145,714,000 H Shares (subject to the Over-allotment Option)
Placing Price : Not more than HK\$3.0 per H Share (payable in full upon application, plus brokerage fee of 1%, SFC transaction levy of 0.004%, Stock Exchange levy of 0.005% and subject to refund)
Nominal value : RMB0.5 each
Stock code : 8241

Global Coordinator, Sole Bookrunner, Sponsor and Lead Manager

CAZENOVE

Cazenove Asia Limited

The Stock Exchange of Hong Kong Limited and Hong Kong Securities Clearing Company Limited take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, together with the documents specified under "Documents delivered to the Registrar of Companies" in Appendix IX to this prospectus, has been registered with Registrar of Companies in Hong Kong as required by Section 342C of the Companies Ordinance. The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Company was incorporated, and its businesses are primarily located, in the PRC. Potential investors in the Company should be aware of the differences in the legal, economic and financial systems between the PRC and Hong Kong and that there are different risk factors relating to investment in companies incorporated in the PRC. Potential investors should also be aware of and take into consideration the different market conditions which may affect the Shares. Such differences and certain risk factors are set out in Appendix V to this prospectus headed "Summary of relevant PRC and Hong Kong laws and regulations" and the section headed "Risk Factors" in this prospectus, respectively.

The Placing Underwriting Agreement (as defined in this prospectus) is expected to be signed on or about the date that the Placing Price (as defined in this prospectus) is agreed. The Placing Price is expected to be fixed by agreement between Cazenove Asia Limited (for itself and on behalf of the other Placing Underwriters (as defined in this prospectus)) and the Company at or before the Price Determination Time (as defined in this prospectus), which is scheduled at or before 5:00 p.m. on Monday, 27 November 2006, or such later time and/or date as may be agreed between the Company and Cazenove Asia Limited (for itself and on behalf of the other Placing Underwriters) but in any event not later than 5:00 p.m. on 29 November 2006. If Cazenove Asia Limited and the Company are unable to reach an agreement on the Placing Price at or before 5:00 pm on 27 November 2006 (or such later time and/or date as agreed by the Company and Cazenove Asia Limited (for itself and on behalf of other Placing Underwriters) but in any event not later than 5:00 p.m. on 29 November 2006), the International Placing will not proceed. The Placing Price will not be more than HK\$3.0 per Placing Share and is currently expected to be not less than HK\$2.4 per Placing Share. Cazenove Asia Limited (for itself and on behalf of the other Placing Underwriters) may, with the consent of the Company, reduce the indicative Placing Price range below that stated in this prospectus (which is HK\$2.4 per Placing Share to HK\$3.0 per Placing Share). If the Placing Underwriting Agreement is not signed or the Placing Price is not agreed or the termination rights referred to below are exercised, the International Placing will not proceed.

Potential investors in the Placing Shares should note that the Placing Underwriters are entitled to terminate their obligations under the Placing Underwriting Agreement (as defined in this prospectus) by notice in writing to the Company given by Cazenove Asia Limited (for itself and on behalf of the other Placing Underwriters), upon the occurrence of any of the events set forth under the paragraph headed "Grounds for termination" in the section headed "Underwriting" in this prospectus, at any time prior to 8:00 a.m. (Hong Kong time) on the day on which dealings in the H Shares first commence on GEM (as defined in this prospectus).

27 November 2006

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

The principal means of information dissemination on GEM is publication on the internet website (www.hkgem.com) operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website in order to obtain up-to-date information on GEM-listed issuers.

EXPECTED TIMETABLE

2006
(Note 1)

Price Determination Time
at or before (Note 2) 5:00 p.m. on Monday, 27 November 2006

Announcement of the Placing Price and level of indication of
interests in the International Placing to be
published on the GEM website at
www.hkgem.com on or before Thursday, 30 November 2006

Allotment of H Shares to placees on or before Thursday, 30 November 2006

Deposit of share certificates
for H Shares on or before (Note 3) Thursday, 30 November 2006

Dealings in the H Shares on GEM to commence on Friday, 1 December 2006

Notes:

- (1) All times stated herein refer to Hong Kong local time.
- (2) The Placing Underwriting Agreement is expected to be signed at or about the Price Determination Time. The Price Determination Time is scheduled on or before 5:00 p.m., 27 November 2006 or such later time and/or date as agreed between the Company and Cazenove (for itself and on behalf of the Placing Underwriters) but in any event not later than 5:00 p.m. on 29 November 2006. If, for any reason, the Placing Price is not agreed between Cazenove (for itself and on behalf of the other Placing Underwriters) and the Company by 5:00 p.m., Monday, 27 November 2006 (or such later time and/or date as agreed by the Company and Cazenove (for itself and on behalf of the other Placing Underwriters) but in any event not later than 5:00 p.m. on 29 November 2006 or the Placing Underwriting Agreement is not signed), the International Placing will not proceed.
- (3) The Placing Shares will be distributed to the placees through CCASS. The share certificates for the H Shares will be issued in the name of HKSCC Nominees Limited and are expected to be deposited into CCASS on or before Thursday, 30 November 2006 for credit to the respective CCASS participants' stock accounts as designated by the Placing Underwriters, the individual placees or their agents (as the case may be). No temporary documents of title will be issued. Share certificates will only become valid certificates of title at 8:00 a.m. on the day on which dealings first commence in the H Shares on GEM provided that (1) the International Placing has become unconditional in all respects; and (2) the Placing Underwriting Agreement has not been terminated in accordance with its terms. No dealings should take place in the Placing Shares prior to the commencement of dealings in the Shares on the Stock Exchange. Investors who trade the Placing Shares on the basis of publicly available allocation details prior to receipt of share certificates or prior to the share certificates becoming valid certificates of title do so entirely at their own risk.
- (4) For details of the International Placing, including the conditions of the International Placing, please refer to the section headed "Structure and conditions of the International Placing".
- (5) Investors will be duly informed by public announcement of any changes to the above expected timetable.

CONTENTS

You should rely only on the information contained in this prospectus to make your investment decision.

The Company has not authorised anyone to provide you with information that is different from the information contained in this prospectus.

Any information or representation not made in this prospectus must not be relied on by you as having been authorised by the Company, the Sponsor, the Placing Underwriters, the Directors of any of them, or any other parties involved in the International Placing.

The contents contained in the website at www.td-gg.com do not form part of this prospectus.

	<i>Page</i>
Summary	1
Definitions	16
Glossary of technical terms	27
Risk factors	29
Waiver from strict compliance with the GEM Listing Rules	40
Information about this prospectus and the International Placing	42
Corporate information	50
Directors, supervisors and parties involved in the International Placing	53
Industry overview	57
History and active business pursuits	71
Business	
Introduction	85
Competitive advantages	86
Shareholding and Company structure	89
Awards and certificates	90
Products	93
Procurement	97
Inventory control	99
Quality control	100

CONTENTS

	<i>Page</i>
Production process and facilities	101
Environmental protection	103
Sales and marketing	105
Research and development	112
Compliance and insurance	115
Competition	116
Relationships with the Controlling Shareholder and connected transactions	119
Statement of business objectives	129
Directors, Supervisors and senior management	148
Initial Management, Substantial and Significant Shareholders	157
Share capital	161
Financial information	165
Underwriting	207
Structure and Conditions of the International Placing	212
Appendices	
I. – Accountants’ report	I-1
II. – Unaudited pro forma financial information	II-1
III. – Profit forecast	III-1
IV. – Property valuation	IV-1
V. – Summary of relevant PRC and Hong Kong laws and regulations	V-1
VI. – Taxation	VI-1
VII. – Summary of the Articles of Association	VII-1
VIII. – Statutory and general information	VIII-1
IX. – Documents delivered to the Registrar of Companies and available for inspection	IX-1

SUMMARY

This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Placing Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Placing Shares are set out in the section headed "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Placing Shares.

BUSINESS

The Company was ranked seventh among oil well pipe manufacturers in China in terms of output and was also one of the leading oil well pipe manufacturers in China for 2005, according to the China Iron and Steel Association. It has more than 13 years of experience in the manufacture, sourcing and distribution of specialized seamless pipes. The Company classifies its products into two main categories: (i) specialized seamless pipes for the oil and natural gas industry, including oil well pipes (mainly oil transfer pipes and casing pipes etc.) and petrochemical pipes; and (ii) other specialized seamless pipes which include vessel pipes and boiler pipes.

In the last few years, the demand for oil well pipes in the PRC has continually increased. According to the China Iron and Steel Association, the consumption of oil well pipes in China increased to 2,085,000 tonnes in 2005 from 1,372,000 tonnes in 2003, representing an increase of approximately 52.0%. The sharp increase in the global demand for crude oil in recent years has led to a corresponding increase in expenditure on crude oil exploration refining and transmission. In China, capital expenditure on oil and gas exploration and production has also risen steadily in recent years. Expenditure on exploration equipment by China's three main oil producers (PetroChina, Sinopec and CNOOC) increased from approximately RMB61.8 billion in 2001 to approximately RMB107.2 billion in 2005, representing a CAGR of approximately 14.8%.

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 and the Company has since then established its reputation in the oil and natural gas industry in China for its ability to manufacture high quality oil well pipes. The award of the Product Inspection Waiver obtained at the end of 2005 (and valid until December 2008) as well as its API certification obtained in early 2006 are testaments to the high quality of the Company's products and production processes.

For the two financial years ended 31 December 2005 and the six months ended 30 June 2006, sales of oil well pipes accounted for approximately 1.7%, 51.8% and 56.8% for the two financial years ended 31 December 2005 and the six months ended 30 June 2006, respectively.

SUMMARY

It is expected that the Company's revenue contribution from oil well pipes will grow significantly going forward when the Company's utilisation of its oil well pipe production capacity improves and its oil well pipe heat processing and threading value-added production lines commence operation.

The Company has also devoted resources to maintain the quality of its other specialized seamless pipe products in line with international standards by adopting advanced production techniques and equipment, as well as strict control of testing and inspection. Throughout the years, the Company has obtained various recognitions for the production of other specialized seamless pipes including vessel pipes and boiler pipes, and received plant certifications from shipping classification societies of various countries, various production licences as well as certifications from international standards organisations such as ISO9001 and certifications by other overseas institutions.

PRODUCTS

The Company classifies its products into two main categories: (i) specialized seamless pipes for the oil and natural gas industry, including oil well pipes (mainly oil transfer pipes and casing pipes etc.) and petrochemical pipes; and (ii) other specialized seamless pipes which include vessel pipes and boiler pipes.

Specialized seamless pipes for the oil and gas industry

Casing pipes, oil transfer pipes, drilling pipes, square drilling pipes and drill collars are collectively known as oil well pipes.

The oil well pipes produced and offered by the Company are mainly oil transfer pipes with diameters from 48.3 mm to 114.3 mm and casing pipes with diameters from 114.3 mm to 219 mm.

- Casing pipes are steel tubes that are used to support the walls of oil and gas wells. They are mainly classified as: (i) surface casing pipes; (ii) technical casing pipes; and (iii) production casing pipes.
- Oil transfer pipes are specialized seamless pipes installed in the production casing pipes that allow the oil and gas to flow to the surface after the formation of oil and gas wells.

Petrochemical pipes are the specialized seamless pipes for the transmission of petroleum and natural gases and for applications in the oil refinery industry.

Specialized seamless pipes for vessels, boilers and others

Vessel pipes are pressure resistant pipes which are used in various types of ship building works. Boiler pipes refer to the specialized seamless pipes for boilers, which are mainly categorized into: (i) specialized seamless pipes for low-to-medium pressure boilers; and (ii) specialized seamless pipes for high pressure boilers. Since 1993 when the Company commenced production of specialized seamless pipes, it has continued to develop new

SUMMARY

products so as to meet market demand in this sector. The Company's vessel pipes have been certified for use in seven countries and it has also successfully developed pipes for low, medium and high pressure boilers.

The following table sets out the percentages of the Company's total revenue by product types for each of 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		
	<i>Tonnes</i>	<i>RMB '000</i>	<i>% of sales</i>	<i>Tonnes</i>	<i>RMB '000</i>	<i>% of sales</i>
<u>Self-produced</u>						
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	<u>23,116.3</u>	<u>150,839</u>	<u>45.2%</u>	<u>128,510.4</u>	<u>675,517</u>	<u>74.5%</u>
<u>Sourcing and distribution</u>						
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	<u>30,670.8</u>	<u>182,806</u>	<u>54.8%</u>	<u>36,649.4</u>	<u>231,073</u>	<u>25.5%</u>
Total	<u><u>53,787.1</u></u>	<u><u>333,645</u></u>	<u><u>100%</u></u>	<u><u>165,159.8</u></u>	<u><u>906,590</u></u>	<u><u>100%</u></u>
	Six months ended 30 June					
	2005			2006		
	<i>Tonnes</i>	<i>RMB '000</i> <i>(unaudited)</i>	<i>% of sales</i>	<i>Tonnes</i>	<i>RMB '000</i>	<i>% of sales</i>
<u>Self-produced</u>						
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	<u>54,649.8</u>	<u>278,842</u>	<u>71.4%</u>	<u>89,856.6</u>	<u>463,278</u>	<u>77.7%</u>
<u>Sourcing and distribution</u>						
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	<u>19,285.5</u>	<u>111,761</u>	<u>28.6%</u>	<u>24,519.8</u>	<u>132,851</u>	<u>22.3%</u>
Total	<u><u>73,935.3</u></u>	<u><u>390,603</u></u>	<u><u>100%</u></u>	<u><u>114,376.4</u></u>	<u><u>596,129</u></u>	<u><u>100%</u></u>

SUMMARY

For the two years ended 31 December 2005 and the six months ended 30 June 2005 (unaudited) and 2006, sales to the five largest customers of the Company accounted for approximately 8.9%, 25.6%, 35.2% and 29.2%, respectively of the Company's total sales. For the two years ended 31 December 2005 and the six months ended 30 June 2005 (unaudited) and 2006, sales to the single largest customer of the Company accounted for approximately 2.2%, 12.5%, 20.2% and 9.7%, respectively, of the Company's total sales.

COMPETITIVE ADVANTAGES

The Directors consider that the success of the Company is primarily attributable to the following principal factors:

- Focused line of business;
- Successful market oriented business strategy;
- Strong sourcing and distribution capabilities to provide one-stop shop service;
- Corporate branding and quality products;
- Experienced senior management team together with strong technology know-how and technical expertise;
- Competitive cost structure; and
- Participation in an industry which is a sector encouraged by the PRC Government.

TRADING RECORD

The table below summarises the audited results of the Company for each of the two years ended 31 December 2005 and 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.

SUMMARY

Income Statement

	Year ended		Six months	
	31 December		ended 30 June	
	2004	2005	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(unaudited)</i>	
Revenue	333,645	906,590	390,603	596,129
Cost of sales	<u>(288,053)</u>	<u>(762,409)</u>	<u>(335,863)</u>	<u>(487,883)</u>
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	<u>(16)</u>	<u>(17)</u>	<u>(1)</u>	<u>(23)</u>
Profit before income tax	<u>24,599</u>	<u>96,265</u>	<u>31,987</u>	<u>81,062</u>
Income tax income/(expense)	<u>49,501</u>	<u>(24,391)</u>	<u>(11,637)</u>	<u>(27,640)</u>
Profit attributable to the equity holders	<u>74,100</u>	<u>71,874</u>	<u>20,350</u>	<u>53,422</u>
Earnings per share – basic (<i>Note</i>)	<u>RMB0.93</u>	<u>RMB0.26</u>	<u>RMB0.08</u>	<u>RMB0.16</u>

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 and 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 and 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 section "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.

HISTORY AND DEVELOPMENT

The Company's business was founded more than 13 years ago when Tianda Enterprise (then operating as Oriental Industry Company) acquired Tongcheng Steel Pipe Factory from the Tongcheng Government in 1993. Since that time, the Company has undergone reorganisation and was established on 13 April 2006 as a joint stock limited company. At the time of its establishment as a joint stock limited company, the total number of Shares in issue were 170,000,000 shares of RMB1.00 each and its total share capital was RMB170,000,000. On 7 September 2006, the 170,000,000 shares of RMB1.00 each were sub-divided and became 340,000,000 Shares.

SUMMARY

From 1993 to 1997, the Company engaged mainly in the production, sourcing and distribution of petrochemical and other specialized seamless pipes, including vessel pipes and boiler pipes. Back in 1994, the Company established four production plants in Tianchang, Anhui Province, then occupying factory premises of approximately 7,400 sq.m. A significant number of the Company's then customers were petrochemical companies, ship builders and boiler manufacturers. During that period, the Company's annual production capacity increased from approximately 5,000 tonnes per year to 10,000 tonnes per year.

From 1998 to 2002, the Company focused on the production, sourcing and distribution of high value-added processing and technologically advanced specialized seamless pipes for, among others, petrochemical pipes as well as vessel pipes and boiler pipes. These pipes were mainly alloy seamless pipes. During this period, the Company's annual production capacity increased to 20,000 tonnes per year.

Between 2003 and the Latest Practicable Date, the Company successfully established its production plant in Chuzhou, thereby taking advantage of Chuzhou's natural gas resources and ease of access to the nearby railway and road network and hence improving overall cost efficiencies. The Company installed an ASSEL three rolled pipe machine in Chuzhou and another production line with cold-drawn technology in Tianchang for the production of oil well pipes. Both locations are within Chuzhou city, being approximately 125km apart. The annual production capacity of the Company increased from 25,000 tonnes in 2004 to 300,000 tonnes in 2006. As at 30 June 2006, the Company's warehouse in Chuzhou of approximately 31,522 sq.m. was also developed into a distribution and logistics centre.

OVERALL BUSINESS OBJECTIVES

The Company's aim is to further consolidate its position as a leading manufacturer of oil well pipes and petrochemical pipes, explore further exports to the international market and ultimately, to become a world-class oil well pipe manufacturer.

The Company's overall business objectives are:

- To upgrade existing products, develop new products, and modify product mix through research and development efforts in order to improve the profitability of the Company;
- To diversify its market coverage, actively develop its international market share and markets in the northwest and northeast China where China's largest oil producers are located, strengthen its sales team as well as enhance the standard and expand the scope of one-stop shop service;
- To increase output efficiencies and further reduce production costs actively through research and development, optimizing craftsmanship and stringent cost control, systematic energy saving and materials saving; and

SUMMARY

- To upgrade the production capacity of the existing production lines through technical improvement, merger and acquisition or establishment of new production lines for new high-end products.

FUTURE PLANS

The Company is planning to implement the following measures to strengthen its market position and capitalize on opportunities in a rising market.

1. Intensification of research and development efforts, upgrading of existing products, development of high grade oil well pipes and other high value-added products, and modifications of product mix to enhance the gross profit margin of the Company

The Company has adopted a three pronged approach to enhance its gross profit margin:

- *Upgrading of existing products*

Providing further value-added services to customers and product quality improvement in respect of existing products, through research and development, technical improvement, improved manufacturing technologies and expanding into downstream products.

- *Development of high grade and high value-added products*

The Company is conducting in-depth study and research and expects to launch its high-grade steel oil well pipes which are designed to be strong, high pressure resistant and corrosion resistant and are expected to have a higher gross profit margin. With the Company's strict quality system and advanced production craftsmanship, the Company aims to develop high grade and high value-added products with quality comparable to that of imported products and the Directors believe that the Company's cost advantages will enable it to capture market share from imported products. Should the Company receive approval for its project under the 861 Action Plan, the Company also intends to commence the initial phase of its investment for a significant increase in its production capacity.

- *Improvement in product mix*

The Company will continue to develop high-quality and high-end vessel pipes and boiler pipes, which can also be used in the oil and petrochemical industry, to optimize the Company's product mix and avoid the risks of relying on a single category of products. In order to accomplish its goal, the Company will gradually increase its investment in research and development, and employ more qualified research and development personnel.

SUMMARY

2. Strengthen logistics and one-stop shop service

The Company intends to improve its one-stop shop service by way of strengthening its distribution and logistics capability. For this purpose, the Company owns a site in Chuzhou of approximately 258,507 sq.m. and a warehouse of approximately 31,522 sq.m. from which it has set up its distribution and logistics centre. The Company also expects to increase its sales force and logistics teams and to build additional warehouses.

3. Diversification of sales to include more exports

The Company is planning to actively expand its market penetration in both international and domestic markets. For the international market, the Company plans to increase its exports to approximately 8% of its total sales for the year ending 31 December 2006 from approximately 3% in 2005. The Company will gradually expand its market destinations from the United States to the Middle East, Africa, Europe, South America and South East Asia. For the domestic market in China, currently approximately 70% of its products are shipped to its customers in the eastern and northern parts of China. As the northern part of China is home to many major oil fields and new mega oil fields have been discovered in the northwestern part of China, the Company will focus on developing business relationships with oil fields in those regions.

4. Commitment to reducing production cost

The Company will continually use its research and development resources to optimize its production process and craftsmanship. Such efforts aim to increase the Company's output efficiencies by reducing consumption of raw materials and energy. The Company is committed to consistently employing stringent cost control systems throughout its operations.

5. Increase in production capacity

As at the Latest Practicable Date, the Company's designed capacity was 300,000 tonnes per annum, while its expected output in 2006 will be 210,000 tonnes, representing a utilisation rate of approximately 70%. The Company will continue, through technical innovation, to increase or optimize the utilisation of its production capacity as this will be less costly than establishing new production lines. The Company has commenced (but has not finished) its technology upgrade projects for heat processing of 100,000 tonnes of casing pipes and threading for casing pipes for up to 100,000 tonnes per annum. The Company may also increase its production capacity (mainly in the production of oil well pipes) through merger and acquisition as well as addition of new production lines after the end of 2006. The Company has commissioned a feasibility study by CIECC in relation to its project to increase its annual production capacity by 300,000 tonnes. Such project for the additional 300,000 tonnes production capacity has been classified as part of the 861 Action Plan of Anhui Province and the Company intends to apply for the relevant regulatory approvals. If the project receives regulatory approval and is fully implemented, the Company expects to be able to increase its production capacity to 600,000 tonnes per annum in 2009, resulting in a total production capacity increase of 100% by reference to current production capacity of 300,000 tonnes per annum. In addition, the Company also expects to achieve a further production capacity increase of 50,000 tonnes per annum in 2009 via technological upgrades of current production lines, making the expected total production capacity of 650,000 tonnes per annum in 2009.

SUMMARY

REASONS FOR THE INTERNATIONAL PLACING AND USE OF PROCEEDS

The Company will implement a set of business plans to capitalise on business opportunities in the market of oil well pipes and other specialized seamless pipes. In this connection, the Company intends to partly finance the implementation costs of the business plans by the proceeds raised from the International Placing. Based on the Placing Price of HK\$2.7 per Placing Share (being the mid-point of the indicative range of the Placing Price between HK\$2.4 and HK\$3.0 per Placing Share), the net proceeds from the International Placing, after deducting the underwriting and other expenses payable by the Company in relation to the International Placing, are estimated to be approximately HK\$353.4 million, assuming that the Over-allotment Option is not exercised.

The Directors presently intend to apply such net proceeds of HK\$353.4 million in the manner set out below.

	For the period from the Latest Practicable Date to 31 December 2006 <i>(HK\$' million)</i>	For the six months ending 30 June 2007 <i>(HK\$' million)</i>	For the six months ending 31 December 2007 <i>(HK\$' million)</i>	For the six months ending 30 June 2008 <i>(HK\$' million)</i>	For the six months ending 31 December 2008 <i>(HK\$' million)</i>	Total <i>(HK\$' million)</i>
Product improvement and development						
– Threading	29.3	8.9	–	–	–	38.2
– Heat Processing	33.7	9.3	–	–	–	43.0
– Ultrasonic inspection equipment	–	19.8	15.9	–	4.0	39.7
Equipment technology upgrade	–	14.9	14.8	12.9	9.8	52.4
Research & Development	1.0	10.9	7.9	8.9	10.9	39.6
Sales & Marketing	0.5	1.0	1.5	2.0	2.2	7.2
Production packaging/logistics	9.9	9.9	–	–	–	19.8
Phase II of the 861 Action Plan						
– Feasibility study	5.0	4.9	–	–	–	9.9
Working capital	9.9	9.9	2.2	–	–	22
Sub-Total	<u>89.3</u>	<u>89.5</u>	<u>42.3</u>	<u>23.8</u>	<u>26.9</u>	271.8
Phase II of the 861 Action Plan/ Merger and Acquisition*						<u>81.6</u>
Total						<u><u>353.4</u></u>

* The Directors intend to apply the remaining net proceeds of HK\$81.6 million to the implementation of phase II of the 861 Action Plan if it is approved by the relevant regulatory authorities and if not so approved, shall be applied to merger and acquisition opportunities, both of which plans to increase production capacity.

To the extent that the net proceeds from the International Placing are not immediately applied for in accordance with the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short term deposits with banks or financial institutions in Hong Kong and/or the PRC.

SUMMARY

If Over-allotment Option is not exercised

In the event that the Offer Price is fixed at HK\$2.4 per H Share, being the lowest point of the indicative price range, the net proceeds from the International Placing (compared to that based on the mid-point of the Offer Price range as stated above and assuming that the Over-allotment Option is not exercised) will be reduced by approximately HK\$41.2 million. In such circumstance, the total amount from the net proceeds to be applied towards the implementation of phase II of the Company's project within the 861 Action Plan if that project is approved by the relevant regulatory authorities would then be reduced to approximately HK\$39.6 million and if the project is not so approved, shall be applied to merger and acquisition opportunities, both of which aim at increasing production capacity of the Company.

In the event that the Offer Price is fixed at HK\$3.0 per H Share, being the highest point of the indicative price range, the net proceeds from the International Placing (compared to that based on the mid-point of the Offer Price range as stated above and assuming that the Over-allotment Option is not exercised) will increase by approximately HK\$41.2 million. In such circumstance, the total amount from the net proceeds to be applied towards the implementation of phase II of the Company's project within the 861 Action Plan if that project is approved by the relevant regulatory authorities would increase to approximately HK\$123.6 million and if that project is not so approved, in any merger and acquisition opportunities, both of which aim at increasing production capacity of the Company.

If Over-allotment Option is exercised in full

In the event that the Over-allotment Option is exercised in full, the Company will receive an additional net proceeds of approximately HK\$56.6 million based on the Placing Price of HK\$2.7 per Placing Share (being the mid-point of the indicative range of the Placing Price between HK\$2.4 and HK\$3.0 per Placing Share). In such circumstance, the total amount from the net proceeds to be applied towards the implementation of phase II of the Company's project within the 861 Action Plan if that project is approved by the relevant regulatory authorities would be increased to approximately HK\$138.3 million and if that project is not so approved, shall be applied to merger and acquisition opportunities, both of which aim at increasing production capacity of the Company.

In the event that the Offer Price is fixed at HK\$2.4 per H Share, being the lowest point of the indicative price range, the net proceeds accruing to the Company (compared to that based on the mid-point of the Offer Price range as stated above and assuming the Over-allotment Option is exercised in full) will be reduced by approximately HK\$48.3 million. In such circumstance, the total amount from the net proceeds to be applied towards the implementation of phase II of the Company's project within the 861 Action Plan if that project is approved by the relevant regulatory authorities would increase to approximately HK\$90.0 million and if that project is not so approved, shall be applied to merger and acquisition opportunities, both of which aim at increasing production capacity of the Company.

In the event that the Offer Price is fixed at HK\$3.0 per H Share, being the highest point of the indicative price range, the net proceeds accruing to the Company (compared to that based on the mid-point of the Offer Price range as stated above and assuming the Over-allotment Option is exercised in full) will increase by approximately HK\$48.3 million. In such circumstance, the total amount from the net proceeds to be applied towards the

SUMMARY

implementation of phase II of the Company's project within the 861 Action Plan if that project is approved by the relevant regulatory authorities would increase to approximately HK\$186.5 million or if that project is not so approved, shall be applied to merger and acquisition opportunities, both of which aim at increasing production capacity of the Company.

If any part of the Business Plan becomes unattainable or is delayed, the Directors may, taking into account the then conditions and the interests of the Company and the Shareholders as a whole and subject to the GEM Listing Rules, reallocate the relevant capital to other parts of the Business Plan and/or new projects and/or place such capital as short-term deposits. Under such circumstances, the Company will issue an announcement in due course and comply with the relevant disclosure requirements under the GEM Listing Rules.

PROFIT FORECAST

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 the 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.

SUMMARY

RESTRICTIONS ON THE TRANSFER OF DOMESTIC SHARES

It was provided in Article 21 of the Articles of Association that the Domestic Shares of the Company shall not be transferred for a period of one year since the H Shares are first listed on the Hong Kong Stock Exchange. Therefore, the Domestic Shares held by the Promoters are subject to the same restriction and shall not be transferred for a period of one year since the Listing Date.

Each of the Directors has undertaken not to approve and will procure the Company not to approve the transfer of and the registration of any transfer of the Domestic Shares owned by the Initial Management Shareholders during the applicable moratorium periods under Rule 13.16(1) of the GEM Listing Rules as required.

Initial Management Shareholders

So far as the Directors are aware, immediately after the completion of the International Placing but without taking into account of any H Shares which may be allotted and issued pursuant to an exercise of the Over-allotment Option, the shareholding structure of the Company including persons who will be regarded as Initial Management Shareholders under the GEM Listing Rules will be as follows:

Shareholder	Date of entry	Number of Shares held (immediately after the International Placing)	Percentage of shareholding (immediately after the International Placing)	Approximate cost of investment per Share (HK\$ per Share)	Approximate total cost of investment (HK\$)	Lock up period
<i>Promoters</i>						
Tianda Holding	23 April 2004	272,000,000	56%	0.5	136,000,000	12 months
Tianda Investment	12 April 2006	68,000,000	14%	0.5	34,000,000	12 months
<i>Initial Management Shareholder (Notes 1 and 2)</i>						
Tianda Holding	23 April 2004	272,000,000	56%	0.5	136,000,000	12 months
Tianda Investment	12 April 2006	68,000,000	14%	0.5	34,000,000	12 months
Ye Shi Qu (Note 3)	23 April 2004	340,000,000	52.12%	0.5	–	12 months (Note 3)
Zhang Hu Ming (Note 3)	23 April 2004	9,166,700	2.74%	0.5	–	12 months
Xie Yong Yang (Note 3)	23 April 2004	7,367,250	2.21%	0.5	–	12 months
Huang Yao Qi (Note 3)	8 July 2004	2,348,400	0.7%	0.5	–	6 months
Chen Dong (Note 3)	8 July 2004	399,700	0.12%	0.5	–	6 months
Geng Wei Long (Note 3)	8 July 2004	473,200	0.14%	0.5	–	6 months
Lv Si Yu (Note 3)	25 June 2006	119,700	0.04%	0.5	–	6 months
Zhang Chun Xiang (Note 3)	25 June 2006	186,400	0.06%	0.5	–	6 months
Zhang Jian Huai (Note 3)	25 June 2006	35,000	0.01%	0.5	–	6 months
Wang Yi (Note 3)	25 June 2006	151,500	0.05%	0.5	–	6 months
<i>Public Shareholders under the International Placing</i>						
Shareholders	Prior to the Listing Date	145,714,000	30%	Placing Price	Not applicable	Not applicable

SUMMARY

Notes:

1. Each of the Initial Management Shareholders has confirmed that he/it is not currently engaged in any business which, either directly or indirectly, competes with the Company's business. According to the non-competition agreement signed by each of the Initial Management Shareholders with the Company dated 18 November 2006, each of the Initial Management Shareholders has undertaken unconditionally that during the period in which he/it remains as a shareholder of the Company and one year thereafter, inter alia:
 - (i) he/it will not and will procure his/its associates and companies controlled by him/it or his/its associates not to invest or participate in any other business which may compete with the business that the Company is engaged or will be engaged in;
 - (ii) he/it will not take advantage of his/its relationship with or position as a shareholder of the Company to engage or participate in any behaviour which may prejudice the interests of the Company and the Shareholders;
 - (iii) in the event the Initial Management Shareholders were given any business opportunities that is or may involve in direct or indirect competition with the businesses of the Company, the Initial Management Shareholders shall assist the Company to obtain such business opportunities in the terms being offered to the Initial Management Shareholders, or more favourable terms or term being acceptable to the Company; and
 - (iv) he/it undertakes to provide all information necessary for the annual review by the independent non-executive Directors in connection with the enforcement of the non-competition agreement or the monitoring of related disclosure from time to time.
2. Each of the Initial Management Shareholders has undertaken to the Company and the Stock Exchange that for a period commencing on the date of this prospectus and ending on the date which is (a) 12 months from the Listing Date, or (b) where the shareholders' relevant securities represent no more than 1% of the issued share capital of the Company as at the Listing Date, six months from the Listing Date, it will not (i) dispose of (nor enter into any agreement to dispose of) or permit the registered holder to dispose of (or to enter into agreement to dispose of) any of its direct or indirect interest in its relevant securities; or (ii) otherwise create (nor enter into any agreement to create) or permit the registered holder to create (or to enter into any agreement to create) any options, rights, interests or encumbrances in respect of any such interest.
3. This shareholder is only a shareholder of Tianda Holding and does not directly own any Share. The percentage of shareholding represents his/her attributable interest in the Company.

RISK FACTORS

The principal business of the Company is subject to a number of risk factors, the details of which are set out in the section headed "Risk Factors" of this prospectus. These risk factors can be categorised into (i) risk factors relating to the Company's business; (ii) risk factors relating to the industry; (iii) risk factors relating to the PRC and (iv) risk factors relating to the International Placing.

Risk factors relating to the Company's business

- Fluctuations in market demand for and/or prices of oil well and petrochemical pipes may adversely affect the Company's sales, operating results and profitability
- Disruption in relationships with major suppliers or increases in prices of raw materials may adversely affect the Company's operating results and profitability

SUMMARY

- Inability to secure new contracts and/or purchase orders or any of the existing major customers encountering operational or financial difficulties may adversely affect the Company's business and operating results
- Inability to launch or delay in the launch of new products for oil well pipes market may adversely affect the Company's profitability and future growth prospects
- Departure of the Company's core management or technical teams without immediate and adequate replacement may have an adverse impact on the Company's business
- Product liability claims may adversely affect the Company's business, reputation and operating results
- Increasing environmental compliance may adversely affect the Company's profitability and future growth prospects
- Historical tax benefits may not continue to apply and hence the Company's profitability and financial position may be adversely affected
- If contingent liabilities relating to bank drafts issued by banks in China crystallise as a liability of the Company due to non-payment by the bank upon presentation of such bank drafts, its business, cash flow and profitability may be adversely affected
- Historical dividends are not indicative of future dividends
- The Company's inability to successfully implement its Business Plans may materially and adversely affect the Company's profitability and future growth prospects
- The Company derives substantially all of its turnover from sales in the PRC and any downturn in the PRC economy could adversely affect the Company's business and financial condition
- The Company may not be able to successfully diversify the geographical coverage of its distribution networks which may adversely affect the Company's business
- An inability to increase production capacity or to have sales increase at the same rate as production capacity increases may have an adverse impact on the Company's working capital
- If the Company should find itself in a net current liability situation, its operations and financial results may be adversely affected
- If inventory control is not carried out appropriately, this may have an adverse effect on the Company's business and financial performance

SUMMARY

Risk factors relating to the industry

- The Company's inability to respond to technological advances may adversely affect its competitiveness and hence its profitability and future growth prospects
- Relaxation of restrictions on foreign companies conducting business in the same industry may adversely affect the Company's business, profitability and future growth prospects
- Material changes in policy towards petroleum companies may adversely affect the Company's ability to implement its Business Plan, its sales, operating results and profitability
- Any decreases in world oil prices may adversely affect the Company's business, operating results and future growth prospects

Risk factors relating to the PRC

- Political, economic and social changes in the PRC arising from the implementation of government policies may adversely affect the Company's business, operating results and future growth prospects
- The Company is subject to foreign exchange controls imposed by the PRC government and this may affect the Company's ability to make dividend payments in HK\$
- The interpretation and enforcement of laws and regulations under the PRC legal system involve some uncertainty
- The Company Law and Special Regulations are not as developed as other developed countries or regions
- Changes to the PRC regulatory framework may adversely affect the Company
- Enforcement of court judgments in the PRC may be difficult

Risk factors relating to the International Placing

- An active trading market for the Company's H Shares may fail to develop or be sustained, which could have a material adverse effect on the market price and liquidity of the Shares
- Future sales or perceived sales of substantial amounts of the Company's securities in the public market, including any future A share offering in the PRC or re-registration of Domestic Shares into H Shares, could have a material adverse effect on the prevailing market price of the Company's H Shares and the Company's ability to raise capital in the future, and may result in dilution of H Share shareholdings
- Taxation of holders of H Shares

DEFINITIONS

In this prospectus, unless the context otherwise requires, the following expressions have the following meanings:

“861 Action Plan”	refers to an action plan named “861 Action Plan” as formulated by the government of Anhui Province to encourage certain types of investment, further details of which are set out in the “Industry Overview” section of this prospectus under the paragraph headed “Policies And Relevant Regulations in China”
“API”	The American Petroleum Institute that provides quality certification programs, including the API Monogram Program, with regard to equipment, products and services relating to the oil and natural gas industry in the United States
“Articles of Association”	the articles of association of the Company adopted by its shareholders in general meeting on 29 June 2006 and subsequently amended by the Board, a summary of which is set out in Appendix VII to this prospectus
“ASME”	American Society of Mechanical Engineers, an organisation established in the United States to promote art, science and mechanical engineering
“Associate(s)”	has the meaning ascribed to it under the GEM Listing Rules
“ASTM”	American Society for Testing and Materials, being a voluntary standards development organisation for technical standards for materials, products, systems and services
“Baosteel Special Steel Technical Centre”	Special Steel Branch Co. of Baoshan Iron & Steel Co., Ltd., a legal person branch office (法人分支機構) established in the PRC and an Independent Third Party
“Board”	the board of Directors
“Bureau Veritas”	Bureau Veritas is an international group established in 140 countries with its headquarters in Paris, France. It provides services which include certifications based upon national or international standards, upon generic or sector schemes, or even on tailor-made development

DEFINITIONS

“Business Plan”	the business plan adopted by the Directors for the period from the Latest Practicable Date up to 31 December 2006 and the two financial years ending 31 December 2008, details of which are set out in the section headed “Statement of business objectives” in this prospectus
“Cazenove”	Cazenove Asia Limited, the global coordinator, sole bookrunner, sponsor and lead manager of the International Placing
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“China Classification Society”	a society which operates under the direction of the Ministry of Communication in China and is China’s institution for technical survey of ships. It is the only professional institution for ship classification in China and is one of the official members of the International Federation of Classification Societies whose purpose is to, among others, serve as an agency for the dissemination of technical scientific information
“CIECC”	China International Engineering Consulting Corporation, a corporation established in August 1982 and is one of the earliest consulting corporations established in the PRC. It is an Independent Third Party
“CIETAC”	China International Economic and Trade Arbitration Commission
“CNOOC”	CNOOC Limited (中國海洋石油有限公司), a company incorporated in Hong Kong and whose securities are traded on the Main Board of the Stock Exchange and the New York Stock Exchange. It is an Independent Third Party
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“Company”	Anhui Tianda Oil Pipe Company Limited (安徽天大石油管材股份有限公司), a joint stock company established in the PRC with limited liability on 13 April 2006, and shall, where relevant, include its predecessors (namely, Tianda Special Steel Pipe Company, Tianda Tianchang Seamless Steel Pipe Factory, Tianda Seamless Steel Pipe Factory and Oriental Industry Metal Company)

DEFINITIONS

“Company Law”	the Company Law of the PRC (中華人民共和國公司法) promulgated by the Standing Committee of the National People’s Congress (全國人民代表大會常務委員會) on 29 December 1993 and effective since 1 July 1994, as amended, supplemented or otherwise modified from time to time
“Connected Person”	a promoter, director, supervisor, chief executive, substantial shareholder or management shareholder of the Company or any of its subsidiaries or an Associate of any of them
“CSRC”	the China Securities Regulatory Commission, a regulatory body responsible for the supervision and regulation of the PRC securities markets
“Det Noske Veritas”	Det Noske Veritas was established in 1864 and its headquarters is located in Oslo, the capital of Norway. It provides its customers with comprehensive risk management and various assessment and certification services which mainly involve areas in ship classification, certification and technical services
“Director(s)”	the director(s) of the Company
“Domestic Share(s)”	ordinary share(s) in the capital of the Company, with a RMB denominated par value of RMB0.50 each, which were subscribed by domestic shareholders (namely, Tianda Holding and Tianda Investment) and credited as fully paid up in RMB. For the avoidance of doubt, no application has been made for the listing of, and the permission to deal in, the Domestic Shares on GEM and therefore the Domestic Shares will not be eligible for trading on GEM immediately after completion of the International Placing
“EIA”	Energy Information Administration, being a body established by the Congress of the United States of America in 1977. It is a statistical agency of the United States Department of Energy and an Independent Third Party
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing Committee”	the sub-committee of the board of the Stock Exchange with responsibility for GEM

DEFINITIONS

“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“Germanischer Lloyd”	Germanischer Lloyd was established in 1867 and its headquarters is located in Hamburg, Germany. Its main mission is the provision of technical survey and classification for ships, issuance of certification for ships in accordance with relevant international treaties, and it is also the adviser to Germany’s competent authority for ship safety
“HKIAC”	Hong Kong International Arbitration Centre
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hefei Research Institute”	Hefei General Machinery Research Institute, a research institute in the PRC, which is classified a professional integrated state type 1 research institute directly under the China National Machinery Industry Corporation and who is an Independent Third Party
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Government”	the government of Hong Kong
“H Shares”	overseas listed foreign invested shares with a nominal value of RMB0.50 each in the registered share capital of the Company, which are to be listed on GEM and subscribed for and traded in Hong Kong dollars
“Independent Third Party(ies)”	a person(s) or company(ies) which is/are not a Connected Person
“Initial Management Shareholders”	has the meaning ascribed to it under the GEM Listing Rules and in respect of the Company, refers to Tianda Holding, Tianda Investment, Mr. Ye Shi Qu, Mr. Zhang Hu Ming, Mr. Xie Yong Yang, Mr. Zhang Jian Huai, Mr. Wang Yi, Mr. Zhang Chun Xiang, Mr. Geng Wei Long, Mr. Lv Si Yu, Ms. Huang Yao Qi and Mr. Chen Dong
“International Placing”	the conditional placing of the Placing Shares at the Placing Price by the Placing Underwriters with professional and institutional investors pursuant and subject to the terms and conditions set out in the section headed “Structure and conditions of the International Placing” in this prospectus

DEFINITIONS

“IFRS”	International Financial Reporting Standards, including International Accounting Standards and interpretations issued by the International Accounting Standards Board
“Latest Practicable Date”	21 November 2006, being the latest practicable date prior to the printing of this prospectus for ascertaining certain information contained herein
“Listing Date”	the date on which dealings in the H Shares first commence on GEM
“Mandatory Provisions”	the “Mandatory Provisions for Articles of Association of Companies to be Listed Overseas” promulgated by the Securities Commission (到境外上市公司章程必備條款) and the State Commission for Restructuring the Economic System of the PRC (中國經濟體制改革委員會) on 27 August 1994 (as amended, supplemented and modified from time to time) for inclusion in the articles of association of companies established in the PRC and seeking for a listing on a stock market outside the PRC (including Hong Kong)
“Oriental Industry Company”	Anhui Oriental Industry Company Limited (安徽東方實業有限公司), an entity under collective ownership established under the laws of China on 7 December 1992 and a predecessor of Tianda Enterprise
“Oriental Industry Metal Company”	Anhui Oriental Industry Company Limited Metal Company (安徽東方實業有限公司金屬公司), an entity under collective ownership established under the laws of China on 9 March 1993 and a predecessor of Tianda Seamless Steel Pipe Factory
“OPEC”	Organization of Petroleum Exporting Countries
“Over-allotment Option”	the option expected to be granted by the Company to the Underwriters and exercisable by Cazenove, on behalf of the Underwriters, to require the Company to issue the Over-allotment Shares to cover any over-allocation in the International Placing as described in detail in the section headed “Structure and conditions of the International Placing” in this prospectus
“Over-allotment Shares”	up to an aggregate of 21,856,000 additional new H Shares which may be allotted and issued by the Company upon the exercise of the Over-allotment Option

DEFINITIONS

“PBOC”	the People’s Bank of China (中國人民銀行), the central bank of the PRC
“PetroChina”	PetroChina Company Limited (中國石油天然氣股份有限公司) or its holding company, China National Petroleum Corporation (中國石油天然氣集團公司), both of which are established in the PRC and are Independent Third Parties. The securities of PetroChina Company Limited are traded on the Main Board of the Stock Exchange and the New York Stock Exchange, Inc.
“PICC”	PICC Property and Casualty Company Limited, a joint stock company with limited liability incorporated on 7 July 2003 and an Independent Third Party
“Placing Price”	the final offer price to be determined at or before the Price Determination Time and is expected to be not higher than HK\$3.0 and not lower than HK\$2.4 per Placing Share (excluding brokerage, Stock Exchange trading fee and SFC transaction levy), as described in detail in the section headed “Structure and conditions of the International Placing” in this prospectus
“Placing Shares”	145,714,000 new H Shares initially being offered by the Company at the Placing Price under the International Placing, together with (if applicable) any Over-allotment Shares
“Placing Underwriters”	the expected underwriters of the International Placing set out in the paragraph headed “Placing Underwriters” in the section headed “Underwriting” in this prospectus
“Placing Underwriting Agreement”	an underwriting agreement expected to be entered into at or about the Price Determination Time between, inter alios, the Company and the Placing Underwriters relating to the International Placing, details of which are set out in the section headed “Underwriting” of this prospectus
“PRC” or “China”	the People’s Republic of China which, for the purpose of this prospectus, excludes Hong Kong, the Macau Special Administrative Region and Taiwan

DEFINITIONS

“PRC Securities Law”	the “Securities Law of the PRC” (中華人民共和國證券法) promulgated by the Standing Committee of the National People’s Congress (全國人民代表大會常務) on 29 December 1998 and effective since 1 July 1999, as amended, supplemented or otherwise modified from time to time
“Price Determination Time”	the time at which the Placing Price will be fixed, which is scheduled at or before 5:00 p.m. on 27 November 2006, or such later time and/or date as may be agreed between the Company and Cazenove (for itself and on behalf of the other Placing Underwriters) but in any event not later than 5:00 p.m. on 29 November 2006
“Product Inspection Waiver”	the certificate for product exemption from quality surveillance granted by the General Administration of Quality Supervision, Inspection and Quarantine of the People’s Republic of China
“Promoter(s)”	the promoter(s) of the Company, which are Tianda Holding and Tianda Investment
“SAFE”	the State Administration of Foreign Exchange of the PRC (中國國家外匯管理局)
“SAIC”	the State Administration for Industry and Commerce of the PRC (中國國家工商行政管理局)
“Securities Commission”	the former Securities Commission of the State Council (前國務院證券委員會)
“SFC”	The Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	Domestic Share(s) and/or H Share(s), as the case may be
“Shareholder(s)”	holder(s) of the Share(s)

DEFINITIONS

“Sinopec”	China Petroleum & Chemical Corporation (中國石油化工股份有限公司) or its holding company, China Petroleum Corporation (中國石油化工集團公司), both of which are established in the PRC and are Independent Third Parties. The securities of China Petroleum & Chemical Corporation are traded on the Main Board of the Stock Exchange, The New York Stock Exchange, The London Stock Exchange and the Shanghai Stock Exchange
“Special Regulations”	the Special Regulations of the State Council on the Overseas Offering and Listing of Shares by Joint Stock Limited Companies (國務院於股份有限公司境外募集股份及上市的特別規定) promulgated by the State Council on 4 August 1994, as amended, supplemented or otherwise modified from time to time
“State” or “PRC Government”	the government of the PRC
“State Council”	the State Council of the PRC (中華人民共和國國務院)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Supervisor(s)”	member(s) of the supervisory committee of the Company
“Takeovers Code”	the Code on Takeovers and Mergers issued by the SFC, as amended, supplemented or, otherwise modified from time to time
“Track Record Period”	the period from 1 January 2004 to 30 June 2006
“Tianchang Intertexture”	Tianchang Intertexture Factory (天長縣塑料編織廠), an entity under collective ownership established under the laws of China on 15 June 1989, the core operating entity of Oriental Industry Company
“Tianda Company Limited”	Anhui Tianda (Group) Co., Ltd (安徽天大(集團)股份有限公司), a joint stock company with limited liability established under the laws of China on 13 March 2000 and a 95%-owned subsidiary of Tianda Holding
“Tianda Enterprise”	Anhui Tianda Enterprise Group (安徽天大企業(集團)公司), an entity under collective ownership established under the laws of China on 11 January 1995 and shall, where relevant, include its predecessor (namely Oriental Industry Company). Tianda Enterprise is also the immediate predecessor of Tianda Holding

DEFINITIONS

“Tianda Holding”	Anhui Tianda Enterprise (Group) Company Limited (安徽天大企業(集團)有限公司), a limited liability company established under the laws of China on 30 April 2004 and the controlling shareholder of the Company
“Tianda Import and Export”	Anhui Tianda Import and Export Co. Ltd. (安徽天大進出口有限公司), a limited liability company established under the laws of China on 18 September 2003
“Tianda Investment”	Anhui Tianda Investment Company Limited (安徽天大投資有限公司), a limited liability company established under the laws of China on 11 April 2006 and a substantial shareholder of the Company. It is also a wholly-owned subsidiary of Tianda Holding
“Tianda Plastic Company”	Anhui Tianda Group Plastic Compound Products Company Limited (安徽天大企業集團塑料復合製品有限公司), a company with limited liability established under the laws of China on 23 June 2004 and a 90%-owned subsidiary of Tianda Holding
“Tianda Seamless Steel Pipe Factory”	Anhui Tianda Enterprise Group Seamless Steel Tube Factory (安徽天大企業集團無縫鋼管廠), an entity under collective ownership established under the laws of China on 14 January 1995 and a predecessor of Tianda Tianchang Seamless Steel Pipe Factory
“Tianda Special Steel Pipe Company”	Anhui Tianda Enterprise Group Special Steel Tube Company Limited (安徽天大企業集團特種鋼管有限公司), a company with limited liability established under the laws of China on 23 June 2004 and a predecessor of the Company
“Tianda Tianchang Seamless Steel Pipe Factory”	Anhui Tianda Enterprise Group Tianchang Seamless Steel Tube Factory (安徽天大企業集團天長市無縫鋼管廠), a collective-owned enterprise established under the laws of China on 7 June 1999 and a predecessor of Tianda Special Steel Pipe Company
“Tianda Trade Union”	Trade Union of Anhui Tianda Enterprise Group (安徽天大企業集團工會), a public society (社會團體法人) established on 30 August 1995 upon the approval of General Trade Union of Tianchang

DEFINITIONS

“Tianjin Dajin”	Tianjin Dajin Electrical Appliance Co. Ltd. (天津市大津電器有限公司), a company with limited liability established under the laws of China on 5 August 2004 and which, at one time, held 17.7% of the registered capital of Tianda Special Steel Pipe Company
“Tongcheng Government”	the People’s Government of Tongcheng Town (銅城鎮人民政府)
“Tongcheng Steel Pipe Factory”	Tongcheng Seamless Stainless Steel Pipe Factory (銅城無縫不銹鋼管廠), a collective-owned enterprise
“US” or “United States”	The United States of America, its territories and possessions, any state of the United States, and the District of Columbia
“VAT”	value added tax of the PRC
“WTO”	the World Trade Organization
“Xian Tubular Goods Research Center”	Tubular Goods Research Center of China National Petroleum Corporation, the only PRC oil well pipe engineering technology research institution and an Independent Third Party
“HK\$” and “cent(s)”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“RMB” or “Renminbi”	Renminbi yuan, the lawful currency of the PRC
“US\$” or “US dollar(s)”	United States dollars, the lawful currency of the US
“sq.ft.”	square feet
“sq.m.”	square metre(s)
“%” or “per cent.”	percentage

For ease of reference, the English names of PRC established companies, government authorities and departments, entities and documents have been included in this prospectus as translations of their Chinese names for identification purpose only. In the event of any inconsistency, the Chinese version shall prevail.

DEFINITIONS

Unless otherwise specified in this prospectus, amounts denominated in RMB and US\$ have been translated, for the purpose of illustration only, into HK\$ as follows:

HK\$1.00 = RMB1.01

HK\$7.80 = US\$1.00

The exchange rates above are for reference only. No representation is made by the Company that any amounts in RMB, US\$ or HK\$ could have been or could be converted at the above rate or at any other rates or at all.

The contents contained in the website at www.tianda-group.com and www.td-gg.com do not form part of this prospectus.

GLOSSARY OF TECHNICAL TERMS

This glossary contains explanations of certain terms used in this prospectus in connection with the Company and its business. The terminologies and their meanings may not correspond to standard industry meanings or usage of those terms.

“07Cr2AlMo”	the name of a material used to produce specialized seamless pipes that is H ₂ S-resistant
“09CrMoAL”	the name of a material used to produce specialized seamless pipes that is Cl ⁻ acid resistant
“API Monogram”	API’s mark represents the quality of the products that carry such mark to have met with the relevant standards as laid down in the corresponding API Monogram Program
“API Monogram Program”	the API Monogram Equipment Licensing Program operated by API whereby companies are licensed to feature the API Monogram on their products subject, among others, to meeting certain quality standards as prescribed by API
“API Spec 5L”	a standard issued by the API to provide standards for pipes suitable for use in conveying gas, water and oil. Spec 5L covers seamless and welded steel line pipe
“ASSEL three rolled pipe machine”	a type of rolled pipe machine which rolls pipes on long floating mandrel
“Cl ⁻ acid resistant seamless steel pipe”	on the basis of specific chemical composition, such specialized seamless pipe that is Cl ⁻ acid resistant
“CAGR”	compound annual growth rate
“CO ₂ ”	carbon dioxide which becomes an acid after dissolving into water. Steel pipes are easily corroded under the fluid environment with such material, which can lead to the cracking of the steel pipes
“Cl ⁻¹ ”	a type of detachable jatrorrhizine hydrochloride. Steel pipes are easily corroded under the fluid environment with such material, which can lead to the cracking of the steel pipes
“Cold-drawn Steel Pipe Technology”	a specialized seamless pipe production method to mould metal to obtain complex shapes with high precision
“GDP”	gross domestic product

GLOSSARY OF TECHNICAL TERMS

“Hot-rolled Steel Pipe Technology”	a specialized seamless pipe production method whereby steel pipes are stretched and shaped under high temperature
“H ₂ S”	hydrogen sulphide, an acid gas easily soluble in water. Steel pipes are easily corroded under the environment with such material, which leads to the cracking of the steel pipes
“H ₂ S-resistant seamless steel pipe”	on the basis of specific chemical components, such specialized seamless pipe is H ₂ S corrosion resistant
“ISO”	The International Organization for Standardization, a worldwide federation of national standards bodies of about 148 countries
“ISO 9000 series”	a series of international standards on quality management and quality assurance developed by ISO Technical Committee 176
“ISO 9001”	a constituent part of the ISO 9000 series which covers the areas of design control, management responsibility, quality system, purchasing, process control, control of non-conforming product, corrective and preventive action, and other areas
“JIT”	just in time
“MPa”	Mega Pascal
““MT” or “tonne””	metric tonne and for reference only, one metric tonne is equivalent to about 1,000 kg
“rig”	the machine used to drill an oil well

RISK FACTORS

Investment in H Shares involves high risks and speculation. Before making any investment decisions in relation to the Company, prospective investors should carefully consider all information contained in this prospectus, in particular the following risk factors and special considerations associated with investing in the Company. It is possible that damage to the Company's business, financial position and operating results may arise from other risk factors and uncertainties that the Company is unaware of, or investment factors that the Company considers insignificant at present.

RISK FACTORS RELATING TO THE COMPANY'S BUSINESS

Fluctuations in market demand for and/or prices of oil well and petrochemical pipes may adversely affect the Company's sales, operating results and profitability

The Company classifies its products into two main categories. The first category is specialized seamless pipes for the oil and natural gas industry, including oil well pipes (mainly oil transfer pipes and casing pipes etc.) and petrochemical pipes. The second category comprises other specialized seamless pipes which include boiler pipes and vessel pipes. A majority of the Company's sales for the financial year ended 31 December 2005 and six months ended 30 June 2006 was derived from the specialized seamless pipes for the oil and natural gas industry. For the year ended 31 December 2005 and the six months ended 30 June 2006, sales of the oil well and petrochemical pipes accounted for approximately 60.3% and 63.7% of the Company's sales, and, for the same period, sales of oil well pipes accounted for approximately 51.8% and 56.8% of the Company's total sales, respectively. Accordingly, if the market demand for and/or the prices of the Company's principal products, namely specialized seamless pipes for the oil and natural gas industry, fluctuate significantly, the Company's sales, operating results and profitability may be adversely affected.

Disruption in relationships with major suppliers or increases in prices of raw materials may adversely affect the Company's operating results and profitability

The success of the Company's business and growth strategy depends, to a significant extent, on the Company's relationship with its suppliers and its ability to obtain reasonable support from these suppliers. The Company generally enters into standardised supply agreements with its suppliers which typically have a term of one year and are renewed annually. Prices are fixed on a monthly basis based on market conditions at the time. If the Company is unable to maintain good relationships with its existing suppliers, or develop and maintain new supplier relationships, the Company may not be able to secure competitive terms and its cost of sales will increase. Furthermore, the Company cannot ensure that its suppliers will not consolidate their businesses such that the suppliers will come to have a stronger bargaining position when negotiating with the Company. If the Company is unable to secure raw materials on commercially reasonable terms, its costs of sales will increase and its operating results and profitability may be adversely affected.

For each of the two years ended 31 December 2005 and the six months ended 30 June 2006, the Company sourced approximately 52.6%, 50.3% and 62.0% respectively of its total purchases from the Company's top five suppliers. Over the same period, the Company's largest supplier accounted for approximately 14.8%, 26.4% and 30.4% of the Company's

RISK FACTORS

total purchases respectively for the same period. If the Company's major suppliers cease to supply to the Company or increase the price of the raw materials sold to the Company and the Company is unable to secure an alternative source for such raw materials, the operating results and profitability of the Company may be adversely affected.

Inability to secure new contracts and/or purchase orders or any of the existing major customers encountering operational or financial difficulties may adversely affect the Company's business and operating results

The success of the Company's business depends on its ability to maintain good relationships with existing customers or develop and maintain new customer relationships for its products. During the Track Record Period, a significant portion of the Company's casing pipes revenues had been, and may continue to be, derived from a limited number of customers. For each of the two years ended 31 December 2005 and the six months ended 30 June 2006, the Company's sales to its five largest customers accounted for approximately 8.9%, 25.6% and 29.2% respectively of the Company's turnover. In the event that the Company fails to secure new contracts or purchase orders from these existing customers, or develop new customer relationships and/or any of the existing major customers encounter operational and/or financial difficulties, the Company's business and operating results may be adversely affected.

Inability to launch or delay in the launch of new products for oil well pipes market may adversely affect the Company's profitability and future growth prospects

The success of the Company is attributable to the Company's ability to anticipate and respond in a timely manner to customer demand for and preferences in specialized seamless pipes. The products offered by the Company are characterized by its specialty applications and product specifications as to quality, durability and, in respect of oil well pipes, their ability to be used at prescribed depths. Customer acceptance of these products is also affected by a number of factors including product reliability, safety, functionality and price.

As part of the Company's overall expansion strategy, the Company intends to offer value added services such as threading, and further heat processing of its oil well pipes. This will require different manufacturing technologies and machinery. As such, the Company may face difficulties or time delays in launching such new products. Failure to launch new products as planned may have an adverse impact on the Company's profitability and future growth prospects.

Departure of the Company's core management or technical teams without immediate and adequate replacement may have an adverse impact on the Company's business

The Company's success is attributable to, among other things, the contribution and long service of the Company's core management and technical teams as stated in the section headed "Directors, supervisors, senior management and staff". The core management and technical teams have been involved in the Company's operations for more than 10 years. Such core management and technical teams refer to Zhang Hu Ming (the Company's Deputy Chairman and general manager), Zhang Chun Xiang (chief engineer), Wang Yi (vice general manager in charge of the hot-rolled steel pipe plant), Geng Wei Long (vice general manager

RISK FACTORS

in charge of cold-drawn steel pipe plant), Lv Si Yu (vice general manager in charge of market sales) and Huang Yao Qi (chief financial officer). Each executive Director has entered into a service contract with the Company for a term of 3 years commencing from the Listing Date. However, there is no assurance that the Company is able to retain member(s) in its core management and technical teams or recruit further competent personnel for its future development. The departure of any member of the Company's core management or technical teams without immediate and adequate replacement or the inability to recruit competent successor(s) or further competent personnel for its future development could have an adverse impact on the Company's business.

Product liability claims may adversely affect the Company's business, reputation and operating results

The products sold by the Company are mainly used in oil exploration activities. Consequently, any product defects could result in product liability claims against the Company for customers' loss (which may include economic loss) as a result of such product defects. The agreements between the Company and customers include product warranties of six or twelve months after product delivery. The Company has obtained product liability insurance. Should there be a product liability claim which exceeds the terms of its insurance coverage or is not covered by insurance, such claim would, regardless of merit, distract management resources and incur costs which may adversely affect the Company's business, reputation and operating results.

Increasing environmental compliance may adversely affect the Company's profitability and future growth prospects

The Company's operations are subject to environmental protection laws and regulations promulgated by both national and local environmental protection authorities of the PRC. The amendment of existing laws or regulations may impose additional or more stringent requirements. In addition, the Company's compliance with such laws or regulations may require the Company to incur additional capital expenditures or other obligations or liabilities. To the extent that the Company has to bear increased costs in complying with environmental protection laws and regulations, this may adversely affect the Company's profitability and future growth prospects.

Historical tax benefits may not continue to apply and hence the Company's profitability and financial position may be adversely affected

The corporate income tax rate applicable to the Company is 33%. However, the Company has benefited from a tax credits of RMB57,796,000 and RMB8,900,000 for the two financial years ended 31 December 2005. Details of such tax credits are set out in Note 8 to the Accountants Report in Appendix I. Until such time as there are corporate income tax rate changes in the PRC or such time if and when the Company applies for and is approved as a Sino-foreign joint venture, the corporate income tax rate applicable to the Company will continue to be 33%.

RISK FACTORS

There is no assurance that these preferential tax treatments will continue to apply to the Company in the future. In the event of any unfavourable changes in relation to such preferential tax treatments, the Company's profitability and financial position may be adversely affected.

If contingent liabilities relating to bank drafts issued by banks in China crystallise as a liability of the Company due to non-payment by the bank upon presentation of such bank drafts, its business, cash flow and profitability may be adversely affected

The Company utilises, as part of its 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 their issue. Under the terms of issue or endorsement of such bank drafts to suppliers, such suppliers have recourse to the Company if the bank defaults on payment of such bank drafts. As at 30 June 2006 and 30 September 2006, the aggregate bank drafts with recourse to the Company amounted to approximately RMB282 million and RMB206 million respectively. If such banks default on payments due under the bank drafts and, as a result, the contingent liability of the Company crystallises, the Company's business, cash flow and profitability may be adversely affected.

Historical dividends are not indicative of future dividends

Dividends declared by the Company amounted to approximately RMB17.0 million and RMB56.7 million for the years ended 31 December 2004 and 2005, respectively.

Investors should be aware that there is no assurance that dividend distributions will continue to be made by the Company in the future. The amount of dividends, if any, to be declared by the Company is subject to the recommendation of the Directors after taking into account, inter alia, the Company's earnings, financial conditions, cash requirements and availability, prospects and other relevant factors. The past dividend distribution record referred to above should not be used as a reference or basis to determine or estimate the amount of dividend payable in the future.

The Company's inability to successfully implement its Business Plans may materially and adversely affect the Company's profitability and future growth prospects

The Directors believe that the success of the Company in the future will substantially depend on, among other things, the successful implementation of its Business Plans, including but not limited to the Company's product mix and planned production capacity increases. Plans for production capacity increases include its plans under the 861 Action Plan. The Company's inability to successfully implement its Business Plans may materially and adversely affect the Company's profitability and future growth prospects.

RISK FACTORS

The Company derives substantially all of its turnover from sales in the PRC and any downturn in the PRC economy could adversely affect the Company's business and financial condition

Substantially all of the Company's revenues are generated from sales in the PRC. The Company anticipates that revenues from sales of its products in the PRC will continue to represent a substantial proportion of the Company's total turnover in the near future. Any significant decline in the condition of the PRC economy could adversely affect and discourage consumption of the Company's products, among other things, which, in turn, may have an adverse effect on the Company's business and financial condition.

The Company may not be able to successfully diversify the geographical coverage of its distribution networks which may adversely affect the Company's business

The Company's intentions to develop its distribution networks for its oil well pipe products to include other parts of the PRC may not prove successful. If the Company fails to generate sufficient sales through new distribution networks, the Company may not be able to recover production, distribution, promotional and marketing expenses as well as administrative costs the Company incurred in such development.

An inability to increase production capacity or to have sales increase at the same rate as production capacity increases may have an adverse impact on the Company's working capital

The production capacity of the Company expanded from 25,000 tonnes in 2004 to 300,000 tonnes in 2006, and it is expected that the Company's production capacity will further expand to 650,000 tonnes in 2009 should the 861 Action Plan be approved. The Company's production capacity may not be able to expand at the same rate as it has in the last three years and any inability to expand production capacity would prove a constraint on sales. In addition, sales may not increase at the same rate as increases in production capacity. In either case, the Company's business, financial conditions and prospects may be adversely affected.

If the Company should find itself in a net current liability situation, its operations and financial results may be adversely affected

For the year ended 31 December 2004, the Company had net current liabilities of approximately RMB84.0 million. The principal reason for the net current liabilities in 2004 was due to the current liabilities incurred in establishing a new oil well pipe production line in Chuzhou and the corresponding assets were not being classified as current assets. They were classified as non-current assets under property, plant and equipment during the same period. As the operations of the Company expand and/or if the Company does obtain approval for phase II of the Company's project within the 861 Action Plan and proceeds with it, more working capital is expected to be required. If the Company takes on short term debt to fund such expansion without a corresponding increase in current assets, the Company could again find itself in a net current liabilities situation. Additionally, if the Company is

RISK FACTORS

unable to service or repay such short-term bank debts, the relevant creditor may choose to demand repayment and take related actions, the result of which could adversely affect the operations and operating results of the Company.

If inventory control is not carried out appropriately, this may have an adverse effect on the Company's business and financial performance

The Company's inventory policy includes budgeting for production requirements as well as strategic purchases in the market if it considers that market prices of raw materials are relatively low or may increase significantly in the near term. As at 30 June 2006, the Company had inventories of approximately RMB198.8 million. Inventories as at 31 December 2004 and 2005 amounted to approximately RMB27.9 million and RMB131.4 million respectively. The average inventory¹ turnover days during the Track Record Period were 34 days, 38 days and 61 days, respectively. The Company's inventories represented approximately 7.7%, 22.4% and 34.8% of its total assets as at 31 December 2004, 2005 and 30 June 2006 respectively. The Company's decision to increase inventory of raw materials in the first half of 2006 as a result of the establishment of a new production line in Tongcheng was the cause of the substantial increase in inventory as at 30 June 2006. As part of the Company's policy to source inventories in accordance with their production or trading needs, it also needs to constantly review and monitor its inventory control methods and procedures in order to minimise overstocking. It is also essential for the Company to maintain sufficient inventory of both self-production needs and sourcing and distribution needs to meet the demands of its customers within a stipulated delivery time.

In the event that management is proven wrong in its anticipation of market trends when it strategically purchases inventory or it overstocks inventory or it fails to stock sufficient inventory to meet production and other sales requirements, the Company's business, reputation and financial performance may be adversely affected.

RISK FACTORS RELATING TO THE INDUSTRY

The Company's inability to respond to technological advances may adversely affect its competitiveness and hence its profitability and future growth prospects

The Company's ability to maintain its competitiveness in the market is largely dependent on its ability to enhance and upgrade its existing products and to develop new and technologically more advanced products to meet customers' requirements. The Company may encounter difficulties in identifying, developing, manufacturing and marketing its products in the future. The Company's profitability and future growth prospects may be adversely affected in the event that the Company is unable to respond to new and technologically more advanced products developed by its competitors.

¹ Average inventory equals inventory at the beginning of the year plus inventory at the end of the year (or as at 30 June 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).

RISK FACTORS

Relaxation of restrictions on foreign companies conducting business in the same industry may adversely affect the Company's business, profitability and future growth prospects

It is provided in the policies for the development of iron and steel industry in the PRC prevailing that foreign investors investing in the iron and steel industry in the PRC are not allowed, in principle, to hold a controlling interest. The business that the Company is engaged in is classified under the iron and steel industry. It is possible that the PRC government will, in the future, relax the policies which currently restrict foreign investors investing in the iron and steel industry. The relaxation of such restrictions may increase competition by foreign companies in the PRC iron and steel advanced processing industry. Accordingly, the Company's profitability and future growth prospects may be adversely affected in the event that more foreign competitors enter the PRC market and compete in the Company's industry segment.

Material changes in policy towards petroleum companies may adversely affect the Company's ability to implement its Business Plan, its sales, operating results and profitability

PRC oil and gas companies are extensively regulated by the PRC government. Central government authorities and reform committees, such as the National Development and Reform Commission, the State-owned Assets Supervision and Administration Commission, the Ministry of Finance, the Ministry of Land and Resources, the Ministry of Commerce, the PRC Ministry of Foreign Trade and Economic Cooperation and the State Bureau of Taxation and the local price bureaus, have extensive control over various aspects of PRC's oil and gas industry. As a result, any future unfavourable changes in policy towards petroleum companies may significantly and adversely affect the Company's ability to implement its Business Plan, its sales, operating results and profitability.

Any decreases in world oil prices may adversely affect the Company's business, operating results and future growth prospects

As set out in the Industry Overview section of this prospectus under the heading "Relationship with Oil Exploration and Petrochemical Refining & Transmission Industries", there is a positive correlation between world oil prices and investments in commercial oil exploration and exploitation projects. Global oil prices, for 2006, are reaching historic highs and leading investments on commercial oil exploration and exploitation projects. However, should global oil prices decrease, this may result in a decrease in investments on commercial oil exploration and exploitation projects which could, in turn, adversely affect the Company's business, operating results and future growth prospects.

RISK FACTORS

RISK FACTORS RELATING TO THE PRC

Political, economic and social changes in the PRC arising from the implementation of government policies may adversely affect the Company's business, operating results and future growth prospects

Prior to the Chinese government's adoption of reform and the "Open Door" policies in 1981, China was a planned economy. Since then, the Chinese government has implemented a number of measures to encourage growth and to guide the allocation of resources, thus resulting in significant economic and social development in the past 20 years. China has since transitioned into a more market-oriented economy. While the Chinese government continues to own a significant portion of the productive assets in China, economic reform policies since the late 1970's have encouraged the development of autonomous and privately-owned businesses, the utilisation of market forces, and the establishment of good corporate governance measures in China.

Substantially all of the Company's sales are derived from China and all of the Company's assets and operations are located in China. Therefore, the Company's business, operating results and future growth prospects are subject, to a significant degree, to the economic, political, social and legal development of China. Any change in the political, economic and social policies of the Chinese government may adversely affect the Company's business, operating results and future growth prospects.

The Company is subject to foreign exchange controls imposed by the PRC government and this may affect the Company's ability to make dividend payments in HK\$

The value of the RMB against the U.S. dollar and other foreign currencies fluctuates and is affected by, among other things, changes in the PRC's and international political and economic conditions. Since 1994, the conversion of Renminbi into foreign currencies, including Hong Kong and U.S. dollars, has been based on rates set by the PBOC, which are set daily based on the previous business day's inter-bank foreign exchange market rates and current exchange rates on the world financial markets. From 1994 to July 20, 2005, the official exchange rate for the conversion of Renminbi to U.S. dollars was generally stable.

On 21 July 2005, the People's Bank of China announced a change in its foreign exchange policy and adjusted the value of RMB from RMB8.27 to US\$1.00 to RMB8.11 to US\$1.00, resulting in the increase of 2.0% of the value of RMB against US\$. According to the announcement made by the People's Bank of China, from 21 July 2005 China adopted a managed floating exchange rate that is adjusted based on market demand and by reference to a basket of currencies. RMB will no longer be fixed against US\$ alone, allowing for more flexibility in the RMB exchange system. In addition, the RMB exchange rate will also be affected by the development of the PRC governmental policies and international economical and political development.

As the Company is required to exchange RMB for HK\$ when declaring dividends to holders of H Shares, should there be any changes in the exchange rate of RMB against the abovementioned basket of currencies, there may be an adverse effect on the amount of dividend paid in Hong Kong to holders of Shares at time of conversion from RMB to HK\$.

RISK FACTORS

Further to the extent there is insufficient foreign exchange from the designated banks to satisfy the Company's corporate needs, the Company's ability to settle dividends in HK\$ may be adversely affected.

The interpretation and enforcement of laws and regulations under the PRC legal system involve some uncertainty

The PRC legal system is based on statutory law. While prior court decisions may be cited as persuasive authority, they do not constitute binding precedents. Since 1979, the PRC government has been developing a comprehensive system of commercial laws and a considerable number of laws and regulations dealing with economic matters such as corporate organisation and governance, securities, foreign investment, taxation and trade. Since these laws and regulations are relatively new and there is only a limited number, of published case law and judicial interpretations on these laws and regulations, their interpretation and enforcement involve some uncertainty.

The Company Law and Special Regulations are not as developed as other developed countries or regions

As the operation of the Company is solely carried out in the PRC, the Company is subject to legal regulations of the PRC. Being a PRC-incorporated company issuing shares and listed outside the PRC, the Company is also subject to the Special Regulations and the Mandatory Provisions. The Mandatory Provisions contain certain provisions required to be included in the articles of association of PRC companies to be listed outside the PRC, including those to be listed in Hong Kong. Such provisions are intended to regulate the internal affairs of such companies. Generally, the Company Law and Special Regulations, in particular those relating to the protection of shareholders' rights and access to information, are not as developed as those applicable to companies listed in Hong Kong, the United Kingdom, the US and other developed countries or regions.

There are material differences between the Company Law and the company laws of Hong Kong, the US and other common law countries or regions, particularly in respect of investor's protection, including such areas as minority derivative action, minority protection, restrictions on directors, financial disclosure, variations of class rights, procedures at general meetings and payments of dividend.

The limited protection for investors offered by the Company Law may be compensated by a certain extent by the introduction of the Mandatory Provisions and certain additional provisions required by the GEM Listing Rules. The Mandatory Provisions and the additional provisions required by the GEM Listing Rules are required to be included into the articles of association of PRC companies listed in Hong Kong. However, the inclusion of the Mandatory Provisions and the additional provisions required by the GEM Listing Rules does not guarantee that holders of the H Shares can enjoy similar protections offered to them in other jurisdictions.

RISK FACTORS

Changes to the PRC regulatory framework may adversely affect the Company

The Securities Law of the PRC (中國證券法) became effective on 1 July 1999 and was amended twice by the Standing Committee of the National People's Congress on 28 August 2004 and 27 October 2005 (the latest amended version was effective on 1 January 2006). This is the fundamental legislation that regulates the PRC securities market. The Securities Law of the PRC (中國證券法) is applicable to, among other matters, the issue and sale and purchase of securities within the PRC. The Company Law, relevant laws and regulations promulgated recently and other legislations relating to PRC companies with public share offerings outside the PRC (including Hong Kong), to a certain extent, form the legal framework regulating the behaviour of companies (such as the Company) and their directors and shareholders. Investors are reminded that the regulatory framework for the PRC securities industry is still at an early stage of development, and any changes to this framework are beyond the control of the Company.

Enforcement of court judgments in the PRC may be difficult

Save for the agreement entitled “An Arrangement on Reciprocal Enforcement of Judgments in Civil and Commercial Matters by the Courts of the Mainland and of the Hong Kong Special Administrative Region pursuant to Choice of Court Agreements between Parties Concerned” signed on 14 July 2006 (which, as at the Latest Practicable Date, has not yet been formalised for implementation), the PRC is not a party to any agreements or arrangements for the endorsement and enforcement of any judgement of the courts of Hong Kong or in most of the other, jurisdictions. As a result, it may be difficult for the Company to seek effect service upon the Company and/or the Directors or enforcement in the PRC of any judgement of the courts of Hong Kong or other jurisdictions. All of the executive Directors reside within China and the Company's operating units are established in China. Consequently, all of the assets and substantially all of the assets of the aforesaid persons are located within China. Therefore, investors may not be able to effect service of process upon those persons or companies in China or to enforce against them in China any judgments obtained from non-Chinese courts. It should be noted that, pursuant to the Articles of Association, any disputes between holders of H Shares and the Company, the Directors, Supervisors, managers or members of the management, or any claim, related to any matter of the Company, arising out of the rights or obligations under the Articles of Association, Company Law or Companies Ordinance, should be put before HKIAC or CIETAC for arbitration. Arbitral award from such organization should be final and binding on all parties involved. The mutual arrangement for the enforcement of arbitral awards of the PRC and Hong Kong in such regions, which has been approved by the Supreme People's Court of the PRC (中國最高人民法院) and the Legislative Council of Hong Kong, became effective on 1 February 2000.

Additional information relating to arbitrations, including the Arbitration Law of the People's Republic of China (中國最高人民法院) which became effective on 1 September 1995, are set out in the paragraph headed “The Arbitration Law” in Appendix V to this prospectus.

RISK FACTORS

RISK FACTORS RELATING TO THE INTERNATIONAL PLACING

An active trading market for the Company's H Shares may fail to develop or be sustained, which could have a material adverse effect on the market price and liquidity of the Shares

Prior to the International Placing, no public market for the Company's H Shares existed. Following the completion of the International Placing, the GEM of the Stock Exchange will be the only market on which the H Shares are listed. However, an active trading market for the H Shares may not develop or be sustained after the International Placing. In addition, the H Shares may trade in the public market subsequent to the International Placing below the Placing Price. The Placing Price for the H Shares is expected to be fixed by agreement between Cazenove (for itself and on behalf of the Placing Underwriters) and the Company, and may not be indicative of the market price of the Shares following the completion of the International Placing. If an active trading market for the Shares does not develop or is not sustained after the International Placing, the market price and liquidity of the Shares could be materially and adversely affected. In addition, the trading price of the Shares could be subject to significant fluctuation.

Future sales or perceived sales of substantial amounts of the Company's securities in the public market, including any future A share offering in the PRC or re-registration of Domestic Shares into H Shares, could have a material adverse effect on the prevailing market price of the Company's H Shares and the Company's ability to raise capital in the future, and may result in dilution of H Share shareholdings

The market price of the Company's H Shares could decline as a result of future sales of substantial amounts of H Shares or other securities relating to the H Shares in the public market or the issuance of new H Shares or other securities, or the perception that such sales or issuances may occur. Future sales, or perceived sales, of substantial amounts of the securities, including any future offerings, could also materially and adversely affect the Company's ability to raise capital in the future at a time and at a price which the Company deems appropriate. In addition, the Company's shareholders may experience dilution in their holdings to the extent the Company issues additional securities in future offerings.

Taxation of holders of H Shares

Under current PRC tax laws, regulations and rulings, dividends paid by the Company to holders of H Shares who are individuals not resident in the PRC or which are foreign enterprises with no permanent establishments in the PRC are not currently subject to PRC withholding tax. In addition, gains realised by individuals or enterprises upon the sale or other disposition of H Shares are not currently subject to PRC capital gains tax. There is no assurance, however, that withholding or capital gains taxes will not become applicable to such dividends or gains in the future. In such event, holders of H Shares could become subject to a withholding tax on dividends or to a capital gains tax, each of which is currently imposed in the PRC upon individuals at the rate of 20%, unless reduced or eliminated by an applicable double taxation treaty.

WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

For the purpose of the listing of the H Shares on GEM, the Company has sought a waiver from the Stock Exchange in relation to Rule 13.16(1) under the GEM Listing Rules.

ESCROW ARRANGEMENTS

Under Rule 13.16(1) of the GEM Listing Rules, the Company shall procure that each of the Initial Management Shareholders places in escrow, with an escrow agent and on such terms as acceptable to the Stock Exchange, all its Relevant Securities (as defined under Rule 13.15(4) of the GEM Listing Rules) for a period commencing from the date of this prospectus and ending on the date which is (a) 12 months from the Listing Date; or (b) where the Initial Management Shareholders' Relevant Securities represent no more than 1% of the issued share capital of the Company as at the Listing Date, 6 months from the Listing Date. All of the Initial Management Shareholders of the Company are subject to the escrow arrangements under Rule 13.16(1) of the GEM Listing Rules.

The Directors consider that Rule 13.16(1) of the GEM Listing Rules are not applicable to the Domestic Shares held by the Initial Management Shareholders as the Domestic Shares are not represented by any form of physical scrip or title documents. Holders of Domestic Shares are unable to create any pledge or charge by deposit of the title documents of their respective Domestic Shares or any part thereof. This also means that the subject matter for custody by the escrow agent under Rule 13.16(1) of the GEM Listing Rules do not physically exist in any form available for custody purposes.

Under the relevant laws and regulations of the PRC, the Domestic Shares held by the Promoters and/or the Initial Management Shareholders are subject to (i) Article 142 of the Company Law which provides that the shares held by the promoters of a joint stock limited company established under the Company Law are not transferable within 12 months from the listing date of such company; and (ii) Article 75 of the Law of Guarantee of the PRC which provides that only shares which are legally transferable may form lawful security for the purposes of pledge or charge in the PRC.

As the Company was transformed into a joint stock limited company on 13 April 2006 in the PRC, the Domestic Shares held by the Initial Management Shareholders are subject to the restrictions imposed by the Company Law and the Law of Guarantee of the PRC, and are therefore within 12 months from the Listing Date neither transferable nor able to form any lawful security for the purpose of pledge or charge in the PRC. In the event that the above relevant PRC laws and regulations are relaxed or removed, the Company will procure the Initial Management Shareholders to comply with the escrow arrangements pursuant to Rule 13.16(1) of the GEM Listing Rules.

It was provided in Article 21 of the Articles of Association that the Domestic Shares of the Company shall not be transferred for a period of one year from the Listing Date since the date the H Shares of the Company are first listed on the Hong Kong Stock Exchange. Therefore, the Domestic Shares held by the Promoters are subject to the same restriction and shall not be transferred for a period of one year from the Listing Date.

WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES

Given the above, the Company has applied for a waiver from strict compliance with Rule 13.16(1) of the GEM Listing Rules in respect of making physical escrow arrangements and the waiver has been granted by the Stock Exchange on condition that:

- (1) each of the Initial Management Shareholders undertakes to the Company and the Stock Exchange that for a period commencing on the date of this prospectus and ending on the date which is (a) 12 months from the Listing Date, or (b) where the shareholders' relevant securities represent no more than 1% of the issued share capital of the Company as at the Listing Date, six months from the Listing Date, it will not (i) dispose of (nor enter into any agreement to dispose of) or permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of its direct or indirect interest in its relevant securities; or (ii) otherwise create (nor enter into any agreement to create) or permit the registered holder to create (or to enter into any agreement to create) any options, rights, interests or encumbrances in respect of any such interest; and
- (2) the Directors undertake to the Company and the Stock Exchange that they will not approve and will procure the Company not to approve the transfer of and the registration of any transfer of the Domestic Shares held by the Initial Management Shareholders during the applicable moratorium periods in respect of Rule 13.16(1) of the GEM Listing Rules as required.

INFORMATION ABOUT THIS PROSPECTUS AND THE INTERNATIONAL PLACING

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance and the GEM Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief:

- (a) the information contained in this prospectus is accurate and complete in all material respects and not misleading;
- (b) there are no other matters the omission of which would make any statement in this prospectus misleading; and
- (c) all opinions expressed in this prospectus have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

CONSENT OF THE CSRC

On 7 September 2006, the CSRC granted its consent to the Company's application for the listing of the H Shares on GEM and the International Placing. Having granted such consent, the CSRC accepts no responsibility for the financial soundness of the Company nor the accuracy of any of the statements made or opinions expressed in this prospectus.

SIGNING OF PLACING UNDERWRITING AGREEMENT AND DETERMINATION OF THE PLACING PRICE

The Placing Underwriting Agreement is expected to be signed on or about the date that the Placing Price is agreed. The Placing Price is expected to be fixed by agreement between Cazenove (for itself and on behalf of the other Placing Underwriters) and the Company at or before the Price Determination Time, which is currently scheduled at or before 5:00 p.m. on Monday, 27 November 2006 or such later time and/or date as may be agreed between the Company and Cazenove (for itself and on behalf of the Placing Underwriters) but in any event no later than 5:00 p.m. on 29 November 2006. If the Placing Underwriting Agreement is not signed or the Placing Price is not agreed or the termination rights referred to in the section headed "Underwriting" in this prospectus are exercised, the International Placing will not proceed.

The Placing Price will not be more than HK\$3.0 per H Share and is currently expected to be not less than HK\$2.4 per H Share. Cazenove (for itself and on behalf of the other Placing Underwriters) may, with the consent of the Company, reduce the aforesaid indicative Placing Price range below that stated in this prospectus (which is HK\$2.4 per H Share to HK\$3.0 per H Share). Potential investors should be aware that the Placing Price to be determined at or before the Price Determination Time may be, but is currently not expected to be, lower than the indicative range of the Placing Price stated in this prospectus.

INFORMATION ABOUT THIS PROSPECTUS AND THE INTERNATIONAL PLACING

Cazenove is the Global Coordinator, Sole Bookrunner, Sponsor and Lead Manager of the International Placing. Subject to the execution and terms of the Placing Underwriting Agreement (including an agreement on the Placing Price), the International Placing will be fully underwritten by the Placing Underwriters. For further information about the underwriting arrangements, please refer to the section headed “Underwriting” in this prospectus.

RESTRICTIONS ON OFFER OF THE PLACING SHARES

No action has been taken in any jurisdiction other than Hong Kong to permit the International Placing or the distribution of this prospectus. Accordingly, this prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in relation to the International Placing in any jurisdiction or, in any circumstance in which such an offer or invitation is not authorised, or to any person to whom it is unlawful to make such an offer or invitation.

The Placing Shares are offered for subscription solely on the basis of the information contained and the representations made in this prospectus. No person is authorised in connection with the International Placing to give any information, or to make any representation, not contained in this prospectus. Any information or representation not contained herein shall not be relied upon as having been authorised by the Company, the Sponsor, the Placing Underwriters, any of their respective directors, officers, employees and/ or representatives or any other person involved in the International Placing.

The distribution of this prospectus and the offering of the Placing Shares in certain jurisdictions are restricted by law and in particular, but without limitation, to the following:

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”) an offer to the public of any Placing Shares may not be made in that Relevant Member State except that an offer to the public in that Relevant Member State of any Placing Shares may be made at any time under the following exemptions under the Prospectus Directive, if they have been implemented in that Relevant Member State:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000; and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (c) any other individual or entity authorised in that Relevant Member State as a qualified investor within the meaning of the Prospectus Directive; or

INFORMATION ABOUT THIS PROSPECTUS AND THE INTERNATIONAL PLACING

- (d) by the Placing Underwriters to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of Cazenove as global coordinator for any such offer; or
- (e) in any other circumstances not requiring the publication by the Company of a prospectus pursuant to Article 3(2) of the Prospectus Directive.

provided that no such offer of Placing Shares shall result in a requirement for the publication by the Company or any Placing Underwriters of a prospectus pursuant to Article 3 of the Prospectus Directive.

Each person to whom an offer is made under sub-paragraph (a), (b) or (c) above shall be deemed to have represented on acceptance thereof that it is a qualified investor within the meaning of the Prospectus Directive.

For the purposes of the above, the expression an “offer of Placing Shares to the public” in relation to any Placing Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Placing Shares to be offered so as to enable an investor to decide to purchase or subscribe for any Placing Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

This prospectus has not been approved under Section 21 of the Financial Services and Markets Act 2000 (“**FSMA**”) by a person authorised under the FSMA in the United Kingdom. This prospectus is being distributed in the United Kingdom only to, and is directed only at, (i) investment professionals, as defined in Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “**FSMA Order**”), and (ii) persons falling within Article 49 of the FSMA Order (all such persons together being referred to as “**relevant persons**”). This prospectus must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this prospectus relates is available only to relevant persons and will be engaged in only with relevant persons. Persons of any description, including those who do not have professional experience in matters relating to investments, should return this document to Cazenove and take no other action.

The Placing Shares may not be offered or sold in the United Kingdom except to persons whose ordinary activities involve acquiring, holding, managing or disposing of investments (as principal or agent) for the purpose of their businesses or otherwise in circumstances which have not resulted and will not result in an offer to the public in the United Kingdom for the purposes of the FSMA or the Prospectus Regulations 2005.

INFORMATION ABOUT THIS PROSPECTUS AND THE INTERNATIONAL PLACING

In addition, no person may issue or pass on to any person in the United Kingdom any documents received by him in connection with the International Placing or communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) in relation to the Placing Shares unless the recipient is a relevant person.

France

The Placing Shares have not been offered or sold, and will not be offered or sold, directly or indirectly, to the public in France and this prospectus or any other offering material relating to the Placing Shares have not been distributed or are caused to be distributed and will not be distributed or be caused to be distributed to the public in France and that such offers, sales and distributions have been and will only be made in France to (i) providers of investment services relating to portfolio management for the account of third parties, and/or (ii) qualified investors (*investisseurs qualifiés*) other than individuals, all as defined in accordance with Articles D411.1 to D411.3 of the French Code monétaire et financier.

Ireland

All applicable provisions of the Investment Intermediaries Act 1995 to 2000 of Ireland, with respect to anything done in relation to the offer, sale or delivery of the Placing Shares in or involving Ireland, have been complied and will be complied with.

Singapore

This prospectus has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly this prospectus may not be issued, circulated or distributed in Singapore nor may any persons make an offer of the Placing Shares to any persons in Singapore or invite any person in Singapore to make an offer for the Placing Shares, both which upon acceptance would give rise to a contract for the issue or sale of the Placing Shares by the Company, other than pursuant to, and in accordance with the conditions of, an exemption invoked under Division 1, Sub-division (4) of Part XIII of the Securities and Futures Act and to persons to whom the Placing Shares may be offered or sold under such exemption. Furthermore, no advertisement may be made offering or calling attention to an offer or intended offer of the Placing Shares in Singapore, nor any statements be published that directly or indirectly refers to the offer or intended offer, or is reasonably likely to induce persons to subscribe for or purchase the Placing Shares.

Japan

The Placing Shares have not been and will not be registered under the Securities and Exchange Law of Japan. Accordingly, the Placing Shares may not directly or indirectly, be offered or sold, in Japan or to, or for the benefit of, any resident of Japan, except (i) pursuant to an exemption from the registration requirements of, or otherwise in compliance with, the Securities and Exchange Law of Japan and (ii) otherwise in compliance with the applicable provisions of Japanese law. As used in this paragraph “resident of Japan” means any person residing in Japan, any corporation or other legal entity organised under the laws

INFORMATION ABOUT THIS PROSPECTUS AND THE INTERNATIONAL PLACING

of Japan except for its branches or other offices located outside Japan and, with respect to any corporation or other legal entity organised under a law other than Japanese law, its branches and offices located in Japan.

The PRC

This prospectus does not constitute a public offer of the Placing Shares, whether by way of sale or subscription, in the PRC. The Placing Shares are not being offered and may not be offered or sold directly or indirectly in the PRC to or for the benefit of, legal or natural persons of the PRC.

Taiwan

The Placing Shares have not been and will not be registered with the Securities and Futures Bureau of Taiwan and are not being offered or sold and may not be offered or sold, directly or indirectly, in Taiwan otherwise to, or for the benefit of, any resident of Taiwan, except (a) pursuant to the requirements of the securities related laws and regulations in Taiwan and (b) in compliance with any other applicable requirements of Taiwanese laws.

Cayman Islands

No offer of the Placing Shares will be made to the public in the Cayman Islands.

US

The Placing Shares have not been, and will not be, registered under the US Securities Act of 1933, as amended (the “US Securities Act”) or under any securities regulatory authority of any state of the US and may not be offered, sold, pledged or transferred within the US, or to, or for the account or benefit of, US persons. The Placing Shares are being offered and sold outside the US in an offshore transaction to non-US persons pursuant to Regulation S under the US Securities Act. Terms used in this paragraph have the meanings given to them by Regulation S under the US Securities Act.

The Placing Shares have not been approved or disapproved by the US Securities and Exchange Commission, any state securities commission in the US or any other US regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the International Placing or the accuracy or adequacy of this prospectus or the prospectuses relating to the International Placing. Any representation to the contrary is a criminal offence in the US.

APPLICATION FOR LISTING ON GEM

The Company has applied to the GEM Listing Committee for the listing of, and permission to deal in, the H Shares (including any Over-allotment Shares) on GEM. No part of the Company’s share or loan capital is currently listed or dealt in on any other stock exchange and no such listing or permission to deal is being or, is proposed to be sought at present.

INFORMATION ABOUT THIS PROSPECTUS AND THE INTERNATIONAL PLACING

Under section 44B(1) of the Companies Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the H shares on GEM is refused by the Stock Exchange.

Save as otherwise approved by the Stock Exchange, only those securities of the Company which are registered on its register of members to be maintained in Hong Kong will be allowed for trading on GEM.

Dealings in the H Shares on GEM are expected to commence on Friday, 1 December 2006. The H Shares will be traded in board lots of 2,000 each.

PROFESSIONAL TAX ADVICE

If you are unsure about the taxation implications of subscribing for the Placing Shares, or about the purchasing, holding or disposing of or dealing in the Placing Shares, you should consult an expert.

Prospective investors for the Placing Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, holding, purchasing or disposing of or dealing in the Placing Shares or any rights thereof. None of the Company, the Directors, the Sponsor, the Placing Underwriters, any of their respective directors, officers, employees and/or representatives and any other parties involved in the International Placing accepts any responsibility for any tax effects on, or liability of, any person resulting from subscribing for, holding, purchasing or disposing of or, dealing in the Placing Shares or any rights thereof.

REGISTRATION PROCEDURE FOR SUBSCRIPTION AND TRANSFER OF H SHARES

The Company has instructed Computershare Hong Kong Investor Services Limited, its H Share Hong Kong share registrar and who has agreed, not to register any subscription for or transfer of the H Shares in the name of any holder unless and until the holder delivers to Computershare Hong Kong Investor Services Limited a signed form in respect of such H Shares bearing statements to the effect that the holder of those H Shares:

- (i) agrees with the Company and each other shareholder of the Company, and the Company agrees with such registered holder(s) and each other shareholder of the Company, to observe and comply with the Company Law, the Special Regulations and the Articles of Association;
- (ii) agrees with the Company, each other shareholder, director, supervisor, manager and officer of the Company, and the Company acting for itself and for each director, supervisor, manager and officer of the Company agrees with each of its shareholders, to refer all differences and claims arising from the Articles of Association or any rights or obligations conferred or imposed by the Company Law or other relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association; and

INFORMATION ABOUT THIS PROSPECTUS AND THE INTERNATIONAL PLACING

any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award, which arbitration shall be final and conclusive;

- (iii) agrees with the Company and each other shareholder of the Company that the H Shares are freely transferable by the holder thereof; and
- (iv) authorises the Company to enter into a contract on the holder's behalf with each director, supervisor and officer of the Company whereby such directors, supervisors and officers of the Company undertake to observe and comply with their obligations to the shareholders of the Company stipulated in the Articles of Association.

STAMP DUTY

Dealings in the H Shares registered on the Company's H Share register of members maintained in Hong Kong will be subject to Hong Kong stamp duty.

STRUCTURE AND CONDITIONS OF THE INTERNATIONAL PLACING

Details of the structure and conditions of the International Placing, are set out in the section headed "Structure and conditions of the International Placing" in this prospectus.

STABILISATION AND OVER-ALLOTMENT OPTION

Stabilisation is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilise, the underwriters may bid for, agree to purchase or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, to prevent a decline in the initial public offer prices of the securities. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. In Hong Kong, the price at which stabilisation is effected is not permitted to exceed the offer price. In other jurisdictions, the stabilisation price may or may not be higher than the offer price.

In connection with the International Placing, Cazenove (for itself and on behalf of the other Underwriters) may over-allocate H Shares or effect transactions with a view to support the market price of the Placing Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. In covering such over-allocations, Cazenove (for itself and on behalf of the other Underwriters) may exercise the Over-allotment Option no later than 30 days after the Listing Date or make (or agree, offer or attempt to make) open-market purchases in the secondary market. Cazenove may also sell or agree to sell any H Shares acquired in the course of any stabilisation action in order to liquidate any position that has been established by such action. Any such secondary market purchase or sale will be made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on Cazenove to conduct any such stabilising action which, if taken, may be discontinued at any time at the absolute discretion of Cazenove and is required to be brought to an end after a limited period. The number of H Shares over-allocated will not be greater than the maximum number of Over-allotment Shares, being 21,856,000 H Shares,

INFORMATION ABOUT THIS PROSPECTUS AND THE INTERNATIONAL PLACING

which is approximately 15% of the Placing Shares initially available for subscription under the International Placing. Pursuant to section 3 of the Price Stabilising Rules of the SFO, stabilising action may only take place, among other factors, where the total value of the International Placing is not less than HK\$100 million. If Cazenove decides to exercise the Over-allotment Option, it will be exercised solely to cover over-allocations in the International Placing. The Placing Shares (including any Over-allotment Shares) will be allocated prior to the commencement of trading of the H Shares on GEM.

If the Over-allotment Option is exercised in full, the aggregate number of H Shares to be issued pursuant thereto will represent approximately 33% of the enlarged issued share capital of the Company following completion of the International Placing and full exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made by the Company.

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the H Shares to be issued pursuant to the International Placing and any Over-allotment Shares, on GEM by the GEM Listing Committee and the compliance by the Company with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on GEM or such other date as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

All necessary arrangements have been made for the H Shares to be admitted into CCASS.

CORPORATE INFORMATION

REGISTERED ADDRESS	Zhenxing Road Tongcheng Town Tianchang City Anhui Province the PRC
PRINCIPAL PLACE OF BUSINESS IN HONG KONG	Room 2906 China Online Centre 333 Lockhart Road Wanchai Hong Kong
COMPANY SECRETARY	Ho Kin-Cheong, Kelvin (FCCA, CPA) Room 2709 Ka Yeung House Ka Shing Court Fanling Hong Kong
COMPLIANCE OFFICER	Zhang Hu Ming (張胡明)
QUALIFIED ACCOUNTANT	Ho Kin-Cheong, Kelvin (FCCA, CPA)
COMPLIANCE ADVISER	Somerley Limited
AUDIT COMMITTEE	Zhao Bin (趙斌) (<i>Chairman</i>) Wu Chang Qi (吳昌期) Zhang Jian Huai (張建懷)
REMUNERATION AND NOMINATION COMMITTEE	Wu Chang Qi (吳昌期) (<i>Chairman</i>) Wang Xiu Zhi (王秀智) Xie Yong Yang (謝永洋)
AUTHORISED REPRESENTATIVES	Ye Shi Qu (葉世渠) Room 201, Block 1 Tianda Residential District 4 Zhenxing Road Tongcheng Town Tianchang Anhui Province the PRC Ho Kin-Cheong, Kelvin Room 2709 Ka Yeung House Ka Shing Court Fanling Hong Kong

CORPORATE INFORMATION

**AUTHORISED PERSON TO
ACCEPT SERVICE OF
PROCESS AND NOTICES**

Ho Kin-Cheong, Kelvin
Room 2709
Ka Yeung House
Ka Shing Court
Fanling
Hong Kong

PRINCIPAL BANKERS

Agricultural Bank of China (中國農業銀行)
Tianchang Sub-branch
Tongcheng Office
3 Jianshe Street
Tongcheng County
Tianchang
Anhui Province
the PRC

Bank of China (中國銀行股份有限公司)
Tianchang Sub-branch
2 Shiliang Road West
Tianchang
Anhui Province
the PRC

China Construction Bank (中國建設銀行股份有限公司)
Chuzhou Chengdong Sub-branch
179 Tianchang Road
Chuzhou
Anhui Province
the PRC

China Construction Bank (中國建設銀行股份有限公司)
Tianchang Sub-branch
76 Jianshe Road West
Tianchang
the PRC

Agricultural Bank of China (中國農業銀行)
Chuzhou Sub-branch
296 Qingliu Road
Chuzhou
the PRC

Industrial and Commercial Bank of China Limited
(中國工商銀行股份有限公司)
Tianchang Sub-branch
153 Shiliang Road East
Tianchang
the PRC

CORPORATE INFORMATION

**HONG KONG SHARE
REGISTRAR AND
TRANSFER OFFICE**

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE INTERNATIONAL PLACING

DIRECTORS

Name	Address	Nationality
<i>Executive Directors:</i>		
Ye Shi Qu (葉世渠)	Room 201, Block 1, Tianda Residential District, 4 Zhenxing Road, Tongcheng Town, Tianchang, Anhui Province the PRC	PRC
Zhang Hu Ming (張胡明)	Room 204, Block 1, Tianda Residential District, 4 Zhenxing Road, Tongcheng Town, Tianchang, Anhui Province the PRC	PRC
Xie Yong Yang (謝永洋)	Room 202, Block 1, Tianda Residential District, 4 Zhenxing Road, Tongcheng Town, Tianchang, Anhui Province the PRC	PRC
<i>Non-executive Directors:</i>		
Zhang Jian Huai (張建懷)	Room 101, Block 1, Tianda Residential District, 4 Zhenxing Road, Tongcheng Town, Tianchang, Anhui Province the PRC	PRC
Liu Peng (劉鵬)	Room 1202, Third Unit, A2-10 Tower, DCT Town, East Forth Ring Road, Chaoyang District, Beijing the PRC	PRC

DIRECTORS, SUPERVISORS AND PARTIES INVOLVED IN THE INTERNATIONAL PLACING

Name	Address	Nationality
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Independent non-executive Directors:

Wu Chang Qi (吳昌期)	Room 302, Block 3, Provincial Government Dormitory Area, 1 Shucheng Road, Luyang District, Hefei, Anhui Province the PRC	PRC
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Wang Xiu Zhi (王秀智)	Room 305, Block 3, Provincial Government Dormitory Area, 2 Shucheng Road, Luyang District, Hefei, Anhui Province the PRC	PRC
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Zhao Bin (趙斌)	Room 401, Baoyuan Apartment, Xueyuan Road 11, Haidian District, Beijing the PRC	PRC
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SUPERVISORS

Name	Address	Nationality
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Liu Jun Chang (劉俊昌)	Room 306, Block 1, Tianda Residential District, 4 Zhenxing Road, Tongcheng Town, Tianchang, Anhui Province the PRC	PRC
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Yong Jin Gui (雍金貴)	Room 403, Block 2, Tianda Residential District, 4 Zhenxing Road, Tongcheng Town, Tianchang, Anhui Province the PRC	PRC
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INDUSTRY OVERVIEW

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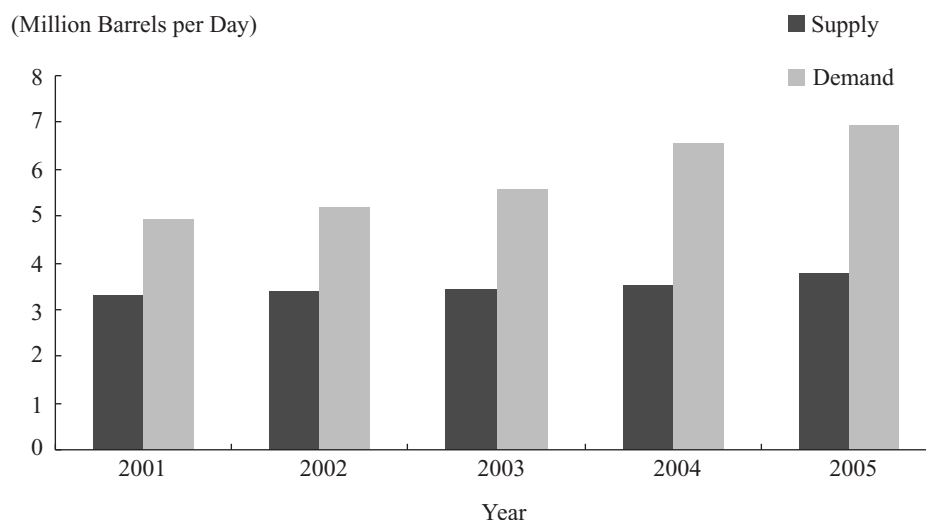
CRUDE OIL INDUSTRY OVERVIEW

Introduction

Crude oil or petroleum, the raw materials for many petroleum and petrochemical products, is used to produce liquified petroleum gas (LPG), heavy fuel oil, jet fuel, diesel fuel, heating oil, gasoline or other products such as medicines, plastics, polyurethane, solvents, or many other intermediate and end-user goods. According to the EIA, approximately 80.0% of each barrel of crude oil extracted was processed as fuel in 2004 with the remainder of approximately 20.0% converted into petrochemicals and other products.

Crude oil plays a fundamental role in the industrial development of developing countries. From 2001 to 2005, total world demand for oil grew by approximately 8.0%. For that period, the global demand for crude oil increased from 77.7 million barrels per day in 2001 to 83.8 million barrels per day in 2005, representing a CAGR of approximately 1.9%. Oil demand worldwide has resulted in increasing oil prices. According to EIA, U.S. Crude Oil Imported Acquisition Cost by Refiners increased by approximately 1.2 times from 2001 to 2005. In the same period, as compared with the world, China's demand for oil grew at a much faster rate of 40.8% from 4.9 million barrels per day in 2001 to 6.9 million barrels per day in 2005, representing a CAGR of approximately 8.9%. The following graph shows the total supply of and demand for crude oil in China from 2001 to 2005.

Total Supply and Demand of Crude Oil of China, 2001-2005



Source: EIA

INDUSTRY OVERVIEW

Demand

Since the early 1980's, China has experienced rapid economic growth which has also generated strong increases in the demand for petroleum resources. Between 2001 and 2005, China's GDP increased by a CAGR of 13.6%, making China one of the fastest growing economies in the world.

Due to this rapid growth, China was the second highest consumer of crude oil in the world in 2005, second to the United States based on the following table. However, China's crude oil consumption on a per capita basis in 2005 remained significantly below that of the worldwide average and the other selected countries (as set out in the table below). The following table sets forth the world's major crude oil consuming countries for the year 2005.

Selected Oil Consuming Countries in the world in 2005

Country	Total Oil Consumption <i>(Million Barrels per Day)</i>	Population <i>(Million)</i>	Per Capita Consumption <i>(Barrels per Annum)</i>
United States	20.7	294.9	25.6
China	6.9	1,307.8	1.9
Japan	5.4	127.2	15.4
Germany	2.6	82.5	11.6
Canada	2.3	32.1	25.7
South Korea	2.2	48.4	16.4
Mexico	2.1	105.3	7.2
France	2.0	60.1	12.1
United Kingdom	1.8	59.3	11.1
Italy	1.7	57.5	11.0
Total World Demand	83.8	6,416.6	4.8

Source: EIA, World Bank

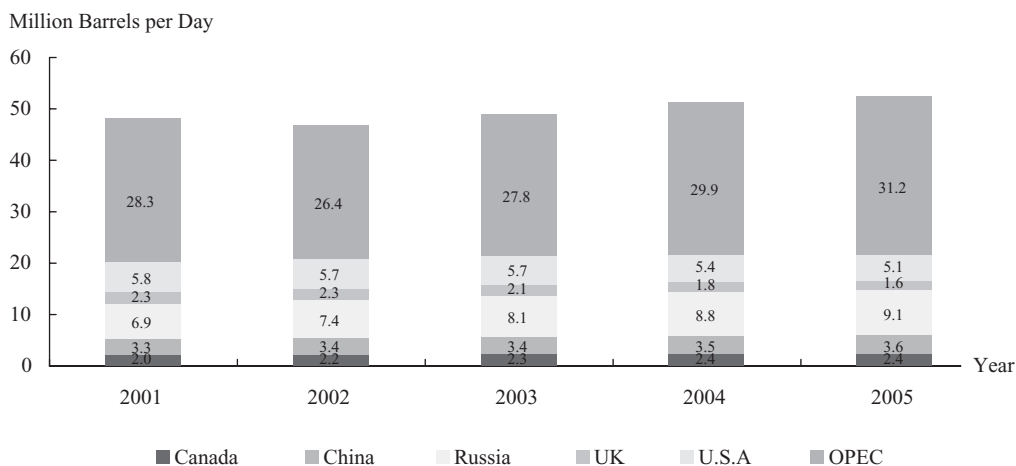
Supply

The oil industry in China is regulated by the State Energy Administration of China and dominated by the three largest state-owned oil and gas group companies, namely, China National Petroleum Corporation (CNPC), China Petrochemical Group and China National Offshore Oil Corporation (CNOOC). The listed corporations of these three state-owned oil and gas group companies are PetroChina, Sinopec and CNOOC. In 2005, all the three companies together accounted for approximately 93.5% of the total crude oil production in China. All of CNPC (through PetroChina), Sinopec and CNOOC carried out initial public offerings between 2000 and 2002. Consequently, for some of the analysis in this prospectus below, statistics relating to PetroChina, Sinopec and CNOOC are used as key indicators for China's oil producers.

INDUSTRY OVERVIEW

The following graph sets forth the total crude oil production by various regions in the world from 2001 to 2005. As illustrated, China still plays a relatively minor role in the crude oil production.

Selected World Crude Oil Producers 2001–2005



Source: EIA

Crude Oil Produced

	2001	2002	2003	2004	2005	CAGR
	<i>Million Barrels</i>					
PetroChina	764	770	775	778	823	1.9%
Sinopec	269	270	271	274	279	0.9%
CNOOC	84	109	112	117	130	11.5%
Total	1,116	1,149	1,158	1,169	1,232	2.5%
Year on Year Growth		3.0%	0.8%	0.9%	5.4%	

Proved Oil Reserves

	2001	2002	2003	2004	2005	CAGR
	<i>Million Barrels</i>					
PetroChina	10,959	10,937	11,495	11,501	11,536	1.3%
Sinopec	3,215	3,320	3,257	3,267	3,294	0.6%
CNOOC	1,246	1,424	1,436	1,456	1,457	4.0%
Total	15,420	15,681	16,188	16,224	16,288	1.4%
Year on Year Growth		1.7%	3.2%	0.2%	0.4%	

Source: Annual Reports of PetroChina, Sinopec and CNOOC

INDUSTRY OVERVIEW

The table below shows estimates of the conventional oil resource base by global regions through to the year 2025. The oil resource base is defined by three categories: proved reserves (oil that has been discovered but not produced); reserve growth (increases in reserves resulting mainly from technological factors that enhance a field's recovery rate); and undiscovered (oil that remains to be found through exploration). As illustrated, China only accounts for approximately 29.0% of United States's total estimated oil resource, 23.4% of Canada, 4.2% of Middle East.

Estimated World Oil Resources, 1995–2025

Region	Proved Reserves	Reserve Growth	Undiscovered	Total
	<i>(Billion Barrels)</i>			
Mature Market Economies				
United States	21.9	76.0	83.0	180.9
Canada	178.8	12.5	32.6	223.9
Mexico	14.6	25.6	45.8	86.0
Western Europe	15.8	19.3	34.6	69.7
Japan	0.1	0.1	0.3	0.5
Australia/New Zealand	1.5	2.7	5.9	10.1
Transitional Economies				
Former Soviet Union	77.8	137.7	170.8	386.3
Eastern Europe	1.5	1.5	1.4	4.4
Emerging Economies				
China	18.3	19.6	14.6	52.5
India	5.4	3.8	6.8	16.0
Other Emerging Asia	11.0	14.6	23.9	49.5
Middle East	729.6	252.5	269.2	1,251.3
Africa	100.8	73.5	124.7	299.0
Central and South America	100.6	90.8	125.3	316.7
Total World	1,277.7	730.2	938.9	2,946.8
OPEC	885.2	395.0	400.5	1,681.3
Non-OPEC	392.5	334.6	538.4	1,265.5

Note: Reserves include crude oil (including concentrates) and liquid petroleum gas.

Sources: Proven Reserves as of January 1, 2005: Oil & Gas Journal. Reserve Growth (Total) and Undiscovered: U.S. Geological Survey, World Petroleum Assessment 2000. Estimates of Regional Reserve Growth: EIA and International Energy Outlook 2002.

INDUSTRY OVERVIEW

Import and Export

From 2001 to 2005, China's crude oil consumption increased at a CAGR of approximately 8.9% from 4.9 million barrels per day to 6.9 million barrels per day while the world's crude oil production increased at a CAGR of approximately 1.9% from 77.7 million barrels per day to 83.8 million barrels per day over the same period. China has become a net importer of oil every year since 1996 and, in 2004, the net imports of China had reached 2.9 million barrels per day (equivalent to about 44.6% of the total PRC oil consumption per day in that year).

EXPENDITURE ON EXPLORATION, REFINING AND TRANSMISSION

Overview

The sharp increase in global demand for crude oil in recent years has led to a corresponding increase in expenditure on crude oil exploration, refining and transmission.

In China, capital expenditure on oil and gas exploration and production have risen steadily in recent years. As illustrated in the table below, expenditure on exploration equipment by China's three main oil producers, PetroChina, Sinopec and CNOOC, increased from RMB61.8 billion in 2001 to RMB107.2 billion in 2005, reaching a CAGR of 14.8%.

Capital Expenditure on Oil & Gas Exploration & Production

	2001	2002	2003	2004	2005	2001-2005 CAGR
	<i>RMB Billion</i>					
Petrochina	41.2	46.1	52.8	62.9	83.2	19.2%
Sinopec	20.3	20.2	20.6	21.2	23.1	3.3%
CNOOC	0.3	0.6	0.5	0.8	0.9	31.6%
Total	61.8	66.9	74.0	84.9	107.2	14.8%
Year on Year Growth	N/A	8.3%	10.6%	14.7%	26.3%	

Source: Annual reports of PetroChina, Sinopec and CNOOC

In the same period, capital expenditure on petrochemical refining and transmission also demonstrated steady increases. As indicated in the table below, expenditure on petrochemical refining and transmission by China's big three oil producers, PetroChina, Sinopec and CNOOC, increased from RMB61.9 billion in 2001 to RMB91.4 billion in 2005, reaching a CAGR of 10.2%.

INDUSTRY OVERVIEW

Capital Expenditure on Petrochemical Refining & Transmission

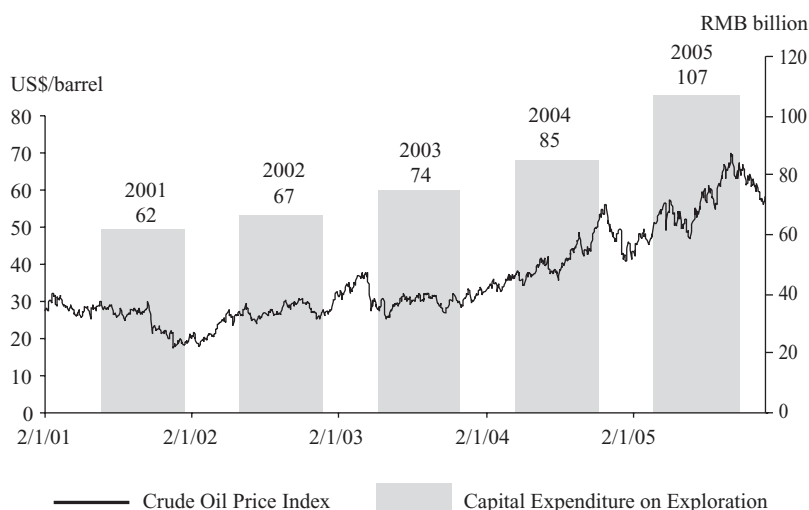
	2001	2002	2003	2004	2005	2001-2005 CAGR
	<i>RMB Billion</i>					
Petrochina	19.7	27.5	30.1	35.9	41.2	20.3%
Sinopec	38.2	20.8	23.9	42.0	34.5	-2.5%
CNOOC	4.0	6.2	7.7	12.1	15.7	40.8%
Total	61.9	54.6	61.7	89.9	91.4	10.2%
Year on Year Growth	N/A	-11.8%	13.0%	45.7%	1.7%	

Source: Annual reports of PetroChina, Sinopec, CNOOC

Relationship between Oil Price and Capital Expenditure of Oil Exploration and Petrochemical Refining & Transmission

An oil or gas well is sometimes not developed for commercial production due to concerns relating to exploration costs. It will only be put into production if the estimated oil or gas commercial reserves can cover the estimated costs of production and other ongoing production costs. Consequently, any increased demand for oil which leads to steady increase in oil prices would result in an increase in the number of oil exploration projects which were originally not economical to be put into production. Therefore, continuous growth in the price of crude oil would result in substantial increase in investments on petroleum exploration and petrochemical refining & transmission.

The relationship between West Texas Crude Oil Price Index and the exploration capital expenditure of major oil and gas producers* in the PRC

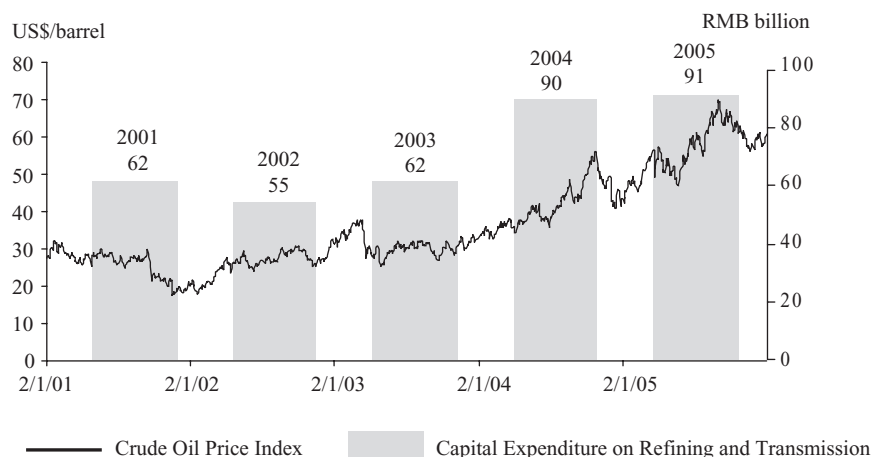


Sources: Bloomberg and annual reports of PetroChina, Sinopec and CNOOC

* Major oil and gas producers in the PRC refer to PetroChina, Sinopec and CNOOC

INDUSTRY OVERVIEW

The relationship between West Texas Crude Oil Price Index and the petrochemical refining and transmission capital expenditure of major oil and gas producers* in the PRC



Sources: Bloomberg and annual reports of PetroChina, Sinopec and CNOOC

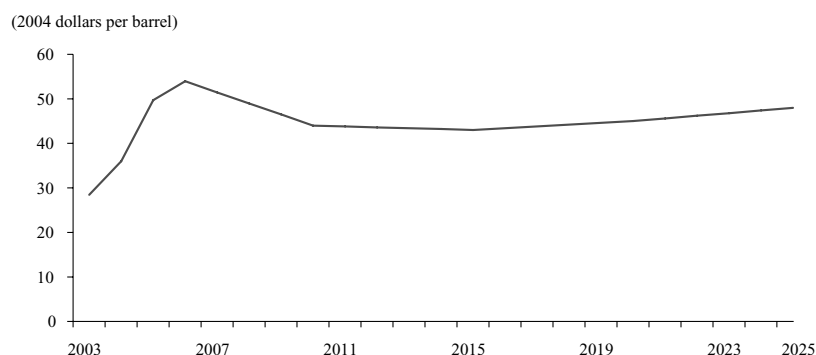
* Major oil and gas producers in the PRC refer to PetroChina, Sinopec and CNOOC

Future Perspective

According to the EIA projections, in the near term, world oil price will still show a rising trend. Consequently, due to the positive correlation between oil price and exploration equipment expenditure, it is expected that the expenditure on exploration equipment will increase.

The following graph from EIA estimates that petroleum product price is still expected to exceed US\$40 per barrel in 2025. Please note that petroleum product price is defined as weighted average price delivered to U.S. refiners.

Petroleum Product Prices*



* Data for 2003 and 2004 are model results and may differ slightly from official EIA data reports.

Sources: EIA, "Annual Energy Outlook 2006 with Projections to 2030"

INDUSTRY OVERVIEW

OIL WELL PIPE INDUSTRY IN CHINA

Overview

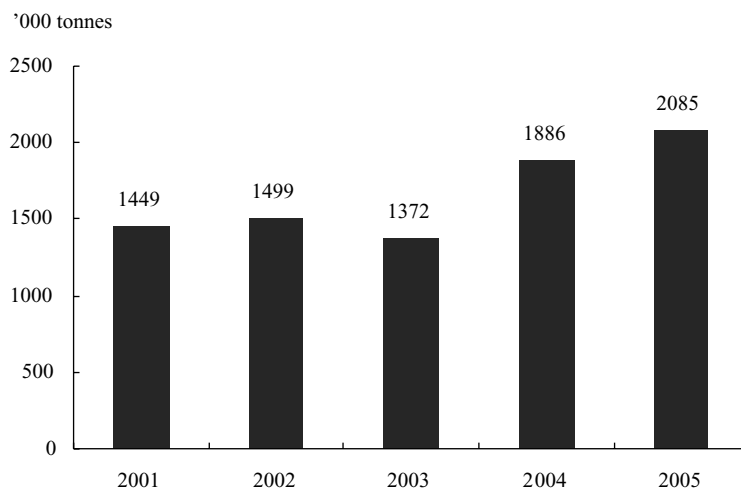
Oil well pipes (mainly oil transfer pipes and casing pipes etc.) are a type of seamless pipe and one of the major production equipment used in oil and natural gas exploration activities. In order to maximise and ensure a steady output from oilfields during the course of exploration for petroleum, it is necessary to drill new production wells continuously in one oil field. The materials that are used most in the exploration of new oil wells are mainly oil well pipes and non-metal materials for well cementing where, once used, cannot be reused for another well. Consequently, for each new oil well, whilst the drilling platform and pumping unit may not be new, the oil well pipes are invariably new.

In China, the oil well pipe industry can be seen as a relatively emerging sub-sector in the iron and steel industry in China, which is attributable to its importance in the value chain of the oil industry.

Demand

The major factors that result in the strong demand for oil well pipes are the overall increases in global petroleum consumption and global petroleum prices staying relatively high, both of which lead to increases in exploration for and exploitation of more oil wells by petroleum companies. There have been approximately 60,000 to 90,000 oil and gas wells completed in the world every year between 2001 and 2005. For every meter in depth of an oil well, the drilling and related activities consumes approximately 60 kg of oil well pipes. During this period, the apparent consumption of oil well pipes in China reached a low of 1,372,000 tonnes in 2003 and a high of 2,085,000 tonnes in 2005, representing an increase of approximately 52.0%. Set out below is a graph consumption of oil well pipes in China during the period of 2001 to 2005.

**Consumption of oil well pipes in the PRC
between 2001 and 2005**

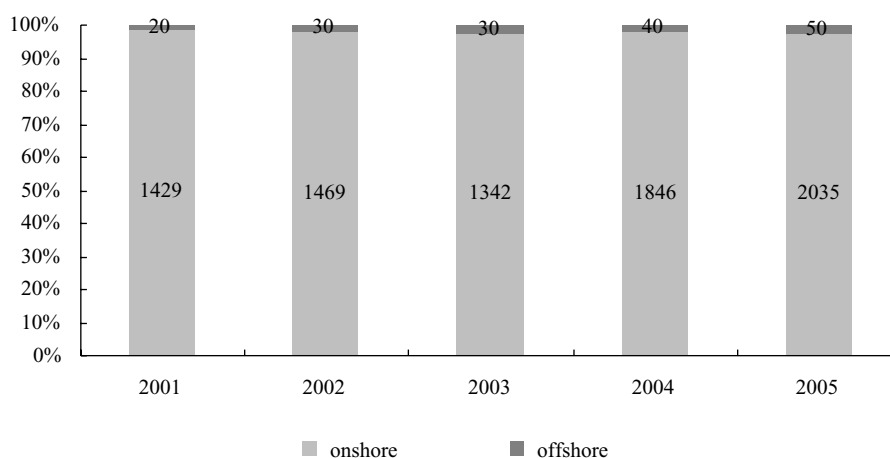


Sources: Statistics figures from China Iron and Steel Association

INDUSTRY OVERVIEW

From a geological perspective, oil wells in the oil fields of east China are relatively shallower, generally at about 1,000 to 2,000 metres whilst those in west China are relatively deeper, with an average depth of 4,000 metres. This suggests that more oil well pipes will be consumed by petroleum and exploration companies in the western part of China. As for offshore and onshore oil exploration, the demand for oil well pipes, in tonnes, required for onshore oil exploration exceeds that required in offshore oil exploration. Set out below is a graph comparing the consumption of oil well pipes between onshore and offshore oil explorations in China.

**Consumption of oil well pipes between onshore and offshore oil exploration
of major oil and gas producers in the PRC
between 2001 and 2005 ('000 tonnes)**



Sources: China Metallurgical Industrial Planning and Research Institute

Note 1: Major oil and gas producers in the PRC refer to PetroChina, Sinopec and CNOOC

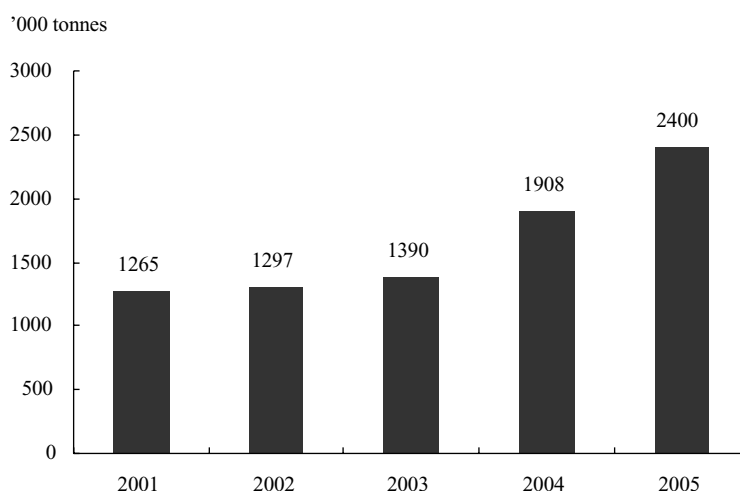
Note 2: China Metallurgical Industrial Planning and Research Institute was founded in 1972 upon approval by the State Council. It is a grade A research house (being the highest grade in the PRC) and it was engaged by the Company to survey industry information on the domestic and overseas steel pipe industry. The data used and attributed to sources in the report are based on published information of, amongst others, the China Iron and Steel Association, PetroChina and Sinopec. The engagement fee for such report was RMB40,000.

INDUSTRY OVERVIEW

Supply

In the oil well pipes industry, apart from a small amount of high end and sophisticated products that are still imported, the Chinese manufacturers are able to manufacture most of the products to customers' specifications. The output of oil well pipes in China increased from 1,265,000 tonnes in 2001 to 2,400,000 tonnes in 2005, representing a CAGR of approximately 17.4%. Set out below is a graph on the change in output of oil well pipes in China during recent years:

Output of oil well pipes in the PRC between 2001 and 2005



Sources: China Iron and Steel Association

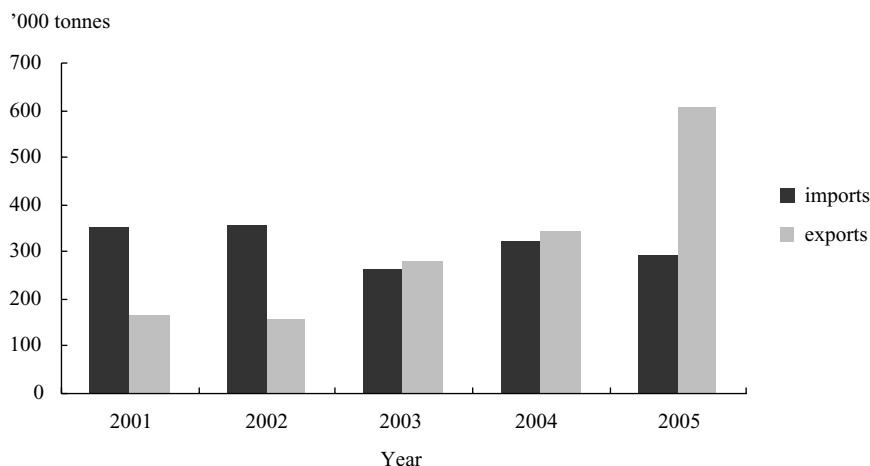
Import & Export

As the geological conditions of Western China are more complicated and offshore explorations are relatively difficult, it is necessary to use high grade oil well pipes. Certain types of these oil well pipes are still not produced or not bulk produced in China. Oil well pipes imported into China comprise mainly such types of oil well pipes, and are mainly imported from Japan, Germany and the Russian Federation etc.. Oil well pipes exported by China to the global market are mainly mid-end products.

INDUSTRY OVERVIEW

As shown in the graph below, since 2003, the PRC has become a net exporter of oil well pipes. In 2005, imports and exports of oil well pipes were 292,000 tonnes and 606,000 tonnes respectively.

Imports and Exports of oil well pipes in the PRC between 2001 and 2005



Sources: China Iron and Steel Association

Market Players

The oil well pipes production industry is relatively concentrated. Certain state-owned enterprises command very substantial shares in the market. In 2005, the top ten Chinese oil well pipe producers represented approximately 99.6% of the total market share in the oil well pipes industry in China, with Tianjin Pipe (Group) Corporation (TPCO) and Baosteel Group accounting for 41.9% and 20.8% respectively. The remaining 0.4% of the total market share was represented by more than ten other enterprises in the industry. Set out below is a table showing the top ten Chinese oil well pipes producers in China for 2005.

INDUSTRY OVERVIEW

The Top Ten Oil Well Pipe Producers in China for 2005

Ranking	Name of company	Output ('000 tonnes)	Market share in terms of output
1	Tianjin Pipe (Group) Corporation (TPCO) (天津鋼管集團有限公司)	1,006	41.9%
2	Baosteel Group (寶鋼集團)	500	20.8%
3	Hunan VALIN Steel Tube & Wire Co., Ltd. (衡陽鋼管公司)	238	9.9%
4	Anshan Iron and Steel (鞍鋼)	193	8.0%
5	Baogang Group (包鋼)	110	4.6%
6	Pangang Group Chengdu Iron & Steel Co., Ltd. (成都無縫)	95	4.0%
7	The Company (安徽天大石油管材股份有限公司)	90	3.8%
8	Jiangsu Chengde (江蘇誠德)	60	2.5%
9	Tianjin Seamless Pipe Factory (天津市無縫鋼管廠)	54	2.3%
10	Jiangsu Xigang Group, Ltd. (無錫鋼廠)	44	1.8%
	Top Ten sub-total	2,390	99.6%
	Total for China	<u>2,400</u>	<u>100.0%</u>

Sources: China Iron and Steel Association

Note: The Company's actual production is 4,063.1 tonnes more than that quoted in the table above. This represents a variance of about 4.5%. This is consistent with the Company's practice of responding to general surveys by rounding off production numbers to 10,000.

Future prospects

The future prospects of oil well pipe producers in China will be underpinned by:-

- increased oil exploration in China
- limited impact of increases in costs of main raw materials

Increased oil exploration in China

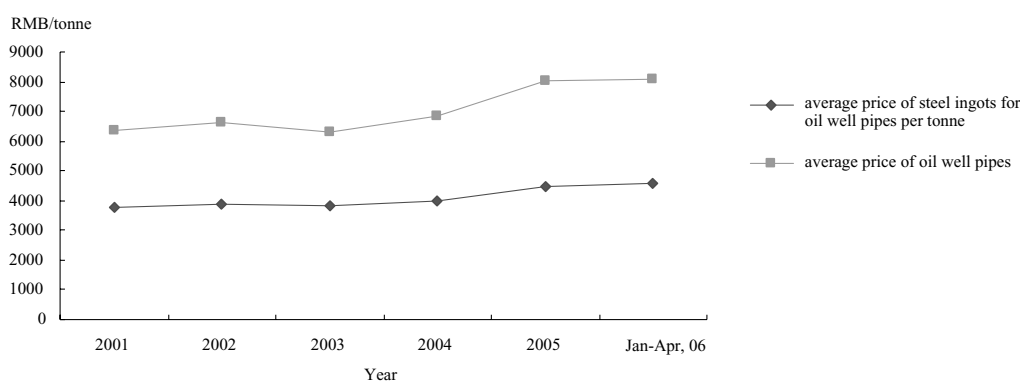
More oil exploration industry will require more oil well pipes. In terms of drilling depth for petroleum exploration in China, the drilling depth is normally 1,500 meters, and oil well depths are generally about 1,000 meters to 4,000 meters. If the world oil prices remain at its current level or higher, oil producers would be prepared to drill deeper to pump out of oil as such oil wells would, in view of relatively higher oil prices, still remain commercially viable. As a result, the Directors believe that the oil exploration industry in China will continue to flourish and consume more oil well pipes in the near term.

INDUSTRY OVERVIEW

Limited impact of increases in the cost of major raw materials

An important raw material for oil well pipes is steel billet. As illustrated below, the price of steel increased from 3,750 RMB/tonne in 2001 to 4,500 RMB/tonne in 2005, representing an increase of 20%. However in the same periods oil well pipes demonstrated an increase of 26.1%. For so long as there is strong demand for oil well pipes in China, any increase in the main raw material is expected to have a limited impact on the margins of oil well pipe producers as the trend indicates that the oil well pipe producers are able to pass on cost increases to their consumers.

The Relationship Between Raw Material Price and Product Average Selling Price in the PRC



Sources: China Iron and Steel Association

POLICIES AND RELEVANT REGULATIONS IN CHINA

Set out below are some of the more important policies and regulations for the oil well pipe processing industry as formulated by the PRC Government and Anhui Province. The Directors believe that such policies and regulations will also support the growth prospects of oil well pipe producers such as the Company :

- *“Notice of the Office of State Council Concerning the Finalization of Relevant Policy Measures For Facilitating the Emergence of Central China by the State Council of the Central Government of the PRC” (Guo Ban Han [2006] No. 38)*

This notice provides that the restructuring of the iron and steel, petrochemicals, chemical fertilizers, non-ferrous metal and construction materials industry will be given additional governmental support in the central region including the Anhui province, so as to form a solid base for the supply of such high quality materials. The State will grant necessary support by forming favorable policies to the combining and restructuring of major enterprises in the central region. The State will offer greater support for improvement in technology used by central region enterprises’ development for technologies research, sourcing for engineering equipment and setting favorable taxation policies. Furthermore, the State supports the research and development of major machineries’ technology and the development of other major industries’ technology in the central region.

INDUSTRY OVERVIEW

- *“Industry Structure Adjustment Directive Catalog (2005)”, Order No. 40 of the National Development and Reform Commission*

This policy provides that the manufacturing of oil well pipe for oil exploration, high pressure boiler pipes for power stations and petrochemical pipes for long distance transfers are manufacturing industries encouraged by the PRC government.

- *“Policies for the Development of Iron and Steel Industry (Full Text)” (Document No. 35) issued by the National Development and Reform Commission of the PRC on 8 July 2005*

This policy provides that the State will speed up the nurturing of iron and steel industry’s ability to innovate. Efforts will be devoted to support the establishment of institutions for research and development of products and technologies. Domestically developed techniques, equipment technologies and products with intellectual property rights will be promoted. The application and use of equipment made in China in the iron and steel industry will be supported and organized. Standards on the research, design and manufacturing of major technological equipment for the iron and steel industries in the PRC will be improved. This policy also encourages iron and steel enterprises to produce extremely durable and corrosion-resistant steel so as to enhance the strength and extend the life of steel with the ultimate aim of reducing the volume of steel usage. Specifically, this policy encourages the commercial use of H₂S and CO₂ resistant as well as open air corrosion-resistant and fire-resistant products such as oil well pipes, steel pipes and plates.

- *“Notice of Anhui Province’s Mission to Formulate a Strategic Objectives, Procedures and Progress Regarding the Establishment of a Middle-Class Society” (Wan Fa [2003] Document No. 12)*

This notice refers to an action plan named “861 Action Plan” as formulated by the government of Anhui Province to establish eight major production bases and the construction of six major and fundamental projects.

The “861 Action Plan” is a plan focused on continuing construction of existing projects, commencement of new projects, preparation for the commencement of new projects and preliminary activities. In terms of implementation of these projects, the PRC government of Anhui province will proceed according to the principles of dynamic management and execute them gradually by phases throughout the years. Projects under the “861 Action Plan” are important and fundamental for the establishment of the eight major production bases and six major fundamental projects. Among them, investment in manufacturing projects and energy projects amounted to more than RMB500 million. Investment value for several of the projects even exceeds RMB10 billion. The plan covers areas such as transportation, energy, manufacturing, raw material, chemicals, water, production, processing and supply of agricultural by-products, environmental protection, high technology and community affairs. There are now about 600 projects under the “861 Action Plan” representing total a investment of at least RMB1,000 billion. In May 2006, the Company was notified that their proposal for a phase II high value added oil well pipes and petrochemical pipes expansion project had been included in the Anhui Province 861 Action Plan.

HISTORY AND ACTIVE BUSINESS PURSUITS

HISTORY AND DEVELOPMENT

The Company's business was founded more than 13 years ago when Tianda Enterprise (then operating as Oriental Industry Company) acquired Tongcheng Steel Pipe Factory from the Tongcheng Government in 1993. Since that time, the Company has undergone reorganisation and was established on 13 April 2006 as a joint stock limited company. At the time of its establishment as a joint stock limited company, the total number of shares in issue were 170,000,000 shares of RMB1.00 each and its total paid up share capital was RMB170,000,000. On 7 September 2006, the 170,000,000 shares of RMB1.00 each were sub-divided and became 340,000,000 Shares. Set out below is a historical overview of the Company's development.

Operational history

From 1993 to 1997, the Company engaged mainly in the production, sourcing and distribution of petrochemical and other specialized seamless pipes, including vessel pipes and boiler pipes. Back in 1994, the Company established four production plants in Tianchang, Anhui Province, which occupied factory premises of approximately 7,400 sq.m. A significant number of the Company's customers were petrochemical companies, ship builders and boiler manufacturers. During that period, the Company's annual production capacity increased from approximately 5,000 tonnes per year to 10,000 tonnes per year with the establishment of a new production line for specialized seamless pipes. The Company also researched and developed the production of alloy seamless pipes and improved its production methods for pressure boiler specialized seamless pipes and vessel pipes.

From 1998 to 2002, the Company focused on the production, sourcing and distribution of high value-added processing and technologically advanced specialized seamless pipes for, among others, petrochemical pipes as well as vessel pipes and boiler pipes. These pipes were mainly alloy seamless pipes. During this period, the Company focused on the preliminary planning for the establishment of oil well pipes production lines. Products during this period were mainly sold to large national petrochemical, boiler and vessel construction enterprises. The Company researched and developed anti-corrosive alloy seamless pipes and increased its annual production capacity to 20,000 tonnes per year via increase in production efficiencies and upgrades of its then existing production equipment.

Between 2003 and the Latest Practicable Date, the Company successfully established its production plant in Chuzhou, thereby taking advantage of Chuzhou's natural gas resources and ease of access to the nearby railway and road network and hence improving overall cost efficiencies. The Company installed an ASSEL three rolled pipe machine in Chuzhou and another production line with cold-drawn technology in Tianchang for the production of oil well pipes. Both locations are within Chuzhou city, being approximately 125km apart. The annual production capacity of the Company increased from 25,000 tonnes in 2004 to 300,000 tonnes in 2006. As at 30 June 2006, the Company's warehouse in Chuzhou of approximately 31,522 sq.m. was also developed into a distribution and logistics centre. Apart from these achievements, the Company is also finalizing its research and development efforts on heat treatment as well as threading of finished pipes. The specialized seamless pipes produced during this period were mainly for the oil and natural gas industry.

HISTORY AND ACTIVE BUSINESS PURSUITS

More details of the Company's activities for the two years ended 31 December 2005 and the six months ended 30 June 2006 are set out below under the paragraph headed "Active Business Pursuits".

Corporate Reorganisation of the Company

Prior to the reorganization of Tianda Enterprise into Tianda Holding in 2004, Mr. Ye had been the legal representative of Tianda Enterprise since January 1995. As its legal representative, Mr. Ye was empowered to govern Tianda Enterprise's financial and operational policies. The Company has either been under the control of Tianda Enterprise before its reorganization or under Tianda Holding after its reorganization. The legal representative of Tianda Enterprise has the power to govern the financial and operational policies of Tianda Enterprise. Without the consent of the legal representative (i.e. Mr. Ye), no decision in relation to governing the financial and operational policies of Tianda Enterprise can be implemented. The senior management of Tianda Enterprise had to and did follow Mr. Ye's decision in relation to governing the financial and operating policies of Tianda Enterprise.

The Company's business was founded when Tianda Enterprise acquired Tongcheng Steel Pipe Factory, which was ultimately controlled by the Tongcheng Government in China, for RMB1,500,000 in February 1993. The price for the acquisition was based on the value of the assets then acquired and the vendor was the Tongcheng Government. The acquisition was financed by Tianchang Intertexture, the core operating entity of Tianda Enterprise. Upon completion of the acquisition, Tianda Enterprise established Oriental Industry Metal Company (which was not a separate legal entity) with the assets of Tongcheng Steel Pipe Factory on 9 March 1993. In 1995, the Oriental Industry Metal Company was renamed Tianda Seamless Steel Pipe Factory. In June 1999, Tianda Seamless Steel Pipe Factory was incorporated as a separate legal entity and named "Tianda Tianchang Seamless Steel Pipe Factory". On 12 October 2002, at the time when Tianda Enterprise was a collective enterprise, Mr. Ye Shi-qu was appointed by its staff representative union to lead the board of directors of Tianda Enterprise on administration and business decisions. As at 31 December 2003, the net assets of Tianda Tianchang Seamless Steel Pipe Factory was approximately RMB53,300,000.

In April 2004, the relevant PRC governmental authorities approved the reorganisation proposal of Tianda Holding. As part of this reorganisation, Tianda Holding gained control of the operating assets of Tianda Tianchang Seamless Steel Pipe Factory from Tianda Enterprise on 15 June 2004, being the date of the relevant reorganisation was effected.

On 23 June 2004, Tianda Holding, the controlling shareholder of the Company, together with Tianda Trade Union established Tianda Special Steel Pipe Company as a limited liability company with a registered capital of RMB40,000,000. Effective on the same date, the business currently operated by the Company was injected into Tianda Special Steel Pipe Company by Tianda Holding. Tianda Holding held 90% of its registered capital and Tianda Trade Union held 10% (contributed by way of cash) both of which were contributed within the legally prescribed time. As mentioned above, the effective date of the relevant reorganization for Tianda Special Steel Pipe Company was 23 June 2004. Subsequently in

HISTORY AND ACTIVE BUSINESS PURSUITS

July 2004, another approval was made by the Administration for Industry and Commerce of Tianchang City of Anhui Province when Tianda Tianchange Seamless Steel Pipe Factory completed the procedures of deregistration.

In January 2005, Tianda Holding increased the capital in Tianda Special Steel Pipe Company by RMB100,000,000. After the capital increase, the registered capital of Tianda Special Steel Pipe Company was RMB140,000,000, of which RMB136,000,000 was contributed by Tianda Holding and accounted for 97.1% of the registered capital, whereas RMB4,000,000 was contributed by Tianda Trade Union and accounted for 2.9% of the registered capital. Tianda Trade Union was established on 30 August 1995 as a public society (社會團體法人) whose aim was to protect the rights of employees. All employees of Tianda Enterprise were its members. 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 in the production of oil well pipes. After the capital increase, the registered capital of Tianda Special Steel Pipe Company was RMB170,000,000, of which RMB136,000,000 was contributed by Tianda Holding representing 80.0% of the registered capital, whereas RMB4,000,000 was contributed by Tianda Trade Union, representing 2.3% of the registered capital, and RMB30,000,000 was contributed by Tianjin Dajin, representing 17.7% of the registered capital. Tianjin Dajin is a limited liability company in China engaged in, among others, the manufacture and sale of household appliances. It is owned as to 40% by Liu Jun Chang (chairman of the Company's supervisory committee) and as to 30% each by Liu Peng (a non-executive Director) and Ji Shu-yan (who is the nephew of Mr. Ye Shi Qu). The relevant contributions to registered capital were made within the legally prescribed times.

During the Track Record Period, the Company once held 25% of the equity interests in Tianda Import and Export, a company which mainly engaged in the import and export business in the PRC. Tianda Import and Export is not a joint venture or collaboration of the Company, but an investment by the Company.

Tianda Import and Export suffered from persistent losses during the Track Record Period and the Company shared its losses, on a pro rata basis, and reported the respective losses in the financial statements of the Company. During the two years ended 31 December 2005 and 6 months ended 30 June 2005 (unaudited) and 30 June 2006, Tianda Import and Export made losses in the amounts of RMB64,000, RMB68,000, RMB4,000, and RMB92,000 respectively, of which the Company's share of such losses for the respective periods were RMB16,000, RMB17,000, RMB1,000 and RMB23,000. Further details of the financial effects of the Company's investment in Tianda Import and Export have been set out in note 14 of the Accountant Report in Appendix I of this prospectus.

As the business of Tianda Import and Export was not relevant to the Company's core business, it was sold to Tianda Plastic Company as part of the Company's reorganisation prior to Listing. Pursuant to the equity transfer agreement between Tianda Plastic Company and the Company in March 2006, the Company disposed of its entire equity interest in Tianda Import and Export to Tianda Plastic Company for a consideration of RMB500,000. On 4 April 2006, Tianda Plastic Company settled the consideration in full. The consideration of RMB500,000 had been determined based on 25% of the registered capital of Tianda Import and Export at the time of the sale of the Company's interest.

HISTORY AND ACTIVE BUSINESS PURSUITS

On 12 April 2006 and according to an agreement for the transfer of equity interests entered into between Tianjin Dajin and Tianda Investment, 17.7% of equity interests in Tianda Special Steel Pipe Company held by Tianjin Dajin were transferred to Tianda Investment for a consideration of RMB30,000,000. Tianda Investment is a wholly-owned subsidiary of Tianda Holding, established in 2006 for the purpose of investment. On the same date and pursuant to an agreement for the transfer of equity interests entered into between Tianda Trade Union and Tianda Investment, 2.3% of equity interests in Tianda Special Steel Pipe Company held by Tianda Trade Union were transferred to Tianda Investment at a consideration of RMB4,000,000. Following the completion of the above transfers, the registered capital of Tianda Special Steel Pipe Company remained unchanged. The shareholders of the Company became Tianda Holding and Tianda Investment holding 80% and 20% of equity interests respectively. The relevant transfers of equity interests were approved by the Tianchang City Industry and Commerce Administration and the PRC Legal Advisers have confirmed this is the relevant competent approval authority. The abovementioned transfers were negotiated on an arms' length basis and approximate the proportion of registered capital which their equity interests represented. Both divestments by Tianda Trade Union and Tianjin Dajin were prompted by their own commercial considerations.

A shareholders' meeting of Tianda Special Steel Pipe Company was also held on 12 April 2006. It was resolved at the meeting that Tianda Special Steel Pipe Company would be transformed into a joint stock company with limited liability on the basis of audited net assets as at 31 December 2005.

On 13 April 2006, upon the approval by the State Administration for Industry and Commerce of Chuzhou City of Anhui Province, Tianda Special Steel Pipe Company was transformed into a joint stock company with limited liability and was issued a legal business licence in the name of Company, namely Anhui Tianda Oil Pipe Company Limited. At the time of its establishment as a joint stock company, the total number of Shares in issue were 170,000,000 Shares and its total share capital was RMB170,000,000.

On 13 April 2006, Tianda Special Steel Pipe Company (the predecessor of the Company) was transformed into a joint stock company with limited liability (the Company's current legal form) upon the approval by the Administration for Industry and Commerce of Chuzhou City of Anhui Province. On 23 June 2004, the business currently operated by the Company was injected into Tianda Special Steel Pipe Company by Tianda Holding. As a result of the injection of such operations into Tianda Special Steel Pipe Company on 23 June 2004 and the subsequent resolution of the shareholders' meeting of Tianda Special Steel Pipe Company on 12 April 2006 (which approved the restructuring of Tianda Special Steel Pipe Company into the Company's current legal form of a joint stock Company), the Company's business has been operating for more than 24 months preceding the date of the submission of its listing application to GEM. At the same time, the ownership of the Company has been substantially the same for more than 24 months since 23 June 2004 (and also since the date of the submission of the Company's listing application to GEM). Similarly, the business of the Company has also been pursued under substantially the same management since 23 June 2004. Consequently, the Company has satisfied the active business period pursuit requirements under rule 11.12 of the GEM Listing Rules.

HISTORY AND ACTIVE BUSINESS PURSUITS

Further background information on Tianda Enterprise, Tianda Holding, Tianda Trade Union and Tianda Dajin

In June 1989, Tianchang Intertexture was established as a collective-owned enterprise. Upon establishment, the registered capital of Tianchang Intertexture was RMB1,774,300 and it was involved in the production of packaging products. Mr. Ye was the head of the factory. On 7 December 1992, Oriental Industry Company was established as a collectively owned enterprise with registered capital of RMB50,000,000 by Tianchang Intertexture and other subsidiary companies. Oriental Industry Company was formed to control the overall management of its subsidiary organizations, formulating the business objectives of its subsidiary organizations and appointing the key managing staff of its subsidiary organisations. Since the establishment of Oriental Industry Company, Tianchang Intertexture has become its subsidiary. Mr. Ye was the legal representative and chairman of Oriental Industry Company. In January 1995, Oriental Industry Company was renamed as Tianda Enterprise, a collectively owned enterprise, with registered capital remaining at RMB50,000,000. Mr. Ye was the chairman.

Tianda Enterprise has been restructured since 2000. On 3 January 2000, through asset valuation and verification and determination of ownership, 10% of the net asset value of Tianda Enterprise was determined as owned by Tongcheng Government as consented by the Tianchang Government, while the rest was owned by Tianda Enterprise's collective owners. Tianda Enterprise and Tongcheng Government entered into an agreement, in which Tianda Enterprise paid an amount equivalent to 10% of its net asset value to Tongcheng Government, and Tongcheng Government then no longer owned any interest in Tianda Enterprise. Tianda Enterprise had settled the aforesaid payment to Tongcheng Government.

In June 2002, Tianchang Government in principle agreed Tianda Enterprise's restructuring proposal. In February 2004, a detailed proposal regarding enterprise restructuring was formed, and was submitted to the People's Government of Tianchang City and Tongcheng Government for approval. The restructuring proposal included employing organizations to carry out asset valuation, and according to those valuation results, Tianda Holding acquired the entire operating assets (including the Company's current business of producing specialized seamless pipes) of Tianda Enterprise. The restructuring proposal was approved by the People's Government of Tianchang City and Tongcheng Government in April 2004. On 15 June 2004, the employee union of Tianda Enterprise approved the aforesaid operating assets acquisition, and granted authority to Tianda Trade Union to sign the relevant documents. On the same day, Tianda Trade Union signed an agreement with Tianda Holding, in which Tianda Holding acquired the entire operating assets of Tianda Enterprise for a consideration of RMB119,273,500. Tianda Holding had settled the entire amount of the above-mentioned operating assets. The restructuring proposal, restructuring process and restructuring result was inspected by the Tongcheng Government, the People's Government of Tianchang City, the People's Government of Chuzhou City and the People's Government of Anhui Province, with the above People's Government having confirmed in writing that the company restructuring of Tianda Holding had complied with the relevant legal regulations. On 27 October 2004, Tianda Enterprise proceeded with its own deregistration.

HISTORY AND ACTIVE BUSINESS PURSUITS

Tianda Holding was initially incorporated as a limited liability company on 30 April 2004 by 10 natural persons, namely Mr. Ye who held 64%, and each of Mr. Zhang, Yin Zhi Fu, Qi Wen Hui, Wang Ben Ling, Wu Zhong Qin, Xie Yong Yang, Liu Jun Chang, Jiang Gan and Huang Xiao Bin held 4%. Upon incorporation, the registered capital was RMB50,000,000.

In July 2004, Tianda Trade Union contributed RMB25,000,000 in cash as additional registered capital, thereby increasing the registered capital of Tianda Holding to RMB75,000,000. Following such increase of registered capital, the shareholding of the 10 natural persons changed to as follows: Mr. Ye held 42.7% and each of Mr. Zhang, Yin Zhi Fu, Qi Wen Hui, Wang Ben Ling, Wu Zhong Qin, Xie Yong Yang, Liu Jun Chang, Jiang Gan and Huang Xiao Bin held 2.7%. In the same month, Mr. Ye also contributed an additional RMB25,000,000 in cash as additional registered capital thereby increasing the registered capital of Tianda Holding to RMB100,000,000. Shareholders of Tianda Holding in June 2004 then increased to more than 10 natural persons including Mr. Ye and Mr. Zhang. The shareholding changed so that Mr. Ye held 57% and each of Mr. Zhang, Yin Zhi Fu, Qi Wen Hui, Wang Ben Ling, Wu Zhong Qin, Xie Yong Yang, Liu Jun Chang, Jiang Gan and Huang Xiao Bin who held 2%.

In 2004, the registered capital of Tianda Holding was further increased to RMB129,335,900 in July 2004 and RMB233,725,500 in September 2004 respectively. Tianda Trade Union also transferred its stake in Tianda Holding to Mr. Ye in October 2004. After the increases of registered capital and the stake transfer, the shareholding of the 10 natural persons changed to that Mr. Ye held 77.1%, Mr. Zhang held 4.6%, Yin Zhi Fu held 2.1%, Qi Wen Hui held 2.1%, and each of Wu Zhong Qin, Xie Yong Yang, Liu Jun Chang, Jiang Gan and Huang Xiao Bin held 1.3%. The number of shareholders of Tianda Holding during this period was increased to, after the divestment by Tianda Trade Union, 49 natural persons. As at the Latest Practicable Date, the registered capital of Tianda Holding was RMB233,725,500 and the number of shareholders of Tianda Holding remained 49. At all relevant times, Mr. Ye was either the single largest or majority shareholder of Tianda Holding.

Tianjin Dajin was established in August 2004 and its scope of business includes manufacturing and sale of household appliances and their spare parts and components. Tianjin Dajin has no business relationship with the Company and does not compete with it. Tianjin Dajin's registered capital is RMB1 million and is owned as to 40%, 30% and 30% by Liu Jun-chang, Liu Peng and Ji Shu-yan (who is the nephew of Ye Shi Qu) respectively. Liu Jun-chang is the chairman of the supervisory committee of the Company, and Liu Peng is a non-executive Director of the Company.

The trade union of Tianda Enterprise was established as a public society (社會團體法人) on 30 August 1995. Its legal representative was Huang Yao-bin. The trade union applied for a change of name in July 2006 to Tianda Trade Union with Huang Yao-bin as its legal representative. All employees of Tianda Holding are members of Tianda Trade Union. The Directors (Ye Shi Qu, Zhang Hu Ming, Xie Yong Yang and Zhang Jian Huai) and senior management (Wang Yi, Zhang Chun Xiang, Geng Wei Long, Lv Si Yu, Huang Yao Qi and Chen Dong) of the Company are also members of Tianda Trade Union.

HISTORY AND ACTIVE BUSINESS PURSUITS

Tianda Holding's other businesses through its operating subsidiaries other than the Company include, among others, the manufacture and sale of plastic products, optical fibre and household electrical appliances. The Directors have confirmed that Tianda Holding's other businesses are not in competition with the principal business of the Company. As at 31 December 2005, Tianda Holding's consolidated assets and net asset value were approximately RMB1,876 million and RMB948 million, respectively.

ACTIVE BUSINESS PURSUITS

Details of the industry in which the Company operated during the period of active business pursuits of the Company as set out below are set out in the section headed "Industry Overview". The following is a statement of the active business pursuits of the Company which, for presentation purposes, has been set out by reference to the Track Record Period.

For the year ended 31 December 2004

Research and development

During this period, the Company registered a patent for its specialized seamless pipes for use in petrochemical pipes for heat exchanges and its vessel pipes were also granted certification by Bureau Veritas of France. The Company also engaged in the research and development of oil well pipes used in the exploration of petroleum, as well as preparations for technology upgrades and craftsmanship of oil well pipes production equipment. Such efforts in research and development led to quality of products being enhanced and output increased. At the same time, the Company also conducted research and development in the production technologies involved in manufacturing hot-rolled oil well pipes, so as to ensure that production could be optimised in the initial period of commercial production in 2005.

Expansion of production capacity and trading business

In 2004, the Company's production capacity in Tianchang was 25,000 tonnes per annum. This could generally be translated into 5,000 tonnes and 20,000 tonnes of production capacity for (a) oil well pipes and (b) other specialized seamless pipes including petrochemical pipes, respectively. Cold-drawn technique was adopted in Tianchang production plant. The Company was then also involved in planning for a further increase of 150,000 tonnes in production capacity via a hot-rolled oil well pipe production line in Chuzhou scheduled to be put into production by 2005.

The Company maintained its one-stop shop business by sourcing and distributing seamless pipes. The total volume of seamless pipes traded during the year exceeded 30,000 tonnes.

Sales and marketing

The Company had been promoting its corporate profile in industrial publications since 1993. Through evaluation and selection, the Company promoted its presence in approximately 50 national and provincial publications, such as Petro-Chemical Equipment

HISTORY AND ACTIVE BUSINESS PURSUITS

(《石油化工設備》), Petrochemical Design (《石油化工設計》), China Petrochemical (《中國石油化工》), Small Nitrogenous Fertiliser Plant (《小氮肥》), Ship & Boat (《船舶》), Chemical Fertiliser Design (《化肥設計》), Chemical Fertiliser Industry (《化肥工業》), Pressure Vessel Technology (《壓力容器》), China Special Equipment Safety (《中國特種設備安全》), and Chemical Engineering & Machinery (《化工機械》). The Company was also improving its business and operational platform from time to time. It is a member of PetroChina No. 1 Energy Network which is an e-commerce website operated by a joint venture involving PetroChina. It is a trading and information platform which targets domestic and overseas oil and natural gas enterprises, facilitating online procurement. As a member of this network the Company is able to have another medium to develop its sales towards purchasers who are interested in the relevant type of products. The Company also established cooperative relationships with industry well-known websites such as Alibaba who provides e-commerce training to the Company. The Company's website was re-designed and enriched with improved contents and information on the Company.

As at 31 December 2004, the Company had 19 sales and marketing personnel. The Company focused on its direct sales strategy via its direct sales team. The Company had about 2,000 customers in 2004 and a significant number of such customers were petrochemical companies, ship building companies and boiler manufacturers. As the Company planned to introduce oil well pipe products in 2005, the Company continued market research into this market segment in 2004. The Company contacted large oil fields' and trading companies which primarily sold oil well products, and arranged for site visits by its operations personnel to evaluate customer needs. The Company also employed more staff and carried out more staff training in light of the new oil well pipe product to be launched.

For the year ended 31 December 2004, sales were RMB333.6 million and profit attributable to the equity holders was RMB74.1 million.

Tianda Holding has assigned the registered trademark (trademark registration number 1974921) to the Company pursuant to a trademark assignment agreement dated 1 July 2004. The registration of the said assignment of the registered trademark in the name of the Company was approved by the PRC's Trademark Office of the State Administration for Industry and Commerce on 14 October 2006. With respect to the possible reputational risk to the Company that might arise if Tianda Holding is engaged in an activity that attracts bad publicity in using the trademark of the Company under other classes, the Initial Management Shareholders have undertaken to indemnify in full any losses suffered by the Company as a result of Tianda Holding's use of the trademark.

HISTORY AND ACTIVE BUSINESS PURSUITS

Human resources

	As at 31/12/2004
Research and development	15
Production	247
Quality control	29
Sales and marketing	19
Administration	14
	<hr/>
Total	<u>324</u>

As at 1 January 2004, there were a total of 312 staff (including four part time staff). The turnover of personnel during the year was an increase of 12 personnel.

Certification

During the year, the Company received certificates and awards for its products. These included:

1. Production licence for low and medium pressure boiler pipe issued by the State Technology and Quality Inspection Bureau of the PRC;
2. Production licence for high pressure steel pipe issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC;
3. Plant certification from the Bureau Veritas of France; and
4. Plant certification from Det Norske Veritas Ship Classification of Norway.

Such certifications make it easier for the Company to qualify under the standards and specifications set by its customers for their products, thereby enabling it to secure orders from customers in those countries.

Funding Arrangements

As at 31 December 2004, the Company had an outstanding bank loan of RMB90,000,000 which was guaranteed by Tianda Holding and bank drafts endorsed by Tianda Holding to the Company amounting to RMB17,652,000.

Corporate Milestones

The Company was established as a limited liability company in June 2004 with a registered capital of RMB40 million. Its shareholders then were Tianda Holding and Tianda Trade Union who held respective equity interests of 90% and 10%. In terms of operating premises, as at 31 December 2004 the Company had a 75,000 sqm. production facility with equipment such as automatic circular heater, conical hole puncher, three rolled pipe machine,

HISTORY AND ACTIVE BUSINESS PURSUITS

incremental heater, micro tension diameter, sophisticated one-stop inspection equipment, cold drawing machine, swirl mark rolled pipe machine, bubble mark rolled pipe machine, ultrasonic test machines and large metallurgical microscope.

For the year ended 31 December 2005

Research and development

The Company continued its research and development of production techniques in oil well pipes. In 2005, the Company standardised the production process and completed the technology upgrade of 14 sets of micro tension force reduction machine for the hot-rolled production line in Chuzhou. This led to increased production efficiencies which resulted in the increase in production capacity.

Expansion of production capacity and trading business

Total capacity increased from 25,000 tonnes per annum in 2004 to 200,000 tonnes per annum in 2005. This increase in production capacity was the result of the new hot-rolled oil well pipe production line in Chuzhou which accounted for 150,000 tonnes per annum and technological upgrades of existing production lines accounting for 25,000 tonnes per annum. This production capacity could also generally be translated into 150,000 tonnes and 50,000 tonnes of production capacity for (a) oil well pipes and (b) other specialized seamless pipes including petrochemical pipes, respectively.

The Company's trading business continued to expand and recorded a moderate growth of 20% in volume and exceeded 36,000 tonnes in 2005.

Sales and marketing

On the basis of advertisements placed by the Company in 2004, the Company selected publications to advertise in so as to ensure that the Company's profile was prominent in reputable industrial publications. During the year, the Company promoted its presence in approximately 50 professional industry publications published throughout China as well as in certain provinces and municipalities. The Company continued to improve and optimize its networking resources from time to time. This was achieved through the renewal of its member status at PetrolChina No. 1 Energy Network, as well as establishing closer cooperative relationship with Alibaba.

As at 31 December 2005, the Company had 22 sales and marketing personnel. The Company continued its direct sales strategy and in 2005, focused mainly on the development of the oil well pipe market. The Company employed 3 additional sales personnel and introduced a sales team incentive scheme, linking the individual sales performance with their salaries. In 2005, the Company's client profile gradually changed from large ship building enterprises and petrochemical enterprises in 2004 to large oil fields' and trading companies which supplied of oil well products.

HISTORY AND ACTIVE BUSINESS PURSUITS

Prior to 2005, a significant number of the Company's customers were petrochemical companies, ship building companies and boiler manufacturers. After the Company's adjustment of its product offering and target customers in 2005, the Company focused on major oil fields and their designated processing factories as the Company's customers. As a result of such strategic focus, the Company's customers streamlined to approximately 1,400 as at 31 December 2005.

For the year ended 31 December 2005, sales were approximately RMB906.6 million and profit attributable to the equity holders was approximately RMB71.9 million.

Human resources

	As at 31/12/2005
Research and development	18
Production	469
Quality control	61
Sales and marketing	22
Administration	<u>32</u>
Total	<u><u>602</u></u>

As at 1 January 2005, there were a total of 324 staff. The turnover of personnel during the year was an increase of 278 personnel.

Certification

During the year, the Company received the Product Inspection Waiver.

Funding Arrangements

As at 31 December 2005, the Company had an outstanding bank loan of RMB110,000,000 which was guaranteed by Tianda Holding and bank drafts endorsed by Tianda Holding to the Company amounting to RMB80,185,000. During that year, in November, Tianjin Dajin became an equity holder in the Company by injecting RMB30,000,000. Those funds were used for funding of the new production line for oil well pipes.

Corporate Milestones

The Company increased its registered capital to RMB170 million and Tianda Holding, Tianda Trade Union and Tianjin Dajin held respective equity interests of 80%, 2.3% and 17.7%. In terms of operating premises, as at 31 December 2005 the Company had a 80,000 sqm. production facility and implemented additional production machinery including inspection equipment such as swirl hydrostatic pressure test machine, impact pressure test machine, Brinell hardness tester, Rockwell hardness tester, direct reading spectrum device and single pipe still water pressure tester.

HISTORY AND ACTIVE BUSINESS PURSUITS

For the period from 1 January 2006 to the Latest Practicable Date

Research and development

The Company was developing and continued to develop oil well pipes that were pressure and damage resistant, anti-corrosion, reinforced hardness, as well as vessel pipes to be accredited by shipping classification society in Japan and Korea.

Expansion of production capacity

Total capacity increased from 200,000 tonnes per annum in 2005 to 300,000 tonnes per annum in 2006. This was attributable to an increase of 50,000 tonnes per annum from the new production line for oil transfer pipes in Tianchang and 50,000 tonnes per annum through technological upgrades of other existing production lines. This production capacity could also generally be translated into 250,000 tonnes and 50,000 tonnes of production capacity for (a) oil well pipes and (b) other specialized seamless pipes including petrochemical pipes, respectively.

Product improvement and development and trading business

In 2006, the Company continued to research and develop new oil well pipe products. Its trading business also maintained steady growth.

Sales and marketing

During this six month period, the Company further integrated its promotional efforts in its publications and sales network, so as to ensure optimization of such resources. The Company promoted its presence in approximately 50 professional industry publications published across several countries as well as in certain provinces and municipalities. In May 2006 and September 2006, the Company participated in the Second Shanghai International Steel Pipes Trade Exhibition held at Shanghai Expo Exhibition Centre and the Second All China-International Tube & Pipe Industry Trade Fair 2006 respectively, through which the Company received more information from the market, promoted the competence and image of the Company to a more prominent extent, and strengthened its communication with the customers, enabling it to better monitor and work towards meeting expectations of its current and potential customers.

As at 30 June 2006, the Company had 29 sales and marketing personnel and as at the Latest Practicable Date, the Company had 29 sales and marketing personnel. In 2006, the Company intends to focus on developing the northeastern and northwestern parts of the China market as well as the international market. As of 30 June 2006, the Company employed 7 additional sales personnel and carried out more staff training sessions for its sales and marketing team. Such training sessions mainly focused on product knowledge in order to improve each of the sales personnel's individual technical knowledge so as to provide an all-rounded service to the Company's customers.

HISTORY AND ACTIVE BUSINESS PURSUITS

As stated above, a significant number of the Company's customers were petrochemical companies, ship building companies and boiler manufacturers prior to 2005 and since the Company's adjustment of its product offering and target customer in 2005, the Company focused on major oil fields and their designated processing factories as the Company's core customers. As a result of such strategic focus, the Company's customers further streamlined to approximately 1,000 as at 30 June 2006.

For the six months ended 30 June 2006, sales were RMB596.1 million and profit attributable to equity holders was RMB53.42 million.

Human resources

	As at Latest Practicable Date
Research and development	27
Production	651
Quality control	62
Sales and marketing	29
Administration	<u>56</u>
Total	<u><u>825</u></u>

As at 1 January 2006 and the Latest Practicable Date, there were a total of 602 and 825 staff members respectively. The turnover of personnel for the period from 1 January 2006 up to the Latest Practicable Date was an increase of 239 personnel.

Certification

In February 2006, the Company received a certification from the American Petroleum Institute. Such certification makes it easier for the Company to qualify under the standards and specifications set by its customers for their products. In the case of API, this is an important milestone.

In August 2006, the Company obtained the plant certification from the Korean Register of Shipping. Such certification makes it easier for the Company to qualify under the standards and specifications set by its customers for their products, thereby enabling it to secure orders from customers in those countries.

Funding Arrangements

As at the Latest Practicable Date, the Company had an outstanding bank loan of RMB110,000,000 guaranteed by Tianda Holding and bank drafts endorsed by Tianda Holding to the Company amounting to RMB19,543,000. The Company has been notified by its banks that they are prepared to release Tianda Holding's guarantees upon the Listing Date.

HISTORY AND ACTIVE BUSINESS PURSUITS

Corporate milestones

On 13 April 2006, the Company was transformed into a joint stock company with limited liability, thereby adopting a legal structure which would facilitate its history. In terms of operating premises, as at 30 June 2006 the Company had a 127,000 sqm. production facility and implemented additional production machinery including commencement of the oil well pipe production line, and implemented additional production and inspection machine, such as conical piercing machine, cold drawing machine, tilt furnace, roller bottom annealing furnace.

BUSINESS

INTRODUCTION

The Company was ranked seventh among oil well pipe manufacturers in China in terms of output and was also one of the leading oil well pipe manufacturers in China for 2005, according to the China Iron and Steel Association. The Company has experienced strong financial growth since it started to sell oil well pipes (a type of specialized seamless pipes which are characterised by their high quality, durability and safety standards). The profit before income tax for the two years ended 31 December 2005 and the six months ended 30 June 2006 was approximately RMB24.6 million, RMB96.3 million and RMB81.1 million respectively. The Directors believe that the strong growth in profit is attributable to the Company's focus on the production and sales of oil well pipes. The Directors also believe that continued specialisation in the production and sales of oil well pipes will underpin the Company's development in the future.

The Company classifies its products into two main categories: (i) specialized seamless pipes for the oil and natural gas industry, including oil well pipes (mainly oil transfer pipes and casing pipes etc.) and petrochemical pipes; and (ii) other specialized seamless pipes which include vessel pipes and boiler pipes, etc. Oil well pipes represented 1.7%, 51.8% and 56.8% of the Company's revenue for the two financial years ended 31 December 2005 and the six months ended 30 June 2006. Other products accounted for 98.3%, 48.2% and 43.2% of the Company's sales for the two financial years ended 31 December 2005 and the six months ended 30 June 2006.

A majority of the Company's revenue for the financial year ended 31 December 2005 and the six months ended 30 June 2006 came from the sales of specialized seamless pipes to the oil and natural gas industry. For the two financial years ended 31 December 2005 and the six months ended 30 June 2006, sales to the oil and natural gas industry accounted for approximately 22.5%, 60.3% and 63.7% of the Company's sales. It is expected that the Company's revenue contribution from oil well pipes will grow significantly going forward when the Company's utilisation of its oil well pipe production capacity continues to increase and its oil well pipe heat processing and threading value-added production lines commence operation. Additional value-added service, such as threading, is required for all oil well pipes before being used on site at oil wells. Upon commencement of such additional value-added service, the Company expects that it will then be able to deliver finished products for direct use by oil fields.

The Company has more than 13 years of experience in the manufacture, sourcing and distribution of specialized seamless pipes. Although oil well pipes became the Company's principal product in 2005, the Company's first involvement in the oil well pipes business commenced in 2000 when it first conducted feasibility studies involving technological support for and market research in the production and sale of oil well pipes. Between 2002 and 2004, the Company focused on the planning for the establishment of hot-rolled oil well pipe production lines. 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 when the hot-rolled oil well pipe production line was put into commercial production and the Company has since then established its reputation in the oil and natural gas industry in China for its ability to manufacture high quality oil well pipes. The award of the Product

BUSINESS

Inspection Waiver received at the end of 2005 (and valid until December 2008) as well as its API certification obtained are testaments to the high quality of the Company's products and production processes.

The Company has also devoted resources to maintaining the quality of its other specialized seamless pipe products in line with international standards by adopting advanced production techniques and equipment, as well as strict control of testing and inspection. Throughout the years, the Company has obtained various recognitions for the production of other specialized seamless pipes including vessel pipes and boiler pipes etc., and received plant certifications from shipping classification societies of various countries, various production licences as well as certifications from international standards organisations such as ISO9001 and certifications by other overseas institutions.

The Company's business model involves two segments, namely sales of self-produced oil well pipes and other specialized seamless pipes, and sourcing and distributing specialized seamless pipes. The Company strives to provide an integrated service to its customers by purchasing specialized seamless pipes that it does not manufacture by sourcing and purchasing for customers to fulfill the customers' requirements in their purchase orders.

COMPETITIVE ADVANTAGES

The Directors consider that the success of the Company is primarily attributable to the following principal factors:

1. Focused line of business

The specialized seamless pipe industry, especially for the oil well pipe segment, is a fast growing and technically specialized industry. A focused line of business strategy is the Company's key advantage over its major competitors who are all state-owned enterprises. These state-owned enterprises have a wide range of products and the Directors believe that specialized seamless pipes only account for a small portion of their product portfolio. Compared with these enterprises, the Company has focused on the production and development of specialized seamless pipes for over 13 years, and achieved a leading position in the PRC's high growth specialized seamless pipe industry, whilst continuing to increase its market share in the oil well pipe sector. The Directors believe that a focused line of business has enabled the Company to concentrate its resources on product and service development as well as established the Company as a specialist on quality specialized seamless pipe products.

2. Successful market oriented business strategy

The successful launch of oil well pipes in 2005 was the result of the Company's direct sales strategy to develop its customer base. With the support of 29 dedicated sales and marketing team members, the Company maintains close relationships with its customers and has a better understanding of its customers' requirements as well as better market awareness. It also leveraged its technical expertise and market awareness in developing specialized seamless pipes to produce higher margin oil well pipe

BUSINESS

products that serve the rapidly expanding oil and gas exploration industry, thereby making inroads to supplying leading petrochemical companies in China, including the PetroChina and Sinopec group of companies.

3. Strong sourcing and distribution capabilities to provide one-stop shop service

The Company provides a one-stop shop service to its customers by not only selling self-produced pipes but also helping customers to source and distribute other specialized seamless pipe. The Company continues to develop its operational expertise in maintaining and servicing an extensive logistic and sourcing network. As at 30 June 2006, the Company had 10 personnel dedicated to sourcing and distribution and acquired premises of approximately 258,507 sq.m. and a warehouse of approximately 31,522 sq.m. from which it has set up its distribution and logistics centre. This one-stop shop service has not only enhanced the strong relationships with its clients, improved the Company's profitability and enlarged the Company's product range, but it has also enabled the Company to get the most up-to-date market information in specialized seamless pipe industry by way of better communication with its clients. By closely monitoring the market trends and industrial developments, the Company can further expand its client base, timely adjust its product portfolios, and seek suitable merger and acquisition targets for further growth.

4. Corporate branding and quality products

The oil well pipe industry requires high quality, durability and safety standards, hence the quality of products and the branding reputation are important in this industry.

The Company was ranked seventh among oil well pipe manufacturers in China in terms of output and was also one of the leading oil well pipe manufacturers in China for 2005. The Directors believe that corporate reputation and goodwill are essential factors for success in this industry which in turn are driven by customer acknowledgement and acceptance of the quality of its products and timely delivery. The Directors believe that the fact the Company was awarded the Product Inspection Waiver in December 2005 made it a preferred supplier of many large petrochemical companies in the PRC and also enabled the Company to increase its exports. Internationally, the Company has also obtained API certification from the American Petroleum Institute which is only granted to companies which are recognised as quality producers with regard to their equipment, products and services relating to the oil and gas industry. Further, the Company's production plants have been recognized by national shipping registers such as the China Classification Society in the PRC, Det Norske Veritas in Norway, Lloyd's Register in the United Kingdom, Germanischer Lloyd in Germany, American Bureau of Shipping, Bureau Veritas in France and similar certifications in South Korea. The Company is in the process of applying for similar certification in Japan. To reinforce its corporate branding in the market, the Company's logo is printed on each of its self-produced products. The Directors believe that its brand enhances customer loyalty and provides the Company with a solid platform for a further expansion of its sales network, product range and services.

BUSINESS

5. Experienced senior management team together with strong technology know-how and technical expertise

The senior management team of the Company has demonstrated experience in, and market knowledge of, the PRC specialized seamless pipe industry. The Company's senior management team has over 13 years of experience in the production of specialized seamless pipe, bringing with them in-depth product knowledge and strong technical know-how. In addition, they possess extensive knowledge in the production, quality control, marketing and distribution of the Company's products.

The making of specialized seamless pipe requires advanced technology and technical know-how which are entry barriers to the industry for new competitors. Therefore, the Company's technical expertise reinforces its market position and competitive edge.

In addition to the above, the Company's ability to design its own production lines, coupled with its efforts in increasing production efficiency through such production expertise, has enabled it to modify, improve and enhance the design of its products to cater for different needs of its customers and the general market at relatively lower costs.

6. Competitive cost structure

Besides product quality, the Company believes that price is another key competitive factor in the oil well pipe industry. Its low cost structure, attributable to its production and technical know-how and its strategic location, enables it to have more flexibility in pricing its products.

The Company's production equipment are domestically sourced, assembled and upgraded by itself through utilising its production know-how. Under the premise of adequate quality assurance, a substantial amount of investment cost is saved when compared with imported equipment. The Company's new production facilities are strategically located at Chuzhou, Anhui Province, where natural gas, an important production factor to the Company, is relatively cheaper. Further, the Company's production facilities are situated on the bank of Changjiang river near a rail station of the Jinghu railway (Beijing-Shanghai Railway) as well as two highways through which the Company may obtain its raw materials and deliver its products conveniently throughout the PRC. The Directors believe that the Company's unique strategic location in Chuzhou provides it with logistical advantages over its competitors. In addition, the Company adopts a set of strict control mechanisms over costs. The Company has adopted JIT purchasing procedures, which saves inventory costs to a significant extent.

7. Participation in an industry which is a sector encouraged by the PRC Government

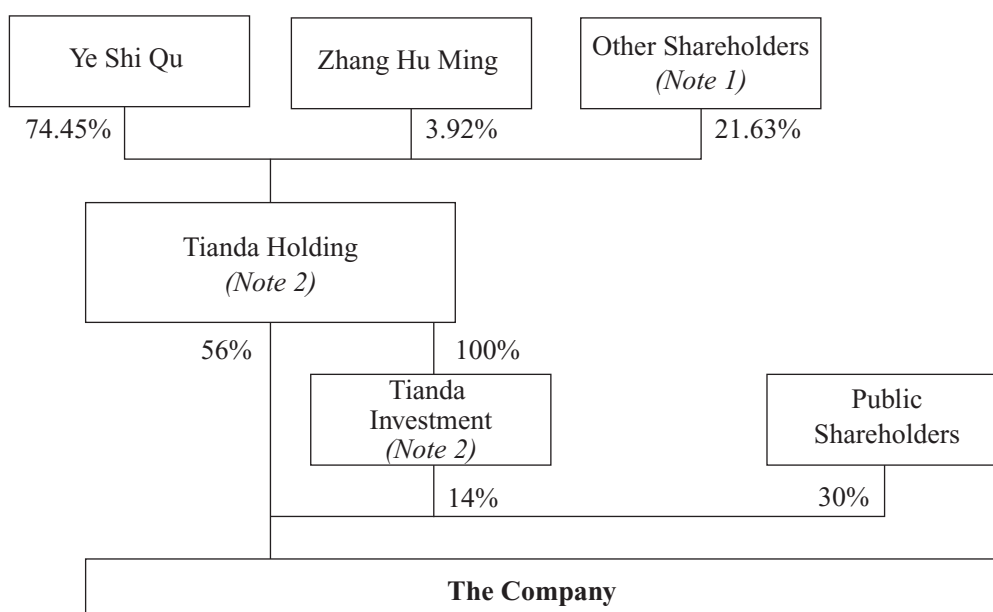
The Company's business has benefited from the policies of the PRC Government. In July 2005, the National Development and Reform Commission of the PRC published its future policy in relation to the development of the steel industries in the PRC. The

BUSINESS

production of oil well pipes for use in the oil and natural gas industry as well as boiler pipes are specifically highlighted by the National Development and Reform Commission of the PRC as an encouraged production industry. The State Council of the PRC has also, in 2006, indicated its intention to strengthen exploration efforts of natural resources in the central part of the PRC, with particular emphasis on steel and petrochemical resources, amongst other things. Further, the State Council of the PRC also intends to increase its support to the research and development of PRC enterprises in mid-west China via investments in research and development, procurement of machinery and taxation policies. The Company's high value-added oil well pipes and petrochemical pipes expansion project has also been designated as part of the 861 Action Plan promoted and supported by the Anhui Provincial Government. Details of the 861 Action Plan are set out in the "Industry Overview" section.

SHAREHOLDING AND COMPANY STRUCTURE

The shareholding structure of the Company immediately after the completion of the International Placing (assuming that the Over-allotment Option is not exercised) is as follows:



Note 1: Apart from Mr. Ye Shi Qu and Mr. Zhang Hu Ming, there are 47 other individual shareholders in Tianda Holding (who are all Tianda Holding's employees) holding an aggregate of 21.63% of Tianda Holding. The names for each of the 47 other individual shareholders and their respective equity interests in the Company after listing are set out in the section headed "Shareholding and Company Structure" in Appendix VIII to this prospectus.

Note 2: Tianda Holding and Tianda Investment undertook to the Company and the Stock Exchange that for a period commencing on the date of this prospectus and ending on the date which is 12 months from the Listing Date, it will not (i) dispose of (nor enter into any agreement to dispose of) or permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of its direct or indirect interest in the Company; or (ii) otherwise create (nor enter into any agreement to create) or permit the registered holder to create (or to enter into any agreement to create) any options, rights, interests or encumbrances in respect of any such interest.

BUSINESS

AWARDS AND CERTIFICATES

The Company obtained various certificates and approvals throughout its history of operations, details of which are as follows:

Country	Authority granting the certificate/approval	Description and Significance	Current validity period
PRC	Certificate of Works Approval certified by China Classification Society Nanjing Branch	Certification covers specialized seamless pipes to be used for construction of ships or installations classed with China Classification Society	April 2006–April 2010
	Product Inspection Waiver	The specialized seamless pipes produced by the Company passed the strict review by the State General Administration of Quality Supervision, Inspection and Quarantine and are exempted from the sampling inspection on production by the State General Administration of Quality Supervision, Inspection and Quarantine	December 2005–December 2008
	Production Licence for High Pressure Steel Tube issued by the State General Administration of the PRC for Quality Supervision, Inspection and Quarantine	Obtained qualification for the production of high pressure boiler and pressure vessel	November 2004–February 2009
	Production Licence for Low and Medium Pressure Boiler Tube Issued by the State General Administration of the PRC for Quality Supervision and Inspection and Quarantine	Obtained qualification for the production of low and medium pressure boiler and pressure vessel	November 2004–February 2009
	New product evaluated and certified by National Boiler and Pressure Vessels Technology Standardisation Committee	Obtained qualification for the production of 07Cr2AlMo, 09CrMoAL and passed the review by vessel standard quality assurance committee.	December 2003–December 2008

BUSINESS

Country	Authority granting the certificate/approval	Description and Significance	Current validity period
	Quality System Certification certified by China Quality Certification Centre ISO9001	A milestone on the management standard of the Company ranking top among enterprises in the PRC	August 2006–August 2009
	Production licence for stainless steel pipe issued by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC	Obtained qualification for the production of stainless steel pipes	April 2003–April 2008
United States	Certification of Authority to use the Official API Monogram	Qualification of producing products using API Monogram was obtained after review according to the API quality system. Products can be widely applied in various oil fields within and outside the PRC	February 2006–February 2009
	Plant Certification certified by American Bureau of Shipping	Certification covers specialized seamless pipes to be used for construction of ships classed with American Bureau of Shipping	December 2002–December 2007
France	Approval Certificate on the factory certified by Bureau Veritas	Certification covers specified seamless pipes and fittings to be used for construction of ships classed with Bureau Veritas	January 2004–January 2009
Germany	Approval of Material Manufacturers	Certification covers specialized seamless pipe to be used for construction of ships classed with Germanischer Lloyd	April 2006–January 2009

BUSINESS

Country	Authority granting the certificate/approval	Description and Significance	Current validity period
Norway	Approved Manufacturer	Certification covers specialized seamless pipes to be used for construction of ships classed with Det Norske Veritas	July 2004–June 2008
South Korea	Plant certification certified by Korean Ship Classification Society	Certification covers specialized seamless pipes to be used for construction of ships or installations classed with Korean Register of Shipping	August 2006–August 2011
UK	Approved manufacturer certified by Lloyd's Register	Certification covers specialized seamless pipes to be used for construction of ships or installations classed with Lloyd's Register	May 2006–December 2008

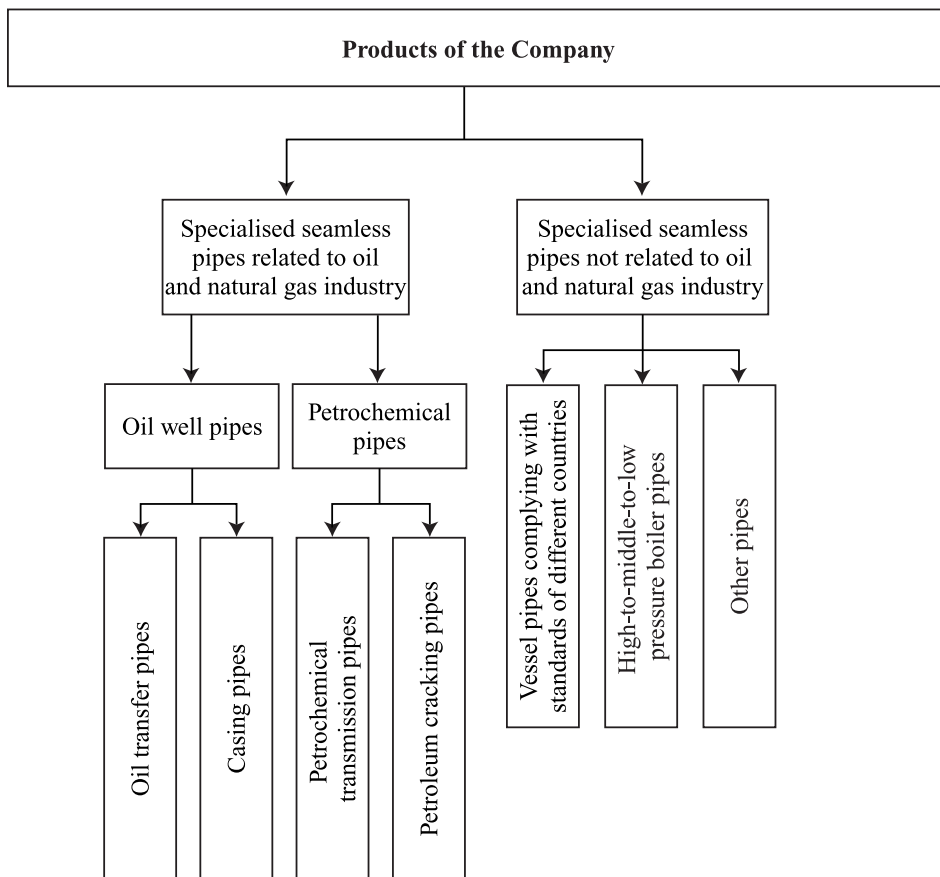
The Company applied for similar certification in Japan on 21 June 2006 and the Company's products have to undergo examination, evaluation and classification. The Company expects that if the tests go as planned, it should obtain its certification by the end of 2006.

The Company's Chinese and international certifications date back to 2003. It is evident that its long experience in other specialized seamless pipes for vessels, boilers and others laid a solid foundation on which it subsequently obtained the Production Inspection Waiver in 2005 and certification from the American Petroleum Institute in 2006.

BUSINESS

PRODUCTS

The Company classifies its products into two main categories: (i) specialized seamless pipes for the oil and natural gas industry, including oil well pipes (mainly oil transfer pipes and casing pipes etc.) and petrochemical pipes; (ii) other specialized seamless pipes which include vessel pipes and boiler pipes etc. The Company's business model involves: (i) selling self-produced oil well pipes and other specialized seamless pipes; and (ii) sourcing and distributing specialized seamless pipes. The Company produces oil well pipes it sells, whereas for other specialized seamless pipes, it either manufactures them or sources from third party suppliers. These products are mainly used in oil and natural gas exploration, transmission and refining enterprises, major vessel and boiler building enterprises. The following chart illustrates, in more detail, the product categories of the Company:



Pipes are used in a number of industries and the Company supplies those referred to above. The Company also provides integrated services to its customers (by sourcing specialized seamless pipes which it does not manufacture for its customers as part of an order) and it is able to deliver products capable of being directly used in the oil field by its customers once commercial production for threading and heat processing is implemented. For further details on threading and heat processing, please see the paragraph headed "Future Plans" in the section headed "Statement of Business Objectives" of this prospectus.

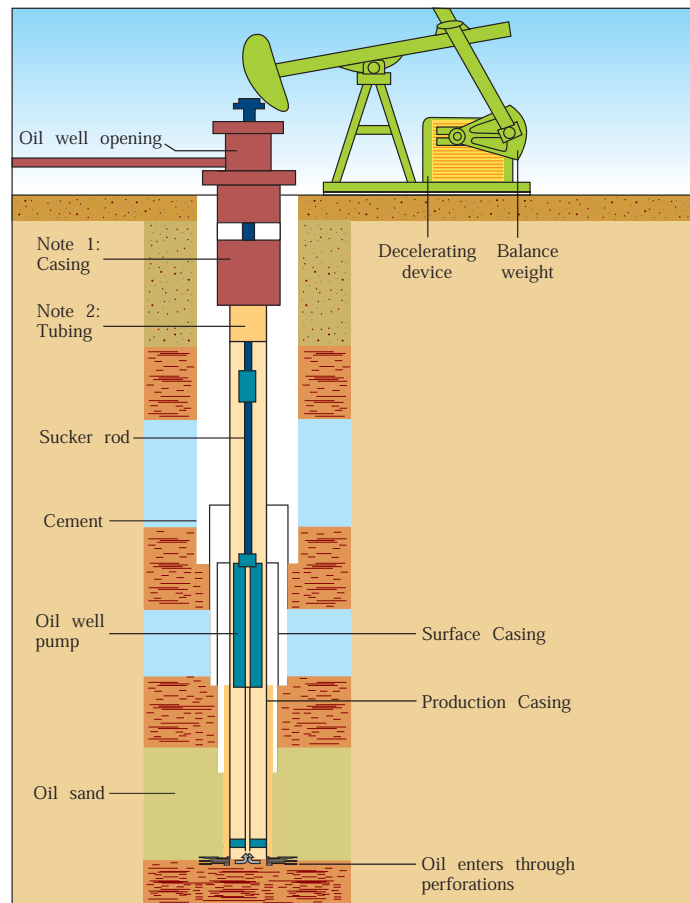
Specialized seamless pipes for the oil and gas industry

The oil well pipes produced and sold by the Company are mainly oil transfer pipes with diameters from 48.3 mm to 114.3 mm and casing pipes with diameters from 114.3 mm to 219 mm.

Casing pipes, oil transfer pipes, drilling pipes, square drilling pipes and drill collars are collectively known as oil well pipes.

- Casing pipes are steel tubes that are used to support the walls of oil and gas wells. They are mainly classified as: (i) surface casing pipes; (ii) technical casing pipes; and (iii) production casing pipes.
- Oil transfer pipes are specialized seamless pipes installed in the production casing pipes that allow the oil and gas to flow to the surface after the formation of oil and gas wells.

The structure of oil well facilities is as follows:



Notes:

- (1) Casing is the casing pipes which are one of the principal products of the Company.
- (2) Tubing is the oil transfer pipes which are one of the principal products of the Company.

BUSINESS

Petrochemical pipes are the specialized seamless pipes for the transmission of petroleum and natural gas and for applications in the oil refinery industry.

In February 2006, the API certified that the Company was qualified to use API monogram for API Spec 5CT on oil transfer pipes and casing pipes specification and API Spec 5L on pipes for transmission. These API standards are industry standards set by the American Petroleum Institute to promote the use of safe, interchangeable equipment and operations through the use of proven, sound engineering practices.

Specialized seamless pipes for vessels, boilers and others

Vessel pipes are pressure resistant pipes which are used in various types of ship building works. Boiler pipes refer to the specialized seamless pipes for boilers, which are mainly categorized into: (i) specialized seamless pipes for low-to-medium pressure boilers; and (ii) specialized seamless pipes for high pressure boilers. Since 1993 when the Company commenced production of specialized seamless pipes, it has continued to develop new products so as to meet market demand in this sector. The Company's vessel pipes have been certified for use in seven countries and it has also successfully developed pipes for low, medium and high pressure boilers. The Company is also planning to develop vessel pipe products for Japan, a leading ship building country in the world. It is expected that accreditation by the Japanese shipping classification society will be awarded in the second half of 2006.

BUSINESS

The following table sets out the percentages of the Company's total revenue by product types 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					
	2004			2005		
	<i>Tonnes</i>	<i>RMB '000</i>	<i>% of sales</i>	<i>Tonnes</i>	<i>RMB '000</i>	<i>% of sales</i>
<u>Self-produced</u>						
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	<u>23,116.3</u>	<u>150,839</u>	<u>45.2%</u>	<u>128,510.4</u>	<u>675,517</u>	<u>74.5%</u>
<u>Sourcing and distribution</u>						
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	<u>30,670.8</u>	<u>182,806</u>	<u>54.8%</u>	<u>36,649.4</u>	<u>231,073</u>	<u>25.5%</u>
Total	<u><u>53,787.1</u></u>	<u><u>333,645</u></u>	<u><u>100%</u></u>	<u><u>165,159.8</u></u>	<u><u>906,590</u></u>	<u><u>100%</u></u>
	Six months ended 30 June					
	2005			2006		
	<i>Tonnes</i>	<i>RMB '000</i> <i>(unaudited)</i>	<i>% of sales</i>	<i>Tonnes</i>	<i>RMB '000</i>	<i>% of sales</i>
<u>Self-produced</u>						
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	<u>54,649.8</u>	<u>278,842</u>	<u>71.4%</u>	<u>89,856.6</u>	<u>463,278</u>	<u>77.7%</u>
<u>Sourcing and distribution</u>						
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	<u>19,285.5</u>	<u>111,761</u>	<u>28.6%</u>	<u>24,519.8</u>	<u>132,851</u>	<u>22.3%</u>
Total	<u><u>73,935.3</u></u>	<u><u>390,603</u></u>	<u><u>100%</u></u>	<u><u>114,376.4</u></u>	<u><u>596,129</u></u>	<u><u>100%</u></u>

BUSINESS

PROCUREMENT

The Company's procurement department is responsible primarily for sourcing raw materials for self-produced and sourcing and distribution of specialized seamless pipes for trading purposes. The specialized seamless pipe industry has a highly diversified product range. The Company's self-produced products may not cover all of its customers' needs, but in order to provide quality service, the Company will purchase those pipes which are not produced by it from the market. The Company's purchase orders normally contain a list of pipes which their customers need. This one-stop shop service requires in-depth product knowledge of specialized seamless pipes and insights into the market which can only be gathered through time. The Company's inventory policy for both self produced pipes and merchandise pipes for sourcing and distribution are discussed in the paragraph headed "Inventory Control" below.

Sourcing of raw materials for self-production

The Company only purchases raw materials, mainly steel billets, for production needs, with the remaining being a small amount of plastic packaging materials. In general, the Company purchases raw materials on a monthly basis based on its customers' orders for the month, thereby deploying a JIT policy for its inventory. The Company has relatively long-standing relationships with its major suppliers for between 4 to 10 years and has not experienced any significant difficulties in sourcing raw materials and components since the supply of these goods to the Company. The Directors consider that the raw materials and components required by the Company can be sourced locally without difficulties. The Company does not hedge against increases in raw materials but when considered appropriate, it makes strategic purchases of steel billets at times when it believes the price is low.

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 the managers' office which is 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.

Purchase of specialized seamless pipes for the sourcing and distribution business

To complement its product offering to customers, the Company also sources and distributes specialized seamless pipes in finished goods form in the market. For its sourcing and distribution procurement, the Company anticipates demand for particular specialized seamless pipes and, depending on market conditions at the time would make purchases in order to build up inventory. The prices at which such specialized seamless pipes are purchased are dictated by market conditions at that time.

BUSINESS

In accordance with the requirements of its customers, the sales manager related the types and specifications of productions not produced by the Company in the customer's order, together with the volume and delivery period in writing to the purchasing department. The purchasing department will categorize whether the products pending purchase are of usual specifications. For those specialized seamless pipes which are not produced by the Company and not of usual specifications, application of purchase has to be submitted to the general manager for approval prior to confirming orders with the sales department. For specialized seamless pipes not produced by the Company but of usual specification, the Company will keep stock in an appropriate volume for satisfying the urgent requirement of its customers. The purchasing department will submit their purchasing application to the general manager for review and then forward to the general manager's office for study before deciding on whether to purchase in bulk or not. The chairman of the Company must be consulted in connection with bulk purchase applications.

Suppliers

When selecting its suppliers, the Company strictly conducts its selection in accordance with its purchasing control procedures. Prior to becoming an approved supplier of the Company, potential suppliers would be assessed by the Company's procurement team based on the following criteria:

- supplier's production capacity and quality control;
- whether the raw materials manufactured by the supplier meet the national and the Company's standard;
- whether the supplier has previously been involved in significant poor product quality issues and whether the product functions stably. The supplier must also be equipped with the ability to undertake contingencies;
- the supplier is equipped with its own research capabilities and has a clear vision for development in the industry; and
- the Company's other major criteria include price, delivery time, service quality, integrity and reputation in the relevant industry.

To ensure the quality of the approved suppliers, the Company will conduct the following control procedures:

- review or monitor the production process of the supplier;
- collect information regarding the supplier on its product development, production facility, management team and any other major developments in the industry;
- maintain control on the level of inventory and accounts payable through financial management; and

BUSINESS

- regularly conduct quality assessment on the supplier's raw materials to ensure that the raw materials meet the Company's standard.

The major raw materials required by the Company are sourced locally and are denominated and settled in RMB. Terms of payment for the raw materials are made on a cash (or cash equivalent) on delivery basis. They are usually settled by bank bills or telegraphic transfers. During the two years ended 31 December 2005 and the six months ended 30 June 2006, the largest five suppliers of the Company accounted for approximately 52.6%, 50.3% and 62.0% respectively of the Company's total purchases. Over the same period, the Company's largest supplier accounted for approximately 14.8%, 26.4% and 30.4% of the Company's total purchases respectively for the same periods. None of the Directors, their respective associates or, so far as the Directors are aware, Shareholders who will be interested in more than 5% of the issued share capital of the Company immediately following completion of the International Placing (but taking no account of any Over-allotment Shares) had any interest in any of the five largest suppliers of the Company during the two years ended 31 December 2005 and the six months ended 30 June 2006. Anhui Plastic Company, a subsidiary of Tianda Holding, has been supplying a kind of raw material, namely, plastic for packaging, to the Company. Please refer to the paragraph headed "Framework Agreement for the Supply of pipe protection casing and packaging materials with Tianda Plastic Company" under the section headed "Relationships with the Controlling Shareholder and Connected Transactions" in this prospectus for further details. The Company's five largest suppliers in the Track Record Period do not include Tianda Plastic Company and are Independent Third Parties.

INVENTORY CONTROL

As at 30 June 2006, the Company had inventories of approximately RMB198.8 million, comprising raw materials, work-in-progress and finished goods. For the two years ended 31 December 2005 and the six months ended 30 June 2006, the inventory turnover days of the Company were approximately 34 days, 38 days and 61 days respectively. The Directors consider that the normal level of inventories is around 35-40 days which is necessary in order to maintain a smooth production and to ensure timely delivery to customers. However, the Company sometimes strategically bulk purchases a substantial amount of raw materials in anticipation of price increase of raw materials. Leaving aside strategic purchases of raw materials, the Company aims to keep no more than 10 production days of raw materials.

The Company adopts inventory control that allow it to closely monitor the level of inventories of each of the raw materials, work-in-progress and finished goods. The Company adopts a networked inventory control software which records all input and output of inventory from any of the warehouses. In addition, the Company will, based on its estimation, keep about 10 business days of finished goods as inventory although it may, in anticipation of any price increase for a particular product, increase its inventory of finished goods at any one time. Purchases are primarily made after a sales order is confirmed. Once a sales order is received, the engineering department and production department of the Company will determine the nature and quantity of materials necessary for that particular order. After producing and testing the finished products, they will be delivered to the customers of the Company. The Company will review any damaged, slow moving and obsolete inventory on a quarterly basis. The stock provision is made for the differences

BUSINESS

between the costs and the net realizable values of the inventories. The stock provision is assessed on an individual basis. When obsolete items are identified by the Company, they will be written-down to net realizable value and all losses of inventories are recognized as expenses in the period in which such write-downs or losses occur. Inventory would be regarded as obsolete when they are considered not saleable or no longer suitable for production. For each of the two years ended 31 December 2005 and the six months ended 30 June 2006, provision for obsolete inventory amounting to RMBNil, RMB1.8 million and RMB1.8 million respectively.

QUALITY CONTROL

The Company is committed to manufacturing high quality products. The Directors believe that product quality is vital in enhancing the Company's competitiveness, market position and reputation. As at 30 June 2006, the Company employed 62 quality control staff with an average working experience of five years and the majority of whom possess tertiary or college qualification. Staff training for the quality control teams include training in the various product specifications, industry standards, inspection methods, quality assurance and management programmes.

The quality control of the Company's products is divided into three phases:

Purchase control

The Company has implemented a set of procedures for selecting its major suppliers and only places orders with those qualified suppliers. In addition, all the raw materials are subject to inspections and examinations in accordance with relevant quality standards before acceptance.

Production control

The production process involves different procedures. The Company carries out its quality control in accordance with ISO9001, API Specifications and the relevant countries' vessel manufacturing standards in accordance with the relevant type of specialized seamless pipe standard. All production procedures are documented and are guided by the instruction manual with appropriate personnel and advanced equipments.

The Company utilises technological advanced quality control machineries such as ultrasonic test machines, hydrostatic pressure test machines, hydraulic universal test machines and various other testing equipment to ensure its specialized seamless pipes are all of the highest quality.

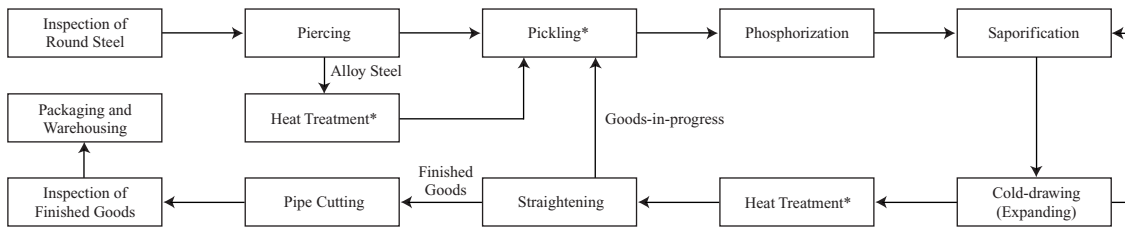
Product control

All final products will be tested in accordance with the technical standards and only qualified products will be accepted. Furthermore, the Company regularly invites customers to come to the factory and check the quality of the products before delivery. During the Track Record Period, there were no return of goods by the Company's customers.

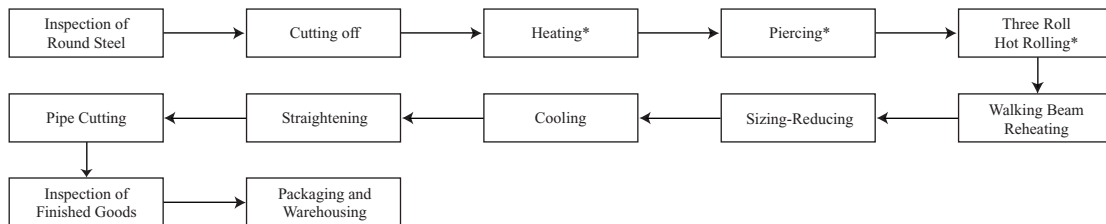
PRODUCTION PROCESS AND FACILITIES

The Company has established two production bases in Tianchang and Chuzhou, both in Anhui Province. The Company uses two different technologies to shape its specialized seamless pipes, being Cold-drawn Steel Pipe technology which is used in Tianchang, and Hot-rolled Steel Pipe Technology which is used in Chuzhou. Cold-drawn Steel Pipe Technology is a special technology for the production of a large variety of high precision specialized seamless pipes with small diameters like oil transfer pipes, petrochemical pipes and other specialized pipes in the oil well pipes category. Hot-rolled Steel Pipe Technology is a specialized technology for high efficiency mass production of specialized seamless pipe with larger diameters like casing pipes in the oil well pipes category. The following diagrams illustrate their respective production process:

The workflow of Cold-drawn Steel Pipe Technology (* means Quality Control Point)



The workflow of Hot-rolled Steel Pipe Technology (* means Quality Control Point)



Production and technology upgrades

Through technology upgrades, the Company has increased the standard and upgraded the value of its products. The Company has commenced (but has not yet completed) its technology upgrade projects for heat processing of 100,000 tonnes of oil casing pipes and threading finish for oil casing pipes for up to 100,000 tonnes per annum from 2006. The trial production phase is expected to commence at the end of this year, gradually transitioning to commercial production in the early first half of 2007. Once in commercial production, the oil well pipes can, after threading, be used directly in the oil fields without further processing, thereby improving the Company’s product. Oil well pipes which have been subject to heat processing can be used in harsher geological conditions, thereby expanding the Company’s product offering.

BUSINESS

Production facilities and sourcing and production packaging/logistics

The Company's production bases in Tianchang and Chuzhou are approximately 125 km apart. The gross floor area of the plant in Tianchang is approximately 52,000 sq.m and it houses three sets of cold drawing production lines for specialized seamless pipes, including energy saving tilted heater and two-roll tilted hole puncher. The gross floor area of the plant in Chuzhou is approximately 43,840 sq.m. and houses three hot-rolled machines sets, including automatic circular heater, conical hole puncher, ASSEL three rolled pipe machine, incremental heater, micro tension diameter fixing machine and a series of sophisticated one-stop inspection equipment. There is also a warehouse of approximately 31,522 sq.m. in Chuzhou from which the Company has set up its distribution and logistics centre.



BUSINESS

The total production capacity of the Company for 2006 is 300,000 tonnes and 200,000 tonnes and 25,000 tonnes for 2005 and 2004 respectively. As a general indication only, such production capacity can be translated into:

Period	Oil well pipes (tonnes)	Other specialized seamless pipes including petrochemical pipes (tonnes)	Total production capacity (tonnes)
2004	5,000	20,000	25,000
2005	150,000	50,000	200,000
2006	250,000	50,000	300,000

The production utilisation rates during the Track Record Period for each of the production facilities in Tianchang and Chuzhou were as follows:

	Year ended 31 December						Six months ended 30 June		
	2004			2005			2006 (half year statistics)		
	Production Capacity (tonnes)	Actual Production (tonnes)	Utilisation Rate	Production Capacity (tonnes)	Actual Production (tonnes)	Utilisation Rate	Production Capacity (tonnes)	Actual Production (tonnes)	Utilisation Rate
Tianchang Facility	25,000	25,300	>100%	50,000	27,700	55.40%	50,000	25,600	51.20%
Chuzhou Facility	-	-	-	150,000	107,300	71.53%	100,000	66,700	66.70%

Note: The production capacities for the six months ended 30 June 2006 is calculated by reference to the annual production capacity divided by two. In 2006 the annual production capacity of the Tianchang Facility increased to 100,000 tonnes as a result of the installation of a new oil well pipe production line. For the Chuzhou Facility, the production capacity increased to 200,000 tonnes as a result of technological upgrade of the production equipment.

The Company's production facilities can be modified to manufacture different types of specialized seamless pipes with minimal costs.

ENVIRONMENTAL PROTECTION

The Company complies with the national, provincial and local environmental laws and regulations, including the Environmental Protection Law of the PRC and laws regarding the evaluation on the impact to the environment, including the Environmental Protection Law of the People's Republic of China as promulgated and implemented by the Standing Committee of the Seventh National People's Congress on 26 December 1989, the Law on Environmental Impact Assessment of the People's Republic of China as promulgated by the Standing Committee of the Ninth National People's Congress on 28 October 2002 and implemented on 1 September 2003 and the Regulation on Environmental Management for Construction Projects promulgated and implemented by the State Council on 29 November 1998. The Company has passed the environmental test conducted by the Anhui Environmental Protection Bureau in May 2006. The Company has not committed any breaches and has not been penalized for any violation of PRC environmental protection laws

BUSINESS

since its date of incorporation. The Company has obtained all the necessary permits and licences as required under the applicable PRC environmental protection laws for it to conduct its current business.

In order to enhance environment management, the Company formed an environment protection unit, which established a system of working standards, rewards and penalties for environment protection. Pursuant to PRC law, the Company implemented environmental impact assessment system in new projects as well as modification and expansion projects. For example, the environmental protection and treatment facilities in each project should be designed, constructed and commenced with the core structure at the same time. The industrial solid waste generated by the Company were all safely disposed of and deployed for various purposes. The cooling water used in the production processes of the Company is recycled after treatment without discharging any pollutants.

With the increase in awareness of civic duties and environment protection, as well as ongoing improvement in environment protection standard required by the PRC government, the Company will use clean energy such as natural gas as much as practicable and arrange relevant staff to learn and promote environmental laws and regulations. The Company will follow up with the PRC legal requirements and devote more efforts and resources to environment protection, so as to fulfill the need of the government and the society.

The Company conducted certain research and development activities to adopt new technologies for reducing impact on the environment:

- (i) Dust removing devices were installed at all boiler equipment so as to reduce the pollution to the atmosphere;
- (ii) Water recycling technologies were applied to construction facilities so as to reduce the pollution to water resources;
- (iii) The technical staff under the environment protection unit of the Company's research and development department continued to implement new technologies and application of new technologies.

The design, repair and maintenance of the Company's existing facilities were featured with environmental protection elements, such as recycling water facilities for existing equipment and gradually deployment of clean energy such as natural gas.

The Company invested an aggregate of approximately RMB6.8 million during the Track Record Period in controlling its environmental pollution and treatment with related depreciation charges of about RMB0.6 million per annum. The Company's investment in controlling its environmental pollution and treatment for the two years ended 31 December 2005 and the six months ended 30 June 2006 was approximately RMB6,632,000, RMB168,000 and RMBnil respectively. The Company's investment in environmental protection continues to increase and approximately RMB2,600,000 is expected to be spent for the full year ending 31 December 2006. For the two years ended 31 December 2005, the contamination disposal fee paid by the Company is approximately RMB18,000 and RMB22,000 respectively. According to the "Administration Provisions on the Collection and

BUSINESS

Use of the Contamination Disposal Fee” issued by the State Council, the environmental protection authority in the PRC, after taking into consideration the type of pollutant emission and the amount thereto, determines the appropriate contamination disposal fee.

The Company intends to expand its production facilities through technology upgrades for the threading production line of 100,000 tonnes per annum and for the heat processing of oil transfer pipes of 100,000 tonnes per annum. The environmental impact assessment documents for the above two projects have been approved by Chuzhou Environmental Protection Bureau. After the completion of the above two projects, the Company shall apply to the environmental protection competent authorities for the inspection and acceptance of the environmental protection standard of the projects completed. These projects shall only officially commence production or operation after inspection and acceptance by the environmental protection competent authorities.

SALES AND MARKETING

Sales

The Company had a sales force of 19, 22 and 29 as at 31 December 2004, 31 December 2005 and 30 June 2006 respectively. The Company deploys a direct sales strategy to develop its customer base. The sales team’s main responsibility is to closely monitor market development, provide after-sales services and other advertising work. The sales team is divided into three groups based on their geographical locations, with a regional sales manager responsible for that region’s sales team, sales and marketing activities and after-sales services. Three teams cover the following regions in China:

Southwestern and Northwestern China areas	Chongqing, Sichuan, Yunnan, Guizhou, Xizang, Xinjiang, Gansu, Qinghai, Shaanxi, Ningxia
Northern, Central and Southern China areas	Beijing, Tianjin, Hebei, Inner Mongolia, Shanxi, Hubei, Hunan, Henan, Guangdong, Guangxi, Hainan
Eastern and Northeastern China areas	Shanghai, Shandong, Anhui, Zhejiang, Fujian, Jiangsu, Jiangxi, Heilongjiang, Jilin, Liaoning

Such regional sales manager reports to the general sales manager of the Company who is also responsible for the Company’s overall sales and marketing strategy. Of these, the sales force is primarily incentivized by commissions and their performance by reference to pre-set annual sales targets. As at 30 June 2006, the sales force responsible for domestic sales in China comprised 24 people and the remaining five people were primarily responsible for exports. For each of the two years ended 31 December 2005 and the six months ended 30 June 2006, the export sales accounted for approximately less than 1%, 2.7% and 3.4% of the Company’s total sales respectively. The Company is capable of producing specialized seamless pipes for the oil and natural gas industry, including oil well pipes (mainly oil transfer pipes and casing pipes etc.) and petrochemical pipes, and enjoys a good reputation in the oil well pipes industry in the PRC.

BUSINESS

Top five customers of the Company for the six months ended 30 June 2006

	Sales amount <i>RMB'000</i>	% of sales	Product sold	Business scope	Location of oil field
1) Shengli Oilfield Highland Petroleum Equipment Co., Ltd. 勝利油田高原石油裝備有限責任公司	57,649	9.7%	Oil well pipe	Manufactures and operates in oil equipment products	Shandong, Xinjiang, Shaanxi, Harbin
2) Tianjin Tiangang Special Petroleum Pipe Manufacture Co., Ltd. 天津天鋼石油專用管製造有限公司	39,295	6.6%	Oil well pipe	Manufactures oil transfer pipes, casing pipes and connectors of casing pipes	Harbin, Henan
3) Tianjin Tubular Goods Machining Co., Ltd. 天津市石油管材加工有限公司	32,584	5.5%	Oil well pipe	Manufactures casing pipes, oil transfer pipes and pipe joints	Harbin, Xinjiang and Shaanxi
4) Dagang Oilfield Group New Century Machinery Manufacturing Co., Ltd. 大港油田集團新世紀機械製造有限公司	27,142	4.6%	Oil well pipe	Manufactures oil exploration equipment	Tianjing and Shaanxi
5) Dalipal Pipe Company Ltd. 達力普石油專用管有限公司	16,607	2.8%	Oil well pipe	Manufactures casing pipes and oil transfer pipes	Harbin, Cangzhou, Xinjiang, Shaanxi
Total	<u>173,277</u>	<u>29.2%</u>			

BUSINESS

Top five customers of the Company for the six months ended 30 June 2005

	Sales amount <i>RMB'000</i>	% of sales	Product sold	Business scope	Location of oil field
1) Wuxi Seamless Oil Pipes Co., Ltd. 無錫西姆萊斯石油專用管 製造有限公司	78,864	20.2%	Oil well pipe	Manufactures casing pipes and oil transfer pipes	Harbin, Tianjing, Cangzhou, Xinjiang and Shaanxi
2) Cangzhou OCTG Co., Ltd. of Huabei Oilfield 滄州華北石油專用管材有限公司	22,929	5.9%	Oil well pipe	Manufactures various types of casing pipes	Harbin, Cangzhou, Xinjiang and Shaanxi
3) Lusheng Shihua Trading (Beijing) Co., Ltd. 魯勝實華貿易(北京)有限公司	17,415	4.5%	Oil well pipe	Operates in oil well pipes	Shandong
4) Tianjin Tubular Goods Machining Co., Ltd. 天津市石油管材加工有限公司	11,993	3.1%	Oil well pipe	Manufactures casing pipes, oil transfer pipes and pipe joints	Harbin, Xinjiang and Shaanxi
5) Shanghai Kangzong Enterprise Development Co., Ltd. 上海康宗企業發展有限公司	5,824	1.5%	Oil well pipe	Operates in oil well pipes	Yanchang oil field in Yanan, Shaanxi
Total	<u>137,025</u>	<u>35.2%</u>			

BUSINESS

Top five customers of the Company for the year ended 31 December 2005

	Sales amount <i>RMB'000</i> <i>(unaudited)</i>	% of sales	Product sold	Business scope	Location of oil field
1) Wuxi Seamless Oil Pipes Co., Ltd. 無錫西姆萊斯石油專用管製造有限公司	112,970	12.5%	Oil well pipe	Manufactures casing pipes and oil transfer pipes	Harbin, Tianjing, Cangzhou, Xinjiang and Shaanxi
2) Shengli Oilfield Highland Petroleum Equipment Co., Ltd. 勝利油田高原石油裝備有限責任公司	35,359	3.9%	Oil well pipe	Manufactures and operates in oil exploration equipment	Shandong, Xinjiang, Shaanxi and Harbin
3) Cangzhou OCTG Co., Ltd. of Huabei Oilfield 滄州華北石油專用管材有限公司	34,926	3.9%	Oil well pipe	Manufactures various types of casing pipes	Harbin, Cangzhou, Xinjiang and Shaanxi
4) Shanghai Naili Shiye Co., Ltd 上海耐利實業有限公司	25,569	2.8%	Oil well pipe	Operates in oil well pipes	Harbin, Cangzhou, Xinjiang and Shaanxi
5) Tianjin Baosteel Industry and Trade Co., Ltd. 天津寶鋼工貿有限公司	22,324	2.5%	Oil well pipe	Operates in oil well pipes	Harbin and Henan
Total	<u>231,148</u>	<u>25.6%</u>			

BUSINESS

Top five customers of the Company for the year ended 31 December 2004

	Sales amount <i>RMB'000</i>	% of sales	Product sold	Business scope
1) NanJing JinLing Shipyard 南京市金陵船廠	7,241	2.2%	Other specialized seamless pipes	Vessel construction
2) Hubei Changjiang Petrochemical Equipment Co., Ltd. 湖北省長江石化設備有限公司	6,552	2.0%	Petrochemical pipe	Manufactures oil refining machinery and relevant accessories
3) Jiangsu Hengsheng Chemical Fertilizer Co., Ltd. 江蘇省新沂市恒盛化肥有限公司	5,535	1.7%	Petrochemical pipe	Manufactures chemical raw materials
4) China National Shipbuilding Equipment & Materials Corporation 中國船舶工業物資總公司	4,963	1.5%	Other specialized seamless pipes	Operates in materials for vessel construction and relevant industry
5) Jiangsu Taixing Ningxing Machinery Co., Ltd. 江蘇省泰興寧興機械有限公司	4,866	1.5%	Petrochemical pipe	Operates in pressure containers
Total	<u>29,157</u>	<u>8.9%</u>		

For each of the two years ended 31 December 2005 and the six months ended 30 June 2005 (unaudited) and 2006, the five largest customers of the Company accounted for approximately 8.9%, 25.6%, 35.2% and 29.2% respectively of the Company's total sales. For the two years ended 31 December 2005 and the six months ended 30 June 2005 (unaudited) and 2006, sales to the largest customer of the Company accounted for approximately 2.2%, 12.5%, 20.2% and 9.7% respectively of the Company's total sales.

For the two years ended 31 December 2005 and the six months ended 30 June 2006, the Company had active customers* of approximately 2,000, 1,400, 1,000 respectively. For the respective periods in the two years ended 31 December 2005 and the six months ended 30 June 2006, about 440, 410, and 280 active customers were oil fields or their designated processing factories and about 80, 70 and 40 active customers were ship-builders.

The Company's sales were settled in Renminbi for transactions completed in the PRC while sales generated from export were settled in US dollars. For the two years ended 31 December 2005 and the six months ended 30 June 2006, 99.3%, 97.3% and 96.6% of the Company's sales was settled in Renminbi while 0.7%, 2.7% and 3.4% was settled in US dollars.

Regardless of whether the products are self produced or purchased as part of its sourcing and distribution business, the Company remains liable for any product liability claims. The agreements between the Company and customers include product warranties of

* active customers are those which had made at least one purchase from the Company during the relevant period.

BUSINESS

six or 12 months after product delivery. The Company has obtained product liability insurance from PICC. The Company has not received any product liability claims during the Track Record Period and has insured itself for such matters. However, there is no assurance that any and all claims in respect of product liability will be covered by such insurance.

None of the Directors, their respective associates or, so far as the Directors are aware, Shareholders who will be interested in more than 5% of the issued share capital of the Company immediately following completion of the International Placing (but taking no account of any Over-allotment Shares) had any interest in any of the five largest customers of the Company during the two years ended 31 December 2005 and the six months ended 30 June 2006. The Company's five largest suppliers in the Track Record Period were Independent Third Parties.

Marketing and branding

The Company aims to:

- *Establish a sales and marketing team with innovative sales and marketing business models to strengthen sales and marketing services*

The Company's sales and marketing team has been expanding over the years. As at 31 December 2004, the sales and marketing team comprised 19 staff and as at 30 June 2006, this increased to 29 staff. The Company has devoted efforts to the training of staff, improving the sales and marketing standard of its staff and its corporate image in major oil field markets. The Company has also adopted a direct sales model to reduce intermediaries, so as to provide pre-sales, sales and after-sales services to the fullest extent. As part of the brand promotion scheme, the Company embosses its corporate logo on the products they manufacture and sell.

- *Promotion through various channels of communication*

The Company places emphasis on the circulation of promotional materials within the industry's network and has, since 1993, been collecting market data. The Company has advertised extensively in approximately 50 publications of the industry, such as China Petrochemical (《中國石油化工》), Steel Pipes (《鋼管》) and China Special Equipment Safety (《中國特種設備安全》). At the same time, the Company has also leveraged on the advantages of the internet and maintained its own domain name and created its own website at <http://www.td-gg.com>. It is also a member of certain professional websites in the industry, namely Alibaba and My Steel Network (我的鋼鐵網絡).

- *Participation in trade exhibitions to increase promotional efforts and raise its profile*

The Company's marketing efforts include participation in various international and national professional pipe materials exhibitions. The Company participated in the Second Shanghai International Steel Pipes Trade Exhibition held at Shanghai Expo Exhibition Centre in May 2006. During the exhibition, the Company entered into

BUSINESS

product contracts with certain customers from within and outside the PRC and achieved good results. The Company participated in the Second All-China International Tube & Pipe Industry Trade Fair 2006 held at Shanghai Expo Exhibition Centre in September 2006. Through the participation in these trade exhibitions, the Company has further understood the requirements of and obtained feedback from its customers. Such requirements and feedback also provide the Company with useful information for improving its products, enabling it to better monitor and work towards meeting expectations of its current and potential customers. Such trade exhibitions provide the Company with the opportunity of promoting its corporate image and products.

Pricing of products

The Company's pricing policies depend on whether the products are self produced or purchased as part of its sourcing and distribution business.

Self-produced products

The Company usually determines the price of its products based on the following steps. The purchase department will generate the pricing trend of raw materials at the relevant time. The production department will generate information on production cost by tonne. Finance department will generate information on the relevant management and administrative expenses per tonne of product produced. The sales department will then collate these information and determine the relevant sales prices at the time. Sales prices are negotiated once a week. The pricing for such products result in an average gross margin of between 14% to 20% depending on the product specifications. Petrochemical pipes tend to command a relatively higher profit margin because it involves a more complex production requirement and are generally produced in small quantities.

Sourcing and distribution

The Company's sourcing and distribution of specialized seamless pipes is undertaken to provide a one-stop shop service to its customers. When the Company receives a purchase order from its customers, the Company will identify the specialized seamless pipes that is part of the order and which are not produced by the Company. The Company will then source from its suppliers those products and will generally price these products based on a 10% to 15% margin to their costs of sourcing those products and also depending on market conditions and market prices at the relevant time.

Payment terms

Whether it is for self-produced pipes or for sourcing and distribution of pipes, for domestic sales in the PRC, sales contracts are entered into, with prepayments of certain sales amount, usually 30%. Delivery of goods shall be made when the entire sales amount is received by the Company. Settlements are made by the customers usually in telegraphic transfer or bank bills. For overseas customers, sales contracts are entered into, for which the customers issue the letter of credit pursuant to the contract. Upon receipt of the letter of credit, the Company will arrange for production. After production is completed, the Company will arrange for inspection and receipt of goods. Goods will be delivered directly

BUSINESS

to the customers after the inspection is completed. The Company will then submit the entire set of bills to the notifying bank, whereby the notifying bank will transfer the bills to the bank issuing the letter of credit, so that payment shall be made. As most of the products are only sent to customers on receipt of payment, the Company has not experienced any difficulties in recovering its receivables from its customers. As such there was no material provision made for doubtful debts for the two years ended 31 December 2005 and the six months ended 30 June 2006.

RESEARCH AND DEVELOPMENT

Overview

The research and development efforts of the Company focus on development of new products, better production craftsmanship and techniques as well as modifying its product mix. Throughout its history, the Company has engaged research institutions to assist the Company in achieving the production of new petrochemical proprietary specialized seamless pipes such as H₂S resistant specialized seamless pipes, 09CrMoAL specialized seamless pipes and screwing specialized seamless pipes for high efficiency heat exchange, of which the petrochemical specialized seamless pipe for heat exchange obtained the State Patent for Practical New Model. The success of these research projects significantly enhanced the value of steel in industrial applications. This added value include stress and corrosion resistance, increase of useful life and efficiency as well as reduction of operating and production costs through reduction of use of water resources as well as other technical operational enhancements (such as expansion of heat exchange area for better collection of energy).

The industry in which the Company operates is characterized by rapid technological development and increasing demand for high quality advanced technology products. The Directors understand successful technological development is very important for the Company to stay competitive in the market. Accordingly, the Company places strong emphasis on research and development. The Company intends to further develop its oil well pipe products in the following direction. In 2007, the Company intends to continue the development of high grade steel oil well pipes that are designed to be strong, high pressure resistant and corrosion resistant. At the same time, it will also conduct research and development in the oil well pipe products and thickened oil transfer pipe products with circular thread and ladder thread according to the API standard.

In relation to other specialized seamless pipes, as for the near future, apart from continuing to comply with other international production standards, the Company will develop specialized vessel pipes in compliance with the Japanese standards. By 2009, the Company expects to conduct research and development of high pressure boiler pipes for use at power stations according to ASTM and ASME standards.

Divisions and tasks

As at 30 June, 2006, the Company's research and development team consisted of 27 people who, on average, have over eight years of relevant experience. The research and development team consists of employees (including four part time employees) with expertise

BUSINESS

including engineering, production technology and quality assurance. Their education background include 6 employees with bachelor degrees, 20 employees with diplomas and 1 employee with a master's degree. In terms of work experience, 11 employees of the research team has 1 to 5 years of work experience, 9 employees of the research team has 6 to 10 years of work experience, 4 employees of the research team has 11 to 15 years of work experience, 2 employees of the research team has 16 to 20 years of work experience and 1 employee of the research team has 21 to 25 years of work experience. Staff training takes the form of continuous education courses, participations in exhibitions and seminars. The team is focused on two parts, namely product development and production technology research. The product development team is responsible for the development of new products emphasizing on technology level, function, quality and value adding features of products. The production technology research team is involved in the research and design of production craftsmanship. Through upgrades in the equipment and production techniques, production capabilities of the equipment and quality of its products will be further enhanced. Production costs will thereby be saved. The Company spent RMB405,000, RMB526,000 and RMB1,012,200 respectively in the two years ended December 2005 and the six months ended 30 June 2006 on research and development projects.

For a typical research and development project for new products, the sales and research and development departments will consolidate suggestions from the production technology department and sales department of the Company and formulate the proposals in the form of feasibility analysis reports. The chief engineer of the Company assesses the proposed projects and for those that he considers appropriate, they will be submitted to the general manager for approval. Once it is approved by the general manager, the chief engineer will decide on the staff to participate in the project and to monitor and trace the progress of the project. The costs for each project are allocated in a lump sum which is reviewed and examined by the chief engineer before submitting to the general manager for approval. A separate account is maintained for such costs under the control of the research and development department and monitored by the finance department. Such funds will only be used for research and development purpose.

The production technology department of the Company will propose feasibility analysis report for new techniques. The chief engineer of the Company organizes the relevant departments to assess the projects proposed. The projects that pass the assessment will be submitted to the general manager of the Company for approval. After the general manager has approved the project, the chief engineer will be responsible for the research and development of such new production techniques and decide on the staff to participate in the research and development, and to monitor and trace the progress on the research and development of such new products. Key research and development projects will be submitted to the general manager's meeting for approval. The chairman of the board of Directors will also be present in such meeting.

BUSINESS

Research and development co-operation

The Directors believe that the long-term success of the Company will, to a certain extent, depend upon its ability to work with partners who will be able to provide the Company with assistance to jointly research and develop new technologies, products and markets as well as to transfer product knowledge and expertise to the Company. The following summarises the Company's major agreements or memorandum with partners:

Objective	Responsibilities	Ownership of the intellectual property rights	Date and duration of the agreement	Project investment by the Company (RMB)	Amount invested by the Company as at the Latest Practicable Date (RMB)
Jointly researched in series of oil casing pipes and two stainless steel products that are corrosion resistant, extremely hard, pressure resistant and non-conditioning with Baoshan Iron and Steel Company Limited	Baosteel was responsible for preparing the technical documents and corresponding physical and chemical functional tests for metallurgy, rolling and heat processing of billets for various specialized seamless pipes. The Company was responsible for preparing the documents for rolling, tubing and heat processing of various types of specialized seamless pipes.	Rights regarding the pipes owned by the Company Rights regarding the billets owned by Baoshan Iron and Steel Company Limited	Dated 18 March 2006 and lasts until the research in the new product is successful	6,000,000	1,600,000
Provision of technology services for casing pipes by Tubular Goods Research Center of China National Petroleum Corporation	The Tubular Goods Research Center of China National Petroleum Corporation is responsible for the provision of technology services developed for scientific functional tests and corrosion resistant steel on pipe billets and finished products as well as provision of technology services for the design, inspection and product testing of oil well pipe threading.	Owned by the Company	30 March 2006 to 30 June 2007, to be renewed upon expiry of the agreement	two related projects 5,000,000	two related projects 400,000

BUSINESS

Objective	Responsibilities	Ownership of the intellectual property rights	Date and duration of the agreement	Project investment by the Company (RMB)	Amount invested by the Company as at the Latest Practicable Date (RMB)
07Cr2AlMo and 09CrMoAl jointly developed by Baosteel Group Shanghai No. 5 Steel Co. Ltd. Technical Centre and Hefei General Machinery Research Institute	Baosteel Group Shanghai No. 5 Steel Co. Ltd. Technical Centre was responsible for preparing the technical documents and corresponding physical and chemical functional tests for metallurgy, rolling and heat processing of billets for various specialized seamless pipes. The Company was responsible for preparing the documents for rolling, tubing and heat processing of various types of specialized seamless pipes. Hefei General Machinery Research Institute was responsible for conducting the mechanics function, craftsmanship function and non-defective inspection for the Company.	Rights regarding the pipes owned by the Company Rights regarding the billets owned by Baosteel Group Shanghai No. 5 Steel Co. Ltd.	Dated 11 October 2002 and lasted until the research in the new product is successful	400,000	400,000

As at 30 June 2006, the Company had already incurred the costs of the above projects and these were funded by the Company's internal resources. Pursuant to the relevant alliance agreements or memorandum between the Company and its research and development partners, there is no profit-sharing arrangement between the Company and its research partners. There is no separate confidentiality agreement between the parties. However, in the agreements or memorandum with its research partners, there is a confidentiality clause that the parties to the agreement or memorandum will not disclose research details and other confidential information provided to the other party for the sole use of the project to any other third party.

The Company is not privy to the investments of the other parties to the agreement or memorandum (i.e. costs to the other parties in performing their contractual obligations). The Company can only provide information on its investments as above.

COMPLIANCE AND INSURANCE

The PRC Legal Advisers have confirmed that the requirements under applicable PRC laws and regulations relevant to the conduct of the Company's business in the PRC have been fully complied with and the Company has obtained all requisite licences, permits, certificates or approvals from the PRC government to conduct its business as set out in its business licence.

BUSINESS

The Company has obtained product liability insurance from PICC. It also has a comprehensive policy for some of the assets of the Company from PICC. As for its staff, it maintains staff social insurance in accordance with the legal requirements. Although the Company has a code for safety at work, it does take precautions by ensuring that such insurance policy covers the Company's employees in respect of pension insurance, medical insurance, unemployment insurance, occupational disability insurance and dormitory reserve fund. As the Company has obtained all insurance policies which are required by the relevant PRC laws, the Directors believe that insurance coverage of the Company is adequate.

COMPETITION

An overview of the oil well pipe industry in China is set out in the "Industry Overview" section of this prospectus. Consumption of oil well pipes in China grew from approximately 1,449,000 tonnes in 2001 to approximately 2,085,000 tonnes in 2005, representing a CAGR of approximately 9.5%. Output for the same period had grown from 1,265,000 tonnes to 2,400,000 tonnes, representing a CAGR of approximately 17.4%. Since 2003, China has become a net exporter of oil well pipes.

The oil well pipes market is dominated by Tianjin Pipe (Group) Corporation (TPCO) and Bao Steel Group who, together, accounted for approximately 62.7% of total market share in China. In 2005, the Company was ranked seventh in the top 10 oil well pipe manufacturers in China in terms of output and was also one of the leading oil well pipe manufacturers.

The Company believes it is well positioned to face competition. The Company's direct sales model enables it to serve its customers better with diversified requirements, and provide better services to its customers and reduces intermediaries between the Company and its clients. The Directors expect that new entrants into this market segment would not result in significant competition for the Company. Firstly, the oil well pipes industry are capital intensive and an enormous amount of funds is required for the construction of production facilities. Secondly, professional knowledge and profound experience is required for the construction of production lines and the appropriate techniques for the production of oil well pipes in the petroleum industry. Consequently, these pose significant barriers to entry for new entrants who wish to make inroads into and establish a foothold in the oil well pipes supplied to the petroleum industry. Therefore, the Directors consider that technology, market and customer recognition being the major barriers facing the new entry manufacturers in this industry, and it is unlikely that keen competition from a competitor on a similar scale will occur in the oil well pipes market in China in the short term.

Although there are manufacturers of other oil well pipes in the PRC, the Directors consider that the Company enjoys a relatively strong competitive edge in products as compared with other manufacturers in terms of costs, quality, product type, technology level and fulfillment of customer requirements. This is based on a combination of:

- the Company's choice to use domestic and self assembled equipment which is cheaper compared to equivalent imported equipment;

BUSINESS

- the Company being one of the major oil well pipe manufacturers in the PRC which has been granted the Product Inspection Waiver;
- the Company obtained certificate from API and from ship classification societies of various countries;
- in addition to providing self-produced oil well pipes, the Company also provides services to assist customers to procure from the market specialized seamless pipes that are not produced by the Company. Therefore, the Company is able to provide a complete range of products to its customers in terms of specification as part of one-stop shop solutions;
- the Company conducts its own research and development as well as cooperates with research institutions in new product research and development as well as enhancement of the quality of existing products. Its technology level is evidenced by the certificates and patents it has obtained;
- the Company is one of the leading oil well pipe producers in China in 2005. Its unique shareholding structure and effective management system enables it to implement an incentive mechanism for its employees, and thus can adapt faster to market changes to the satisfaction of its customers. The Company's customer service standard is reflected in its timely delivery irrespective of order size, regular on site technical support, product quality warranty and satisfying after-sales service, etc.

The Company has advanced production technologies and equipment, and has established good cooperative relationships with leading scientific research and development institute in the PRC. Quality and technology sophistication of its products is relatively higher than before.

The Company operates primarily in the PRC market with less than 3% of its sales in 2005 being attributable to exports. The Company commenced its export to the US in 2006 and for the six months ended 30 June 2006, exports to the US accounted for approximately 0.7% of the Company's sales. As these overseas sales agents will have representatives in China to check the Company's products before they are exported and there is transportation insurance which covers the relevant deliveries, the Company will not in practice accept returns of goods if they passed inspection before export. Title of the products can pass at different times during the shipment. In some cases, title will pass to the customers when the products are placed onboard the export ship and in other cases, title will pass when the documents representing title to the products, such as bills of lading, are taken up by the purchaser. When exactly title of the products passes depends on the terms of the individual sale contracts and the trade term on which the sales is based. The Company would, however, follow up any issues with customers as part of its after-sales service. The Company did not have any products returned from these agents during the Track Record Period. As China's exports to the rest of the world increase, Chinese manufacturers' competitiveness in the global market will increase. At present, the Company does not expect to pose any significant competition in the global market.

BUSINESS

The Company believes that foreign companies avoid segments of the market where they believe will be costly for them. This usually means they will concentrate on much higher price segment as foreigners' costs are generally higher than those in the PRC. The market for higher quality products are usually concentrated on products for harsher drilling environments (like offshore drilling and exploration for oil and drilling at more than 4,000 metres). Whilst the Company intends to increase their product mix to include these higher grade quality products, the Company does not consider itself to be in the same competitive market segment of such foreign companies.

The Company has limited means to finance its business expansion as compared to state-owned enterprises. Currently, the Company's cash flow comprises a combination of internally generated cash from sales, bank financing and equity financing. It probably does not enjoy the same degree of access to bank financing which state-owned enterprises enjoy.

Crude oil plays a fundamental role in the industrial development of developing countries. From 2001 to 2005, total world demand for oil grew by approximately 8%. For that period, the global demand for crude oil increased from 77.7 million barrels per day in 2001 to 83.8 million barrels per day in 2005, representing a CAGR of approximately 1.9%. From 2001 to 2005, China's demand for oil grew at a much faster rate of 40.2% from 4.9 million barrels per day in 2001 to 6.9 million barrels per day in 2005, representing a CAGR of approximately 8.8%.

From the demand side, investment by various countries in the exploration for oil in the short term is expected to increase by over 10% per annum. Consumption of oil well pipes is therefore also expected to increase significantly. From the supply side, industrially developed countries, such as Europe, US and Japan did not record increases in production capabilities during these years, and only had new products developed. Additional production capabilities of oil well pipes for petroleum industry in the world mainly came from the PRC. Global additional demand mainly met by the additional production capabilities from the PRC. The oil well pipe market in China is characterized by faster demand growth than supply growth. Therefore, the Directors have confidence in the future prospects for oil well pipe producers for the petroleum industry in China.

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDER AND CONNECTED TRANSACTIONS

RELATIONSHIPS WITH CONTROLLING SHAREHOLDER

Mr. Ye Shi Qu is, through Tianda Holding, the ultimate controlling shareholder of the Company. The Company is capable of carrying on its business independently of, and does not place any reliance on, Mr. Ye or his Associates. The Company has obtained proper title to, and has exercised control over, its major operating assets and is therefore capable of operating its business as an independent entity. Although there have been historical related party transactions between the Company and Mr. Ye's Associates, these will mostly discontinue after the Listing Date. In respect of those continuing connected transactions after the Listing Date, all of them are exempted from reporting, announcement and independent shareholders' approval in light of the small amounts involved. The Directors therefore believe that the Company does not place undue reliance on Mr. Ye and his Associates in respect of those continuing connected transactions after the Listing Date. Consequently, the Directors also believe that the Company will be capable of carrying on its business independently of Mr. Ye and his Associates after the Listing Date.

Management independence

Prior to the re-establishment of the Company as a joint stock company, it was decided that a management team be dedicated primarily to the Company's business and the team would be independent from Tianda Holding. As such it is no longer necessary to have any joint operation with Tianda Holding in relation to any significant investment project assessment and management of utilities. The Company has also set up its own department for staff administration and determining directors' remuneration.

Financial independence

The Company has established an independent managerial structure, pursuant to which the approval for expenses is first verified and processed by the Company's own financial department and ultimately approved by Mr. Zhang Hu Ming who is the deputy chairman, executive director and general manager of the Company. Other than being one of the 47 shareholders and a director of Tianda Holding, Mr. Zhang has not taken up any operational functions in Tianda Holding. In addition, Ms. Huang Yao Qi is the full-time financial controller who is responsible for handling financial management tasks. Other than being one of the 47 shareholders of Tianda Holding, Ms. Huang has not taken up any operational functions in Tianda Holding. The premises from which the Company operates its business is separate from Tianda Holding and its fellow subsidiaries. Moreover, the Company has bank accounts under its own name and has managed all its assets (including cash assets) independently.

The Company is financially independent of Mr. Ye. There is no financial assistance, either in the form of advances or guarantees, from Mr. Ye. Tianda Holding previously provided various guarantees in support of the bank loans to the Company. The Directors and related banks have confirmed that the guarantees provided by Tianda Holding will be released upon the listing of the Company.

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDER AND CONNECTED TRANSACTIONS

Fiduciary duties of Directors

The executive Directors have obligations to the Company both under the GEM Listing Rules and PRC Law to act in the best interests of the Company and discharge their fiduciary duties accordingly. These fiduciary duties encompass those matters set out in GEM Listing Rule 5.01 and include:

- (i) act honestly and in good faith in the interests of the Company as a whole;
- (ii) act for proper purpose;
- (iii) be answerable to the Company for the application or misapplication of the Company's assets;
- (iv) disclose fully and fairly his interest in contracts with the Company;
- (v) avoid actual and potential conflicts of interest and duty; and
- (vi) apply such degree of skill, care and diligence as may reasonably be expected of a person of his knowledge and experience and holding his office within the Company.

To avoid potential conflicts of interest and duty, Mr. Zhang Hu Ming and Mr. Xie Yong Yang resigned from their directorships with Tianda Holding on 13 November 2006.

Further, an audit committee consisting of the two independent non-executive Directors and one non-executive Director will review and monitor any connected transactions in light of the requirements under Chapter 20 of the GEM Listing Rules. The articles of association of the Company and the GEM Listing Rules also provide that any interested director should not take part in the determination of any matters in which he has a personal interest.

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDER AND CONNECTED TRANSACTIONS

Directors of Tianda Holding

The Board and the senior management of Tianda Holding comprise the following members:

Name	Position
葉世渠 Ye Shi-qu (“ Mr. Ye ”)	董事長，法定代表人 (<i>Chairman of the Board, Legal Representative</i>)
祁文輝 Qi Wen-hui (“ Mr. Qi ”)	董事，黨委書記 (<i>Director, Party Secretary</i>)
王本玲 Wang Ben-ling (“ Ms. Wang ”)	董事，副總經理，財務總監 (<i>Director, Vice General Manager, Financial Controller</i>)
殷之付 Yin Zhi-fu (“ Mr. Yin ”)	董事 (<i>Director</i>)
江干 Jiang Gan (“ Mr. Jiang ”)	董事，副總經理，總工程師 (<i>Director, Vice General Manager, Chief Engineer</i>)
吳宗勤 Wu Zong-qin (“ Mr. Wu ”)	董事，副總經理 (<i>Director, Vice General Manager</i>)
施思源 Shi Si-yuan (“ Mr. Shi ”)	董事 (<i>Director</i>)
雍金貴 Yong Jin-gui (“ Mr. Yong ”)	董事 (<i>Director</i>)

The daily operations and management of the Company is carried out by the executive Directors (who, as a result of resignations of Mr. Zhang and Mr. Xie as directors of Tianda Holding on 13 November 2006 mean that, upon the Listing Date, a majority of the executive Directors would not have directorships in Tianda Holding), its qualified accountant (who also has no position in Tianda Holding) and senior management of the Company. It is submitted, therefore, that in view of the fact that only one (and none after Mr. Ye’s resignation as a director of Tianda Holding within 6 months from the Listing Date) of the executive Directors also serves on the board of Tianda Holding, the Company’s daily operations can be carried out independently and in the interests of its shareholders as a whole.

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDER AND CONNECTED TRANSACTIONS

CONTINUING CONNECTED TRANSACTIONS AFTER THE LISTING DATE

The Company has entered into the following agreements, which will continue to be effective after the H Shares are listed on the Stock Exchange and thus will constitute continuing connected transactions for the Company under the GEM Listing Rules. The table below gives a summary of these continuing connected transactions of the Company after its H Shares are listed on the Stock Exchange.

Summary of the Company's continuing connected transactions

Transaction	Applicable Listing Rule	Exemption/ Waiver sought	Applicable caps (if applicable)
1. Lease agreement with Tianda Holding	R20.33(3)	Exempted from the reporting, announcement and independent Shareholders' approval requirement	Not applicable
2. Water supply agreement with Tianda Holding	R20.33(3)	Exempted from the reporting, announcement and independent Shareholders' approval requirement	Not applicable
3. Framework agreement for the supply of pipe protection casing with Anhui Tianda (Group) Co., Ltd.	R20.33(3)	Exempted from the reporting, announcement and independent Shareholders' approval requirement	Not applicable
4. Framework agreement for the supply of packaging materials with Tianda Plastic Company	R20.33(3)	Exempted from the reporting, announcement and independent Shareholders' approval requirement	Not applicable
5. Framework agreement for the sales of goods to Tianda Holding	R20.33(3)	Exempted from the reporting, announcement and independent Shareholders' approval requirement	Not applicable

Even if all the connected transactions were to be aggregated together, it is expected that the applicable percentage ratio(s) would not have been, on an annual basis, more than 2.5% which would render the transactions subject to the independent shareholders' approval requirements under the GEM Listing Rules.

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDER AND CONNECTED TRANSACTIONS

The Directors (including the independent non-executive directors) have advised that they consider the above transactions were carried on in the Company's ordinary and usual course of business, and by reference to the market practice and the terms tendered by other independent third parties, as the case may be, the Company is of the view that all continuing connected transactions are conducted on normal commercial terms (or better), are fair and reasonable and in the interests of the Shareholders as a whole. The terms of all continuing connected transactions make references to the market practice and the terms tendered by other independent third parties. The Sponsor has reviewed the terms of the relevant continuing connected transactions and based on the information provided by the Company, is of the view that they will be carried out in the ordinary and usual course of business, on normal commercial terms (or better), are fair and reasonable and in the interests of Shareholders as a whole.

Details of the above connected transactions of the Company after the H Shares are listed on the Stock Exchange are set forth below.

Exempt Continuing Connected Transactions

Lease Agreement

On 17 November 2006, the Company entered into a lease agreement with Tianda Holding, pursuant to which Tianda Holding agreed to lease to the Company for an annual rent of RMB96,200 (equivalent to approximately HK\$95,248) premises with an area of approximately 1,930 sq.m. situated in Tianchang, Anhui province for staff quarters. The term of the lease agreement will expire on 31 December 2008. The Company has entered into this lease agreement because the relevant premises under the lease are close to its operations in Tianchang and therefore convenient for staff.

DTZ Debenham Tie Leung Limited has confirmed that the annual rent is at market rate and is fair and reasonable. The Directors including the independent non-executive Directors consider that the lease agreement is carried out in the ordinary and usual course of business, on normal commercial terms, are fair and reasonable and in the interests of the Shareholders of the Company as a whole. In respect of the annual rent payable by the Company to Tianda Holding during the term of the lease agreement, the applicable percentage ratio(s) will, on an annual basis, be less than 0.1%. Accordingly, the continuing connected transaction falls within the de minimis exemption under Rule 20.33(3) of the GEM Listing Rules and is therefore exempt from further reporting, announcement and independent Shareholders' approval requirements under the GEM Listing Rules.

Water Supply Agreement

Tianda Holding has been supplying water to the Company for cooling down the pipes during the production process during the two years ended 31 December 2005 and the six months ended 30 June 2006.

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDER AND CONNECTED TRANSACTIONS

On 17 November 2006, the Company entered into a water supply agreement with Tianda Holding, pursuant to which Tianda Holding agreed to supply water to the Company at a price of RMB2 per tonne (equivalent to approximately HK\$1.98 per tonne), being the current market rate. The Company has entered into this agreement because Tianda Holding has a better water supply infrastructure, including several water wells of its own.

The term of the water supply agreement will expire on 31 December 2008 and shall be capable of automatic renewal for another term of three years unless either party gives three months' termination notice prior to the expiry of the term.

The water supply agreement is entered into in the ordinary and usual course of business of the Company and is on normal commercial terms. The Directors including the independent non-executive Directors have confirmed that the terms were negotiated on an arm's length basis between the parties involved, are fair and reasonable and the transaction contemplated thereby are in the interest of the Company and the Shareholders as a whole.

The amounts incurred by the Company for the water supplied by Tianda Holding for the two years ended 31 December 2005 and the six months ended 30 June 2006 were approximately RMB512,838 (equivalent to approximately HK\$507,760), RMB838,022 (equivalent to approximately HK\$829,725) and RMB298,178 (equivalent to approximately HK\$295,226), respectively.

Based on the volume of water previously supplied to the Company, the Directors anticipate that the amount payable by the Company for the water to be supplied to the Company for each of the three years ending 31 December 2008 will be less than RMB912,000 (equivalent to approximately HK\$902,970). The applicable percentage ratio(s) will, on an annual basis, be less than 0.1%. Accordingly, the continuing connected transactions fall within the de minimis exemption under Rule 20.33(3) of the GEM Listing Rules and are therefore exempt from further reporting, announcement and independent Shareholders' approval requirements under the GEM Listing Rules.

Framework Agreement for Pipe Protection Casing with Anhui Tianda (Group) Co., Ltd.

Anhui Tianda (Group) Co., Ltd. ("Tianda Company Limited"), owned as to 95% by Tianda Holding, is a connected person of the Company by virtue of it being an associate of Tianda Holding.

Tianda Company Limited has been supplying plastic accessories for pipes such as small plastic caps for the end of pipes and some related plastic packaging during the two years ended 31 December 2005 and the six months ended 30 June 2006.

On 17 November 2006, the Company entered into a framework agreement for the supply of pipe protection casing with Tianda Company Limited, pursuant to which Tianda Company Limited will supply pipe protection casing to the Company. The quantity, quality, price and specification of the pipe protection casing will be agreed between the parties from time to time under specific transaction agreements.

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDER AND CONNECTED TRANSACTIONS

The price for the pipe protection casing supplied under the framework agreement shall be negotiated by the parties on an arm's length basis by reference to market price and if there is no market price, an agreed price comprising the cost incurred in supplying the pipe protection casing plus a reasonable profit of 5% to 10% acceptable to both parties. The term of the framework agreement will expire on 31 December 2008 and shall be capable of automatic renewal for another term of three years unless either party gives three months' termination notice prior to the expiry of the term.

The framework agreement is entered into in the ordinary and usual course of business of the Company and is on normal commercial terms. The Directors including the independent non-executive Directors have confirmed that the terms were negotiated on an arm's length basis between the parties involved, are fair and reasonable and the transactions contemplated thereby are in the interest of the Company and the Shareholders as a whole.

The amounts incurred by the Company for the pipe protection casing supplied by Tianda Company Limited for the two years ended 31 December 2005 and the six months ended 30 June 2006 were approximately RMB1,582,059 (equivalent to approximately HK\$1,566,395), RMB26,577 (equivalent to approximately HK\$26,314) and RMB1,945,859 (equivalent to approximately HK\$1,926,593), respectively. The amounts purchased fluctuated as a result of bulk purchases (so as to obtain a better price) at the end of 2004 (in anticipation of the increased production in 2005) and in the first six months of 2006 when stock was depleted.

Based on the volume of the pipe protection casing previously purchased by the Company, the Directors, having taken into account the market conditions, anticipate that the amounts payable by the Company for the pipe protection casing to be purchased by the Company for the three years ending 31 December 2008 will be less than RMB844,540 (equivalent to approximately HK\$836,178), RMB886,760 (equivalent to approximately HK\$877,980) and RMB931,000 (equivalent to approximately HK\$921,782), respectively. The applicable percentage ratio(s) will, on an annual basis, be less than 0.1%. Accordingly, the continuing connected transactions fall within the de minimis exemption under Rule 20.33(3) of the GEM Listing Rules and are therefore exempt from further reporting, announcement and independent Shareholders' approval requirements under the GEM Listing Rules.

Framework Agreement for the Supply of Packaging Materials with Tianda Plastic Company

Tianda Plastic Company, owned as to 90% by Tianda Holding, is a connected person of the Company by virtue of it being an associate of Tianda Holding.

Tianda Plastic Company has been supplying packaging materials to the Company during the year ended 31 December 2005 and the six months ended 30 June 2006.

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDER AND CONNECTED TRANSACTIONS

On 17 November 2006, the Company entered into a framework agreement for the supply of packaging materials with Tianda Plastic Company, pursuant to which Tianda Plastic Company will supply packaging materials to the Company. The quantity, quality, price and specification of the packaging materials will be agreed between the parties from time to time under specific transaction agreements.

The price for the packaging materials supplied under the framework agreement shall be negotiated by the parties on an arm's length basis by reference to market price and if there is no market price, an agreed price comprising the cost incurred in supplying packaging materials plus a reasonable profit of 5% to 10% acceptable to both parties. The term of the framework agreement will expire on 31 December 2008 and shall be capable of automatic renewal for another term of three years unless either party gives three months' termination notice prior to the expiry of the term.

The framework agreement is entered into in the ordinary and usual course of business of the Company and is on normal commercial terms. The Directors including the independent non-executive Directors have confirmed that the terms were negotiated on an arm's length basis between the parties involved, are fair and reasonable and the transactions contemplated thereby are in the interest of the Company and the Shareholders as a whole.

The amounts incurred by the Company for packaging materials supplied by Tianda Plastic Company for the year ended 31 December 2005 and the six months ended 30 June 2006 were approximately RMB6,800 (equivalent to approximately HK\$6,733) and RMB29,000 (equivalent to approximately HK\$28,713), respectively.

Based on the volume of packaging materials previously purchased by the Company, the Directors, having taken into account the market conditions, anticipate that the amounts payable by the Company for packaging materials to be purchased by the Company for the three years ending 31 December 2008 will be RMB120,000 (equivalent to approximately HK\$118,812), RMB126,000 (equivalent to approximately HK\$124,752) and RMB132,300 (equivalent to approximately HK\$130,990), respectively. The applicable percentage ratio(s) will, on an annual basis, be less than 0.1%. Accordingly, the continuing connected transactions fall within the de minimis exemption under Rule 20.33(3) of the GEM Listing Rules and are therefore exempt from further reporting, announcement and independent Shareholders' approval requirements under the GEM Listing Rules.

The Company entered into the above framework agreements with Tianda Company Limited and Tianda Plastic Company, respectively, rather than with independent third parties because they are both reputable companies in their respective manufacturing industry and the products produced by them are of fine quality with steady and reliable supply. Further these two companies are close to the Company which could save both the costs and time in transportation.

Framework Agreement for the Sales of Goods to Tianda Holding

The Company had been selling other specialized seamless pipes to Tianda Holding during the two years ended 31 December 2005 and six months ended 30 June 2006.

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDER AND CONNECTED TRANSACTIONS

On 17 November 2006, the Company entered into a framework agreement for future sales to Tianda Holding, if any. The quantity, quality, price and specification of the pipes will be agreed between the parties from time to time under specific transaction agreements.

The price for the pipes sold under the framework agreement shall be negotiated by the parties on an arm's length basis by reference to market price. The term of the framework agreement will expire on 31 December 2008 and shall be capable of automatic renewal for another term of three years unless either party gives three months' termination notice prior to the expiry of the term.

The framework agreement is entered into in the ordinary and usual course of business of the Company and is on normal commercial terms. The Directors including the independent non-executive Directors have confirmed that the terms were negotiated on an arm's length basis between the parties involved, are fair and reasonable and the transactions contemplated thereby are in the interest of the Company and the Shareholders as a whole.

The transactions amounted to an aggregate of RMB 4.2 million (1.26% of the Company's total turnover in 2004), RMB1.3 million (0.14% of the Company's total turnover in 2005) and RMB0.25 million (0.04% of the Company's total turnover for the six months ended 30 June 2006) for each of the two years ended 31 December 2005 and six months ended 30 June 2006, respectively. The amounts demonstrate a significantly declining trend.

Based on the volume of the pipes previously sold by the Company to Tianda Holding, the Directors, having taken into account the market conditions, anticipate that the amounts receivable by the Company for the pipes to be sold by the Company for the three years ending 31 December 2008 will be less than RMB 1 million each year. The applicable percentage ratio will, on an annual basis, be less than 0.1%. Accordingly, the continuing connected transactions fall within the de minimis exemption under Rule 20.33(3) of the GEM Listing Rules and are therefore exempt from further reporting, announcement and independent Shareholders' approval requirements under the GEM Listing Rules.

NON-COMPETITION AGREEMENT

Tianda Holding is a company whose principal business activities are to manage the business operations of its subsidiaries in industries other than the oil and gas industry. Tianda Investment is an investment holding company which is wholly-owned by Tianda Holding.

Each of the Directors, Initial Management Shareholders and substantial Shareholders has confirmed that he/it and his/its respective Associates is not currently engaged in any business which, either directly or indirectly, competes with the Company's business. According to the non-competition agreement signed by each of the Initial Management Shareholders with the Company dated 18 November 2006, each of the Initial Management Shareholders has undertaken unconditionally that during the period in which he/it remains as a shareholder of the Company and one year thereafter, inter alia:

- (i) he/it will not and will procure his/its associates and companies controlled by him/it or his/its associates not to invest or participate in any other business which may compete with the business that the Company is engaged or will be engaged in;

RELATIONSHIPS WITH THE CONTROLLING SHAREHOLDER AND CONNECTED TRANSACTIONS

- (ii) he/it will not take advantage of his/its relationship with or position as a shareholder of the Company to engage or participate in any behaviour which may prejudice the interest of the Company and the Shareholders;
- (iii) in the event the Initial Management Shareholders were given any business opportunities that is or may involve in direct or indirect competition with the businesses of the Company, the Initial Management Shareholders shall assist the Company to obtain such business opportunities in the terms being offered to the Initial Management Shareholders, or more favourable terms or term being acceptable to the Company; and
- (iv) he/it undertakes to provide all information necessary for the annual review by the independent non-executive Directors in connection with the enforcement of the non-competition agreement or the monitoring of related disclosure from time to time;
- (v) he/it undertakes to procure the Company to disclose decisions on matters reviewed by the independent non-executive Directors relating to the compliance and enforcement of the undertaking either through annual report or by way of announcements to the public; and
- (vi) he/it undertakes to make an annual declaration of compliance with the non-competition agreement and connected transactions in the annual report of the Company in accordance with the GEM Listing Rules.

It is also a term of the non-competition agreement that if there is a business opportunity made available to any of the Initial Management Shareholders or their respective associates about projects or business which is related to the business that the Company is engaged or will be engaged in, the relevant Initial Management Shareholder will notify the Company accordingly and facilitate the Company with progressing such business opportunity. If such offer is made to the Company, the independent non-executive Directors will be responsible for deciding, without attendance by any executive Director, whether or not to take up the offer referred to the Company. If the Company declines to take up such offer, the Initial Management Shareholders had undertaken not to proceed with such opportunity.

Independent non-executive Directors will review on an annual basis the compliance with the non-competition agreement by the Controlling Shareholders and Initial Management Shareholders on their future competing business.

Each of the executive and non-executive Directors has signed a service contract with the Company with a non-compete provision providing that during the employment period and 12 months after termination of the employment, he will not compete with the Company's business. The Directors are required to make an annual declaration on non-competition in the annual report of the Company.

STATEMENT OF BUSINESS OBJECTIVES

OVERALL BUSINESS OBJECTIVES

The Company's aim is to further consolidate its position as a leading manufacturer of oil well and petrochemical pipes, explore further exports to the international market and ultimately, to become a world-class oil well pipe manufacturer.

The Company's overall business objectives are:

- To upgrade existing products, develop new products, and modify product mix through research and development efforts in order to improve the profitability of the Company;
- To diversify its market coverage, actively develop its international market share and markets in the northwest and northeast China where China's largest oil producers are located, strengthen the sales team as well as enhance the standard and expand the scope of one-stop shop service;
- To increase output efficiencies and further reduce production costs actively through research and development, optimizing craftsmanship and stringent cost control, systematic energy saving and material saving; and
- To upgrade the production capacity of the existing production lines through technical improvement, merger and acquisition or establishment of new production lines for new high-end products.

FUTURE PLANS

The Company is planning to implement the following to strengthen its market position and capitalize on opportunities in a rising market.

- 1. Intensification of research and development efforts, upgrading of existing products, development of high grade oil well pipes and other high value-added products, and modifications of product mix to enhance the gross profit margin of the Company**

The Company has adopted a three pronged approach to enhance its gross profit margin:

- *Upgrading existing products*

Providing further value-added services to customers and product quality improvement in respect of existing products, through research and development, technical improvement, improved manufacturing technologies and expanding into downstream products. For example, part of the proceeds from the International Placing will be used to install a threading and heat processing production line as mentioned in the paragraph headed "Products" in the section headed "Business" and the paragraph headed "Increase in production capacity" in the section headed "Statement of Business Objectives" in this prospectus.

STATEMENT OF BUSINESS OBJECTIVES

Such processing line is capable of converting the Company's existing products into finished products that can be used directly in oil fields with no further product processing.

- *Development of high grade and high value-added products*

The Company is conducting in-depth study and research and expects to launch its high-grade steel oil well pipes which are designed to be strong, high pressure resistant and corrosion resistant and are expected to have a higher gross profit margin. With the Company's strict quality system and advanced production craftsmanship, the Company aims to develop high grade and high value-added products with quality comparable to that of imported products and the Directors believe that the Company's cost advantages will enable it to capture the market share from imported products. Should the Company receive approval for its project under the 861 Action Plan, the Company also intends to commence the initial phase of its investment for a significant increase in its production capacity.

- *Improvement in product mix*

The Company will continue to develop high-quality and high-end vessel pipes and boiler pipes, which can also be used in the oil and petrochemical industry, to optimize the Company's product mix and avoid the risks of relying on a single category of products. In order to accomplish its goal, the Company will gradually increase its investment in research and development, and employ more qualified research and development personnel.

2. Strengthen logistics and one-stop shop service

The Company intends to improve its one-stop shop service by way of strengthening its distribution logistics capability. For this purpose, the Company owns a site in Chuzhou of approximately 258,507 sq.m. and a warehouse of approximately 31,522 sq.m. from which it has set up its distribution and logistics centre. The Company also expects to increase its sales force and logistics teams and to build additional warehouses.

3. Diversification of sales to include more exports

The Company is planning to actively expand its market penetration in both international and domestic markets. For the international market, the Company plans to increase its exports to approximately 8% of its total sales for the year ending 31 December 2006 from approximately 3% in 2005. The Company will gradually expand its market destinations from the United States to the Middle East, Africa, Europe, South America and South East Asia. For the domestic market in China, currently approximately 70% of its products are shipped to its customers in the eastern and northern parts of China. As northern part of China is home to many major oil fields and new mega oil fields have been discovered in the northwestern part of China, the Company will focus on developing business relationships with oil fields in those regions such as Daqing oil field, Xinjiang oil field, Changqing Oil field, Yan Chang oil field, Jilin oil field.

STATEMENT OF BUSINESS OBJECTIVES

To achieve the above targets, the Company will first gradually increase its sales force. More importantly, the Company will employ intensive training to improve the marketing and technical knowledge of its sales force. This allows the Company to better serve the existing customers and explore emerging customers at home and abroad.

4. Commitment to reducing production cost

The Company will continually use its research and development resources to optimize its production process and craftsmanship. Such efforts aim to increase the Company's output efficiencies by reducing consumption of raw materials and energy. For example, due to the research and development efforts, the Company successfully reduced its energy consumption by 10% and cut the defects in its products by 1% for every tonne of specialized seamless pipe manufactured in 2005. The Company is committed to consistently employing stringent cost control systems throughout its operations. Strict management budgeting systems will also be implemented in each business unit in order to maintain its cost advantage over its competitors.

5. Increase in production capacity and product quality

As at the Latest Practicable Date, the Company's designed capacity was 300,000 tonnes per annum, while its expected output in 2006 will be 210,000 tonnes, representing a utilization rate of approximately 70%. The Company has succeeded in increasing the annual capacity of its existing production lines by 100,000 tonnes in 2006 compared to 2005 through continuous technical innovation and production process optimization. The Company will continue, through technical innovation, to increase or optimize the utilization of its production capacity as this will be less costly than establishing new production lines. The Company has commenced (but not finished) its technology upgrade projects for heat treatment of 100,000 tonnes of casing pipes and threading for casing pipes for up to 100,000 tonnes per annum. Commercial production in these heat processing and threading production lines are expected in 2007. The Company may also increase its production capacity (mainly in the production of oil well pipes) through merger and acquisition as well as addition of new production lines after the end of 2006. The Company has not yet identified any such acquisition targets but the seeking of such opportunities will continue.

The Company expects that the market conditions for its products will continue to be favourable for the period ending 31 December 2008 for so long as the price of crude oil remains relatively high and oil and gas exploration activities remain at that of current levels or increase. The Company has also commissioned a feasibility study by CIECC in relation to the project on increasing its annual production capacity by 300,000 tonnes, such project has been for the additional 300,000 tonnes production capacity which has been classified as part of the 861 Action Plan of Anhui Province and the Company intends to apply for the relevant regulatory approvals.

Oil and gas exploration involve oil wells which can contain a large amount of corrosive chemicals and materials which damage ordinary oil well pipes and thereby affect the productive life of an oil well. The Company currently manufactures oil well pipes which are normally used for oil wells with a depth of approximately 3,000 meters or less. The oil well pipes which the Company intends to produce under phase II of its project within the

STATEMENT OF BUSINESS OBJECTIVES

861 Action Plan are high grade oil well pipes for use in deep oil wells. These new types of oil well pipes are more resistant to high temperature, sulfide corrosion and other corrosive materials and general damage. Their product specifications include a higher tensile strength and other properties which are more suitable for use in harsher environments of oil exploration such as deep well drilling and drilling in the ocean. The Company does not currently make these higher grade oil well pipes and the Directors believe that this market is currently primarily comprised of imported oil well pipes.

The Company expects to spend approximately RMB10 million on preliminary work including feasibility study. If phase II of the Company's project within the 861 Action Plan is proceeded with, the Company expects, depending on conditions at that time, to fund this through a combination of internal cash resources, bank financing and equity financing.

The 861 Action Plan is a major strategy deployed by the Anhui Provincial Government to promote industry bases and construction of infrastructure facilities, and is an important support to the rapid growth of the economy in Anhui Province. In September 2005, the Company was notified that its proposal for a high value added oil well pipes and petrochemical pipes project had been included in the Anhui Province's 861 Action Plan. However, any formal governmental support would have to be subject to a formal application and further State approval. The Anhui Economic and Trade Commission had already approved phase I of the 861 Action Plan, namely the hot-rolled oil well pipe production line in Chuzhou which was established at the end of 2004 and commenced commercial production in 2005. The Company has officially appointed CIECC to commence the feasibility study (including market analysis, product range recommendations, production flow, major production equipment selection, environmental protection procedures and investment estimation, economic benefit and risk analysis etc.) which is necessary for the formal application and expects, as soon as practicable after the availability of the feasibility study, to make the formal application in 2007. With respect to the feasibility study for the preliminary work, the Company needs not obtain approval for the phase II of the Company's project within the 861 Action Plan by other relevant authorities.

The Company will analyse the feasibility study for the preliminary work when it is available, and is not yet required to submit any application to relevant government authorities for authorisation to undertake any feasibility study. After the feasibility study is analysed by the Company, the Company will apply to the National Development and Reform Commission or its delegated authorities for the approval of the project according to the prevailing circumstances in accordance with the laws and regulations, prior to officially investing in the project.

As far as the Company is aware, approvals by the National Development and Reform Commission or its delegated authorities will be based on a case by case criteria. In addition to such governmental approvals, the usual building approvals and environmental valuation will be required if the project is implemented, the factory is built and production commences. If phase II of the Company's project within the 861 Action Plan receives regulatory approval and is fully implemented, the Company expects to be able to increase its production capacity to 600,000 tonnes per annum by 2009, resulting in a total production capacity increase of 100% by reference to current production capacity of 300,000 tonnes per

STATEMENT OF BUSINESS OBJECTIVES

annum. In addition, the Company also expects to achieve a further production capacity increase of 50,000 tonnes per annum in 2009 via technological upgrades of current production lines, making the total production capacity of 650,000 tonnes per annum in 2009.

In the event that phase II of the Company's project within the 861 Action Plan is approved, the Company intends to appoint a reputable metallurgical and heavy industry enterprise to manufacture the production equipment of the project. Pursuant to the Notice on the Provisional Measures for Setting Off Enterprise Income tax with Investment in Domestically-made Equipment in Technology Upgrade promulgated by the State Tax Bureau, to the extent such purchases of equipment are purchased from within the PRC, the Company would be eligible to apply for and, if approved, would be able to set off the excess of enterprise income tax for the purchase of equipment for technology upgrade project over the previous year with 40% of its investment in the domestically-made equipment required by the project for a maximum of five years.

The Company has confirmed that approximately RMB10 million of the proceeds from the International Placing will be applied to conduct the feasibility study for the preliminary work on phase II of the Company's project within the 861 Action Plan. The scope of the initial phase investment is set out below and can be broken down as follows:–

Scope of work	Approx. fees <i>(RMB)</i>
General consultation fee	0.3 million
Feasibility study	2 million
Environmental impact assessment	1 million
Equipment and know-how fee	6 million
Administration and other expenses	0.7 million

Further details of such use of proceeds are set out in the section headed "Reasons for the International Placing and use of proceeds" in this prospectus.

After completion of the feasibility study, phase II of the Company's project within the 861 Action Plan, which is subject to further regulatory approval and investment will only proceed if that regulatory approval is obtained, will require an investment of approximately RMB790 million to be spent in the three financial years ending 31 December 2009 when the Company expects to achieve production under phase II of the Company's project within the 861 Action Plan. The expected investment amount, subject to regulatory approval of phase II of the Company's project within the 861 Action Plan, is expected to comprise the following:–

Scope of work	Approximate budget	
	<i>(RMB)</i>	<i>(HK\$)</i>
Factory construction	70 million	69 million
Production line and equipment	520 million	515 million
General working capital	200 million	198 million

STATEMENT OF BUSINESS OBJECTIVES

The Company is expected to fund this through a combination of internal cash resources, bank financing and equity financing. The potential impact of the funding for phase II of the Company's project within the 861 Action Plan would depend on the actual cost of investment and type of financing arrangement. Funding by bank loans would increase the Company's total liabilities and gearing ratio, funding by internally generated cash reserves may have an adverse impact on the liquidity of the Company and funding by way of issue of equity securities would cause dilution to existing shareholders. As the estimated total investment amount of RMB790 million will be spent in the course of three financial years, namely for the three financial years ended 31 December 2007 to 2009, the amounts to be spent at each phase of the investment will not be even throughout the period. The method of financing will be determined nearer the time of expenditure and may be a combination of all of the above, after taking into account market interest rates for loans, cash flow of the Company and the relevant market conditions for issues of securities. Consequently, the Directors consider it not practicable to provide any quantitative analysis of the financial impact of phase II of the Company's project within the 861 Action Plan at the moment. Further disclosure under the GEM Listing Rules, to the extent phase II of the Company's project within the 861 Action Plan proceeds, will be made as and when appropriate. As phase II of the Company's project within the 861 Action Plan is subject to further regulatory approval and investment will only proceed if such approvals are obtained, it is not intended that any of the proceeds from the International Placing (assuming the Over-allotment Option is not exercised in full) will be used to finance the above RMB790 million investment. If the relevant regulatory approvals are obtained, the additional proceeds may be used for the implementation of phase II of the Company's project within the 861 Action Plan.

REASONS FOR THE INTERNATIONAL PLACING AND USE OF PROCEEDS

The Company will implement a set of business plans to capitalise on business opportunities in the market of oil well pipes and other specialized seamless pipes. In this connection, the Company intends to partly finance the implementation costs of the business plans by the proceeds raised from the International Placing. Based on the Placing Price of HK\$2.7 per Placing Share (being the mid-point of the indicative range of the Placing Price between HK\$2.4 and HK\$3.0 per Placing Share), the net proceeds from the International Placing, after deducting the underwriting and other expenses payable by the Company in

STATEMENT OF BUSINESS OBJECTIVES

relation to the International Placing, are estimated to be approximately HK\$353.4 million, assuming that the Over-allotment Option is not exercised. The Directors presently intend to apply such net proceeds in the following manners:

	For the period from the Latest Practicable Date to 31 December 2006 <i>(HK\$' million)</i>	For the six months ending 30 June 2007 <i>(HK\$' million)</i>	For the six months ending 31 December 2007 <i>(HK\$' million)</i>	For the six months ending 30 June 2008 <i>(HK\$' million)</i>	For the six months ending 31 December 2008 <i>(HK\$' million)</i>	Total <i>(HK\$' million)</i>
Product improvement and development						
– Threading	29.3	8.9	–	–	–	38.2
– Heat Processing	33.7	9.3	–	–	–	43.0
– Ultrasonic inspection equipment	–	19.8	15.9	–	4.0	39.7
Equipment technology upgrade	–	14.9	14.8	12.9	9.8	52.4
Research & Development	1.0	10.9	7.9	8.9	10.9	39.6
Sales & Marketing	0.5	1.0	1.5	2.0	2.2	7.2
Production packaging/logistics	9.9	9.9	–	–	–	19.8
Phase II of the 861 Action Plan						
– Feasibility study	5.0	4.9	–	–	–	9.9
Working capital	9.9	9.9	2.2	–	–	22
Sub-Total	<u>89.3</u>	<u>89.5</u>	<u>42.3</u>	<u>23.8</u>	<u>26.9</u>	271.8
Phase II of the 861 Action Plan/ Merger and Acquisition*						<u>81.6</u>
Total						<u><u>353.4</u></u>

* The Directors intend to apply the remaining net proceeds of HK\$81.6 million to the implementation of phase II of the 861 Action Plan if it is approved by the relevant regulatory authorities and if not so approved, shall be applied to merger and acquisition opportunities, both of which plans to increase production capacity.

To the extent that the net proceeds from the International Placing are not immediately applied for in accordance with the above purposes, it is the present intention of the Directors that such net proceeds will be placed on short term deposits with banks or financial institutions in Hong Kong and/or the PRC.

If Over-allotment Option is not exercised

In the event that the Offer Price is fixed at HK\$2.4 per H Share, being the lowest point of the indicative price range, the net proceeds from the International Placing (compared to that based on the mid-point of the Offer Price range as stated above and assuming that the Over-allotment Option is not exercised) will be reduced by approximately HK\$41.2 million. In such circumstance, the total amount from the net proceeds to be applied towards the implementation of phase II of the Company's project within the 861 Action Plan if that project is approved by the relevant regulatory authorities would then be reduced to approximately HK\$39.6 million and if the project is not so approved, shall be applied to merger and acquisition opportunities, both of which aim at increasing production capacity of the Company.

STATEMENT OF BUSINESS OBJECTIVES

In the event that the Offer Price is fixed at HK\$3.0 per H Share, being the highest point of the indicative price range, the net proceeds from the International Placing (compared to that based on the mid-point of the Offer Price range as stated above and assuming that the Over-allotment Option is not exercised) will increase by approximately HK\$41.2 million. In such circumstance, the total amount from the net proceeds to be applied towards the implementation of phase II of the Company's project within the 861 Action Plan if that project is approved by the relevant regulatory authorities would increase to approximately HK\$123.6 million and if that project is not so approved, in any merger and acquisition opportunities, both of which aim at increasing production capacity of the Company.

If Over-allotment Option is exercised in full

In the event that the Over-allotment Option is exercised in full, the Company will receive an additional net proceeds of approximately HK\$56.6 million based on the Placing Price of HK\$2.7 per Placing Share (being the mid-point of the indicative range of the Placing Price between HK\$2.4 and HK\$3.0 per Placing Share). In such circumstance, the total amount from the net proceeds to be applied towards the implementation of phase II of the Company's project within the 861 Action Plan if that project is approved by the relevant regulatory authorities would be increased to approximately HK\$138.3 million and if that project is not so approved, shall be applied to merger and acquisition opportunities, both of which aim at increasing production capacity of the Company.

In the event that the Offer Price is fixed at HK\$2.4 per H Share, being the lowest point of the indicative price range, the net proceeds accruing to the Company (compared to that based on the mid-point of the Offer Price range as stated above and assuming the Over-allotment Option is exercised in full) will be reduced by approximately HK\$48.3 million. In such circumstance, the total amount from the net proceeds to be applied towards the implementation of phase II of the Company's project within the 861 Action Plan if that project is approved by the relevant regulatory authorities would increase to approximately HK\$90.0 million and if that project is not so approved, shall be applied to merger and acquisition opportunities, both of which aim at increasing production capacity of the Company.

In the event that the Offer Price is fixed at HK\$3.0 per H Share, being the highest point of the indicative price range, the net proceeds accruing to the Company (compared to that based on the mid-point of the Offer Price range as stated above and assuming the Over-allotment Option is exercised in full) will increase by approximately HK\$48.3 million. In such circumstance, the total amount from the net proceeds to be applied towards the implementation of phase II of the Company's project within the 861 Action Plan if that project is approved by the relevant regulatory authorities would increase to approximately HK\$186.5 million or if that project is not so approved, shall be applied to merger and acquisition opportunities, both of which aim at increasing production capacity of the Company.

If any part of the Business Plan becomes unattainable or is delayed, the Directors may, taking into account the then conditions and the interests of the Company and the Shareholders as a whole and subject to the GEM Listing Rules, reallocate the relevant capital to other parts of the Business Plan and/or new projects and/or hold such capital as short-term deposits. Under such circumstances, the Company will issue an announcement in due course and comply with the relevant disclosure requirements under the GEM Listing Rules.

STATEMENT OF BUSINESS OBJECTIVES

Scheduled business objectives and activities for the period from the Latest Practicable Date to 31 December 2006

	Use of proceeds <i>(HK\$ million)</i>
Product improvement and development	
In order to sustain the Company's competitiveness and market position:	
i. the Company intends to improve and develop products in response to market demands and changes.	63.0
ii. Through the research in the production technologies and craftsmanship of heat processing for oil well pipes, more investment will be made in technology upgrade for equipment.	
iii. Through further processing of oil well pipe products (such as threading), standard and added value of the products will be enhanced.	
Research and development	
Rely on the experienced and professional research and development institutions to improve and develop new technology, focusing on the following:	
i. Research and development of new products	1.0
Through conducting technology cooperation with Tubular Goods Research Center of China National Petroleum Corporation and Special Steel Branch Co. of Baoshan Iron and Steel Company Limited, the Company will develop a series of high added value oil casing pipes products that are extremely hard, corrosion resistant and pressure resistant. Depending on the equipment and resources available to the Company, the Company will develop casing of oil transfer pipes for non-conditioning steel, such as N80.	

STATEMENT OF BUSINESS OBJECTIVES

**Use of
proceeds**
(HK\$ million)

	<p>ii. Research and development on production technologies and craftsmanship for oil well pipes</p> <p>Through further research in the production technologies and craftsmanships for oil well pipes, and technology upgrades for equipment, the quality of products will be improved, whilst production costs will be reduced and production capability will be increased.</p> <p>iii. Early stage preparation for the processing of screw marks and thickening of oil transfer pipes.</p>	
Sales and marketing	Content in the Company's website will be updated. There will also be enhancements to the Company's information collection system. More promotional efforts will be devoted through expansion of the marketing and publications advertising network. The Company will participate in the Second International Pipe Materials Exhibition to be held at Shanghai Expo Exhibition Centre and the Second Shanghai International Steel Pipes Trade Exhibition held at Shanghai Expo Exhibition Centre.	0.5
Production packaging/ logistics	The Company will develop its distribution and logistics centre by increasing production storage area by approximately 40,000 sq.m.	9.9
Phase II of the 861 Action Plan feasibility study	The Company will continue its initial phase investment in the areas of feasibility study, environmental impact assessment, equipment know-how and administration and other expenses	5.0

STATEMENT OF BUSINESS OBJECTIVES

Human resources

The Directors intend to expand the Company's work force by recruiting high caliber individuals from time to time. The management has laid out a recruiting plan as follows:

	As at Latest Practicable Date	Target for 31 December 2006
Research and development	27	28
Production	651	670
Quality control	62	62
Sales and marketing	29	30
Administration	<u>56</u>	<u>55</u>
Total	<u><u>825</u></u>	<u><u>840</u></u>

Certification

Following the expansion of the specification for the Company's oil well pipes products, the Company will apply for new API certifications, production licenses for boiler and pressure vessels, production license for low and medium pressure boiler pipes and renewal of ISO9001 Quality System Certification. These various certifications allow the Company to qualify more easily under the customer's product and quality specifications. Recognition of our products as part of industry standards contributes to customers' confidence in our products, thereby increasing sales.

STATEMENT OF BUSINESS OBJECTIVES

**Scheduled business objectives and activities for the period from
1 January 2007 to 30 June 2007**

		Use of proceeds (HK\$ million)
Product improvement and development	<p>In order to sustain the Company's competitiveness and market position, the Company intends to improve and develop products in response to market demands and changes through:</p> <ul style="list-style-type: none"> i. Research in the production technologies and craftsmanship of threading, more investment will be made in technology upgrade for equipment. Through further processing of oil well pipe products, standard and added value of the products will be enhanced. ii. Research in production technologies and to acquire as ultrasonic inspection equipment, the Company will be able to improve its competitiveness by improving its quality control systems. 	38.0
Equipment technology upgrade	<p>So as to implement technology upgrades to cater to new products or increase in production, the Company expects to purchase some equipment and/or technology for such equipment technology upgrades.</p>	14.9
Research and development	<p>Rely on the experienced R&D team and professional R&D institutions to improve and develop new technology, focusing on the following:</p> <ul style="list-style-type: none"> i. Research and development of new products <p>Through conducting technology cooperation with Tubular Goods Research Center of China National Petroleum Corporation and Special Steel Branch Co. of Baoshan Iron and Steel Company Limited, the Company will continue to develop series of high added value oil casing pipes products that are extremely hard, corrosion resistant, pressure resistant and non-conditioning. Enhancement of the technique in heat processing of oil well pipes and development of pressure resistant oil well pipes with high grade steel, such as P110.</p>	10.9

STATEMENT OF BUSINESS OBJECTIVES

**Use of
proceeds**
(HK\$ million)

	<p>ii. Research and development on production technologies and craftsmanship for oil well pipes</p> <p>Through the research in the production technologies and craftsmanship for oil well pipes, and technology upgrade for equipment, quality of products will be improved, whilst production costs will be reduced and production capability will be increased.</p> <p>iii. Research in the processing technique of screw marks, production of medium circular screw marks of API standard and asymmetrical screw marks. At the same time, thickened oil transfer pipes will be produced.</p>	
Sales and marketing	Content in the Company's website will be updated. There will be also enhancements to the Company's information collection system. More promotional efforts will be devoted through expansion of the marketing and publications advertising network. The Company will actively participate in trade exhibitions.	1.0
Production packaging/ logistics	The Company will continue the development of its distribution and logistics centre by increasing production storage area by approximately 40,000 sq.m.	9.9
Phase II of the 861 Action Plan feasibility study	The Company will continue its initial phase investment in the areas of feasibility study, environmental impact assessment, equipment know-how and administration and other expenses	4.9

STATEMENT OF BUSINESS OBJECTIVES

**Scheduled business objectives and activities for the period from
1 July 2007 to 31 December 2007**

		Use of proceeds (HK\$ million)
Product improvement and development	In order to sustain the Company's competitiveness and market position, the Company intends to improve and develop products in response to market demands and changes through the research in production technologies and to acquire ultrasonic inspection equipment, the Company will be able to improve its competitiveness by improving its quality control systems.	15.9
Equipment technology upgrade	So as to implement technology upgrades to cater to new products or increase in production, the Company expects to purchase some equipment and/or technology for such equipment technology upgrades.	14.8
Research and development	Rely on the experienced R&D team and professional R&D institutions to improve and develop new technology, focusing on the following: i. Research and development of new products Through conducting technology cooperation with Tubular Goods Research Center of China National Petroleum Corporation and Special Steel Branch Co. of Baoshan Iron and Steel Company Limited, the Company will continue to develop series of high added value oil casing pipes products that are extremely hard, corrosion resistant, pressure resistant and non-conditioning. Research and development of corrosion resistant petroleum oil well pipes, such as 9CrL80, 13CrL80, C90 and T95 oil well pipes in the Cr series that are H ₂ S and CO ₂ corrosion resistant.	7.9

STATEMENT OF BUSINESS OBJECTIVES

**Use of
proceeds**
(HK\$ million)

- ii. Research and development on production technologies and craftsmanship for oil well pipes

Through the research in the production technologies and craftsmanship for oil well pipes, and technology upgrade for equipment, quality of products will be improved, whilst production costs will be reduced and production capability will be increased.

- iii. Research and development of techniques in screw marks of pipes will be enhanced so as to fulfill the sealing requirement for the connection of pipes in oil and gas fields and the tight requirement for the connection of screw marks. Oil well pipes products with special screw marks will be developed.

Sales and marketing

Content in the Company's website will be updated. There will be also enhancements to the Company information collection system. More promotional efforts will be devoted through expansion of the marketing and publications advertising network. The Company will actively participate in trade exhibitions, participate in industry seminars and explore opportunities to cooperation with the supply chain.

1.5

STATEMENT OF BUSINESS OBJECTIVES

**Scheduled business objectives and activities for the period from
1 January 2008 to 30 June 2008**

		Use of proceeds (HK\$ million)
Equipment technology upgrade	So as to implement technology upgrades to cater to new products or increase in production, the Company expects to purchase some equipment and/or technology for such equipment technology upgrades.	12.9
Research and development	<p>Rely on the experienced R&D team and professional R&D institutions to improve and develop new technology, focusing on the following specific products:</p> <p>i. Research and development of new products</p> <p>Through conducting technology cooperation with Tubular Goods Research Center of China National Petroleum Corporation and Special Steel Branch Co. of Baoshan Iron and Steel Company Limited, as well as further training of its research officers and place emphasis on its proprietary research and development capabilities. Research will be conducted on the technique and equipment for the production of drilling pipes and to develop series of drilling pipe products for oil well pipes.</p> <p>ii. Research and development on production technologies and craftsmanship for oil well pipes</p> <p>Through the research in the production technologies and craftsmanship for oil well pipes, and technology upgrade for equipment, quality of products will be improved, whilst production costs will be reduced and production capability will be increased.</p>	8.9
Sales and marketing	Content in the Company's website will be updated. There will also be enhancements to the Company information collection system. More promotional efforts will be devoted through expansion of the marketing and publications advertising network. The Company will actively participate in trade exhibitions, participate in industry seminars and explore opportunities to cooperation with the supply chain.	2.0

STATEMENT OF BUSINESS OBJECTIVES

**Scheduled business objectives and activities for the period from
1 July 2008 to 31 December 2008**

	Use of proceeds <i>(HK\$ million)</i>
Product improvement and development	4.0
<p>In order to sustain the Company's competitiveness and market position, the Company intends to improve and develop products in response to market demands and changes, particularly in relation to the following:</p> <p>Through the research in production technologies such as ultrasonic inspection equipment, the Company will be able to improve its competitiveness by improving its quality control systems.</p>	
Equipment technology upgrade	9.8
<p>So as to implement technology upgrades to cater to new products or increase in production, the Company expects to purchase some equipment and/or technology for such equipment technology upgrades.</p>	
Research and development	10.9
<p>Rely on the experienced R&D team and professional R&D institutions to improve and develop new technology, focusing on the following specific products:</p> <p>i. Research and development of new products</p> <p>Through conducting technology cooperation with Tubular Goods Research Center of China National Petroleum Corporation and Special Steel Branch Co. of Baoshan Iron and Steel Company Limited, as well as further training of its research officers and place emphasis on its proprietary research and development capabilities. Oil well pipes for exploration of offshore oil fields will be developed according to the market requirements.</p>	

STATEMENT OF BUSINESS OBJECTIVES

**Use of
proceeds**
(HK\$ million)

- ii. Research and development on production technologies and craftsmanship for oil well pipes

Through the research in the production technologies and craftsmanship for oil well pipes, and technology upgrade for equipment, quality of products will be improved, whilst production costs will be reduced and production capability will be increased.

- iii. Products applicable for the requirements of sub-critical, super-critical, ultra-super-critical power station boilers will be developed. High pressure boiler pipe products such as T5 and T91 under the T series of ASTM/ASME standards will be developed.

Sales and marketing

Content in the Company's website will be updated. There will be also enhancements to the Company information collection system. More promotional efforts will be devoted through expansion of the marketing and publications advertising network. The Company will actively participate in trade exhibitions, participate in industry seminars and explore opportunities to cooperation with the supply chain.

2.2

STATEMENT OF BUSINESS OBJECTIVES

BASES AND ASSUMPTIONS

The business objectives of the Company stated above are subject to the following bases and assumptions:

1. there will be no material change (whether in the PRC, Hong Kong or any other parts of the world) in the existing laws, policies or industry or regulatory treatments relating to the Company or in the political, economic or market conditions in which the Company operates;
2. there will be no material change on anticipated market demand and the future growth of oil well pipe products and related accessories;
3. the Company will not be materially and/or adversely affected by any change in interest rates from those currently prevailing;
4. suitable personnel can be recruited and retained by the Company;
5. the Company will not be materially and/or adversely affected by any change in PRC tax system;
6. there will be no disaster, natural, political or otherwise, which would materially disrupt the business or operations of the Company or cause substantial loss, damage or destruction to its properties or facilities;
7. the Company will not be materially affected by the risk factors as set out under the section headed "Risk factors" in this prospectus; and
8. the Company can succeed in implementing the development plans.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

DIRECTORS

The board consists of eight Directors, three of whom are independent non-executive Directors. The Directors were elected at a meeting of the shareholders of the Company for a term of three years, renewable upon re-election and re-appointment. As provided for in “The State Economic and Trade Commission and China Securities Regulatory Commission’s Opinion of Further Promoting the Regulated Operation and Deepening Reform of Companies Listed Overseas” (國家經濟貿易委員會中國證券監督管理委員會關於進一步促進境外上市公司規範運作和深化改革的意見) an independent non-executive Director cannot concurrently hold the position of a Supervisor, manager or financial controller of the Company. The functions and duties conferred on the Board include convening shareholders’ meetings, reporting its work to the shareholders’ meetings, implementing the resolutions of the shareholders, determining the Company’s business plans and investment plans, formulating the Company’s annual budget and final accounts, formulating proposals for the Company’s dividend and bonus distributions and for the increase or reduction of capital, as well as exercising other powers, functions and duties as conferred by the Articles of Association. To the extent any conflict of interest arises in respect of any Director or Supervisor, such conflicts shall be dealt with in accordance with both the GEM Listing Rules and relevant laws and regulations.

Executive Directors

Mr. Ye Shi Qu, aged 56. He is the Chairman and an executive Director of the Company. Mr. Ye is responsible for formulating the overall strategies and business directions of the Company. Mr. Ye is the founder of Tianda Holding and has been its Chairman since then. It is expected that Mr. Ye will resign from the directorship of Tianda Holding within 6 months after the Listing Date. Mr. Ye is very experienced in the operations of specialized seamless pipe production and in his many years in this industry, has demonstrated a keen understanding of this industry. Mr. Ye had been awarded the Model of National Agricultural Labour, National Excellent County Entrepreneur, Top Ten Entrepreneur in Anhui Province and Third China Best Entrepreneur of Privately owned Enterprises. Mr. Ye is also a director of Konka Group Co., Ltd., a company listed on The Shenzhen Stock Exchange. Mr. Ye is also the Deputy Chairman of the Enterprises Association and Entrepreneur Association of Anhui Province and the Deputy Chairman of the Federation of Industrial Economics. Mr. Ye was appointed as a Director in April 2006 but has been involved in the Company’s business since 1993 (then operated by one of the Company’s predecessors). Mr. Ye is the uncle of Mr. Liu Peng, a non-executive Director of the Company.

Mr. Zhang Hu Ming, aged 37. He is the Deputy Chairman, an executive Director and the General Manager of the Company. Mr. Zhang was a director of Tianda Holding until 13 November 2006 when he resigned from Tianda Holding as part of the pre-IPO restructuring process. He is responsible for and devotes all of his time to the daily management and operations of the Company. Mr. Zhang is very experienced in the specialized seamless pipe industry and its management. Since 1995, Mr. Zhang was the head of Tianda Seamless Steel Pipe Factory, the head of Tianda Tianchang Seamless Steel Pipe Factory and the general manager of Tianda Special Steel Pipe Company. With his outstanding capabilities in business operations and management, Mr. Zhang was awarded National Excellent County Entrepreneur in 2005. Mr. Zhang was the representative of the Tenth Session of Anhui

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

National People's Congress. Mr. Zhang graduated from the Department of Business Management in Chuzhou College (formerly known as the Vocational School for Education in Chuzhou) in 1991 with post-secondary qualification. He has also obtained a diploma in National Economics from the business school of the University of Nanjing in July 2002. Mr. Zhang was appointed as a Director in April 2006 but has been involved in the Company's business since 1993 (then operated by one of the Company's predecessors).

Mr. Xie Yong Yang, aged 48. He is an executive Director. Mr. Xie was a director of Tianda Holding until 13 November 2006 when he resigned from Tianda Holding as part of the pre-IPO restructuring process. He has devoted all his efforts to assist the general manager of the Company in the daily administration and management of production operation since his appointment as an executive Director of the Company. Mr. Xie has engaged in business management for nearly 30 years and is very experienced in business management and project management. He was in charge of several technology upgrade projects. Prior to Mr. Xie's resignation from Tianda Holding, he also participated in the research, decision making and planning for major projects of Tianda Holding. Mr. Xie was graduated from the Hefei Industrial University with a post-secondary qualification in economics management. Mr. Xie was appointed as a Director in April 2006 but has been involved in the Company's business since April 2000 (when it was then operated by one of the Company's predecessor). Mr. Xie is the brother-in-law of Ms. Huang Yao Qi.

Non-executive Directors

Mr. Zhang Jian Huai, aged 37. He is a non-executive Director and has been working in the finance and accounting industries for many years and is very experienced in financial practices and operation. Since 2005, he has been the Deputy Financial Controller of Tianda Holding. Mr. Zhang graduated from the Institute of Chinese Communist Party with a bachelor degree in economics management. Mr. Zhang was appointed as a Director in April 2006 but has been involved in the Company's business since October 2005 (when it was then operated by one of the Company's predecessor).

Mr. Liu Peng, aged 29. He is a non-executive Director. He graduated from the Department of Finance in Nankai University in 1997. He was awarded Master of International Business Administration jointly by the Institute of Economics and Management of Qinghua University and Sloan School of Management under Massachusetts Institute of Technology in the US. Mr. Liu has been a non-executive Director of the Company since June 2006. Mr. Liu is the nephew of Mr. Ye Shi Qu, chairman of the board of Directors.

Independent non-executive Directors

Mr. Zhao Bin, aged 41. Mr. Zhao is a PRC registered accountant and a PRC registered valuer. Mr. Zhao was appointed as an independent non-executive director of the Company in July 2006. Mr. Zhao is the shareholder, deputy chief accountant and deputy general manager of Beijing Zhongxing Xinshizi Accounting Firm. Between 1996 and 2002, Mr. Zhao was engaged by the auditing and valuation department at Anhui Huapo Accounting Firm, Jinhai Branch. Mr. Zhao has also been engaged in the teaching and academic research of accounting, auditing, financial management and securities investment at Anhui Polytechnic University. In 1991, Mr. Zhao was awarded master degree by Anhui Polytechnic University

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(formerly known as Huinan Mining College). Between March 2002 and 2006, Mr. Zhao was engaged in doctoral research at the China Mining University in Beijing. Mr. Zhao is very experienced in the auditing and establishment of financial management, internal control and risk management for companies. The Board considers Mr. Zhao has the appropriate professional qualification or expertise in accounting and financial management as provided in Rule 5.05 of the GEM Listing Rules and is an appropriate candidate for being independent non-executive director. He was appointed as an independent non-executive Director of the Company in July 2006.

Mr. Wu Chang Qi, aged 70. He is the president of the Assembly for Association of Business Management and the Association of Entrepreneur of Anhui Province, Honourary Chairman of University of Anhui and Anhui Province International Entrepreneur Exchange Association. Mr. Wu is very knowledgeable in the area of enterprise management. He graduated from Hangzhou Civil Engineering College. He was appointed as an independent non-executive Director of the Company in June 2006.

Mr. Wang Xiu Zhi, aged 70. He is Honourary Chairman of Anhui Province Science Association and the Chairman of the Joint Association for Environmental Protection in Anhui Province. He graduated from the Department of Metallurgy in the University of Chongqing with university graduate qualification. He was the manager of Maanshan Iron & Steel Company Limited. Mr. Wang has been engaged in the management of metallurgy industry for many years and considerably experienced in corporate management. He was appointed as an independent non-executive director of the Company in June 2006.

SUPERVISORS

Mr. Liu Jun Chang, aged 40. He was named Model Labour of Anhui Province in September 2002. He graduated from Hefei Industrial University with a major in economics management in June 2002. He is the chairman of the Supervisory Committee of Tianda Holding. He was appointed as the Chairman of the Supervisory Committee of the Company on 13 April 2006 but has been involved in the Company's business since August 2004 (when it was then operated by one of the Company's predecessor).

Mr. Yong Jin Qui, aged 32. He graduated from Anhui Agricultural University with a major in agricultural machinery. He was appointed as a director of Tianda Holding in July 2004. He was appointed as a Supervisor of the Company on 13 April 2006 but has been involved in the Company's business since August 2004 (when it was then operated by one of the Company's predecessor).

Mr. Yang Quan Fu, aged 33. He graduated from Hefei Industrial University with a major in economy management in June 2002. He has been engaged in the production and management related activities of the Company since December 1994 when he first joined the predecessor of the Company. He was appointed as a Supervisor from staff representative of the Company on 13 April 2006.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Ho Kin-Cheong, Kelvin, aged 39. He is the Qualified Accountant, joint Company Secretary and deputy financial controller of the Company. Mr. Ho is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants and holds a bachelor degree in business administration from the Hong Kong Baptist College. Mr. Ho has over 15 years of experience in finance and accounting. Prior to joining the Company, between June 1992 and September 2006, Mr. Ho was responsible for accounting, finance or company secretarial matters for several listed companies in Hong Kong, namely SMI Publishing Group Limited, SMI Corporation Limited, Garron International Limited, Hanny Holdings Limited, Shenzhen High-Tech Holdings Limited, Global Tech (Holdings) Limited, Hong Kong Pharmaceutical Holdings Limited, South East Group Limited, Climax International Company Limited and Great Wall Cybertech Limited. Mr. Ho was also appointed to be an independent non-executive director of Macau Prime Properties Holdings Limited from 2001 to 2003 and the Company Secretary of China Enterprises Limited, a company whose shares are listed in the United States of America. Mr. Ho joined the Company on 11 September 2006.

Mr. Wang Yi, aged 35. He graduated from Anhui Mechanical and Electrical Institute with a major in heat processing in 1997. He joined the Company after graduation and had been involved in the Company's business (then operated by one of the Company's predecessors) since July 1997. In 2002, in assisting the preparation for the construction of hot-rolled oil well pipe production line as in charged by Mr. Zhang Hu Ming, the General Manager, he devoted much effort to the successful commencement of operation of Chuzhou Branch. In October 2005, he was appointed as the deputy general manager of Tianda Special Steel Pipe Company. In May 2006, he was appointed as the deputy general manager of the Company and in charge of Chuzhou Branch.

Mr. Zhang Chun Xiang, aged 36. He graduated from Anhui Mechanical and Electrical Institute with a major in heat processing in 1993. He joined the Company after graduation and had been involved in the Company's business (then operated by one of the Company's predecessors) since July 1993 engaging in quality control and technology management for approximately 11 years. He was the head of quality inspection division and technology division. Mr. Zhang has much vision to the development of steel pipe industry. During these years, he has been committed to the research and development of the Company. New products researched and developed under his supervision were awarded numerous incentives by the government. In 2002, he participated in the preparation for the construction of hot-rolled oil well pipe production line. In October 2005, he was appointed as the chief engineer of Tianda Special Steel Pipe Company. In May 2006, he was appointed as the chief engineer of the Company and in charge of the research and refining of new products, research and development of products and research of techniques.

Mr. Geng Wei Long, aged 42. He graduated from Hefei Industrial University in June 1998 with a major in business administration. He joined the Company in May 1993. He was the supervisor of workshop of Oriental Industry Metal Company, head of production division of Tianda Tianchang Seamless Steel Pipe Factory and deputy head of production plant of Tianda Tianchang Seamless Steel Pipe Factory. Mr. Geng has been engaged in production management for 13 years. He has been involved in the Company's business since 1993 (then

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

operated by one of the Company's predecessors) and in October 2005, he was appointed as the deputy general manager of Tianda Special Steel Pipe Company. In 2006, he was appointed as the deputy general manager of the Company and in charge of the research and development as well as production management at the Tianchang headquarters.

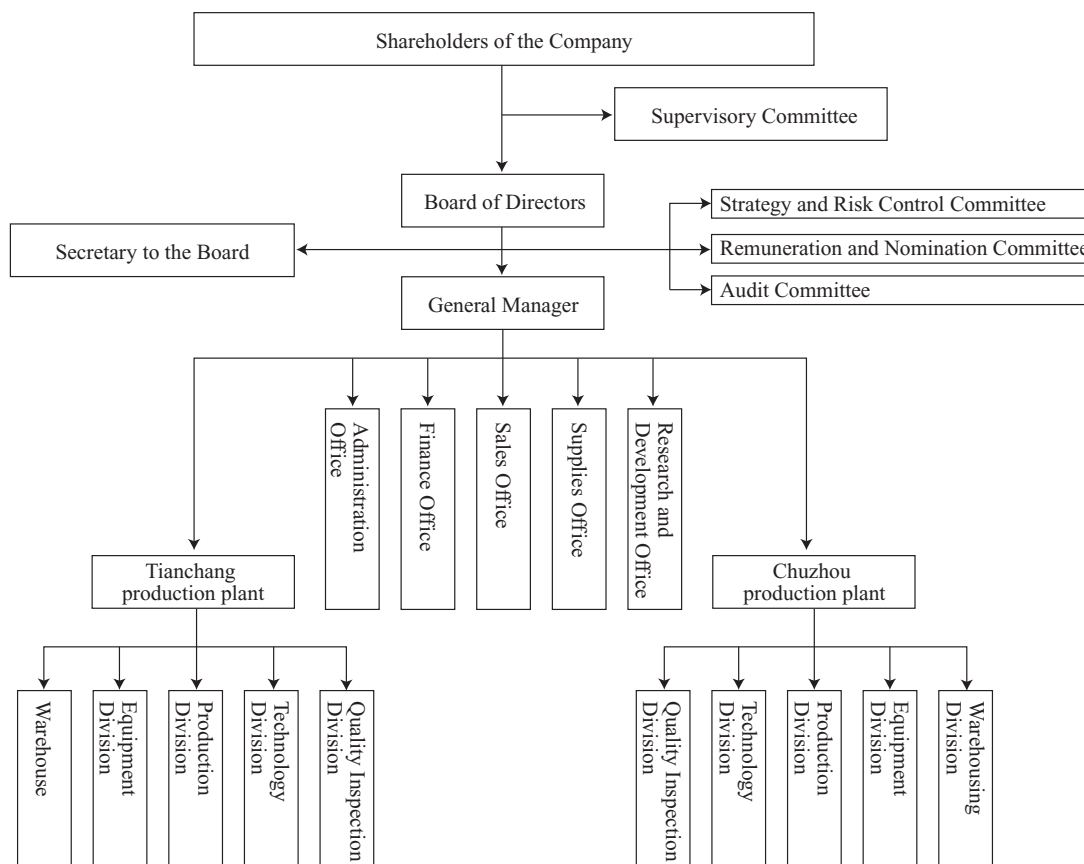
Mr. Lv Si Yu, aged 30. He started his career in 1993. He graduated from Hefei Industrial University in June 2002 with a major in economics and management. He joined the Company in December 1993. He was the sales manager, and has been engaged in sales of steel pipe products for 11 years. He has in-depth understanding to the steel pipe industry and very experienced in sales and marketing. In October 2005, he was appointed as the general manager for sales and was responsible for all external sales activities of Tianda Special Steel Pipe Company. He has been involved in the Company's business since 1993 (then operated by one of the Company's predecessors) and in May 2006, he was appointed as the deputy general manager of the Company and is in charge of the sales and marketing division.

Ms. Huang Yao Qi, aged 43. She graduated from Hefei Industrial University in June 2002 with a major in economics and management. Ms. Huang has been involved in financial work for over 20 years and is very experienced in such area. She joined the Company in August 2004. She has been involved in the Company's business since 2004 (then operated by one of the Company's predecessors) and in November 2005, she was appointed as the financial controller of Tianda Special Steel Pipe Company. In May 2006, she was appointed as the financial controller of the Company. Ms. Huang is the sister-in-law of Mr. Xie Yong Yang.

Mr. Chen Dong, aged 26. He graduated from Chuzhou Broadcasting and Television University in June 2000 and is the head for the corporate office of Tianda Holding. Between May 2004 and April 2005, he received training at Shanghai Shi Pang Corporate Management Advisory Company Limited in relation to corporate management. He joined the Company in April 2006 and was appointed as the Secretary to the Board of the Company on 13 April 2006.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

ORGANIZATION OF THE COMPANY



The Board of Directors established three special committees on 24 July 2006, namely Strategy and Risk Control Committee, Remuneration and Nomination Committee and Audit Committee. Each committee will have its specific responsibilities and authorities.

Strategy and Risk Control Committee

The Strategy and Risk Control Committee of the Company comprised three directors, namely Mr. Wang Xiu Zhi (Chairman of the Committee), Mr. Wu Chang Qi and Mr. Zhang Hu Ming. The main responsibilities of the committee is to review and consider the overall strategic direction and business development for the Company, to consider, assess and review major investments, acquisitions and disposals of the Company and make recommendations to the board of Directors, to assist the board of Directors to supervise and examine the risk control strategy of the Company and to enhance the Company's risk control system.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee of the Company comprised three directors, namely Mr. Wu Chang Qi (Chairman), Mr. Wang Xiu Zhi and Mr. Xie Yong Yang. The main responsibilities of the committee is to review and consider the remuneration policies and structure for the Company's directors and senior management and make

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

proposals to the board of Directors, to review and approve the performance-linked emoluments with reference to the objectives of the Company as adopted from time to time by the board of Directors, to nominate candidates for directors, to examine nominations for directors and to make recommendations to the board of Directors for the appointments.

Audit Committee

The Company established an audit committee on 24 July 2006 with written terms of reference in compliance with Rules 5.28 to 5.29 of the GEM Listing Rules. The primary duties of the audit committee are to review and supervise the financial reporting process and internal control system of the Company and provide advice and comments to the Board.

The audit committee has 3 members comprising the 2 independent non-executive Directors and 1 non-executive Director, namely Mr. Zhao Bin, Mr. Wu Chang Qi and Mr. Zhang Jian Huai. Mr. Zhao Bin is the chairman of the audit committee.

The main responsibility of the Audit Committee is to review and monitor the financial reporting procedures of the Company. The Audit Committee is also responsible for the appointment of auditor, its remuneration and any matters relating to the removal and resignation of the auditor. In addition, the Audit Committee shall also review the effectiveness of the Company's internal control measures, including the regular review on the internal control procedures for the Company's structure and business process flow on an ongoing basis, and to consider the potential risks and their relevance to the business operation of the Company and effectiveness on implementation of business objectives and strategies. The scope for review includes financial, operations, legal and risk management. The Audit Committee shall also review the internal audit plan of the Company and to submit report and recommendations to the board of Directors on a regular basis.

The audit committee will assess, on a quarterly basis, all transactions which have taken place in the previous financial quarter between the Company and Tianda Holdings and its subsidiaries. The executive Directors have confirmed that the independent non-executive Directors will be notified in advance of any transaction which reaches the disclosure threshold or requires independent shareholders' approval under Chapter 20 of the GEM Listing Rules. Disclosure in relation to such transactions will be made by the Company in compliance with the requirements of the GEM Listing Rules.

COMPLIANCE OFFICER

Mr. Zhang Hu Ming, is the deputy chairman of the Board, an executive Director and General Manager of the Company. Mr. Zhang's personal particulars are set out in the paragraph headed "Executive Directors" in this section. Mr. Zhang will be advising on and assisting the Board in implementing procedures to ensure the Company will comply with the GEM Listing Rules and other relevant laws and regulations applicable to the Company and will be responsible for responding efficiently to all enquiries directed to the Company by the Stock Exchange.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

COMPLIANCE ADVISER

The Company will appoint Somerley Limited as its compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules. The term of the appointment shall commence on the Listing Date and ends on the date on which the Company complies with Rule 18.03 of the GEM Listing Rules in respect of its financial results for the second full financial year after the Listing Date (i.e. the date of despatch of the annual report of the Company in respect of its results for the financial year ending 31 December 2008), subject to early termination.

Pursuant to Rule 6A.23 of the GEM Listing Rules, the compliance adviser will advise the Company on the following matters:

- (1) before the publication of any regulatory announcement, circular or financial report;
- (2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (3) where the Company proposes to use the proceeds of the initial public offering in a manner different from that detailed in the listing document or where the business activities, developments or results of the Company deviate from any forecast, estimate, or other information in the prospectus; and
- (4) where the Stock Exchange makes an inquiry of the Company regarding unusual movements in the price or trading volume of the Company.

STAFF

Overview

As at 30 June 2006, the Company had 825 full-time employees, whose functions in the Company are analyzed as follows:

Research and development	27
Production	651
Quality control	62
Sales and marketing	29
Administration	<u>56</u>
Total	<u><u>825</u></u>

Relationship with staff

Since its establishment, the Company has not experienced any material difficulty in employing or retaining its staff, or any disruption to its normal business operations as a result of labour disputes and/or significant turnover of staff. The Directors believe that the Company has maintained a very good relationship with its staff.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Staff benefits

The Company provides employee benefits including basic pension fund, basic medical insurance and two insurance schemes.

As stipulated by the PRC state regulations, the Company participates in a defined contribution retirement plan. 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 rates of 20% of the average basic salaries earned where the employees to whom the defined contributions retirement plan is applicable are under employment with 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.

The remuneration package of the Company includes salaries, incentives (such as bonus based on work performance) and allowances. In accordance with the laws and regulations for the labour and social welfare of the state and the local government, the Company shall contribute social insurance for its staff every month, including pension insurance, medical insurance, unemployment insurance, occupational injuries insurance and dormitory reserve. Pursuant to the prevailing local regulations, the Company contributes 20%, 6%, 2%, 1% and 5% of the total basic salaries for every staff as its contributions to pension insurance, medical insurance, unemployment insurance, occupational injuries insurance and dormitory reserve, respectively.

Adequate provisions have been made at the accounts based on the relevant laws and regulations.

Application is in progress for the Company to participate in a mandatory provident fund scheme in respect of its employee in Hong Kong. It is expected that contributions will be made at a rate of 5% of the employee's salary by each of the Company and its employee.

INITIAL MANAGEMENT, SUBSTANTIAL AND SIGNIFICANT SHAREHOLDERS

INITIAL MANAGEMENT SHAREHOLDERS

So far as the Directors are aware, immediately after the completion of the International Placing but without taking into account of any H Shares which may be allotted and issued pursuant to an exercise of the Over-allotment Option, the following persons will be regarded as Initial Management Shareholders under the GEM Listing Rules:

Name	Number of Domestic Shares held immediately after the International Placing (Excluding any H Shares which may be issued upon the exercise of the Over-allotment Option)	Nature of interest	Approximate percentage of shareholding in the Company immediately after the International Placing (Excluding the H Share which may be issued upon the exercise of the Over-Allotment Option)
Ye Shi Qu	340,000,000	Corporate	70%
Tianda Holding	272,000,000	Beneficial	56%
Tianda Investment	68,000,000	Beneficial	14%

Notes:

- Each of the Initial Management Shareholders has confirmed that he/it is not currently engaged in any business which, either directly or indirectly, competes with the Company's business. According to the non-competition agreement signed by each of the Initial Management Shareholders with the Company dated 18 November 2006, each of the Initial Management Shareholders has undertaken unconditionally that during the period in which he/it remains as a shareholder of the Company and one year thereafter, inter alia:
 - he/it will not and will procure his/its associates and companies controlled by him/it or his/its associates not to invest or participate in any other business which may compete with the business that the Company is engaged or will engage in;
 - he/it will not take advantage of his/its relationship with or position as a shareholder of the Company to engage or participate in any behaviour which may prejudice the Company and its other shareholders; and
 - in the event the Initial Management Shareholders were given any business opportunities that is or may involve in direct or indirect competition with the businesses of the Company, the Initial Management Shareholders shall assist the Company to obtain such business opportunities in the terms being offered to the Initial Management Shareholders, or more favourable terms or term being acceptable to the Company; and
 - he/it undertakes to provide all information necessary for the annual review by the independent non-executive Directors in connection with the enforcement of the non-competition agreement or the monitoring of related disclosure from time to time.

INITIAL MANAGEMENT, SUBSTANTIAL AND SIGNIFICANT SHAREHOLDERS

- Each of the Initial Management Shareholders has undertaken to the Company and the Stock Exchange that for a period commencing on the date of this prospectus and ending on the date which is (a) 12 months from the Listing Date, or (b) where the shareholders' relevant securities represent no more than 1% of the issued share capital of the Company as at the Listing Date, six months from the Listing Date, it will not (i) dispose of (nor enter into any agreement to dispose of) or permit the registered holder to dispose of (or to enter into agreement to dispose of) any of its direct or indirect interest in its relevant securities; or (ii) otherwise create (nor enter into any agreement to create) or permit the registered holder to create (or to enter into any agreement to create) any options, rights, interests or encumbrances in respect of any such interest; and
- The Directors have undertaken to the Company and the Stock Exchange that they will not approve the transfer of and the registration of any transfer of the Domestic Shares held by the Initial Management Shareholders during the applicable moratorium periods in respect of Rule 13.16(1) of the GEM Listing Rules as required.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately after completion of the International Placing but without taking into account of any H Shares which may be allotted and issued pursuant to an exercise of the Over-allotment Option, the following persons will be entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company:

Name	Number of Domestic Shares of RMB0.50 each held immediately before and after the completion of the International Placing	Approximate percentage of holding in the registered share capital of the Company immediately before the completion of the International Placing	Approximate percentage of holding in the registered share capital of the Company immediately after the completion of the International Placing
Tianda Holding (<i>Note 1</i>)	272,000,000	80%	56%
Tianda Investment	68,000,000	20%	14%
Ye Shi Qu (<i>Note 2</i>)	340,000,000	100%	70%

Notes:

- Pursuant to the SFO, since Tianda Investment is a wholly-owned subsidiary of Tianda Holding, Tianda Holding is deemed to be interested in 100% and 70% of the registered capital of the Company immediately before and after completion of the International Placing, respectively.
- Pursuant to the SFO, as Ye Shi Qu holds 74.5% of the equity interest in Tianda Holding, and as Tianda Investment is a wholly-owned subsidiary of Tianda Holding, Ye Shi Qu is deemed to be interested in all Domestic Shares held by Tianda Holding and Tianda Investment.

INITIAL MANAGEMENT, SUBSTANTIAL AND SIGNIFICANT SHAREHOLDERS

SIGNIFICANT SHAREHOLDERS

So far as the Directors are aware, immediately after completion of the International Placing but without taking into account of any H Shares which may be allotted and issued pursuant to an exercise of the Over-allotment Option, the Company will have no significant shareholder as defined under the GEM Listing Rules.

UNDERTAKINGS

It was provided in Article 21 of the Articles of Association that the Domestic Shares of the Company shall not be transferred for a period of one year from the Listing Date since the H Shares of the Company were to be listed on the Hong Kong Stock Exchange. Therefore, the Domestic Shares held by the Promoters are subject to the same restriction and shall not be transferred for a period of one year from the Listing Date.

Each of the Directors has undertaken not to approve and will procure the Company not to approve the transfer of and the registration of any transfer of the Domestic Shares owned by the Initial Management Shareholders during the applicable moratorium periods in respect of Rule 13.16(1) of the GEM Listing Rules as required.

Each of the Initial Management Shareholders has undertaken to the Stock Exchange and the Company that for a period commencing from the date of this prospectus and ending on the date which is (a) 12 months from the Listing Date; or (b) where the shareholders' relevant securities represent no more than 1% of the issued share capital of the Company as at the Listing Date, six months from the Listing Date:

- (a) he shall not dispose of (nor enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of his direct or indirect interest in the Shares;
- (b) in the event that he pledges or charges any direct or indirect interest in the Shares under Rule 13.18(1) of the GEM Listing Rules pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules at any time during the relevant periods set out above, he will inform the Company immediately thereafter, disclosing the details prescribed by the GEM Listing Rules; and
- (c) having pledged or charged any of his interest in the Shares under sub-paragraph (b) above, he must inform the Company immediately in the event that he becomes aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Shares affected.

ESCROW ARRANGEMENTS

Under Rule 13.16(1) of the GEM Listing Rules, the Company shall procure that each of the Initial Management Shareholders places in escrow, with an escrow agent and on such terms as acceptable to the Stock Exchange, his/her Relevant Securities (as defined under Rule 13.15(4) of the GEM Listing Rules) for a period of (a) 12 months from the Listing

INITIAL MANAGEMENT, SUBSTANTIAL AND SIGNIFICANT SHAREHOLDERS

Date commencing from the date of this prospectus; or (b) where the Initial Management Shareholders' Relevant Securities represent no more than 1% of the issued share capital of the Company as at the Listing Date, 6 months from the Listing Date commencing from the date of this prospectus, on terms acceptable to the Stock Exchange. All of the Initial Management Shareholders of the Company are subject to the escrow arrangement under Rule 13.16(1) of the GEM Listing Rules.

The Directors consider that Rule 13.16(1) of the GEM Listing Rules are not applicable to the Domestic Shares held by the Initial Management Shareholders as the Domestic Shares are not represented by any form of physical scrip or title documents. Holders of Domestic Shares are unable to create any pledge or charge by deposit of the title documents of their respective Domestic Shares or any part thereof. This also means that the subject matter for custody by the escrow agent under Rule 13.16(1) of the GEM Listing Rules do not physically exist in any form available for custody purposes.

It was provided in Article 21 of the Articles of Association that the Domestic Shares of the Company shall not be transferred for a period of one year from the Listing Date since the H Shares of the Company were to be listed on the Hong Kong Stock Exchange. Therefore, the Domestic Shares held by the Promoters are subject to the same restriction and shall not be transferred for a period of one year from the Listing Date.

Given the above, the Company has applied for a waiver from strict compliance with Rule 13.16(1) of the GEM Listing Rules in respect of making physical escrow arrangements and the waiver has been granted by the Stock Exchange on condition that:

- (1) each of the Initial Management Shareholders undertakes to the Company and the Stock Exchange that for a period commencing on the date of this prospectus and ending on the date which is (a) 12 months from the Listing Date, or (b) where the shareholders' relevant securities represent no more than 1% of the issued share capital of the Company as at the Listing Date, six months from the Listing Date; it will not (i) dispose of (nor enter into any agreement to dispose of) or permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of its direct or indirect interest in its relevant securities; or (ii) otherwise create (nor enter into any agreement to create) or permit the registered holder to create (or to enter into any agreement to create) any options, rights, interests or encumbrances in respect of any such interest; and
- (2) the Directors undertake to the Company and the Stock Exchange that they will not approve and will procure the Company not to approve the transfer of and the registration of any transfer of the Domestic Shares held by the Initial Management Shareholders during the applicable moratorium periods in respect of Rule 13.16(1) of the GEM Listing Rules as required.

SHARE CAPITAL

As at the Latest Practicable Date, the share capital of the Company was RMB170,000,000.

Assuming that the Over-allotment Option is not exercised, the Company's share capital immediately following the International Placing will be as follows:

RMB

Issued and to be issued, fully paid or credited as fully paid upon completion of the International Placing:

(Shares)

340,000,000	Domestic Shares in issue <i>(Note 1)</i>	170,000,000
145,714,000	H Shares to be issued and/or offered under the International Placing	72,857,000
485,714,000	Total	242,857,000
485,714,000		242,857,000

Note:

- (1) As at the Latest Practicable Date, the owners of the Domestic Shares of the Company were Tianda Holding (as to 272,000,000 Shares) and Tianda Investment (as to 68,000,000 Shares).

Assuming that the Over-allotment Option is exercised in full, the Company's share capital will be as follows:

RMB

Issued and to be issued, fully paid or credited as fully paid upon completion of the International Placing and the exercise of the Over-allotment Option in full:

(Shares)

340,000,000	Domestic Shares in issue <i>(Note 1)</i>	170,000,000
167,570,000	H Shares to be issued and/or offered under the International Placing	83,785,000
507,570,000	Total	253,785,000
507,570,000		253,785,000

Note:

- (1) As at the Latest Practicable Date, the owners of the Domestic Shares of the Company were Tianda Holding (as to 272,000,000 Shares) and Tianda Investment (as to 68,000,000 Shares).

SHARE CAPITAL

Ranking

The Shares referred to in the above table have been or will be fully paid or credited as fully paid when issued.

Domestic Shares and H Shares are both ordinary shares in the share capital of the Company. However, H Shares are only issued for subscription and trading by legal persons or natural persons in countries or places outside the PRC (including those persons in Taiwan, Hong Kong and the Macau Special Administrative Region of the PRC), and the subscription for and dealings in H Shares have to be made in Hong Kong dollars. Conversely, Domestic Shares are only issued for subscription and trading by legal persons or natural persons in the PRC (excluding those in Taiwan, Hong Kong and the Macau Special Administrative Region of the PRC) or qualified foreign institutional investors approved by CSRC, and the subscription for and dealings in Domestic Shares have to be made in Renminbi. In accordance with the requirement of article 27 of the Special Regulations, the payment of dividends on H Shares has to be made in Hong Kong dollars. Under the PRC laws, the payment of dividends on Domestic Shares has to be made in Renminbi.

All the existing Domestic Shares are held by the Promoters as promoter shares (as defined in the PRC Company Law). Promoter shares may not be sold within a period of time from the Listing Date as stipulated under the Articles of Association. Subject to the approval by the securities supervisory and administrative authorities of the State Council, the holders of Domestic Shares may transfer their shares to overseas investors and such shares may be listed or traded on an overseas securities exchange. Any listing or trading of the transferred shares on an overseas securities exchange shall also comply with the regulatory procedures, rules and requirements of such overseas securities exchange.

According and subject to the stipulations by the State Council securities regulatory authority and the Articles of Association, the Domestic Shares may be transferred to overseas investors, and, subject to the following, such transferred shares may be listed or traded on the GEM board of the Stock Exchange:

- (i) approval granted by the CSRC and compliance with the transfer procedures duly established and announced by the Company. Domestic Shares of the Company could then be transferred to Hong Kong, listed on the GEM board of the Stock Exchange as H Shares and sold in the open market;
- (ii) the transfer of Domestic Shares to Hong Kong would be required to meet the established administrative procedures for listing at the GEM board of the Stock Exchange, including the submission of necessary documentation and the delivery of the shares for inclusion in the Hong Kong share registrar;
- (iii) the Company could apply to list all or any portion of its Domestic Shares on the GEM board of the Stock Exchange as H shares in advance of any proposed transfer to ensure that the transfer process could be completed promptly upon notice to the Stock Exchange and delivery of shares for inclusion in the Hong Kong share registrar. However, as the listing of additional shares after the Company's initial listing was ordinarily considered by the Stock Exchange to be a

SHARE CAPITAL

purely administrative matter, the Stock Exchange does not require such prior application as a condition for the transfer, listing and sale of shares in the form of H Shares;

- (iv) in the event that the Domestic Shares are to be transferred to overseas investors and to be traded as H Shares on GEM, such transfer and conversion will need to obtain the approval of the relevant PRC regulatory authorities, including the CSRC. The listing of such converted shares on GEM will also need to obtain the approval of the Stock Exchange. Any application for listing of the converted shares on GEM after this initial listing is subject to prior notification by way of announcement to inform shareholders and the public of any proposed transfer. The Company can apply for the listing of all or any portion of the Domestic Shares on GEM as H Shares in advance of any proposed transfer to ensure that the transfer process can be completed promptly upon notice to the Stock Exchange and delivery of such shares for entry on the H Share register; any listing of additional shares after this initial listing on GEM is ordinarily considered by the Stock Exchange to be an administrative matter. No application for the listing of such Domestic Shares on GEM has been made at the time of this initial listing on GEM;
- (v) the relevant Domestic Shares being removed from the relevant shareholder records of the Company (subject to and in accordance with the requirements of the then prevailing PRC law) and registered in the register of shareholders of the Company created for the purpose of complying with the requirements of the relevant stock exchange. In the event that the Domestic Shares are to be transferred to overseas investors and to be traded as H Shares on GEM, after all the requisite approvals have been obtained, the following procedures will need to be completed: the relevant Domestic Shares will be withdrawn from the PRC share register of the Company and will be re-registered on the Company's H Share register maintained in Hong Kong and the Company's Hong Kong share registrar will be instructed to issue H Share certificates for such shares. Listing of such converted shares on GEM will also be on the condition that (a) the Company's Hong Kong share registrar lodges with the Stock Exchange a letter confirming the proper entry of the relevant H Shares on the H Share register and the due dispatch of H Share certificates, and (b) the admission of the converted shares to trade on GEM will comply with the GEM Listing Rules and the General Rules of CCASS and the CCASS Operational Procedures in force from time to time. Until the transferred shares are re-registered on the Company's H Share register, such shares will not be listed as H Shares. Insofar as the Company is aware, none of the Company's Promoters currently proposes to convert any of their Domestic Shares into H Shares;
- (vi) no further approval by the Shareholders in general meetings and/or class meetings would be required for the transfer, listing and sale of Domestic Shares held by the Company in the form of H shares.

SHARE CAPITAL

Save as mentioned above and the required approval for certain proposals affecting the Company, the notices and financial reports addressed to its shareholders, the resolution of disputes, the method of share registration and transfer for different parts of the register of members, and the appointment of receiving agent (all as provided for in the Articles of Association and summarised in Appendix VI to this prospectus), Domestic Shares rank pari passu with H Shares, in particular in the declaration, payment or distribution of dividends in full made after the date of this prospectus. Nonetheless, the transfer of Domestic Shares (including Domestic Shares held by the Directors, the Supervisors and the staff of the Company, if any) is subject to restrictions imposed by PRC law from time to time. Domestic Shares have not been admitted for listing or dealing in any authorised trading facility such as the Securities Trading Automated Quotation System in the PRC.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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		Six months	
	31 December		ended 30 June	
	2004	2005	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
			<i>(unaudited)</i>	
Revenue	333,645	906,590	390,603	596,129
Cost of sales	<u>(288,053)</u>	<u>(762,409)</u>	<u>(335,863)</u>	<u>(487,883)</u>
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	<u>(16)</u>	<u>(17)</u>	<u>(1)</u>	<u>(23)</u>
Profit before income tax	<u>24,599</u>	<u>96,265</u>	<u>31,987</u>	<u>81,062</u>
Income tax income/(expense)	<u>49,501</u>	<u>(24,391)</u>	<u>(11,637)</u>	<u>(27,640)</u>
Profit attributable to the equity holders	<u>74,100</u>	<u>71,874</u>	<u>20,350</u>	<u>53,422</u>
Earnings per share – basic <i>(Note)</i>	<u>RMB0.93</u>	<u>RMB0.26</u>	<u>RMB0.08</u>	<u>RMB0.16</u>

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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		
	<i>Tonnes</i>	<i>RMB '000</i>	<i>% of sales</i>	<i>Tonnes</i>	<i>RMB '000</i>	<i>% of sales</i>
<u>Self-produced</u>						
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	<u>23,116.3</u>	<u>150,839</u>	<u>45.2%</u>	<u>128,510.4</u>	<u>675,517</u>	<u>74.5%</u>
<u>Sourcing and distribution</u>						
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	<u>30,670.8</u>	<u>182,806</u>	<u>54.8%</u>	<u>36,649.4</u>	<u>231,073</u>	<u>25.5%</u>
Total	<u><u>53,787.1</u></u>	<u><u>333,645</u></u>	<u><u>100%</u></u>	<u><u>165,159.8</u></u>	<u><u>906,590</u></u>	<u><u>100%</u></u>

FINANCIAL INFORMATION

	Six months ended 30 June					
	2005			2006		
	Tonnes	RMB '000 (unaudited)	% of sales	Tonnes	RMB '000	% of sales
<u>Self-produced</u>						
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	<u>54,649.8</u>	<u>278,842</u>	<u>71.4%</u>	<u>89,856.6</u>	<u>463,278</u>	<u>77.7%</u>
<u>Sourcing and distribution</u>						
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	<u>19,285.5</u>	<u>111,761</u>	<u>28.6%</u>	<u>24,519.8</u>	<u>132,851</u>	<u>22.3%</u>
Total	<u><u>73,935.3</u></u>	<u><u>390,603</u></u>	<u><u>100%</u></u>	<u><u>114,376.4</u></u>	<u><u>596,129</u></u>	<u><u>100%</u></u>

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

(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.

FINANCIAL INFORMATION

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		Six months ended	
	31 December			2006
	2004	2005	2005	
	<i>Gross</i>	<i>Gross</i>	<i>Gross</i>	<i>Gross</i>
	<i>Margin</i>	<i>Margin</i>	<i>Margin</i>	<i>Margin</i>
			<i>(unaudited)</i>	
<u>Self-produced</u>				
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)	<u>14.8%</u>	<u>17.8%</u>	<u>14.2%</u>	<u>19.9%</u>
<u>Sourcing and distribution</u>				
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)	<u>12.8%</u>	<u>10.4%</u>	<u>13.6%</u>	<u>12.2%</u>
Total (note)	<u>13.7%</u>	<u>15.9%</u>	<u>14.0%</u>	<u>18.2%</u>

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.

FINANCIAL INFORMATION

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		Six months ended	
	31 December		30 June	
	2004	2005	2005	2006
	<i>(unaudited)</i>			
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

FINANCIAL INFORMATION

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

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax charge	8,295	5,146
Deferred income tax relating to origination and reversal of temporary differences	(57,796)	19,245
	<u> </u>	<u> </u>
Income tax expenses/(income) reported in the income statement	<u>(49,501)</u>	<u>24,391</u>

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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

FINANCIAL INFORMATION

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
	<i>RMB'000</i>	<i>RMB'000</i>
	<i>(unaudited)</i>	
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
	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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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	<u>275,442</u>	<u>280,546</u>	<u>308,275</u>
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	<u>86,507</u>	<u>305,103</u>	<u>263,657</u>
Total assets	<u><u>361,949</u></u>	<u><u>585,649</u></u>	<u><u>571,932</u></u>
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	<u>126,469</u>	<u>311,302</u>	<u>308,061</u>
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	<u>170,480</u>	<u>189,347</u>	<u>228,871</u>
Non-current liabilities			
Interest-bearing loans and borrowings	65,000	85,000	35,000
Total equity and liabilities	<u><u>361,949</u></u>	<u><u>585,649</u></u>	<u><u>571,932</u></u>

FINANCIAL INFORMATION

Key Financial Ratios

	Year ended 31 December		Six months ended 30 June	
	2004	2005	2005	2006 ⁽⁷⁾
			<i>(unaudited)</i>	
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 $\frac{\text{Current asset}}{\text{Current liabilities}} \times 100\%$

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

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

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

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

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

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.

FINANCIAL INFORMATION

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		Six months ended	
	31 December		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

FINANCIAL INFORMATION

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		Six months ended	
	31 December		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.

FINANCIAL INFORMATION

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	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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.

FINANCIAL INFORMATION

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
	<i>(RMB millions)</i>		
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

FINANCIAL INFORMATION

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		Six months ended	
	31 December		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).

FINANCIAL INFORMATION

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	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

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
	<i>(RMB millions)</i>		
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 (<i>note</i>)	54.8	44.7	48.7
Due to Tianda Holding	43.4	–	0.1
Due to other related party	–	0.8	–
Total	<u>120.0</u>	<u>117.6</u>	<u>120.3</u>

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

FINANCIAL INFORMATION

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

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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 <i>(RMB million)</i>
Current assets	
Inventories	198.8
Trade and notes receivables	10.6
Prepayments, deposits and other receivables	26.0
Cash and cash equivalents	<u>28.3</u>
	<u>263.7</u>
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	<u>120.3</u>
	<u>228.9</u>
Net current assets	<u><u>34.8</u></u>

FINANCIAL INFORMATION

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

	30 September 2006 <i>(RMB million)</i> (unaudited)
Current assets	
Inventories	194.9
Trade and notes receivables	29.3
Prepayment, deposits and other receivables	54.6
Cash and cash equivalent	<u>11.8</u>
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	<u>78.0</u>
Total current liabilities	<u>231.1</u>
Net current assets	<u><u>59.5</u></u>

FINANCIAL INFORMATION

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		Six months ended	
	31 December		30 June	
	2004	2005	2005	2006
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
	<i>million</i>	<i>million</i>	<i>million</i>	<i>million</i>
	<i>(unaudited)</i>			
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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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.

FINANCIAL INFORMATION

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:

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

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.

FINANCIAL INFORMATION

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

FINANCIAL INFORMATION

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
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>(RMB)</i>	<i>(HK\$)</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>		<i>(Note 3)</i>	<i>(Note 4)</i>
Based on an Offer	308,061	312,811	620,872	1.28	1.27
Price of HK\$2.40	(equivalent to	(equivalent to			
per H Share	about	about			
	HK\$305,011)	HK\$309,714)			
Based on an Offer	308,061	401,113	709,174	1.46	1.45
Price of HK\$3.00	(equivalent to	(equivalent to			
per H Share	about	about			
	HK\$305,011)	HK\$397,142)			

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

FINANCIAL INFORMATION

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:

	<i>RMB million</i>
Bank loans, guaranteed	(a) <u>110</u>

- (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.

	<i>RMB million</i>
Notes payable:	<u>21</u>

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

	<i>RMB million</i>
Acquisition of property, plant and equipment	<u>67</u>

All of these commitments were contracted but not provided for.

FINANCIAL INFORMATION

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

RMB million

Bank drafts endorsed with recourse	<u>206</u>
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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.

UNDERWRITING

UNDERWRITERS

Cazenove Asia Limited
CIMB-GK Securities (HK) Limited
First Shanghai Securities Limited
BCOM Securities Company Limited
China Everbright Securities (HK) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

The Placing Underwriting Agreement

In connection with the International Placing, it is expected that the Company, among other parties, will enter into the Placing Underwriting Agreement with the Placing Underwriters at or about the Price Determination Time. Under the Placing Underwriting Agreement, subject to the conditions set out therein, the Placing Underwriters would severally agree to procure subscribers for, or failing which, to themselves subscribe as principal for, the Placing Shares being offered pursuant to the International Placing. The Placing Underwriting Agreement may be terminated for the reasons set out in “Grounds For Termination” below. Potential investors shall be reminded that in the event that the Placing Underwriting Agreement is not entered into or the Placing Price is not agreed or if the Placing Underwriters exercise their termination rights as referred to above, the International Placing will not proceed.

The Company intends to grant to Cazenove the Over-allotment Option, exercisable by Cazenove, to require the Company to issue up to an aggregate of 21,856,000 additional Shares, representing approximately 15% of the Shares initially offered under the International Placing, solely to cover over-allocations in the International Placing, if any. The Over-allotment Option will expire on the date which is 30 days after the Listing Date. Please refer to the paragraph headed “Over-allotment Option” in the section headed “Structure and Conditions of the International Placing” of this prospectus for further details.

GROUNDINGS FOR TERMINATION

The obligations of the Placing Underwriters under the Placing Underwriting Agreement will be subject to termination by notice in writing from Cazenove (for itself and on behalf of the Placing Underwriters) to the Company if, at any time prior to 8:00 a.m. (Hong Kong time) on the day on which dealings in the Shares commence on the Stock Exchange (which is expected to be on Friday, 1 December 2006):

1. there shall develop, occur, exist or come into effect:
 - (i) any new law or regulation or any change (whether or not forming part of a series of changes) in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority of any relevant jurisdiction; or

UNDERWRITING

- (ii) any change or development, or any event or series of events likely to result in any change or development (whether permanent or not), in local, national, regional or international financial, political, military, industrial, economic, currency or market conditions or any monetary or trading settlement system (including but not limited to a change in the system under which the value of the Hong Kong currency is linked to that of the currency of the United States or a revaluation of the RMB against foreign currencies); or
- (iii) any change or development in the conditions of local, national or international equity securities or other financial markets; or
- (iv) the imposition of any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange; or
- (v) a change, or development involving a prospective change, in taxation or exchange control (or the implementation of any exchange control) in Hong Kong, China or any other jurisdiction relevant to the Company; or
- (vi) any adverse change or prospective adverse change in the business or in the financial or trading position or prospects of the Company; or
- (vii) any act of god, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, pandemic, terrorism, strike or lock-out and any local, national, regional or international outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or crisis; or
- (viii) any litigation or claim being threatened or instigated by any third party against the Company, which will or may result in the Company incurring liability that is material to the Company; or which, in the sole and absolute opinion of Cazenove (for itself and on behalf of the Placing Underwriters):
 - (a) is or will be or is likely to be materially adverse to the business, financial or other condition or prospects of the Company; or
 - (b) has or will have or is likely to have a materially adverse effect on the success of the International Placing or the level of Placing Shares being applied for or accepted or the distribution of Placing Shares; or
 - (c) makes it inadvisable or impracticable or inexpedient to proceed with the International Placing or the delivery of the Placing Shares on the terms and in the manner contemplated by this prospectus; or

UNDERWRITING

2. there comes to the notice of any of the Placing Underwriters:
- (i) any matter or event showing any of the warranties, representations or undertakings given by the Company, the executive Directors, Tianda Holding and Tianda Investment in the Placing Underwriting Agreement to be untrue, incorrect, inaccurate or misleading in any material respect when given or repeated; or
 - (ii) any material breach on the part of any of the Company, the executive Directors, Tianda Holding and Tianda Investment of any of the provisions of the Placing Underwriting Agreement; or
 - (iii) that any statement contained in this prospectus was, when it was issued, or has become, untrue, incorrect or misleading in any material respect; or
 - (iv) that any matter has arisen which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission therefrom.

UNDERTAKINGS

Each of Tianda Holding, Tianda Investment and the executive Directors of the Company is expected to undertake to Cazenove and the Placing Underwriters that:

- (a) it will, and will procure that its Associates will, comply with all applicable restrictions and requirements under the GEM Listing Rules on the disposal by it, or by any registered holder on its behalf, of any Shares or other securities of the Company in respect of which it is, or is shown in this prospectus to be, the beneficial owner (directly or indirectly);
- (b) during the period commencing from the date of the Placing Underwriting Agreement up to and excluding the first anniversary of the Listing Date, neither it nor any of its Associates or companies controlled by it has any present intention of disposing of any of Shares or other securities of the Company in respect of which it is, or is shown in this prospectus to be, the beneficial owner (or any beneficial interest therein);
- (c) without the prior written consent of Cazenove (on behalf of the Placing Underwriters) and subject always to the provisions of the Listing Rules, it will not, directly or indirectly, and will procure that none of its Associates or companies controlled by it or any nominee or trustee holding in trust for it shall, offer for sale, sell, transfer, contract to sell or otherwise dispose of (including without limitation by the creation of any option, right, warrant to purchase or otherwise transfer or dispose of, or any charges, pledges or encumbrances or other third party rights over), or announce any intention to dispose of, any of the share capital or any other securities of the Company (including any interest in a company which, directly or indirectly, holds any such share capital or other securities of the Company) which are of the same class as, or convertible or

UNDERWRITING

exchangeable for, or which carry a right to subscribe, purchase or acquire, or represent the right to receive, any such Shares or enter into any swap, derivative or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of any such Shares, in respect of which it is the beneficial owner (directly or indirectly) and/or which are registered in its name, from the date of this prospectus up to and including the date falling twelve months from the Listing Date.

Each of the Initial Management Shareholders whose shareholding of the relevant securities represent no more than 1% of the issued share capital of the Company as at the Listing Date (the “Covenantors”), are expected to jointly and severally undertake to, and to covenant with, the Company and Cazenove (for itself and on behalf of the Placing Underwriters) that for a period commencing from the date of this prospectus and ending on the date which is 12 months from the Listing Date:

- (a) the Covenantors will not, and will procure the registered holder not to, dispose of (or to enter into any agreement to dispose of) any of our direct or indirect interest in the Shares;
- (b) in the event that the Covenantors pledge or charge any direct or indirect interest in the Shares under Rule 13.18(1) of the GEM Listing Rules pursuant to any right or waiver granted by the Stock Exchange pursuant to Rule 13.18(4) of the GEM Listing Rules at any time during the above period, the Covenantors will inform the Company immediately thereafter, disclosing the details prescribed by the GEM Listing Rules; and
- (c) having pledged or charged any of the Covenantors’ interest in the Shares under sub-paragraph (b) above, the Covenantors must inform the Company immediately in the event that the Covenantors become aware that the pledgee or chargee has disposed of or intends to dispose of such interest and of the number of the Shares affected.

The Company will inform the Stock Exchange as soon as it has been informed of any of the above matters by any of the Initial Management Shareholders and will, where required by the GEM Listing Rules, disclose such matters by way of a press announcement which will be published in the newspapers as soon as reasonably practicable after being so informed by any of the executive Directors or the Initial Management Shareholders.

The Company is expected to undertake with the Placing Underwriters that it will not, and each of Tianda Holding, Tianda Investment, Mr. Ye Shi Qu, Mr. Zhang Hu Ming and Mr. Xie Yong Yang is expected to undertake to each of the Placing Underwriters to procure that the Company will not, without the prior written consent of Cazenove (on behalf of the Placing Underwriters) (such consent not to be unreasonably withheld) and subject always to the provisions of the GEM Listing Rules, within one year after the Listing Date, offer, allot or issue or agree to allot or issue, purchase, grant or agree to grant any option, right or warrant over, or otherwise dispose of, either directly or indirectly, conditionally or unconditionally, any Shares or any securities convertible into or exercisable or exchangeable for such Shares or other equity securities of the Company (whether or not of a class already

UNDERWRITING

listed) or enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequence of subscription for such Shares or of ownership of such securities, in cash or otherwise or announce any intention to do so except in all cases, for the issue of Shares or securities pursuant to an agreement entered into before the commencement of dealing, the material terms of which have been disclosed in this prospectus in connection with the International Placing, or pursuant to the International Placing and the Over-allotment Option.

COMMISSION AND EXPENSES

The Placing Underwriters are expected to receive a commission of 4.0% of the aggregate Placing Price of all the Placing Shares. Cazenove will, in addition, receive an advisory and documentation fee as the Sponsor to the International Placing. The aggregate fees and commission, together with the Stock Exchange listing fees, the Stock Exchange trading fee and SFC transaction levy, legal and other professional fees, printing and other expenses relating to the International Placing are currently estimated to be approximately HK\$38.0 million in aggregate, assuming a Placing Price of HK\$2.4 (the lower end of the range stated in this prospectus) and the Over-allotment Option is not exercised, which will be borne by the Company. Based on a Placing Price of HK\$3.0 per Share (the higher end of the range stated in this prospectus) and on the assumption that the Over-allotment Option is exercised in full, the total expenses relating to the International Placing are currently estimated to be approximately HK\$44.0 million, which will be borne by the Company.

UNDERWRITERS' INTERESTS IN THE COMPANY

Save as disclosed in this prospectus and as contemplated pursuant to the Placing Underwriting Agreement, none of the Placing Underwriters has any shareholding in any member of the Company or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Company.

STRUCTURE AND CONDITIONS OF THE INTERNATIONAL PLACING

PRICE DETERMINATION

The Placing Price will be fixed by an agreement expected to be entered into between the Company and Cazenove (for itself and on behalf of the Placing Underwriters) at or before the Price Determination Time which is scheduled on or before 5:00 p.m., 27 November 2006 (or such later time and/or date as agreed between the Company and Cazenove (for itself and on behalf of the Placing Underwriters)) but in any event not later than 5:00 p.m. on 29 November 2006. If the Company and Cazenove (for itself and on behalf of the Placing Underwriters) are unable to reach an agreement on the Placing Price by the Price Determination Time or the Placing Underwriting Agreement is not signed, the International Placing will not proceed.

The Placing Price will not be higher than HK\$3.0 per H Share, and is currently expected to be not lower than HK\$2.4 per H Share. **Prospective investors of the Placing Shares should be aware that the Placing Price to be determined at or before the Price Determination Time may be, but is currently not expected to be, lower than the indicative range of the Placing Price stated in this prospectus.**

If, based on the level of interest expressed by prospective professional and institutional investors during the book-building process, Cazenove (for itself and on behalf of the Placing Underwriters) and with the consent of the Company consider it appropriate (for instance, if the level of interest is below of indicative Placing Price range), the indicative Placing Price range may be reduced below that stated in this prospectus at any time prior to the Price Determination Date. In such a case, the Company shall, as soon as practicable following the decision to make such reduction, and in any event not later than Thursday, 30 November 2006 cause to be published on the GEM website notice of the reduction of the indicative Placing Price range.

The Placing Price, the level of indications of interests in the International Placing and the basis of allocations of the Placing Shares will be announced on the GEM website at or before 9:00 a.m. Thursday, 30 November 2006.

PRICE PAYABLE ON SUBSCRIPTION

Subscribers, when subscribing for H Shares, shall pay the Placing Price plus 1% brokerage, 0.005% Stock Exchange trading fee and 0.004% SFC transaction levy. Assuming the Placing Price is HK\$3.0 or HK\$2.4 per H Share (being the highest and lowest prices of indicative Placing Price range) respectively, investors shall pay a total Placing Price of HK\$6,060.5 or HK\$4,848.4 respectively for every board lot of 2,000 H Shares.

CONDITIONS OF THE INTERNATIONAL PLACING

The International Placing is conditional upon:

- (1) the GEM Listing Committee granting listing of and permission to deal in the H Shares to be issued as described in this prospectus;

STRUCTURE AND CONDITIONS OF THE INTERNATIONAL PLACING

- (2) the Placing Price having been agreed between the Company and Cazenove (for itself and on behalf of the Placing Underwriters) and the Price Determination Agreement having been executed and delivered at or before the Price Determination Time; and
- (3) the obligations of the Placing Underwriters under the Placing Underwriting Agreement becoming and remaining unconditional (including if relevant, as a result of the waiver of any condition(s) by Cazenove (for itself and on behalf of the Placing Underwriters)), and such obligations not having been terminated in accordance with the terms of the Placing Underwriting Agreement,

in each case, on or before the dates and times specified in the Placing Underwriting Agreement (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than Wednesday, 27 December 2006, being the date which is the 30th day after the date of this prospectus.

If these conditions are not fulfilled or (where applicable) waived by Cazenove (for itself and on behalf of the Placing Underwriters) on or before the day which is the 30th day after the date of this prospectus, the International Placing shall lapse and the Stock Exchange will be notified immediately. Notice of lapse of the International Placing will be caused to be published by the Company on the GEM website on the next day after such lapse.

THE INTERNATIONAL PLACING

The Company is initially offering 145,714,000 Placing Shares for subscription by way of the International Placing, representing about 30% of the Company's enlarged registered capital at the time after completing the International Placing, without taking into account the exercise of the Over-allotment Option. If the Over-allotment Option is exercised in full, the Placing Shares will represent approximately 33% of the enlarged registered capital immediately after completion of the International Placing and the exercise of the Over-allotment Option as set out in the paragraph headed "Stabilization and Over-allotment Option" below. Subject to the terms and conditions of the Placing Underwriting Agreement (including an agreement on the Placing Price), the Placing Shares are expected to be fully underwritten by the Placing Underwriters.

The Placing Underwriters or agents nominated by them on behalf of the Company will conditionally place the Placing Shares at the Placing Price with professional, institutional and/ or other investors in Hong Kong anticipated to have a sizeable demand for the Placing Shares. Conditionally upon complying with the relevant rules and regulations, the Placing Shares can be placed with individual investors in Hong Kong. Professional and/or institutional investors generally include dealers, brokers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities, and corporate entities which regularly invest in shares and other securities.

Allocation of the Placing Shares will be based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to acquire further H Shares and/or hold or sell its H Shares after the listing of the H

STRUCTURE AND CONDITIONS OF THE INTERNATIONAL PLACING

Shares on GEM. Such allocation is intended to result in a distribution of the Placing Shares on a basis which would lead to the establishment of a solid shareholder base to the benefit of the Company and its shareholders as a whole.

No allocations will be made to nominee companies unless the name of the ultimate beneficiary is disclosed, without the prior written consent of the Stock Exchange. Details of the International Placing will be announced in accordance with Rules 10.12(4), 16.08 and 16.16 of the GEM Listing Rules.

STABILIZATION AND OVER-ALLOTMENT OPTION

Stabilization is a practice used by underwriters in some markets to facilitate the distribution of securities. To stabilize, the Placing Underwriters may bid for, agree to purchase or purchase, the newly issued securities in the secondary market, during a specified period of time, to retard and, if possible, to prevent a decline in the initial public offer prices of the securities. Such transactions may be effected in all jurisdictions where it is permissible to do so, in each case in compliance with all applicable laws and regulatory requirements. In Hong Kong, the price at which stabilization is effected is not permitted to exceed the Placing Price.

In connection with the International Placing, Cazenove (for itself and on behalf of the Placing Underwriters) may over-allocate H Shares or effect transactions with a view to supporting the market price of the Placing Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. In covering such over-allocations, Cazenove (for itself and on behalf of the Placing Underwriters) may exercise the Over-allotment Option no later than 30 days after the Listing Date or make (or agree, offer or attempt to make) open-market purchases in the secondary market. Cazenove (for itself and on behalf of the Placing Underwriters) may also sell or agree to sell any H Shares acquired in the course of any stabilization action in order to liquidate any position that has been established by such action. Any such secondary market purchase or sale will be made in compliance with all applicable laws and regulatory requirements. However, there is no obligation on Cazenove to conduct any such stabilizing action which, if taken, may be discontinued at any time at the absolute discretion of Cazenove and is required to be brought to an end after a limited period. The number of H Shares over-allocated will not be greater than the maximum number of H Shares which may be issued upon exercise of the Over-allotment Option, being 21,856,000 H Shares, which is approximately 15% of the Placing Shares initially available for subscription under the International Placing. Pursuant to section 3 of the Price Stabilizing Rules, stabilizing action may only take place, among other factors, where the total value of the International Placing is not less than HK\$100 million. If Cazenove (for itself and on behalf of the Placing Underwriters) decides to exercise the Over-allotment Option, it will be exercised solely to cover over-allocations in the International Placing. The Placing Shares (including any over-allocations) will be allocated prior to the commencement of trading of the H Shares on GEM.

STRUCTURE AND CONDITIONS OF THE INTERNATIONAL PLACING

If the Over-allotment Option is exercised in full, the aggregate number of H Shares to be issued pursuant thereto will represent approximately 33% of the enlarged registered capital of the Company following completion of the International Placing and full exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, an announcement will be made by the Company.

In order to cover over-allocations in the International Placing, Cazenove may enter into stock borrowing arrangements with certain of the placees of the International Placing, under which such placees would agree to lend to Cazenove some or all of the H Shares allotted to them so that Cazenove may use those H Shares to satisfy the over-allocations. Cazenove may, in its sole and absolute discretion, exercise the Over-allotment Option requiring the Company to issue and allot H Shares for return to those placees upon the expiry of the Over-allotment Option, being 30 days after the Listing Date.

Cazenove may, in connection with the stabilizing action, maintain a long position in the H Shares. The size of the long position and the period of time for which Cazenove will maintain such a position is at the discretion of Cazenove and is uncertain. In the event that Cazenove liquidates this long position by making sales in the open market, this may lead to a decline in the market price of the H Shares.

Stabilization action cannot be taken to support the price of the Placing Shares for longer than the stabilizing period beginning on the date of commencement of trading of the Placing Shares after this prospectus is issued and ending on the 30th day after the closing date (as such term is defined in the Price Stabilizing Rules). The stabilizing period is expected to expire on Saturday, 30 December 2006, and that after this date, when no further stabilizing action may be taken, the demand for and the price of the H Shares could fall. Within seven days after the end of the stabilization period, the Company will make a public announcement disclosing information in compliance with section 9 of and schedule 3 to the Pricing Stabilizing Rules.

Investors should be aware that the price of the H Shares cannot be assured to stay at or above the Placing Price by implementing any stabilizing action. Stabilizing bids may be made or transactions effected in the course of the stabilizing action at any price at or below the Placing Price, which means that stabilizing bids may be made or transactions effected a price below the price the investor has paid for the Placing Shares.

COMMENCEMENT OF DEALINGS IN THE H SHARES

Dealings in the H Shares on GEM are expected to commence on Friday, 1 December 2006.

The H Shares will be traded in board lots of 2,000 each.

STRUCTURE AND CONDITIONS OF THE INTERNATIONAL PLACING

H SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of the listing of, and permission to deal in, the H Shares to be issued pursuant to the International Placing and any H Shares which may fall to be allotted and issued pursuant to any exercise of the Over-allotment Option on GEM by GEM Listing Committee and the compliance by the Company with the stock admission requirements of HKSCC, the H Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the H Shares on GEM or such other date as determined by HKSCC. Investors should seek the advice of their stockbroker or other professional adviser for details of those settlement arrangements and how such arrangements will affect their rights and interests.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All necessary arrangements have been made for the H Shares to be admitted into CCASS.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.



18th Floor
Two International Finance Centre
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 Public 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

	Notes	Year ended 31 December		Six months ended 30 June	
		2004 RMB'000	2005 RMB'000	2005 RMB'000 (unaudited)	2006 RMB'000
Revenue	4	333,645	906,590	390,603	596,129
Cost of sales		<u>(288,053)</u>	<u>(762,409)</u>	<u>(335,863)</u>	<u>(487,883)</u>
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	<u>(16)</u>	<u>(17)</u>	<u>(1)</u>	<u>(23)</u>
Profit before income tax	6	24,599	96,265	31,987	81,062
Income tax income/ (expense)	8	<u>49,501</u>	<u>(24,391)</u>	<u>(11,637)</u>	<u>(27,640)</u>
Profit attributable to the equity holders		<u>74,100</u>	<u>71,874</u>	<u>20,350</u>	<u>53,422</u>
Dividends	10	886	17,041	17,041	56,663
Earnings per share – basic	9	<u>RMB0.93</u>	<u>RMB0.26</u>	<u>RMB0.08</u>	<u>RMB0.16</u>

Balance sheets

	<i>Notes</i>	31 December		30 June
		2004	2005	2006
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Non-current assets				
Property, plant and equipment	<i>12</i>	206,084	230,689	263,758
Prepaid land premiums	<i>13</i>	11,091	10,852	28,460
Investment in an associate	<i>14</i>	471	454	–
Deferred tax assets	<i>8</i>	<u>57,796</u>	<u>38,551</u>	<u>16,057</u>
Total non-current assets		<u>275,442</u>	<u>280,546</u>	<u>308,275</u>
Current assets				
Inventories	<i>15</i>	27,907	131,385	198,812
Trade and notes receivables	<i>16</i>	8,096	22,214	10,571
Prepayments, deposits and other receivables	<i>17</i>	46,900	138,755	25,985
Cash and cash equivalents		<u>3,604</u>	<u>12,749</u>	<u>28,289</u>
Total current assets		<u>86,507</u>	<u>305,103</u>	<u>263,657</u>
Total assets		<u><u>361,949</u></u>	<u><u>585,649</u></u>	<u><u>571,932</u></u>
Current liabilities				
Interest-bearing loans and borrowings	<i>18</i>	25,000	25,000	75,000
Trade and notes payables	<i>19</i>	24,549	45,874	30,382
Income tax payable	<i>8</i>	923	914	3,237
Accrued liabilities and other payables	<i>20</i>	<u>120,008</u>	<u>117,559</u>	<u>120,252</u>
Total current liabilities		<u>170,480</u>	<u>189,347</u>	<u>228,871</u>
Net current assets/(liabilities)		<u>(83,973)</u>	<u>115,756</u>	<u>34,786</u>
Total assets less current liabilities		<u>191,469</u>	<u>396,302</u>	<u>343,061</u>
Non-current liabilities				
Interest-bearing loans and borrowings	<i>18</i>	<u>65,000</u>	<u>85,000</u>	<u>35,000</u>
Equity attributable to equity holders				
Paid-up capital/share capital	<i>21</i>	40,000	170,000	170,000
Reserves	<i>22</i>	<u>86,469</u>	<u>141,302</u>	<u>138,061</u>
Total equity		<u>126,469</u>	<u>311,302</u>	<u>308,061</u>
Total equity and liabilities		<u><u>361,949</u></u>	<u><u>585,649</u></u>	<u><u>571,932</u></u>

Statements of changes in equity

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

	<i>Notes</i>	Year ended 31 December		Six months ended 30 June	
		2004 <i>RMB'000</i>	2005 <i>RMB'000</i>	2005 <i>RMB'000</i>	2006 <i>RMB'000</i>
				<i>(unaudited)</i>	
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	<u>(886)</u>	<u>(17,041)</u>	<u>(17,041)</u>	<u>(56,663)</u>
At end of year/period		<u>80,027</u>	<u>121,399</u>	<u>83,336</u>	<u>118,158</u>
Reserves		<u>86,469</u>	<u>141,302</u>	<u>89,778</u>	<u>138,061</u>
Total equity		<u>126,469</u>	<u>311,302</u>	<u>229,778</u>	<u>308,061</u>

Cash flow statements

	Year ended 31 December		Six months ended 30 June	
	2004 RMB'000	2005 RMB'000	2005 RMB'000	2006 RMB'000
			<i>(unaudited)</i>	
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 RMB'000	2005 RMB'000	2005 RMB'000	2006 RMB'000
Net cash inflow from operating activities	<u>14,617</u>	<u>83,580</u>	<u>16,611</u>	<u>49,305</u>
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	<u>(46,611)</u>	<u>(49,962)</u>	<u>4,373</u>	<u>18,748</u>
Net cash outflow from investing activities	<u>(72,511)</u>	<u>(101,231)</u>	<u>(17,838)</u>	<u>(29,052)</u>
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	<u>58,456</u>	<u>26,796</u>	<u>16,609</u>	<u>(4,713)</u>
Net increase in cash and cash equivalents	562	9,145	15,382	15,540
Cash and cash equivalents at beginning of year/period	<u>3,042</u>	<u>3,604</u>	<u>3,604</u>	<u>12,749</u>
Cash and cash equivalents at end of year/period	<u><u>3,604</u></u>	<u><u>12,749</u></u>	<u><u>18,986</u></u>	<u><u>28,289</u></u>

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 <i>RMB'000</i>	Sourcing and distribution of seamless steel pipes <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue	<u>150,839</u>	<u>182,806</u>	<u>333,645</u>
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			<u>(16)</u>
Profit before income tax			24,599
Income tax income			<u>49,501</u>
Net profit for the year			<u>74,100</u>
Assets			
Segment assets	235,320	9,762	245,082
Investment in an associate			471
Unallocated assets			<u>116,396</u>
Total assets			<u>361,949</u>
Other segment information			
Capital expenditures	124,360	–	124,360
Depreciation and amortisation	<u>1,797</u>	<u>–</u>	<u>1,797</u>

Year ended 31 December 2005

	Manufacturing of seamless steel pipes <i>RMB'000</i>	Sourcing and distribution of seamless steel pipes <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue	<u>675,517</u>	<u>231,073</u>	<u>906,590</u>
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			<u>(17)</u>
Profit before income tax			96,265
Income tax expense			<u>(24,391)</u>
Net profit for the year			<u>71,874</u>
Assets			
Segment assets	362,417	10,509	372,926
Investment in an associate			454
Unallocated assets			<u>212,269</u>
Total assets			<u>585,649</u>
Other segment information			
Capital expenditures	42,826	–	42,826
Depreciation and amortisation	18,460	–	18,460
Impairment of assets recognised	<u>2,035</u>	<u>–</u>	<u>2,035</u>

Six months ended 30 June 2005 (unaudited)

	Manufacturing of seamless steel pipes <i>RMB'000</i>	Sourcing and distribution of seamless steel pipes <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue	<u>278,842</u>	<u>111,761</u>	<u>390,603</u>
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			<u>(1)</u>
Profit before income tax			31,987
Income tax expense			<u>(11,637)</u>
Net profit for the period			<u>20,350</u>
Assets			
Segment assets	319,635	8,515	328,150
Investment in an associate			470
Unallocated assets			<u>187,597</u>
Total assets			<u>516,217</u>
Other segment information			
Capital expenditures	13,868	–	13,868
Depreciation and amortisation	8,206	–	8,206
Impairment of assets recognised	<u>1,800</u>	<u>–</u>	<u>1,800</u>

Six months ended 30 June 2006

	Manufacturing of seamless steel pipes <i>RMB'000</i>	Sourcing and distribution of seamless steel pipes <i>RMB'000</i>	Total <i>RMB'000</i>
Revenue	<u>463,278</u>	<u>132,851</u>	<u>596,129</u>
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			<u>(23)</u>
Profit before income tax			81,062
Income tax expense			<u>(27,640)</u>
Net profit for the period			<u>53,422</u>
Assets			
Segment assets	478,127	12,903	491,030
Investment in an associate			–
Unallocated assets			<u>80,902</u>
Total assets			<u>571,932</u>
Other segment information			
Capital expenditures	61,540	–	61,540
Depreciation and amortisation	10,863	–	10,863
Impairment of assets recognised	<u>553</u>	<u>–</u>	<u>553</u>

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 <i>RMB'000</i>	2005 <i>RMB'000</i>	2005 <i>RMB'000</i>	2006 <i>RMB'000</i>
Sales of goods	334,462	907,519	391,147	597,599
Less: Government surcharges	<u>(817)</u>	<u>(929)</u>	<u>(544)</u>	<u>(1,470)</u>
Revenue	<u>333,645</u>	<u>906,590</u>	<u>390,603</u>	<u>596,129</u>

5. Finance revenue and costs

	Year ended 31 December		Six months ended 30 June	
	2004 RMB'000	2005 RMB'000	2005 RMB'000	2006 RMB'000
			<i>(unaudited)</i>	
Finance revenue				
Interest from banks	217	99	57	39
Interest on balance due from Tianda Holding	–	2,191	457	1,549
Total	<u>217</u>	<u>2,290</u>	<u>514</u>	<u>1,588</u>
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	<u>2,810</u>	<u>6,163</u>	<u>3,391</u>	<u>3,092</u>

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 RMB'000	2005 RMB'000	2005 RMB'000	2006 RMB'000
			<i>(unaudited)</i>	
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
	<u>616</u>	<u>1,077</u>	<u>503</u>	<u>560</u>

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	RMB'000
Fees	-	-	-	-
Other emoluments				
Salaries, allowances, bonuses and other benefits	-	-	-	57
Pension scheme contributions	-	-	-	3
	<u>-</u>	<u>-</u>	<u>-</u>	<u>60</u>

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

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

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	2006
Directors and supervisors	-	-	-	2
Non-directors and non-supervisors employees	5	5	5	3
	<u>5</u>	<u>5</u>	<u>5</u>	<u>5</u>

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 RMB'000	2005 RMB'000	2005 RMB'000	2006 RMB'000
Salaries, allowances, bonuses and other benefits	113	120	61	52
Pension scheme contributions	<u>5</u>	<u>6</u>	<u>3</u>	<u>3</u>
	<u>118</u>	<u>126</u>	<u>64</u>	<u>55</u>

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 RMB'000	2005 RMB'000	2005 RMB'000	2006 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	<u>(57,796)</u>	<u>19,245</u>	<u>6,491</u>	<u>22,494</u>
Income tax expense/(income) reported in the income statement	<u>(49,501)</u>	<u>24,391</u>	<u>11,637</u>	<u>27,640</u>

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 RMB'000	2005 RMB'000	2005 RMB'000 <i>(unaudited)</i>	2006 RMB'000
Accounting profit before income tax	<u>24,599</u>	<u>96,265</u>	<u>31,987</u>	<u>81,062</u>
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 <i>(note (1))</i>	(57,796)	(8,900)	-	-
Tax effect of expense items which are not deductible for income tax purposes	<u>177</u>	<u>1,524</u>	<u>1,081</u>	<u>890</u>
Income tax expense/(income) reported in the income statement	<u>(49,501)</u>	<u>24,391</u>	<u>11,637</u>	<u>27,640</u>
Effective tax rate	<u>(201.23%)</u>	<u>25.34%</u>	<u>36.38%</u>	<u>34.10%</u>

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

	Year ended 31 December		Six months ended 30 June	
	2004 RMB'000	2005 RMB'000	2005 RMB'000 <i>(unaudited)</i>	2006 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	<u>(8,788)</u>	<u>(5,155)</u>	<u>(2,558)</u>	<u>(2,823)</u>
At end of year/period	<u>923</u>	<u>914</u>	<u>3,511</u>	<u>3,237</u>

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 RMB'000	2005 RMB'000	2005 RMB'000	2006 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	<u>57,796</u>	<u>(19,245)</u>	<u>(6,491)</u>	<u>(22,494)</u>
At end of year/period	<u>57,796</u>	<u>38,551</u>	<u>51,305</u>	<u>16,057</u>

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 RMB'000	2005 RMB'000	2005 RMB'000	2006 RMB'000
Dividends	<u>886</u>	<u>17,041</u>	<u>17,041</u>	<u>56,663</u>

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 <i>RMB'000</i>	Plant and machinery <i>RMB'000</i>	Motor vehicles <i>RMB'000</i>	Office equipment and other equipment <i>RMB'000</i>	Construction in progress <i>RMB'000</i>	Total <i>RMB'000</i>
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	<u>47,313</u>	<u>122,502</u>	<u>–</u>	<u>–</u>	<u>(169,815)</u>	<u>–</u>
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	<u>15,045</u>	<u>14,448</u>	<u>–</u>	<u>–</u>	<u>(29,493)</u>	<u>–</u>
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	<u>176</u>	<u>6,903</u>	<u>8</u>	<u>1,056</u>	<u>(8,143)</u>	<u>–</u>
As at 30 June 2006	<u>96,979</u>	<u>176,943</u>	<u>101</u>	<u>11,196</u>	<u>14,663</u>	<u>299,882</u>
Accumulated depreciation:						
As at 1 January 2004	1,430	2,324	–	1,746	–	5,500
Charge for the year	<u>317</u>	<u>981</u>	<u>–</u>	<u>480</u>	<u>–</u>	<u>1,778</u>
As at 31 December 2004 and 1 January 2005	1,747	3,305	–	2,226	–	7,278
Charge for the year	<u>1,623</u>	<u>16,047</u>	<u>9</u>	<u>542</u>	<u>–</u>	<u>18,221</u>
As at 31 December 2005 and 1 January 2006	3,370	19,352	9	2,768	–	25,499
Charge for the period	<u>1,155</u>	<u>8,927</u>	<u>4</u>	<u>539</u>	<u>–</u>	<u>10,625</u>
As at 30 June 2006	<u>4,525</u>	<u>28,279</u>	<u>13</u>	<u>3,307</u>	<u>–</u>	<u>36,124</u>
Net book value:						
As at 31 December 2004	<u>57,223</u>	<u>142,092</u>	<u>93</u>	<u>3,136</u>	<u>3,540</u>	<u>206,084</u>
As at 31 December 2005	<u>70,645</u>	<u>148,383</u>	<u>84</u>	<u>7,300</u>	<u>4,277</u>	<u>230,689</u>
As at 30 June 2006	<u>92,454</u>	<u>148,664</u>	<u>88</u>	<u>7,889</u>	<u>14,663</u>	<u>263,758</u>

All buildings of the Company are located in the PRC.

13. Prepaid land premiums

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

14. Investment in an associate

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

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

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
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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	<u>15,946</u>	<u>45,891</u>	<u>44,436</u>
	27,907	133,185	200,612
<i>Less: Provision for obsolete inventories</i>	<u>–</u>	<u>(1,800)</u>	<u>(1,800)</u>
	<u>27,907</u>	<u>131,385</u>	<u>198,812</u>

16. Trade and notes receivables

	31 December		30 June
	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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	<u>147</u>	<u>–</u>	<u>–</u>
	8,931	23,284	11,641
<i>Less: Provision for bad and doubtful debts</i>	<u>(835)</u>	<u>(1,070)</u>	<u>(1,070)</u>
	<u>8,096</u>	<u>22,214</u>	<u>10,571</u>

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
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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	<u>600</u>	<u>798</u>	<u>835</u>
	8,931	23,284	11,641
Less: Provision for bad and doubtful debts	<u>(835)</u>	<u>(1,070)</u>	<u>(1,070)</u>
	<u><u>8,096</u></u>	<u><u>22,214</u></u>	<u><u>10,571</u></u>

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
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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	<u>–</u>	<u>108,793</u>	<u>–</u>
	<u><u>46,900</u></u>	<u><u>138,755</u></u>	<u><u>25,985</u></u>

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		30 June
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Bank loans, unsecured	<u>90,000</u>	<u>110,000</u>	<u>110,000</u>
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	<u>65,000</u>	<u>35,000</u>	<u>32,000</u>
	90,000	110,000	110,000
Portion classified as current liabilities	<u>(25,000)</u>	<u>(25,000)</u>	<u>(75,000)</u>
Long term portion	<u>65,000</u>	<u>85,000</u>	<u>35,000</u>

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		30 June
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Trade payables	12,549	45,874	30,382
Notes payables	<u>12,000</u>	<u>–</u>	<u>–</u>
	<u>24,549</u>	<u>45,874</u>	<u>30,382</u>

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		30 June
	2004	2005	2006
	RMB'000	RMB'000	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	<u>113</u>	<u>113</u>	<u>113</u>
	<u>24,549</u>	<u>45,874</u>	<u>30,382</u>

20. Accrued liabilities and other payables

	31 December		30 June
	2004	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
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	–
	<u>120,008</u>	<u>117,559</u>	<u>120,252</u>

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

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
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Contracted, but not provided for	<u>5,605</u>	<u>3,534</u>	<u>56,581</u>

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
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Guarantees given in connection with bank loans to a related party (<i>Note a</i>)	–	40,000	55,000
Bank accepted drafts endorsed with recourse	<u>34,188</u>	<u>187,189</u>	<u>281,867</u>

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

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

For illustrative purpose only, the pro forma financial information prepared in accordance with Rule 7.31(1) and paragraph 21 of Appendix 1A of the GEM Listing Rules is set out herein to provide the investors with further information to assess the financial performance of the Company after taking into account the adjusted consolidated net tangible assets attributable to the shareholders of the Company to illustrate the financial position of the Company after completion of the International Placing and to illustrate the performance of the Company had the International Placing been completed on 1 January 2006.

A. 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
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>(RMB)</i>	<i>(HK\$)</i>
	<i>(Note 1)</i>	<i>(Note 2)</i>		<i>(Note 3)</i>	<i>(Note 4)</i>
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.

APPENDIX II UNAUDITED PRO FORMA FINANCIAL INFORMATION

- (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 approximately 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.

B. FORECAST PROFIT FOR THE YEAR ENDING 31 DECEMBER 2006

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 (HK0.31)

(b) pro forma⁽⁴⁾ not less than RMB0.23 (HK0.22)

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 the 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.

B. COMFORT LETTER ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the text of a report from Ernst & Young, the reporting accountants to the Company, in respect of the unaudited pro forma financial information



18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

27 November 2006

The Directors
Anhui Tianda Oil Pipe Company Limited

Dear Sirs,

We report on the unaudited pro forma financial information of Anhui Tianda Oil Pipe Company Limited (the “Company”) which has been prepared by the Directors of the Company for illustrative purpose only, to provide information about how the International Placing of the Company’s H shares might have affected the financial information presented, for inclusion as section (A) and (B) of Appendix II to the prospectus of the Company dated 27 November 2006 (the “Prospectus”).

Respective Responsibilities of Directors of the Company and Reporting Accountants

It is the responsibility solely of the Directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) and with reference to AG7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants.

It is our responsibility to form an opinion, as required by paragraph 7.31(7) of the GEM Listing Rules, on the unaudited pro forma financial information and to report our opinion solely to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standards on Investment Circular Reporting Engagements (HKSIR) 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the Directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the Directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Company and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31 (1) of the GEM Listing Rules.

Our work does not constitute an audit or review in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants, and accordingly, we do not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the Directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Company as at 30 June 2006 or at any future date; or the earnings per share of the Company for the year ending 31 December 2006 or any future periods.

Opinion

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled by the Directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Company; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Listing Rules.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong

The forecast of the profit after taxation of the Company for the year ending 31 December 2006 is set out in the paragraph headed “Profit Forecast for the Year Ending 31 December 2006” under the section headed “Financial Information” in this prospectus.

1. BASES AND ASSUMPTIONS

The Directors have prepared the forecast of the profit after taxation of the Company for the year ending 31 December 2006 based on the audited results of the Company for the six months ended 30 June 2006, the unaudited management accounts of the Company for the three months ended 30 September 2006, and a forecast of the results for the remaining three months ending 31 December 2006. The Directors are not aware of any extraordinary items which have arisen or are likely to arise during the year ending 31 December 2006. The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those normally adopted by the Company as summarized in the accountants’ report, the text of which is set out in Appendix I to this prospectus.

This Directors have adopted the following assumptions in the preparation of the profit forecast:

- (i) there will be no material changes in the existing political, legal, fiscal or economic conditions in Hong Kong, the PRC, or any other countries where the Company operates;
- (ii) there will be no material changes in legislation or regulations or rules, whether in the PRC, Hong Kong or any other countries, where any of the Company’s members or companies is incorporated or operate;
- (iii) there will be no material changes in the bases or rates of taxation in Hong Kong and the PRC; and
- (iv) there will be no material changes in the interest rates and exchange rates from those currently prevailing.

2. LETTERS

Set out below are texts of letters received by Ernst & Young and Cazenove in connection with the forecast of profit after taxation of the Company for the year ending 31 December 2006 and prepared for the purpose of inclusion of this prospectus.

(i) Letter from Ernst & Young

 **ERNST & YOUNG**
安永會計師事務所

18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

27 November 2006

The Directors
Anhui Tianda Oil Pipe Company Limited

Dear Sirs,

We have reviewed the accounting policies and calculations adopted in arriving at the forecast of the net profit attributable to equity holders of Anhui Tianda Oil Pipe Company Limited (the “Company”) for the year ending 31 December 2006 (the “Profit Forecast”), for which the Directors are solely responsible, as set out in the paragraph headed “Profit Forecast for the Year Ending 31 December 2006” in the section headed “Financial Information” in the prospectus of the Company dated 27 November 2006 (the “Prospectus”). The Profit Forecast has been prepared by the Directors based on the audited accounts of the Company for the six months ended 30 June 2006, and the unaudited results for the three months ended 30 September 2006 and a forecast of the Company for the remaining three months ending 31 December 2006.

In our opinion, the Profit Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled in accordance with the bases and assumptions adopted by the Directors of the Company as set out in Appendix III to the Prospectus, and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Company as set out in our Accountants’ Report dated 27 November 2006, the text of which is set out in Appendix I to the Prospectus.

Yours faithfully,

Ernst & Young
Certified Public Accountants
Hong Kong

(ii) Letter from Cazenove**CAZENOVE**

Cazenove Asia Limited

50/F ONE EXCHANGE SQUARE, 8 CONNAUGHT PLACE, CENTRAL, HONG KONGThe Directors
Anhui Tianda Oil Pipe Company Limited

Date: 27 November 2006

Dear Sirs,

We refer to the forecast of the profit after taxation of Anhui Tianda Oil Pipe Company Limited (the “Company”) for the financial year ending 31 December 2006 as set out in the prospectus issued by the Company dated 27 November 2006 (the “Forecast”).

We have discussed with you the bases upon which the profit forecast has been made. We have also considered the letter dated 27 November 2006 addressed to yourselves and ourselves from Ernst & Young regarding the accounting policies and calculations upon which the Forecast has been made.

Based on the foregoing, the bases and assumptions made by you and the accounting policies and calculations reviewed by Ernst & Young, we are of the opinion that the profit Forecast, for which you as directors of the Company are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
Cazenove Asia Limited
Andric Yew
Director

The following is the text of a letter, summary of valuations and valuation certificates prepared for the purpose of incorporation in this prospectus received from DTZ Debenham Tie Leung Limited, an independent property valuer, in connection with their opinion of values of the property interests of the Company as at 30 September 2006.



10th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

27 November 2006

The Directors
Anhui Tianda Oil Pipe Company Limited
Zhenxing Road
Tongcheng Town
Tianchang City
Anhui Province
the PRC

Dear Sirs,

Instructions, Purpose & Date of Valuation

In accordance with your instructions for us to value the property interests of Anhui Tianda Oil Pipe Company Limited (hereinafter referred to as the “Company”), we confirm that we have inspected the properties, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the values of these properties as at 30 September 2006.

Definition of Market Value

Our valuation of each of the properties represents our opinion of its Market Value which in accordance with the Valuation Standards on Properties of The Hong Kong Institute of Surveyors is defined as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

Valuation Basis & Assumption

Our valuation excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

In the course of our valuation of the properties which are all situated in the People's Republic of China (the "PRC"), we have assumed that transferable land use rights in respect of the properties for respective specific terms at nominal annual land use fees have been granted and that any land grant premium payable has already been fully paid. We have relied on the information and advice given by the Company and its legal adviser on PRC law, Commerce & Finance Law Firm, regarding the titles to the properties and the interests of the Company in the properties. In valuing the properties, we have assumed that the Company has enforceable titles to the properties and has free and uninterrupted right to use, occupy or assign the properties for the whole of the respective unexpired terms as granted.

The status of titles and grant of major certificates, approvals and licences in respect of the properties are in accordance with the information provided by the Company and the advice provided by its legal adviser on PRC law are set out in the notes in the respective valuation certificate.

In valuing the properties, we have complied with the requirements set out in Chapter 8 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong Limited and the Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors.

Valuation Methodology

In valuing the properties in Group I which are held and occupied by the Company in the PRC, we have valued the land element of each of these properties by the direct comparison approach assuming sale of the property in existing state with the benefit of vacant possession and by making reference to comparable sales transactions as available in the relevant market.

Due to the specific nature of the buildings and structures, we have adopted the depreciated replacement costs ("DRC") approach in valuing the building element of the properties in Group I. The DRC represents the current cost of replacement (reproduction) of a property less deductions for physical deterioration and all relevant forms of obsolescence and optimization.

In valuing the property in Group II which is held for future development by the Company, we have valued it by the direct comparison approach assuming sale of the property in its existing state with the benefit of vacant possession and by making reference to comparable sales transactions as available in the relevant market.

Property in Group III which is leased by the Company is considered to have no commercial value due mainly to the prohibition against assignment and subletting or otherwise to the lack of substantial profit rents.

Source of Information

In respect of the properties, we have been provided with extracts of documents in relation to the titles to the properties. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us.

In the course of our valuation, we have relied to a considerable extent on the information given by the Company and the advice given by its PRC legal advisers on PRC law in respect of the properties in the PRC and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, completion date of buildings, identification of buildings, particulars of occupancy and tenancy, development scheme, site and floor areas and all other relevant matters.

Dimensions, measurements and areas included in the valuation certificate are based on information provided to us and are therefore only approximations. We have no reason to doubt the truth and accuracy of the information provided to us by the Company which is material to the valuations. We were also advised by the Company that no material facts have been omitted from the information provided.

Site Inspection

We have inspected the exterior and, where possible, the interior of each of the properties. Regarding property No. 4, we have not carried out investigations on site to determine the suitability of the ground conditions and the services etc. for any future development. Our valuations are prepared on the assumption that these aspects are satisfactory and that no unexpected costs or delays will be incurred during the construction period. Moreover, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the properties are free of rot, infestation or any other structural defects. No tests were carried out to any of the services. Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor areas of the properties and we have assumed that the areas shown on the documents handed to us are correct.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Currency

Unless otherwise stated, all sums stated in our valuations are in Renminbi (RMB, the lawful currency of the PRC).

We enclose herewith a summary of valuations and the valuation certificates.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
K. B. Wong
Registered Professional Surveyor (GP)
China Real Estate Appraiser
M.H.K.I.S., M.R.I.C.S
Director

Note: Mr. K. B. Wong is a Registered Professional Surveyor who has over 20 years of experience in the valuation of properties in the PRC.

SUMMARY OF VALUATIONS

Property	Capital value in existing state as at 30 September 2006 <i>RMB</i>	Interest attributable to the Company <i>%</i>	Capital value in existing state attributable to the Company as at 30 September 2006 <i>RMB</i>
Group I – Properties held and occupied by the Company			
1. An industrial complex located at Zhenxing Road, Tongcheng Town, Tianchang, Anhui Province, the PRC	33,700,000	100	33,700,000
2. An industrial complex located at Ziwei Road South, Langya District, Chuzhou, Anhui Province, the PRC	61,000,000	100	61,000,000
3. A workshop located at west side of East Ring Road, Langya District, Chuzhou, Anhui Province, the PRC	41,800,000	100	41,800,000
	Sub-total:		<u>136,500,000</u>
Group II – Property held for future development by the Company			
4. Two lots of land located at north east corner at the intersection of Huifeng Road East and Ziwei Road South, Chuzhou Development Zone, Langya District, Chuzhou, Anhui Province, the PRC	15,400,000	100	15,400,000
	Sub-total:		<u>15,400,000</u>

Property	Capital value in existing state as at 30 September 2006 <i>RMB</i>	Interest attributable to the Company <i>%</i>	Capital value in existing state attributable to the Company as at 30 September 2006 <i>RMB</i>
Group III – Property leased by the Company			
5. Various dormitory units in Anhui Tianda Enterprises (Group) Industrial Complex, Zhenxing Road, Tongcheng Town, Tianchang, Anhui Province, the PRC			No commercial value
	Grand total:		<u>151,900,000</u>

VALUATION CERTIFICATE

Group I – Properties held and occupied by the Company

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2006
1. An industrial complex located at Zhenxing Road, Tongcheng Town, Tianchang, Anhui Province, the PRC	<p>The property comprises an industrial complex erected upon two lots of land with a total site area of approximately 113,663.50 sq.m. (1,223,474 sq.ft.).</p> <p>The industrial complex comprises an office building, seven workshop buildings, two warehouses, a boiler house, a power supply building, a bathhouse and a guardhouse completed between 1995 and 2005.</p> <p>The property has a total gross floor area of 52,224.21 sq.m. (562,141 sq.ft.).</p> <p>The land use rights of the property have been granted for a term due to expire on 13 December 2050 for industrial use.</p>	The property is currently occupied by the Company as steel tube production workshop.	RMB33,700,000

Notes:

- (1) According to two Certificates for the Use of State-owned Land Tian Guo Yong (2006) Di No. 017 and Tian Guo Yong (2006) Di No. 018 both dated 28 April 2006 issued by Tianchang City Housing & Land Administrative Bureau, the land use rights of the property, comprising a total site area of 113,663.50 sq.m., have been granted to the Company. Details of the said certificates are summarized as follows:

Certificate No.	Use	Expiry Date of land use term	Site area
Tian Guo Yong (2006) Di No. 017	Industrial	13 December 2050	12,718.50 sq.m.
Tian Guo Yong (2006) Di No. 018	Industrial	13 December 2050	100,945.00 sq.m.
			<u>113,663.50 sq.m.</u>

- (2) According to three Real Estate Title Certificates Fang Di Quan Tian Tong Zi Di Nos. (2006) 33-1 to (2006) 33-3 all issued on 28 April 2006, the building ownership rights of the property, comprising a total gross floor area of 52,224.21 sq.m. are vested in the Company. Details of the said certificates are summarized as follows:

Certificate No.	Building	No. of Storey	Gross Floor Area
(2006) 33-1	Workshop	1	33,816.57 sq.m.
	Warehouse	1	
	Warehouse	1	
	Power supply Building	1	
(2006) 33-2	Workshop	1	5,422.64 sq.m.
	Office Building	2	
	Guardhouse	1	
	Workshop	1	
	Workshop	1	
(2006) 33-3	Workshop	1	12,985.20 sq.m.
	Boiler house	1	
	Bathhouse	1	
	Workshop	1	
	Workshop	1	
			52,224.41 sq.m.

- (3) According to Business Licence No. 3423001300926(1-1), the Company was established on 23 June 2004 with a registered capital of RMB170,000,000.
- (4) According to the legal opinion prepared by the Company’s legal adviser on the PRC law:
- (i) The Company has obtained Certificates for the Use of State-owned Land Tian Guo Yong (2006) Di No. 017 and Tian Guo Yong (2006) Di No. 018 in respect of the land use rights of the property, comprising a total site area of 113,663.50 sq.m., for a term due to expire on 13 December 2050 for industrial use.
 - (ii) The land premium of the property has been settled fully.
 - (iii) The Company has obtained Real Estate Title Certificates Fang Di Quan Tian Tong Zi Di Nos. (2006) 33-1 to (2006) 33-3 in respect of the building ownership rights of the property, comprising a gross floor area of 52,224.41 sq.m..
 - (iv) The Company is entitled to transfer, lease and mortgage the land use rights together with the building ownership rights of the property at no extra land premium.
 - (v) The property is not subject to any mortgage.
- (5) The status of title and grant of major approvals and licences in accordance with the legal opinion prepared by the Company’s legal adviser on the PRC law and information provided by the Company are as follows:

Certificate for the Use of State-owned Land	Yes
Real Estate Title Certificate/Certificate for Building Ownership	Yes
Business Licence	Yes

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2006
2. An industrial complex located at Ziwei Road South, Langya District, Chuzhou, Anhui Province, the PRC	<p>The property comprises an industrial complex erected upon a plot of land with a total site area of approximately 200,190 sq.m. (2,154,845 sq.ft.).</p> <p>The industrial complex comprises a laboratory building, a canteen, a transformer building, two electricity buildings, two water pump buildings, one workshop building, an air pressure building, and a warehouse completed between 2004 and 2005.</p> <p>The property has a total gross floor area of 43,840.10 sq.m. (471,895 sq.ft.).</p> <p>The land use rights of the property have been granted for a term due to expire on 30 May 2053 for industrial use.</p>	The property is currently occupied by the Company as steel tube production workshop.	RMB61,000,000

Notes:

- (1) According to Certificate for the use of State-owned Land Chu Guo Yong (2006) Di No. 00296 issued in 2006 by Chuzhou City State-owned Land Resources & Housing Administrative Bureau, the land use rights of the property, comprising a total site area of 200,190 sq.m., have been granted to the Company for a term due to expire on 30 May 2053 for industrial use.
- (2) According to Certificate for Building Ownership Chu Fang Quan Zheng (2006) Zi Di No. 00259 dated 19 May 2006 issued by Chuzhou City State-owned Land Resources & Housing Administrative Bureau, the building ownership rights of the property, comprising various 1 to 2-storey blocks with a total gross floor area of 43,840.10 sq.m. are vested in the Company.
- (3) According to Business Licence No. 3423001300926(1-1), the Company was established on 23 June 2004 with a registered capital of RMB170,000,000.
- (4) According to the legal opinion prepared by the Company's legal adviser on the PRC law:
 - (i) The Company has obtained Certificate for the Use of State-owned Land Chu Guo Yong (2006) Di No. 00296 in respect of the land use rights of the property, comprising a site area of 200,190 sq.m., for a term due to expire on 30 May 2053 for industrial use.
 - (ii) The land premium of the property has been settled fully.
 - (iii) The Company has obtained Certificate for Building Ownership Chu Fang Quan Zheng (2006) Zi Di No. 00259 in respect of the building ownership rights of the property, comprising a gross floor area of 43,840.10 sq.m..

- (iv) The Company is entitled to transfer, lease and mortgage the land use rights together with the building ownership rights of the property at no extra land premium.
- (v) The property is not subject to any mortgage.
- (5) The status of title and grant of major approvals and licences in accordance with the legal opinion prepared by the Company's legal adviser on the PRC law and information provided by the Company are as follows:

Certificate for the Use of State-owned Land	Yes
Real Estate Title Certificate/Certificate for Building Ownership	Yes
Business Licence	Yes

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2006
3. A workshop located at west side of East Ring Road, Langya District, Chuzhou, Anhui Province, the PRC	<p>The property comprises an industrial workshop erected upon a plot of land with a total site area of approximately 258,507 sq.m. (2,782,569 sq.ft.).</p> <p>The property comprises a single-storey (partly two-storey) industrial workshop completed in 2004.</p> <p>The property has a gross floor area of 31,522.41 sq.m. (339,307 sq.ft.).</p> <p>The land use rights of the property have been granted for a term due to expire on 13 October 2052 for industrial use.</p>	The property is currently vacant, but the Company intends to use it as a workshop in future.	RMB41,800,000

Notes:

- (1) According to Certificate for the use of State-owned Land Chu Guo Yong (2006) Di No. 00297 dated 19 May 2006 issued by Chuzhou City State-owned Land Resources & Housing Administrative Bureau, the land use rights of the property, comprising a site area of 258,507 sq.m., have been granted to the Company for a term due to expire on 13 October 2052 for industrial use.
- (2) According to Certificate for Building Ownership Chu Fang Quan Zheng (2006) Zi Di No. 00260 dated 19 May 2006 issued by Chuzhou City State-owned Land Resources & Housing Administrative Bureau, the building ownership rights of the property, comprising a single storey (partly two-storey) industrial workshop with gross floor area of 31,522.41 sq.m. are vested in the Company.
- (3) According to Business Licence No. 3423001300926(1-1), the Company was established on 23 June 2004 with a registered capital of RMB170,000,000.
- (4) According to the legal opinion prepared by the Company's legal adviser on the PRC law:
 - (i) According to the Real Estate Transfer Agreement dated 2 March 2006 entered between Anhui Tianda Enterprise Group Special Steel Tube Company Limited ("Tianda Special Steel Pipe Company") (the predecessor of the Company) and Anhui Tianda Enterprise (Group) Company Limited ("Tianda Holding"), Tianda Holding transferred the land use rights and building ownership rights of the property, with a site area of 258,507 sq.m. and a gross floor area of 31,522.14 sq.m., and the electronic equipments and other facilities located at the west side of East Ring Road, Chuzhou to Tianda Special Steel Pipe Company for a sum of RMB36,551,925.54. Tianda Special Steel Pipe Company has fully paid up the transfer fee for the land use rights of the property and the buildings erected thereon.
 - (ii) The Company has obtained Certificate for the Use of State-owned Land Chu Guo Yong (2006) Di No. 00297 in respect of the land use rights of the property, comprising a site area of 258,507 sq.m., for a term due to expire on 13 October 2052 for industrial use.

- (iii) The land premium of the property has been settled fully.
 - (iv) The Company has obtained Certificate for Building Ownership Chu Fang Quan Zheng (2006) Zi Di No. 00260 in respect of the building ownership rights of the property, comprising a gross floor area of 31,522.41 sq.m..
 - (v) The Company is entitled to transfer, lease and mortgage the land use rights together with the building ownership rights of the property at no extra land premium.
 - (vi) The property is not subject to any mortgage.
- (5) The status of title and grant of major approvals and licences in accordance with the legal opinion prepared by the Company's legal adviser on the PRC law and information provided by the Company are as follows:

Certificate for the Use of State-owned Land	Yes
Real Estate Title Certificate/Certificate for Building Ownership	Yes
Business Licence	Yes

VALUATION CERTIFICATE

Group II – Property held for future development by the Company

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 September 2006
4. Two lots of land located at north east corner at the intersection of Huifeng Road East and Ziwei Road South, Chuzhou Development Zone, Langya District, Chuzhou, Anhui Province, the PRC	<p>The property comprises two lots of land with a total site area of 187,067sq.m. (2,013,589 sq.ft.).</p> <p>The land use rights of the property have been granted for a term due to expire on 17 August 2054 and 4 April 2056 respectively for industrial use.</p>	The property is currently vacant with certain abandoned facilities on part of the site pending for removal.	RMB15,400,000

Notes:–

- (1) According to Certificate for the use of State-owned Land Chu Guo Yong (2006) Di No. 00294 issued in 2006, the land use rights of the property, comprising a site area of 15,483 sq.m., have been granted to the Company, for a term due to expire on 17 August 2054 for industrial purpose.

According to Certificate for the use of State-owned Land Chu Guo Yong (2006) Di No. 00219, the land use rights of the property, comprising a site area of 171,584 sq.m., have been granted to the Company, for a term due to expire on 4 April 2056 for industrial purpose.

- (2) According to Contract for Grant of State-owned Land Use Rights dated 17 August 2004 entered between Chuzhou City State-owned Land Resources & Housing Administrative Bureau and Anhui Tianda Enterprise Group (“Tianda Enterprise”) (the predecessor of Tianda Holding, which is the controlling shareholder of the Company), Tianda Enterprise was granted with the land use rights of the property located at the north-east side of the junction of Huifeng Road and Ziwei Road South with a site area of 15,483 sq.m. (Please see Note 4 (ii)).

According to Contract for Grant of State-owned Land Use Rights dated 4 April 2006 entered between Chuzhou City State-owned Land Resources & Housing Administrative Bureau and Tianda Special Steel Pipe Company (the predecessor of the Company), Tianda Special Steel Pipe Company was granted with the land use rights of the property located at the north-east corner of Huifeng Road East and Ziwei Road South with a site area of 171,584 sq.m..

- (3) According to Business Licence No. 3423001300926(1-1), the Company was established on 23 June 2004 with a registered capital of RMB170,000,000.

- (4) According to the legal opinion prepared by the Company’s legal adviser on the PRC law:

- (i) According to Contract for Grant of State-owned Land Use Rights dated 17 August 2004 entered between Chuzhou City State-owned Land Resources & Housing Administrative Bureau and Tianda Enterprise (the predecessor of Tianda Holding, which is the controlling shareholder of the Company) Tianda Enterprise was granted with the land use rights of the property with a site area of 15,483 sq.m..

According to Contract for Grant of State-owned Land Use Rights dated 4 April 2006 entered between Chuzhou City State-owned Land Resources & Housing Administrative Bureau and Tianda Special Steel Pipe Company (the predecessor of the Company), Tianda Special Steel Pipe Company was granted with the land use rights of the property with a site area of 171,584 sq.m..

- (ii) Tianda Enterprise subsequently transferred the land use rights of the property with a site area of 15,483 sq.m. stated in Certificate for the use of State-owned Land Chu Guo Yong (2006) Di No. 00294 to Tianda Holding in its reforming process. Tianda Holding then transferred the said land use rights to the Company. The property was acquired in August 2004 at a total consideration of RMB1,045,824.
 - (iii) The Company has obtained Certificates for the Use of State-owned Land Chu Guo Yong (2006) Di No. 00294 and (2006) Di No. 00219 in respect of the land use rights of the property, comprising a total site area of 187,067 sq.m., for a term due to expire on 17 August 2054 and 4 April 2056 respectively for industrial use.
 - (iv) The land premium of the property has been settled fully.
 - (v) After the Company has completed 25% or above of the total investment on development, the Company is entitled to transfer, lease and mortgage the land use rights of the property at no extra land premium.
 - (vi) The property is not subject to any mortgage.
- (5) The status of title and grant of major approvals and licences in accordance with the legal opinion prepared by the Company’s legal adviser on the PRC law and information provided by the Company are as follows:

Contract for Grant of Land Use Rights	Yes
Certificate for the Use of State-owned Land	Yes
Real Estate Title Certificate/Certificate for Building Ownership	N/A
Business Licence	Yes

VALUATION CERTIFICATE

Group III – Property leased by the Company

Property	Description and tenancy	Capital value in existing state as at 30 September 2006
5. Various dormitory units in Anhui Tianda Enterprises (Group) Industrial Complex, Zhenxing Road, Tongcheng Town, Tianchang City, Anhui Province, the PRC	<p>The property comprises 24 units in three 5 to 6-storey dormitory buildings completed in 1980's to 1990's.</p> <p>The property has a total gross floor area of approximately 1,930.23 sq.m. (20,777 sq.ft.) and is currently occupied by the Company as staff quarters.</p> <p>The lessor is Tianda Holding (the controlling shareholder of the Company). The property is currently leased by the Company for a term of 3 years commencing on 1 January 2006 and expiring on 31 December 2008 at an annual rent of RMB96,200, exclusive of management fees & utilities charges.</p>	No commercial value

Notes:-

- (1) According to a Tenancy Agreement entered into between Anhui Tianda Enterprise (Group) Company Limited (the "lessor") and the Company, 24 units, with a total gross floor area of 1,930.23 sq.m., are leased to the Company for a term of 3 years commencing on 1 January 2006 and expiring on 31 December 2008 at an annual rent of RMB96,200.
- (2) The lessor has obtained Real Estate Title Certificate Fang Di Quan Tong Zi (2004) Zi Di No. 067 in respect of the property.
- (3) According to the legal opinion prepared by the Company's legal adviser on the PRC law:
 - (i) The lessor has obtained the Real Estate Title Certificate Fang Di Quan Tong Zi (2004) Zi Di No. 067 in respect of the property and has the right to lease the property to the Company.
 - (ii) The tenancy, entered into between the lessor and the Company, complies with the relevant PRC law and is legal, valid and binding on both parties.

This appendix sets out summaries of certain aspects of PRC law and regulations, which are relevant to Company's operations and business. These include laws relating to the taxation and foreign exchange control. Laws and regulations relating to taxation in the PRC are discussed separately in Appendix IV to this prospectus. This appendix also contains a summary of certain Hong Kong legal and regulatory provisions, including summaries of certain of the material differences between PRC and Hong Kong company law, certain requirements of the GEM Listing Rules and additional provisions required by the Stock Exchange for inclusion in the articles of association of the PRC issuers.

1. Company Law

On December 29, 1993, the Standing Committee of the Eighth NPC adopted the Company Law, which came into effect on May 1, 1994 and was amended on December 25, 1999 and on August 28, 2004. On October 27, 2005, the Standing Committee of the Tenth NPC reviewed and passed the new amended Company Law, which came into effect from January 1, 2006. Companies established under laws, administrative regulations, local regulations, the Standard Opinion for Limited Liability Companies and the Standard Opinion for Joint Stock Limited Companies formulated by the relevant departments of the State Council before the implementation of the Company Law will not be affected by the Company Law and shall continue to be recognized. Set out below is a summary of the major provisions of the Company Law, the Special Regulations and the Mandatory Provisions. On July 4, 1994, the Special Regulations were passed at the Twenty-Second Standing Committee Meeting of the State Council, and they were promulgated and implemented on August 4, 1994. The Special Regulations are formulated in respect of the overseas share subscription and listing of joint stock limited companies. The Mandatory Provisions were issued jointly by the Securities Commission and the State Economic System Restructuring Commission on August 27, 1994, prescribing provisions which must be incorporated in the articles of association of joint stock limited companies to be listed overseas. Accordingly, the Mandatory Provisions have been incorporated in the Articles of Association. References to a "company" are to a joint stock limited company established under the Company Law with overseas listed foreign invested shares.

General

A "joint stock limited company" is a corporate legal person incorporated under the Company Law. The liability of its shareholders is limited to the extent of the Shares subscribed by them, and the liability of the company is limited to the full amount of all the assets owned by it.

A company must conduct its business in accordance with the laws and commercial ethics. A company may invest in other enterprises, but other than as required by the laws, shall not be a contributor shall bears several and joint liabilities for the debts of the enterprises it invests in.

Incorporation

A company may be incorporated by promotion or subscription.

A company may be incorporated by over two but not exceeding two hundred promoters, but more than half of the promoter must have a place of domicile within the PRC. According to the Special Regulations, State-owned enterprises or enterprises with the majority of their assets owned by the PRC Government can be restructured in accordance with the relevant regulations to become joint stock limited companies which may issue share to overseas investors. These companies, if incorporated by promotion, may have less than five promoters.

Companies incorporated by promotion are companies the entire registered capital of which is subscribed for by the promoters. Where companies are incorporated by public subscription, the promoters establish a company by subscribing to some of the shares that should be issued by the company and offering the remaining shares to the general public or to particular objects for subscription.

The registered capitals of companies incorporated by way of promotion shall be the total share capital subscribed by all the promoters registered with registration authority of the company. The initial contributions of all the promoters of the company shall not be less than 20% of the registered capital, and the remainder shall be paid by the promoters within two years from the establishment of the company. No share offering shall be made before the capital is being paid up.

The registered capitals of companies incorporated by way of subscription shall be the total share capital actually received and registered with the registration authority of the company. The minimum registered capital of a joint stock limited company is RMB5 million, or subject to the higher requirements as required by the laws and administrative regulations.

The promoters shall convene an inaugural meeting within 30 days after the issued shares have been fully paid up, and shall give notice to all subscribers or make an announcement of the date of the inaugural meeting 15 days before the meeting. The inaugural meeting may be convened only with the presence of subscribers holding shares representing more than half of the total shares. At the inaugural meeting, matters including the adoption of draft articles of association proposed by the promoter(s) and the election of the board of directors and the supervisory committee of the company will be dealt with. All resolutions of the meeting require the approval of subscribers with more than half of the voting rights present at the meeting.

Within 30 days after the conclusion of the inaugural meeting, the board of directors shall apply to the registration authority for registration of the establishment of the company. Companies established by the public subscription method that make public share offering shall file a document that approved by the securities regulatory authorities of the State Council to the registration authority.

A company's promoter shall individually and collectively be liable for (i) the payment of all expenses and liabilities incurred in the incorporation process if the company cannot be incorporated; (ii) the repayment of subscription moneys to the

subscribers together, with interest at bank rates for a deposit for the same term if the company cannot be incorporated; and (iii) damages suffered by the company as a result of the default of the promoters in the course of incorporation of the company.

Share capital

The promoter may make capital contribution in cash, or non-monetary properties which can be appraised values with money and legally transferred (e.g. in kind, intellectual properties and land use rights, etc), other than assets not entitled to be used as capital contributions under the laws and administrative regulations. For non-monetary assets to be used as capital contributions, appraisals and verifications must be carried out, to ensure no over-valuation or under-valuation of the assets, or otherwise as required by the laws and administrative regulations.

The monetary contribution of all the promoters shall not be less than 30% of the registered capital of the company.

The shares of the company are represented by stocks. A stock is a certificate issued by the company to certify the share held by a shareholder.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and listed overseas be issued in registered form and shall be denominated in Renminbi and subscribed for in foreign currency.

The Special Regulations and the Mandatory Provisions provide that shares issued to foreign investors and investors from the territories of Hong Kong, Macau and Taiwan and listed overseas are known as overseas listed foreign shares, and those shares issued to investors within the PRC other than the territories specified above are known as Domestic Shares.

Under the Special Regulations, upon approval of the CSRC, a company may agree, in the underwriting agreement in respect of an issue of overseas listed foreign invested shares, to retain not more than 15% of the aggregate number of overseas listed foreign invested shares proposed to be issued after accounting for the number of underwritten shares.

Increase in capital

After payment in full for the new shares issued, the company must change its registration with the relevant administration for industry and commerce.

Reduction of share capital

Subject to the statutory minimum registered capital requirements, a company may reduce its registered capital in accordance with the following procedures prescribed by the Company Law:

- (i) the company shall prepare a balance sheet and a list of its assets;
- (ii) the reduction of registered capital must be approved by shareholders in general meeting;
- (iii) the company shall inform its creditors of the reduction in capital within 10 days and publish an announcement of the reduction in the newspaper within 30 days after the resolution approving the reduction has been passed;
- (iv) the creditors of the company may within the statutory prescribed time limit require the company to pay its debts or provide guarantees covering the debts; and
- (v) the company must apply to the relevant administration bureau for industry and commerce for, registration of the reduction in registered capital.

Repurchase of shares

A company may not purchase its own shares other than in one of the following circumstances: (i) reducing its registered capital; (ii) merging with another company holding its shares; (iii) offering as awards to its staff; (iv) the shareholders in opposition to the merger and demerger resolution of the general meeting, request the purchase of shares by the company. For purchase of its own shares under reasons in (i) to (iii) above, it shall be subject to approval by resolution in the general meeting. In the situation under (i), the company must cancel the portion of its purchased shares within 10 days following the purchase, and in the situation under (ii) and (iv), the shares must be transferred or, cancelled within six months. Purchase of its own shares under (iii) must not be exceeding 5% of the total shares of the company in issue. The fund to be applied in the purchases shall be made out of the company's profit after tax, and the shares so purchased shall be transferred to the staff' within one year.

Transfer of shares

Shares may be transferred in accordance with the relevant laws and regulations.

A shareholder may only effect a transfer of its shares on a stock exchange established in accordance with the laws or pursuant to other ways as required by the State Council. Registered shares may be transferred after the shareholders endorse their signatures on the back of the share certificates or in any other manner specified by applicable laws and regulations.

Shares held by promoters may not be transferred within one year after the establishment of the company. Shares of the company in issue prior to the public offering may not be transferred within one year from the listing date of the stock on the stock exchange. Shares transferred by directors, supervisors and senior managers during their term of office shall not exceed 25% of their total shares held in the company, and the shares held may not be transferred within one year from the listing date of the company's shares, and may not be transferred within six months after, their resignation from the office. The articles of association of the company may provide other restrictive requirements on the transfer of the company shares by its directors, supervisors and senior managers.

Transfers of shares of a listed company may not be entered in the register of shareholders within 20 days before the date of a shareholders' general meeting or within five days before the record date set for the purpose of distribution of dividends.

Shareholders

Shareholders have such rights and obligations as set out in the articles of association of the company. The articles of association of a company are binding on each shareholder.

Under the Mandatory Provisions, the rights of a shareholder include:

- (i) to attend in person or appoint a proxy to attend shareholders' general meetings, and to vote in respect of the number of shares held;
- (ii) to transfer his shares at a legally established stock exchange in accordance with the applicable laws and regulations and the articles of association of the company;
- (iii) to inspect the company's articles of association, minutes of shareholders' general meetings and to make proposals or enquiries in respect of the company's operations;
- (iv) if a resolution adopted by a shareholders' general meeting or the board of directors violates any law or administrative regulation or infringes the lawful rights and interests of shareholders, to institute an action in the People's Court demanding that the illegal infringing action be stopped;
- (v) to receive dividends and other forms of benefit in respect of the number of shares held;
- (vi) to receive surplus assets of the company upon its termination in proportion to his shareholding; and
- (vii) any other shareholders' rights specified in the company's articles of association.

The obligations of a shareholder include the obligation to abide by the company's articles of association, to pay the subscription moneys in respect of the shares subscribed for, to be liable for the company's debts and liabilities to the extent of the amount of subscription moneys agreed to be paid in respect of the shares taken up by him and any other shareholders' obligation specified in the company's articles of association.

General meetings

The shareholders' general meeting is the organ of authority of the company, which exercises its powers in accordance with the Company Law.

The shareholders' general meeting exercises the following powers:

- (i) to decide on the company's operational policies and investment plans;
- (ii) to elect or remove the directors and decide on matters relating to the remuneration of directors;
- (iii) to elect or remove the supervisors who are not staff representatives and decide on matters relating to the remuneration of supervisors;
- (iv) to examine and approve reports of the board of directors;
- (v) to examine and approve reports of the supervisory committee;
- (vi) to examine and approve the company's proposed annual financial budget and final accounts;
- (vii) to examine and approve the company's proposals for profit distribution plans and recovery of losses;
- (viii) to decide on any increase or, reduction of the company's registered capital;
- (ix) to decide on the issue of bonds by the company;
- (x) to decide on issues such as merger, division, changes to the company status, dissolution and liquidation of the company and other matters; and
- (xi) to amend the company's articles of association.

Shareholders' general meeting is required to be held once every year. An extraordinary shareholders' general meeting is required to be held within two months after the occurrence of any of the following circumstances:

- (i) the number of directors is less than the number provided for in the Company Law or less than two-thirds of the number specified in the company's articles of association;
- (ii) the aggregate losses of the company which are not made up reach one-third of the company's total paid-up capital;
- (iii) at the request of the shareholders separately or aggregately holding 10% or more of the company's shares;
- (iv) whenever the board of directors deems necessary;
- (v) the supervisory committee so requests; or
- (vi) other circumstances as required by the articles of association.

Shareholders' general meetings shall be convened by the board of directors, and presided over by the chairman of the board of directors.

Notice of the meeting shall be given to all shareholders 20 days before the meeting under the Company Law and 45 days under the Special Regulations and the Mandatory Provisions, stating the matters to be considered at the meeting. Under the Special Regulations and the Mandatory Provisions, shareholders wishing to attend are required to give to the company written confirmation of their attendance 20 days prior to the meeting. Under the Special Regulations, at an annual general meeting of a company, shareholders holding 5% or more of the voting rights in the company are entitled to propose to the company in writing new resolutions to be considered at that meeting, which if within the powers of a shareholders' general meeting, are required to be added to the agenda of that meeting.

Shareholders present at a shareholders' general meeting have one vote for each share they hold.

Resolutions of the shareholders' general meeting must be adopted by more than half of the voting rights held by shareholders present (including those represented by proxies) at the meeting, with the exception of matters relating to merger, division, addition or reduction of the registered capital, changes to the company status or dissolution of a company or amendments to the articles of association, which must be adopted by more than two-thirds of the voting rights held by shareholders present, including those represented by proxies at the meeting.

According to the Mandatory Provisions, the increase or reduction of share capital, the issue of any class of share certificates, warrants, or other similar securities or bonds or debentures, merger, division, dissolution and liquidation of the company, the amendment to the company's articles of association, and any other matters of material effect on the company in respect of which the shareholders by ordinary resolution so decide, must be approved through special resolutions by more than two-thirds of the voting rights held by shareholders present in general meeting.

Shareholders may appoint representatives to attend shareholders' general meetings by a written appointment document stating the scope of the exercise of the voting rights.

There is no specific provision in the Company Law regarding the number of shareholders constituting a quorum in a shareholders' meeting. However, the Special Regulations and the Mandatory Provisions provide that a company's annual general meeting may be convened when replies to the notice of that meeting from shareholders holding shares representing 50% of the voting rights in the company have been received 20 days before the proposed date, or if that 50% level is not achieved, the company shall within five days of the last day for receipt of the replies notify shareholders by public announcement of the matters to be considered at the meeting and the date and place of the meeting and the annual general meeting may be held thereafter. The Mandatory Provisions require class meetings to be held in the event of a variation or derogation of the class rights of a class. Holders of Domestic Shares and holders of overseas listed foreign invested shares are deemed to be different classes of shareholders for this purpose.

Directors

A company shall have a board of directors, which shall consist of five to nineteen members. Under the Company Law, each term of office of a director shall not exceed three years. A director may serve consecutive terms if re-elected. If new directors have not been elected when the term of the current directors has expired, the directors whose term has just expired shall continue to perform their duties in accordance with the provisions of the laws, regulations and the articles of association until the vacancy has been filled by new directors. If the resignation of any director before the expiry of his or her term of office causes the number of board members to be less than the required quorum, the director, who has just resigned shall continue to perform his or her duties in accordance with the provisions of the laws, regulations and the articles of association until the vacancy has been filled by a new director.

Meetings of the board of directors shall be convened at least twice a year. Notice of meeting shall be given to all directors and supervisors 10 days before the meeting. The board of directors may provide for a different method of giving notice and notice period for convening an extraordinary meeting of the board of directors.

Under the Company Law, the board of directors exercises the following powers:

- (i) to convene the shareholders' general meetings and report on its work to the shareholders' general meetings;
- (ii) to implement the resolutions passed by the shareholders' general meetings;
- (iii) to decide on the company's business plans and investment proposals;
- (iv) to formulate the company's proposed annual financial budget and accounts;
- (v) to formulate the company's proposals for profit distribution and recovery of losses;
- (vi) to formulate proposals for the increase or reduction of the company's registered capital and the issuance of the corporate bonds;
- (vii) to prepare plans for the merger, division, changes to the company status or dissolution of the company;
- (viii) to decide on setup of the company's internal management structure;
- (ix) to appoint or dismiss the company's general manager and to decide on their remuneration; based on the general manager's recommendation, to appoint or dismiss the deputy general managers and financial officers of the company and to decide on their remuneration;
- (x) to formulate the company's basic management system; and
- (xi) other duties as required under the articles of association.

In addition, the Mandatory Provisions provide that the board is also responsible for formulating the proposals for amendment to the articles of association of a company.

Meetings of the board of directors shall be held only if more than half of the directors are present.

Resolutions of the board of directors require the approval of more than half of all directors.

If a director is unable to attend a board meeting, he may appoint another director by a written power of attorney specifying the scope of the authorization to attend the meeting on his behalf.

If a resolution of the board of directors violates the law, administrative regulations or the company's articles of association as a result of which the company sustains serious losses, the directors participating in the resolution are liable to compensate the company. However, if it can be proven that a director expressly objected to the resolution when the resolution was voted on, and that such objections were recorded in the minutes of the meeting, such director may be relieved from that liability.

The following persons shall not be allowed to hold the posts of directors, supervisors and senior management:

- (i) An individual without the ability of civil acts or the ability of restricting civil acts;
- (ii) An individual convicted of corruption, offering bribes, seizing others' property, embezzlement or disrupting the order of socialist market economy for not more than five years, or an individual deprived of political rights for committing crimes for not more than five years;
- (iii) An individual being a director, a factory director or a manager of a company or, an enterprise going bankrupt or going into liquidation who is personally liable for the bankruptcy of the company or the enterprise for not more than three years since the completion of the bankruptcy or liquidation of the company or the enterprise;
- (iv) An individual being the legal representative of a company or an enterprise who is personally liable for its operating license cancelled as a result of violating laws and regulations for not more than three years from the date on which the operating license of the company or the enterprise is cancelled; and
- (v) An individual failing to settle the debts with a greater amount he/she owes at maturity.

For companies electing, appointing directors, supervisors or engaging senior management without complying with the aforesaid provisions, the election, appointment or engagement shall be void.

For directors, supervisors or senior management to whom Item (i) is applicable while they are in office, they shall be removed from their posts.

Other circumstances under which a person is disqualified from acting as a director of a company are set out in the Mandatory Provisions which have been incorporated in the Articles of Association, a summary of which is set out in Appendix VI.

The board of directors shall appoint a chairman, who is elected with approval of more than half of all the directors. The chairman of the board of directors exercises, amongst others, the following powers:

- (i) to preside over shareholders' general meetings and convene and preside over meetings of the board of directors; and
- (ii) to check on the implementation of the resolutions of the board of directors.

Supervisors

A joint stock limited company shall have a supervisory committee composed of not less than three members. Each term of office of a supervisor is three years and he or she may serve consecutive terms if re-elected. If new supervisors have not been elected when the term of the current supervisors has expired, the supervisors whose term has just expired shall continue to perform their duties in accordance with the provisions of the laws, regulations and the articles of association until the vacancy has been filled by new supervisors. If the resignation of any supervisor before the expiry of his or her term of office causes the number of the members of the supervisory committee to be less than the required quorum, the supervisor who has just resigned shall continue to perform his or her duties in accordance with the provisions of the laws, regulations and the articles of association until the vacancy has been filled by a new supervisor.

The supervisory committee is made up of representatives of the shareholders and an appropriate proportion of representatives of the company's staff and workers. The percentage of the representatives of employees shall account for no less than $\frac{1}{3}$ of all the supervisors, but the concrete percentage shall be specified in the articles of association. The representatives of employees who serve as members of the supervisory committee shall be democratically elected through the assembly of representatives of the company's employees, shareholders' assembly or by other means.

Directors and senior, managers may not act concurrently as supervisors.

The supervisory committee exercises the following powers:

- (i) to inspect the company's financial position;
- (ii) to supervise the directors and senior managers in their performance of their duties and to make proposal to remove any director, senior manager' who have violated laws, administrative regulations, articles of association or resolutions of general meetings;
- (iii) when the acts of a directors and senior managers are in a harm to the company's interests, to require correction of these acts;

- (iv) to propose the convening of extraordinary shareholders' general meetings, and to convene and hold general meetings in the event the board fails to implement the duties of convening and holding the general meetings;
- (v) to propose resolutions to the general meeting;
- (vi) to file litigation against directors or senior managers pursuant to item 152 of the Company Law;
- (vii) other powers specified in the company's articles of association.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to supervisors of a company.

The Special Regulations provide that a company's directors and supervisors shall have fiduciary duties. They are required to faithfully perform their duties, protect the interests of the company and not to use their positions for their own benefit.

The supervisors may attend the meetings of the board of directors as non-voting attendees, and may raise questions or suggestions about the matters to be decided by the board of directors.

If the supervisors of the board of supervisors or supervisor of the company with no board of directors find(s) that the company is running abnormally, they (he) may make investigations. Where necessary, they (he) may hire an accounting firm to help them (him) with the relevant expenses being born by the company.

The expenses necessary for the board of supervisors to perform its duties shall be borne by the company.

The board of supervisors shall hold at least one meeting every 6 months. The supervisors may propose to call interim meetings of the board of supervisors.

The discussion methods and voting procedures of the board of supervisors shall be specified in the articles of association unless it is otherwise provided for by this Law.

The board of supervisors shall prepare minutes for the decisions about the matters discussed at the meeting, which shall be signed by the supervisors in presence.

Managers and senior managers

A company shall have a manager who shall be appointed or removed by the board of directors. The manager is accountable to the board of directors and may exercise the following powers in accordance with the Mandatory Provisions:

- (i) supervise the administration of production and operation of the company and arrange for the implementation of resolutions of the board of directors;
- (ii) arrange for the implementation of the company's annual business and investment plans;
- (iii) formulate plans for the establishment of the company's internal management structure;
- (iv) formulate the basic administration system of the company;
- (v) formulate the company's internal rules;
- (vi) decide the appointment and dismissal of administration officers other than those required to be appointed or dismissed by the board of directors;
- (vii) attend board meetings; and
- (viii) other powers conferred by the board of directors.

The Special Regulations and Mandatory Provisions provide that the senior management of a company includes the financial controller, secretary of the board of directors and other executives as specified in the articles of association of the company.

The circumstances under which a person is disqualified from being a director of a company described above apply mutatis mutandis to managers and senior managers of the company.

The articles of association of a company shall have binding effect on the shareholders, directors, supervisors, managers and other executives of the company. Such persons shall be entitled to exercise their rights, apply for arbitration and issue legal proceedings according to the articles of association of the company.

Duties of directors, supervisors, managers and senior managers

The Company Law, the Special Regulations and the Mandatory Provisions provide that directors, supervisors, managers and officers of a company owe fiduciary duties to the company and are required to perform their duties faithfully and to protect the interests of the Company and not to make use of their positions in the company for their own benefit.

No director, supervisor or senior manager may take any bribe or other illegal gains by taking the advantage of his powers, or encroach on the property of the company.

No director or senior manager may commit any of the following acts:

- (1) Misappropriating the company's fund;
- (2) Depositing the company's fund into an account in his own name or in any other individual's name;
- (3) Without consent of the shareholders' meeting, shareholders' assembly or board of directors, loaning the company's fund to others or providing any guaranty to any other person by using the company's property as in violation of the articles of association;
- (4) Signing a contract or dealing with this company by violating the articles of association or without consent of the shareholders' meeting or shareholders' assembly;
- (5) Without consent of the shareholders' meeting or shareholders' assembly, seeking business opportunities for himself or any other person by taking advantages of his powers, or operating for himself or for any other person any like business of the company he works for;
- (6) Taking commissions on the transactions between others and this company into his own pocket;
- (7) Illegally disclosing the company's secrets;
- (8) Other acts inconsistent with the obligation of fidelity to the company.

The income of any director or senior manager from any act in violation of the preceding paragraph shall belong to the company.

Where any director, supervisor or senior manager violates any law, administrative regulation, or the articles of association during the course of performing his duties, if any loss is caused to the company, he shall be liable for compensation.

If the shareholder's meeting or shareholders' assembly demands a director, supervisor or senior manager to attend the meeting as a non-voting representative, he shall do so and shall answer the shareholders' inquiries.

The directors and senior managers shall faithfully offer relevant information and materials to the board of supervisors or the supervisor of the limited liability company with no board of supervisors, none of them may impede the board of supervisors or supervisor from exercising its (his) powers.

Where a director or senior manager is under the circumstance as mentioned in Article 150 of the Company Law, the shareholder(s) of the limited liability company or joint stock limited company separately or aggregately holding 1% or more of the total shares of the company may request in writing the board of supervisors or the supervisor of the limited liability company with no board of supervisors to initiate a lawsuit in the people's court. If the supervisor is under the circumstance as mentioned in Article 150 of this Law, the aforesaid shareholder(s) may request in writing the board of directors or the acting director of the limited liability company with no board of directors to lodge an action in the people's court.

If the board of supervisors, or supervisor of a limited liability company with no board of supervisors, or board of directors or acting director refuses to lodge a lawsuit after it (he) receives a written request as mentioned in the preceding paragraph, or if it or he fails to initiate a lawsuit within 30 days after it receives the request, or if, in an emergency, the failure to lodge an action immediately will cause unrecoverable damages to the interests of the company, the shareholder(s) as listed in the preceding paragraph may, on their own behalf, directly lodge a lawsuit in the people's court.

If the legitimate rights and interests of a company are impaired and any losses are caused to the company, the shareholders as mentioned in the preceding paragraph may initiate a lawsuit in the people's court according to the provisions of the preceding two paragraphs.

If any director or senior manager damages the shareholders' interests by violating any law, administrative regulation, or the articles of association, the shareholders may lodge a lawsuit in the people's court.

Finance and accounting

A company shall establish its financial and accounting systems according to laws, administrative regulations and the regulations of the responsible financial department of the State Council and at the end of each financial year prepare a financial report which shall be audited by a public accountant as provided by law. The financial accounting report shall be prepared in accordance with the laws, administrative regulations and requirements by the financial department of the State Council.

A company shall deposit its financial statements at the company for the inspection by the shareholders 20 days before the convening of an annual general meeting of shareholders. A company which had its shares listed must publish its financial statements.

When distributing each year's after-tax profits, the company shall set aside 10% of its after-tax profits for the company's statutory common reserve fund (except where the fund has reached 50% of the company's registered capital).

When the company's statutory common reserve fund is not sufficient to make up for the company's losses of the previous year, current year profits shall be used to make good the losses before allocations are set aside for the statutory common reserve fund.

After the company has made good its losses and made allocations to its statutory common reserve fund, the remaining profits after tax are distributed in proportion to the number, of shares held by the shareholders, except for those cannot be distributed in proportion to the shareholding under the articles of association.

The capital common reserve of a company is made up of the premium over the nominal value of the shares of the company on issue and other amounts required by the relevant governmental authority to be included in the capital common reserve.

The common reserve of a company shall be applied for the following purposes:

- (i) to make up the company's losses;
- (ii) to expand the business operations of the company; and
- (iii) to be capitalised.

However, the capital common reserve cannot be used to compensate company's losses. In capitalising the statutory common reserve, the remaining statutory common reserve shall not be less than 25% of the company's registered capital before the capitalisation.

Appointment and retirement of auditors

The Special Regulations require a company to employ an independent PRC qualified firm of accountants to audit the company's annual report and review and check other financial reports.

The auditors are to be appointed for a term commencing from the close of an annual general meeting and ending at the close of the next annual general meeting.

If a company removes or ceases to continue to appoint the auditors, it is required by the Special Regulations to give prior notice to the auditors and the auditors are entitled to make representations before the shareholders in general meeting. The appointment, removal or non re-appointment of auditors shall be decided by the shareholders in general meeting and shall be filed with the CSRC for record.

Distribution of profits

The Special Regulations provide that the dividends and other distributions to be paid to holders of overseas listed foreign invested shares shall be declared and calculated in Renminbi and paid in foreign currency. Under the Mandatory Provisions, the payment of foreign currency to shareholders shall be made through a receiving agent.

Amendment of articles of association

Any amendments to the company's articles of association must be made in accordance with the laws, administrative regulations and procedures set out in the company's articles of association. Pursuant to the Mandatory Provisions, any amendment of the articles of association involving the provisions of the Mandatory Provisions will only be effective after approval by the companies approval department authorized by the State Council and the CSRC. In relation to matters involving the company's registration, its registration with the companies registration authority must also be changed.

Termination and liquidation

A company may apply for the declaration of insolvency by reason of its inability to pay debts as they fall due. After the People's Court has made a declaration of the company's insolvency, the shareholders, the relevant authorities and the relevant professionals shall be arranged by the People's Court to form a liquidation committee to conduct the liquidation of the company.

Under the Company Law, a company shall be dissolved in any of the following events:

- (i) the term of its operations set down in the company's articles of association has expired or events of dissolution specified in the company's articles of association have occurred;
- (ii) the shareholders in general meeting have resolved to dissolve the company;
- (iii) the company is dissolved by reason of its merger or demerger;
- (iv) the business license is being cancelled, ordered to be closed or revoked pursuant to the laws; or
- (v) the company is dissolved by the People's court under item 183 of the Company Law.

Where the company is dissolved in the circumstances described in (i), (ii), (iv) and (v) above, a liquidation committee must be established within 15 days from the date as of the occurrence of the cause of dissolution. Members of the liquidation committee shall be consisted of persons appointed by the directors or shareholders in a general meeting.

If a liquidation committee is not established within the stipulated period, the company's creditors can apply to the People's Court to appoint members of the liquidation committee to conduct the liquidation.

The liquidation committee shall notify the company's creditors within 10 days after its establishment, and issue public notices in the newspapers within 60 days. A creditor shall lodge his claim with the liquidation committee within 30 days after receiving notification, or within 45 days of the public notice if he did not receive any notification.

The liquidation committee shall exercise the following powers during the liquidation period:

- (i) to handle the company's assets and to prepare a balance sheet and an inventory of the assets;
- (ii) to notify creditors and issue public notices;
- (iii) to deal with and settle any outstanding businesses of the company;
- (iv) to pay any tax overdue and any tax arisen during the course of the liquidation;
- (v) to settle the company's claims and liabilities;
- (vi) to handle the surplus assets of the company after its debts have been paid off; and
- (vii) to represent the company in civil lawsuits.

The company's assets shall be applied towards the payment of the liquidation expenses, wages owed to the employees, social insurance expenses, statutory compensations, tax overdue and debts of the company. Any surplus assets shall be distributed to the shareholders of the company in proportion to the number of shares held by them.

A company shall subsist during the liquidation period, but shall not engage in operation activities not related with the liquidation.

If the liquidation committee becomes aware that the company does not have sufficient assets to meet its liabilities, it must apply to the People's Court for a declaration for bankruptcy. Following such declaration, the liquidation committee shall hand over all affairs of the liquidation to the People's Court.

Upon completion of the liquidation, the liquidation committee shall submit a liquidation report to the shareholders' general meeting or the People's court for verification. Thereafter, the report shall be submitted to the company's registration authority in order to cancel the company's registration, and a public notice of its termination shall be issued.

Members of the liquidation committee are required to discharge their duties honestly and in compliance with the relevant laws. A member of the liquidation committee is liable to indemnify the company and its creditors in respect of any loss arising from his wilful or material default.

Overseas listing (in places other than Hong Kong)

The shares of a company shall only be listed overseas after obtaining approval from the securities regulatory authority of the State Council and the listing must be arranged in accordance with procedures specified by the State Council.

According to the Special Regulations, a company's plan to issue overseas listed foreign invested shares and Domestic Shares which has been approved by the CSRC may be implemented by the board of directors of the company by way of separate issues, within 15 months after approval is obtained from the CSRC.

Overseas listing (in Hong Kong)

According and subject to the stipulations by the State Council securities regulatory authority and the Articles of Association, the Domestic Shares may be transferred to overseas investors, and, subject to the following, such transferred shares may be listed or traded on the GEM board of the Stock Exchange:

- (i) approval granted by the CSRC and compliance with the transfer procedures duly established and announced by the Company. Domestic Shares of the Company could then be transferred to Hong Kong, listed on the GEM board of the Stock Exchange as H Shares and sold in the open market;
- (ii) the transfer of Domestic Shares to Hong Kong would be required to meet the established administrative procedures for listing at the GEM board of the Stock Exchange, including the submission of necessary documentation and the delivery of the shares for inclusion in the Hong Kong share registrar;
- (iii) the Company could apply to list all or any portion of its Domestic Shares on the GEM board of the Stock Exchange as H shares in advance of any proposed transfer to ensure that the transfer process could be completed promptly upon

notice to the Stock Exchange and delivery of shares for inclusion in the Hong Kong share registrar. However, as the listing of additional shares after the Company's initial listing was ordinarily considered by the Stock Exchange to be a purely administrative matter, the Stock Exchange does not require such prior application as a condition for the transfer, listing and sale of shares in the form of H Shares; and

- (iv) no further approval by the Shareholders in general meetings and/or class meetings would be required for the transfer, listing and sale of Domestic Shares held by the Company in the form of H shares.

Loss of share certificates

A shareholder may apply, in accordance with the relevant provisions set out in the PRC Civil Procedure Law, to a People's Court in the event that share certificates in registered form are either stolen or lost, for a declaration that such certificates will no longer be valid. After such a declaration has been obtained, the shareholder may apply to the company for the issuance of replacement certificates.

The Mandatory Provisions provide for a separate procedure regarding loss of H share certificates (which has been incorporated in the Articles of Association, a summary of which is set out in Appendix VI).

Merger and demerger

Companies may merge through merger by absorption or through the establishment of a newly merged entity. In the case of merger by absorption, the company which is absorbed shall be dissolved. In the case of merger by forming a new corporation, both companies will be dissolved.

A merger agreement must be signed in the case of a merging of companies and the relevant companies shall draw up their respective balance sheets and inventory of property. The companies should within 10 days inform their respective creditors and publish a notice in newspapers within 30 days of the resolution to merge. Those creditors who had not received written notice may within 45 days of the published notice, or within 30 days after receiving written notice, request the company to repay any outstanding debts or provide corresponding guarantees. Newly established or reserved entities upon merger shall take-over the debts of the companies involved in the merger.

When a company demerges into two companies, their respective assets must be separated and balance sheets and inventory of property must be drawn up.

Changes in registrable particulars of the companies caused by merger or demerger must be registered in accordance with applicable laws.

2. Securities Law and Supervision

Since 1992, the PRC has promulgated a number of regulations in relation to the issue of and trading in securities and disclosure of information.

In 1993, the State Council established the Securities Commission and the CSRC. The Securities Commission is responsible for coordinating the drafting of securities regulations, formulating securities-related policies, planning the development of securities markets, directing, coordinating and supervising all securities-related institutions in the PRC and administering the CSRC. The CSRC is the regulatory arm of the Securities Commission and is responsible for the drafting of regulatory provisions governing securities markets, supervising securities companies, regulating public offers of securities by PRC companies in the PRC or overseas, regulating the trading of securities, compiling securities-related statistics and undertaking research and analysis. In early 1998, the State Council dissolved the Securities Commission and the former functions of the Securities Commission were assumed by the CSRC.

On April 22, 1993, the State Council promulgated the Provisional Regulations Concerning the Issue and Trading of Shares. These regulations deal with the application and approval procedures for public offerings of equity securities, trading in equity securities, the acquisition of listed companies, deposit, settlement, and transfer of listed equity securities, the disclosure of information with respect to a listed company, enforcement and penalties and dispute settlement. These regulations specifically provide that separate provisions will be promulgated in relation to the issue of and trading in special Renminbi-denominated shares. However, (i) if a PRC joint stock limited company proposes to issue Renminbi-denominated ordinary shares as well as special Renminbi-denominated shares, it has to comply with these regulations in respect of regulations governing Renminbi-denominated ordinary shares, (ii) if a PRC company proposes to offer shares directly or indirectly outside the PRC, it will require the approval of the Securities Commission; and (iii) provisions of these regulations in relation to acquisitions of listed companies and disclosure of information are expressed to apply to listed companies in general without being confined to listed companies on any particular stock exchange. Hence it is possible that such provisions may be applicable to joint stock limited companies with shares listed on a stock exchange outside the PRC including, for instance, joint stock limited companies with shares listed on the Hong Kong Stock Exchange, such as the Company.

On June 12, 1993, pursuant to the Provisional Regulations Concerning the Issue and Trading of Shares, the CSRC promulgated the Implementation Measures (Provisional) on Disclosure of Corporate Information of Public Issue of Shares. Pursuant to these measures, the CSRC is responsible for supervising the disclosure of information by companies which have offered shares to the public. These measures contain provisions regarding prospectuses and listing reports to be issued in connection with a public offering of shares in the PRC, publication of interim and final reports and announcement of material transactions or matters by companies which have offered shares to the public. Material transactions or matters are those the occurrence of which may have a material effect on the share price of a company. They include changes to a company's articles of association or registered capital, removal of auditors, mortgage or disposal of major operating assets or writing down the value of such

assets where the amount being written down exceeds 30% of the total value of such assets, revocation by a court of any resolution passed at the general meetings or at the meetings of the supervisory committee of a company and the merger or demerger of a company. These measures also contain disclosure provisions in relation to acquisition of listed companies which supplement the requirements contained in the Provisional Regulations Concerning the Issue and Trading of Shares.

On September 2, 1993, the Securities Commission promulgated the Provisional Measures Prohibiting Fraudulent Conduct relating to Securities. The prohibitions imposed by these measures include the use of insider information in connection with the issue of or trading in securities (insider information being defined to include undisclosed material information known to any insider, which may affect the market price of securities); the use of funds or, information or the abuse of power in creating a false or, disorderly market or influencing the market price of securities or inducing investors to make investment decisions without knowledge of actual circumstances; and the making of any statement in connection with the issue of and trading in securities which is false or, materially misleading and in respect of which there is any material omission. Penalties imposed for contravening any of the provisions of the measures include, amongst others, fines, confiscation of profits and suspension of trading. In serious cases, criminal liability may be imposed.

On August 4, 1994, the State Council promulgated the Special Regulations. These provisions deal mainly with the issue, subscription, trading and declaration of dividends and other distribution of foreign capital stock listed abroad and disclosure of information, articles of association of joint stock limited companies having foreign capital stock listed abroad.

On December 25, 1995, the State Council promulgated the Regulations of the State Council Concerning the Domestic Listed Foreign Shares of Joint Stock Limited Companies. These regulations deal mainly with the issue, subscription and trading of, and declaration of dividends and other distributions or domestic listed foreign shares and disclosure of information of joint stock limited companies having domestic listed foreign Shares.

On December 29, 1998, the Securities Law of the PRC was passed by the Standing Committee of the National People's Congress. This is the first national securities law in the PRC and is the fundamental law comprehensively regulating activities such as the issuance and trading of securities in the PRC securities market. The Securities Law became effective on July 1, 1999 and was amended on August 28, 2004. On October 27, 2005, the Standing Committee of the Tenth NPC reviewed and passed the new amended Securities Law which came into effect from January 1, 2006. The Securities Law is applicable to the issuance and trading in the PRC of shares, company bonds and other securities designated by the State Council according to law. Where the Securities Law does not regulate, the Company Law and other applicable laws and administrative regulations regarding securities will apply.

On March 29, 1999, the State Economic and Trade Commission and the CSRC promulgated the Opinion on the Further Promotion of the Regular Operation and In-Depth Reform of Companies Listed Overseas (the "Opinion") which is aimed at regulating the internal operation and management of PRC companies listed overseas. The Company will be

subject to the Opinion upon listing of the H Shares on the Stock Exchange. The Opinion regulates, amongst others, the appointments and functions of external directors and independent directors in the board of directors; and the appointment and functions of external supervisors and independent supervisors in the supervisory committee.

On July 14, 1999, the CSRC promulgated the Notice on Issues Regarding Application for Overseas Listing by Enterprises which sets out the requirements to be satisfied by Chinese enterprises seeking overseas main board listing, and matters including the approval procedure and the submission of documents. Whereas On September 21, 1999, the CSRC issued the Guideline on Examination and Supervision regarding application for listing by Chinese enterprises on GEM board of Hong Kong Stock Exchange setting out the requirements to be met by Chinese enterprises seeking the GEM board of Hong Kong Stock Exchange, approval procedure, etc.

3. The Arbitration Law

The Arbitration Law of the PRC (the “Arbitration Law”) was promulgated by the Standing Committee of the NPC on August 31, 1994 and came into effect on September 1, 1995. It is applicable to trade disputes involving foreign parties where the parties have entered into a written agreement to refer the matter, to arbitration before an arbitration committee constituted in accordance with the Arbitration Law. Under the Arbitration Law, an arbitration committee may, before the promulgation by the PRC Arbitration Association of arbitration regulations, formulate interim arbitration rules in accordance with the Arbitration Law and the PRC Civil Procedure Law. Where the parties have by agreement provided arbitration as a method for dispute resolution, the parties are not permitted to institute legal proceedings in a People’s Court except when the arbitration agreement is not valid.

The GEM Listing Rules and the Mandatory Provisions require an arbitration clause to be included in the articles of association of a company listed in Hong Kong and in the case of the GEM Listing Rules, also in a contract between the company and each director and supervisor, to the effect that whenever any dispute or claim arises from any rights or obligations provided in the Articles of Association, the Company Law and other relevant laws and administrative regulations concerning the affairs of a company between (i) a holder of overseas listed foreign shares and the company; (ii) a holder of overseas listed foreign shares and a holder of Domestic Shares; (iii) a holder of overseas listed foreign shares and the directors, supervisors, managers or other senior officers of the company, unless otherwise specified in the Articles of Association, such parties shall submit that dispute or claim to arbitration before either the China International Economic and Trade Arbitration Commission (“CIETAC”) or the Hong Kong International Arbitration Centre (“HKIAC”) for arbitration. If the party seeking arbitration elects to arbitrate the dispute or claim at the HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the securities arbitration rules of the HKIAC. CIETAC is an economic and trade affairs arbitration organ in the PRC. Pursuant to the China International Economic and Trade Arbitration Commission Arbitration Rules, effective on May 1, 2005, CIETAC’s jurisdiction covers disputes relating to the Hong Kong Special Administrative Region. CIETAC is located in Beijing with branches in Shenzhen and Shanghai.

Under the Arbitration Law, an arbitral award is final and binding on the parties and if a party fails to comply with an award, the other party to the award may apply to the People's Court for enforcement. A People's Court may refuse to enforce an arbitral award made by an arbitration body if there are certain procedural or membership irregularities or, the award exceeds the scope of the arbitration agreement or is outside the jurisdiction of the arbitration commission.

A party seeking to enforce an arbitral award of a foreign affairs arbitration organ of the PRC against a party who or whose property is not within the PRC may apply to a foreign court with jurisdiction over the case for enforcement. Similarly, an arbitral award made by a foreign arbitration body may be recognized and enforced by the PRC courts in accordance with the principles of reciprocity or any international treaty concluded or acceded to by the PRC.

The PRC acceded to the New York Convention adopted on June 10, 1958 pursuant to a resolution of the Standing Committee of the NPC passed on December 2, 1986, the New York Convention provides that all arbitral awards made by a state which is a party to the New York Convention shall be recognized and enforced by other parties to the New York Convention subject to their right to refuse enforcement under certain circumstances including where the enforcement of the arbitral award is against the public policy of the state to which the application for enforcement is made. It was declared by the Standing Committee of the NPC simultaneously with the accession of the PRC that (i) the PRC will only recognize and enforce foreign arbitral awards on the principle of reciprocity and (ii) the PRC will apply the New York Convention in dispute considered under PRC laws to be arising from contractual or non-contractual mercantile legal relations. Following the resumption of sovereignty over Hong Kong by the PRC on July 1, 1997, the New York Convention no longer applies to the enforcement of Hong Kong arbitration awards in other parts of the PRC. A Memorandum of Understanding on the Arrangement for Reciprocal Enforcement of Arbitral Awards between Hong Kong and China has been signed on June 21, 1999. The arrangement was made in accordance with the spirit of the New York Convention. To meet present day's needs, it will allow awards made over 100 China arbitral authorities with relevant experience to be enforced in Hong Kong. Under the agreed arrangement, Hong Kong arbitration awards will also be enforceable in the PRC. This new arrangement has been approved by Hong Kong legislative council and the Supreme People's Court of the PRC and became effective on February 1, 2000.

4. Foreign Exchange Controls

The lawful currency of the PRC is the Renminbi, which is subject to foreign exchange controls and is not freely convertible into foreign exchange at this time. The SAFE, under the authority of the PBOC, is empowered with the functions of administering all matters relating to foreign exchange, including the enforcement of foreign exchange control regulations.

On December, 28, 1993, the PBOC, under the authority of the State Council, promulgated the Notice of the People's Bank of China Concerning Further Reform of the Foreign Currency Control System (the "Notice"), effective from January 1, 1994. The Notice announces the abolition of the system of foreign exchange quotas, the implementation of conditional convertibility of Renminbi in current account items, the establishment of the system of settlement and payment of foreign exchange by banks, and the unification of the official Renminbi exchange rate and the market rate for Renminbi established at swap centers.

On January 29, 1996, the State Council promulgated new Regulations of the People's Republic of China for the Control of Foreign Exchange ("Control of Foreign Exchange Regulations") which became effective from April 1, 1996. The Control of Foreign Exchange Regulations classify all international payments and transfers into current account items and capital account items. Current account items are no longer subject to SAFE approval while capital account items still are. The Control of Foreign Exchange Regulations were subsequently amended on January 14, 1997. This latest amendment affirmatively states that the State shall not restrict international current account payments and transfers.

On June 20, 1996, the PBOC promulgated the "Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange" (the "Settlement Regulations") which became effective on July 1, 1996. The Settlement Regulations supersede the Provisional Regulations and abolish the remaining restrictions on convertibility of foreign exchange in respect of current account items while retaining the existing restrictions on foreign exchange transactions in respect of capital account items. On the basis of the Settlement Regulations, the PBOC also published the Announcement on the Implementation of Foreign Exchange Settlement and Sale at Banks by Foreign-invested Enterprises (the "Announcement"). The Announcement permits foreign-invested enterprises to open, on the basis of their needs, foreign exchange settlement accounts for current account receipts and payments of foreign exchange along with specialized accounts for capital account receipts and payments at designated foreign exchange banks.

On October 25, 1998, the PBOC and the SAFE promulgated the Notice Concerning the Discontinuance of Foreign Exchange Swapping Business pursuant to which and with effect from December 1, 1998, all foreign exchange swapping business in the PRC for foreign-invested enterprises shall be discontinued, while the trading of foreign exchange by foreign-invested enterprise shall come under the banking system for the settlement and sale of foreign exchange.

On January 1, 1994, the former dual exchange rate system for Renminbi has been abolished and replaced by a managed unified floating exchange rate system, which is determined by demand and supply. The PBOC sets and publishes daily the Renminbi-U.S. dollar base exchange rate. This exchange rate is determined with reference to the trading price for Renminbi-U.S. dollar in the inter-bank foreign exchange market on the previous day. The PBOC will also, with reference to exchange rates in the international foreign exchange market, announce the exchange rates of Renminbi against other major currencies.

In foreign exchange transactions, designated foreign exchange banks may, within a specified range, freely determine the applicable exchange rate in accordance with the exchange rate announced by the PBOC.

Foreign exchange income from loans issued by organizations outside the territory or from the issuance of bonds and shares (for example foreign exchange income received by the Company from the sale of shares overseas) is not required to be sold to designated foreign exchange banks, but may be deposited in foreign exchange accounts at the designated foreign exchange banks.

Chinese enterprises (including foreign-invested enterprises) which require foreign exchange for transactions relating to current account items, may, without the approval of SAFE, effect payment from their foreign exchange account or convert and pay at the designated foreign exchange banks, on the strength of valid receipts and proof. Foreign-invested enterprises which need foreign exchange for the distribution of profits to their shareholders, and other Chinese enterprises which in accordance with regulations are required to pay dividends to shareholders in foreign exchange (like the Company), may on the strength of board resolutions on the distribution of profits and other relevant documents, effect payment from their, foreign exchange account or convert and pay at the designated foreign exchange banks.

Convertibility of foreign exchange in respect of capital account items, like direct investment and capital contribution, is still subject to restriction, and prior approval from SAFE and/or its relevant branch must be sought.

Dividends to holders of H Shares are fixed in Renminbi but must be paid in Hong Kong dollars.

5. Hong Kong Laws and Regulations

(a) Company Law

The Hong Kong law applicable to a company having share capital incorporated in Hong Kong is based on the Companies Ordinance and is supplemented by common law. The Company, which is a joint stock limited company established in the PRC seeking a Listing is governed by the PRC Company Law which came into effect on July 1, 1994 and was amended on December 25, 1999, on August 28, 2004 and on October 27, 2005 and all other rules and regulations promulgated pursuant to the PRC Company Law applicable to a joint stock limited company established in the PRC issuing overseas listed foreign shares to be listed on the Stock Exchange.

Set out below is a summary of the material differences between the Hong Kong company law applicable to a company incorporated in Hong Kong and the PRC Company Law applicable to a joint stock limited company incorporated and existing under the PRC Company Law. This summary is, however, not intended to be an exhaustive comparison:

(i) Corporate existence

Under Hong Kong company law, a company having share capital is incorporated by the Registrar of Companies in Hong Kong issuing a certificate of incorporation and upon its incorporation, a company will acquire an independent corporate existence. A company may be incorporated as a public company or a private company. The articles of association of a private company incorporated in Hong Kong are required by the Companies Ordinance to contain certain pre-emptive provisions. A public company does not contain such pre-emptive provisions in its articles of association.

Under the PRC Company Law, a company may be incorporated by either the promotion method or the subscription method. A company must have a minimum registered capital of RMB5 million, or higher as may otherwise be required by the laws and regulations. Hong Kong law does not prescribe any minimum capital requirements for a Hong Kong company. Under the PRC Company Law, the monetary contributions by all the shareholders must not be less than 30% of the registered capital. There is no such restriction on a Hong Kong company under Hong Kong law,

(ii) Share capital

Under Hong Kong law, the authorized share capital of a Hong Kong company is the amount of share capital which the company is authorized to issue and a company is not bound to issue the entire amount of its authorized share capital. For a Hong Kong company, the authorized share capital may be larger than the issued share capital. Hence, the directors of a Hong Kong company may, with the prior approval of the shareholders, if required, cause the company to issue new shares. The PRC Company Law does not recognize the concept of authorized share capital. The registered capital of a joint stock limited company is the amount of the issued share capital. Any increase in registered capital must be approved by the shareholders in general meeting and by the relevant PRC governmental and regulatory authorities.

(iii) Restrictions on shareholding and transfer of shares

Under PRC law, the domestic shares (“Domestic Shares”) in the share capital of a joint stock limited company which are denominated and subscribed for in Renminbi may only be subscribed or traded by the State, PRC legal and natural persons. The overseas listed foreign shares (“foreign shares”) issued by a joint stock limited company which are denominated in Renminbi and subscribed for in

a currency other than Renminbi may only be subscribed and traded by investors from Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan or any country and territory outside the PRC. Under the PRC Company Law, shares in a joint stock limited company held by its promoters cannot be transferred within one year after the date of establishment of the company. Shares in issue prior to the company's public offering cannot be transferred within one year from the listing date of the shares on the Stock Exchange. Shares in a joint stock limited company held by its directors, supervisors and managers and transferred each year during their term of office shall not exceed 25% of the total shares they held in the company, and the shares they held in the company cannot be transferred within one year from the listing date of the shares, and also cannot be transferred within half a year after the said personnel has left office. The articles of association may set other restrictive requirements on the transfer of the company's shares held by its directors, supervisors and officers. There are no such restrictions on shareholdings and transfers of shares under Hong Kong law.

(iv) Financial assistance for acquisition of shares

The PRC Company law does not contain any provision prohibiting or restricting a joint stock limited company or its subsidiaries from providing financial assistance for the purpose of an acquisition of its own or its holding company's shares. The Mandatory Provisions contain certain restrictions on a company and its subsidiaries providing such financial assistance similar to those under Hong Kong company law.

(v) Variation of class rights

Under Hong Kong company law, if the share capital of a company is divided into different classes of shares, special rights attaching to any class of shares may only be varied if approved by a specified proportion of the holders of the relevant class. The PRC Company Law does not contain any specific provision relating to variation of class rights. The Mandatory Provisions contain detailed provisions relating to circumstances which are deemed to constitute a variation of class rights. Under the Mandatory Provisions, class rights may not be varied or abrogated unless approved by a special resolution of shareholders in general meeting and by two-thirds or more of the votes cast by shareholders of the affected class present in person or by proxy at a separate class meeting. For the purpose of a variation of class rights, Domestic Shares and foreign shares are treated as separate classes of shares except in the case of (i) an issue of shares by the joint stock limited company in any 12 month period either, separately or concurrently following the approval by a special resolution of shareholders in general meeting not exceeding 20% of each of the existing Domestic Shares and foreign shares existing as at the date of such special resolution; and (ii) an issue of Domestic Shares and foreign shares in accordance with the plan of the company approved by the securities authority and which are completed within 15 months from the date of such approval. See "Appendix V – Summary of Articles of Association – Variation of rights of existing Shares or classes of Shares."

(vi) Directors, officers and supervisors

The Company Law provides for the disqualification of directors, supervisors and managers in circumstances where they enter into business contracts with the Company, and for prohibitions of certain unauthorized benefits, but contain no provision restricting the authority of the directors to make major dispositions or prohibiting payment to them for loss of office without shareholder's approval. However, the Mandatory Provisions contain certain restrictions on major dispositions and specify the circumstances under which a director may receive compensation for loss of office, all of which provisions have been incorporated in the Articles of Association.

Under the PRC Company Law, the board of directors of a joint stock limited company is subject to the supervision and inspection of a supervisory committee but there is no mandatory requirement for the establishment of a supervisory committee for a company incorporated in Hong Kong. The Mandatory Provisions provide that each supervisor owes a duty, in the exercise of his powers, to act in good faith and honestly in what he considers to be in the best interests of the company and to exercise the care, diligence and skill that a reasonably prudent person would exercise under comparable circumstances.

(vii) Derivative action by minority shareholders

Hong Kong law permits minority shareholders to start a derivative action on behalf of a company against directors who have been guilty of a breach of their fiduciary duties to the company, if such directors control a majority of votes at a general meeting thereby effectively preventing a company from suing the directors in breach of their duties in its own name. The PRC Company Law gives shareholders of a joint stock limited company the right that in the event that the directors and senior managers violate their fiduciary obligations to a company, shareholders individually or jointly holding over 1% of the shares in the company for more than 180 days consecutively may request in writing the supervisory committee to initiate proceedings in the People's Court. In the event that the supervisory committee violates their fiduciary obligations to a company, the above said shareholders may request in writing the board of directors to initiate proceedings in the People's Court. Upon receipt of such request in writing from the shareholders, if the supervisory committee or the board of directors refuse to initiate such proceedings, or has not initiated proceedings within 30 days upon receipt of the request, or if under urgent situations, failure of initiating immediate proceeding may cause irreparable damages to the company, the above said shareholders shall for the benefit of the company's interests, have the right to initiate proceedings directly to the court in its own name. The Mandatory Provisions further provide remedies to the company against directors, supervisors and officers in breach of their duties to the company. In addition, every director and supervisor of a joint stock limited company applying for a listing of its

foreign shares on the Stock Exchange is required to give an undertaking in favor of the company to comply with the company's articles of association. This allows minority shareholders to act against directors and supervisors in default.

(viii) Protection of minorities

Under Hong Kong law, a shareholder who complains that the affairs of a company incorporated in Hong Kong are conducted in a manner, unfairly prejudicial to his interests may petition to court to either wind up the company or make an appropriate order regulating the affairs of the company. In addition, on the application of a specified number of members, the Financial Secretary may appoint inspectors who are given extensive statutory powers to investigate the affairs of a company incorporated in Hong Kong. The Mandatory Provisions contain provisions to the effect that a controlling shareholder may not exercise its voting rights in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders of a company to relieve a director or, supervisor of his duty to act honestly in the best interests of the company or to approve the expropriation by a director or supervisor of the company's assets or the individual rights of other shareholders.

(ix) Notice of shareholders' meetings

Under the PRC Company Law, notice of a shareholders' general meeting must be given 20 days before the meeting, while notice of an extraordinary meeting must be given 15 days before the meeting or, in the case of a company having bearer, shares, a public announcement of a shareholders' general meeting must be made 30 days prior to it being held. Under the Special Regulations and the Mandatory Provisions, 45 days' written notice must be given to all shareholders and shareholders who wish to attend the meeting must reply in writing 20 days before the date of the meeting. For a company incorporated in Hong Kong, the minimum notice periods of a general meeting convened for passing an ordinary resolution and a special resolution are 14 days and 21 days, respectively; and the notice period for an annual general meeting is 21 days.

(x) Quorum for shareholders' meetings

Under Hong Kong law, the quorum for a general meeting is two members unless the articles of association of the company otherwise provide. For, one member companies, one member will be a quorum. The PRC Company Law does not specify any quorum requirement for shareholders' general meeting but the Special Regulations and the Mandatory Provisions provide that a company's general meeting can be convened when replies to the notice of that meeting have been received from shareholders whose shares represent 50% of the voting rights in the company at least 20 days before the proposed date of the meeting. If that 50% level is not achieved, the company shall within five days notify shareholders by public announcement and the shareholders' general meeting may be held thereafter.

(xi) Voting

Under Hong Kong law, an ordinary resolution is passed by a simple majority of votes cast by members present in person or by proxy at a general meeting and a special resolution is passed by a majority of not less than three-fourths of votes cast by members present in person or by proxy at a general meeting. Under the PRC Company Law, the passing of any resolution requires more than one half of the votes cast by shareholders present in person or by proxy at a shareholders' general meeting except in cases of proposed amendment to the articles of association, increase or reduction of share capital, and merger, demerger or dissolution of a joint stock limited company or changes to the company status, which require two-thirds or more of votes cast by shareholders present at a shareholders' general meeting.

(xii) Financial disclosure

A joint stock limited company is required under the PRC Company law to make available at its office for inspection by shareholders its annual balance sheet, profit and loss account, changes in financial position and other relevant annexures 20 days before the annual general meeting of shareholders. In addition, a company having its shares listed under the PRC Company Law must publish its financial situation. The annual balance sheet has to be verified by registered accountants. The Companies Ordinance requires a company to send to every shareholder a copy of its balance sheet, auditors' report and directors' report which are to be laid before the company in its annual general meeting not less than 21 days before such meeting.

A joint stock limited company is required under the PRC law to prepare its financial statements in accordance with the PRC accounting standards. The Mandatory Provisions require that the company must, in addition to preparing accounts according to the PRC standards, have its accounts prepared and audited in accordance with International Accounting Standards or Hong Kong accounting standards and its financial statements must also contain a statement of the financial effect of the material differences (if any) from the financial statements prepared in accordance with the PRC accounting standards.

The Special Regulations require that there should not be any inconsistency between the information disclosed within and outside the PRC and that, to the extent that there are differences in the information disclosed in accordance with the relevant PRC and overseas laws, regulations and requirements of the relevant stock exchanges, such differences should also be disclosed simultaneously.

(xiii) Information on directors and shareholders

Under the PRC Company Law, neither the public nor the shareholders of a joint stock limited company have access to information on its directors and shareholders. Under the Mandatory Provisions, shareholders have the right to

inspect and copy (at reasonable charges) certain information about shareholders and directors similar to that available under Hong Kong law to shareholders of a company incorporated in Hong Kong.

(xiv) Receiving agent

Under both the PRC and Hong Kong law, dividends once declared become debts payable to shareholders. The limitation period for debt recovery action under Hong Kong law is six years while that under the PRC law is two years. The Mandatory Provisions require the appointment of a trust company registered under the Trustee Ordinance (Chapter 29 of the Laws of Hong Kong) as receiving agent to receive on behalf of holders of foreign shares dividends declared and all other monies owed by a joint stock limited company in respect of such foreign shares.

(xv) Corporate reorganization

Corporate reorganization involving a company incorporated in Hong Kong may be effected in a number of ways, such as a transfer of the whole or part of the business or, property of the company in the course of being wound up voluntarily to another company pursuant to section 237 of the Companies Ordinance or a compromise or arrangement between the company and its creditors or between the company and its members pursuant to section 166 of the Companies Ordinance which requires the sanction of the court. Under PRC law, the merger, demerger, dissolution or change to the status of a joint stock limited company has to be approved by shareholders in general meeting.

(xvi) Arbitration of disputes

In Hong Kong, disputes between shareholders and a company incorporated in Hong Kong or its directors may be resolved through the courts. The Mandatory Provisions provide that such disputes should be submitted to arbitration at either the HKIAC or the CIETAC, at the claimant's choice.

(xviii) Mandatory deductions

Under the PRC Company Law, a joint stock limited company is required to make transfers equivalent to certain prescribed percentages of its after tax profit to the statutory common reserve fund. There are no such requirements under Hong Kong law.

(b) GEM Listing Rules

The GEM Listing Rules provide additional requirements which apply to an issuer which is incorporated in the PRC as a joint stock limited company and seeking a primary listing or whose primary listing on GEM, Set out below is a summary of such principal additional requirements which apply to the Company:

(i) *Sponsor and Compliance Adviser*

The Company is required to appoint at least one sponsor to assist its initial application for listing. In addition, the Company is required to retain, for at least the remainder of the financial year during which the listing occurs and two financial years thereafter, a compliance adviser to provide the Company with professional advice on continuous compliance with the GEM Listing Rules, and to act at all times, in addition to the two authorised representatives of the Company, as the Company's principal channel of communication with the Stock Exchange on behalf of the Company.

The sponsor must be approved by the Stock Exchange to be eligible to act as sponsor of a new applicant and is admitted to a list of sponsors maintained and published by the Stock Exchange from time to time. The sponsor and the compliance adviser must comply with the GEM Listing Rules so far as they are applicable to them. These include the requirement that no sponsor may act for or continue to act for the Company in circumstances where any actual or potential conflict of interest impedes its ability to provide competent advice to the Company in a professional and impartial manner. The sponsor and the compliance adviser must perform their duties with impartiality and at least one sponsor appointed by the Company must be independent. Compliance adviser needs not be independent.

Where the Company consults the sponsor or the compliance adviser for guidance or advice in relation to GEM Listing Rules, the sponsor or the compliance adviser has a responsibility to ensure that the Company is properly guided and advised, and must discharge that responsibility with due care and skill. The sponsor and the compliance adviser must not reveal any privileged information about or relating to the Company to anyone not authorized until the information has been the subject of a listing document, circular or formal announcement, particularly where such information may affect market activity in or the price of the Company's securities.

The sponsor and the compliance adviser shall ensure that a principal supervisor and an assistant supervisor remain actively involved in the provision of on-going advice and guidance sought by the Company. The sponsor and the compliance adviser shall take all reasonable steps to brief all new Directors and Supervisors appointed by the Company as to the nature of their responsibilities under the GEM Listing Rules and other applicable laws and provisions relating to securities and the general nature of their obligations both in relation to the Company's shareholders and creditors.

The compliance adviser must also regularly review the Company's operating performance and financial condition against the Company's statement of business objectives and against any profit forecast, estimate or projection included in the provisions of the Company's prospectus or otherwise made public by, or on behalf of, the Company in order to assist the Company in determining whether

any announcement is necessary under the GEM Listing Rules. The compliance adviser, shall, prior to publication, review with the Company all announcements, listing documents and circulars required to be issued under the GEM Listing Rules and the annual reports and accounts, half-year report and quarterly reports of the Company with a view to ensuring that the Directors understand the importance of disclosing all material information to shareholders and the market. During the minimum period of the compliance adviser's appointment, it may also terminate its role as compliance adviser to the Company in exceptional circumstances, where it is no longer able to perform the role, and only after first notifying the Stock Exchange of the intended termination and the reasons therefor. If the appointment is terminated for whatever reason prior to the expiry of the minimum period, the Company and the compliance adviser must immediately notify the Stock Exchange. In such instances, an announcement must be published as soon as practicable stating the reasons for termination, and a replacement must be appointed within 3 months of the date on which the former compliance adviser ceases to act.

If the Stock Exchange considers that the sponsor has breached or failed to discharge any of its obligations under the GEM Listing Rules, it may impose sanctions on the sponsor including the issue of a private reprimand or a public statement which involves criticism or public censure, the removal of the sponsor from the list of sponsors maintained by the Stock Exchange or barring the sponsor from representing a specified party in relation to a stipulated matter or matters coming before the GEM Listing Division or the GEM Listing Committee for a stated period.

(ii) Accountants' report

An accountants' report for a PRC issuer will not normally be regarded as acceptable by the Stock Exchange unless the relevant accounts have been audited to a standard comparable to that required in Hong Kong. Such report will normally be required to conform to either Hong Kong accounting standards or the international accounting standards.

(iii) Process agent

The Company is required to appoint and maintain a person authorised to accept service of process and notices on its behalf in Hong Kong throughout the period during which its securities are listed on GEM and must notify the Stock Exchange of his appointment, the termination of his appointment and his contact particulars.

(iv) Public shareholdings

If at any time there are existing issued securities of a PRC issuer other than foreign shares ("H shares") which are listed on GEM, the GEM Listing Rules require that (i) all H shares must be held by the public except as otherwise

permitted by the Stock Exchange in its discretion; (ii) the H shares held by the public must normally represent not less than 10% of the PRC issuer's issued share capital; and (iii) the aggregate amount of H shares and other securities held by the public must constitute not less than the minimum prescribed percentage of the PRC issuer's issued share capital.

The minimum prescribed percentage of a company whose market capitalization at the time of listing does not exceed HK\$4,000 million (as in the case of the Company) is 25%. If such market capitalization is over HK\$4,000 million, the minimum prescribed percentage is the higher of either, percentage that would result in the market value of the securities to be in public hands being equal to HK\$1,000 million (determined as at the time of listing) or 20%.

If the PRC issuer does not have existing issued securities other than H shares, the H shares must constitute not less than 25% of the issuer's issued share capital unless the expected market capitalisation of the total existing issued share capital at the time of the listing of the H shares is over HK\$4,000 million in which case, the prescribed minimum public shareholdings percentage is the higher of either percentage that would result in the market value of the securities to be in public hands being equal to HK\$1,000 million (determined as at the time of listing) or 20%.

(v) Independent non-executive directors and supervisors

The independent non-executive Directors are required to demonstrate an acceptable standard of competence and adequate commercial or, professional expertise to ensure that the interests of the general body of shareholders will be adequately represented. The Supervisors must have the character, expertise and integrity and be able to demonstrate a standard of competence commensurate with their position as supervisors.

(vi) Restrictions on purchase and subscription of its own securities

Subject to governmental approvals and the provisions of the Articles of Association, the Company may repurchase its own H shares on GEM in accordance with the provisions of the GEM Listing Rules. Approval by way of special resolution of the holders of Domestic Shares and the holders of H shares at separate class meetings conducted in accordance with the Articles of Association is required for share repurchases. In seeking approvals, the Company is required to provide information on any proposed or actual purchases of all or any of its equity securities, whether or not listed or traded on GEM. The Directors must also state the consequences which the Directors are aware, if any, of any purchases which will arise under either or both of the Hong Kong Code on Takeovers and Mergers and any PRC laws of a similar nature. A general mandate given to the Directors to repurchase H shares may not relate to more than 10% of the total amount of existing issued H shares of the Company.

(vii) Continuing obligations and financial information

Pursuant to its application for listing on GEM, the Company has undertaken to comply, upon any of its securities being admitted to listing on GEM, with all of the requirements of the GEM Listing Rules from time to time in force. The GEM Listing Rules contain certain provisions regarding general continuing obligations, the more important of which are summarised as follows:

(aa) Redeemable shares

The Company must not issue any redeemable shares unless the Stock Exchange is satisfied that the relative rights of the holders of the H shares are adequately protected.

(bb) Pre-emptive rights

Except in the circumstances mentioned below, the Directors are required to obtain the approval by a special resolution of shareholders in general meeting, and the approvals by special resolutions of the holders of Domestic Shares and H shares (each being otherwise entitled to vote at general meetings) at separate class meetings conducted in accordance with the Articles of Association, prior to (1) authorising, allotting, issuing or granting shares or securities convertible into shares, or options, warrants or similar rights to subscribe for any shares or such convertible securities; or (2) any major subsidiary of the Company making any such authorisation, allotment, issue or grant which will materially dilute the percentage equity interest of the Company and its shareholders in such subsidiary.

No such approval will be required, but only to the extent that: (i) the existing shareholders of the Company have by special resolution in general meeting given a mandate to the Directors, either unconditionally or subject to such terms and conditions as may be specified in the resolution, to authorise, allot or issue, either separately or concurrently, Domestic Shares and H shares subject to a restriction that in any 12 month period (commencing on the date on which shareholders pass such special resolution) the aggregate number of Domestic Shares allotted or agreed to be allotted must not exceed the aggregate of 20% of the issued Domestic Share capital of the Company and the aggregate number of H shares allotted or agreed to be allotted must not exceed the aggregate of 20% of the issued H share capital of the Company, in each case as at the date of the passing of the relevant special resolution; or (ii) such shares are part of the Company's plan at the time of its establishment to issue Domestic Shares and H shares and which plan is implemented within 15 months from the date of approval by CSRS or such other competent state council securities regulatory authority.

Notwithstanding the above, the Company shall obtain the approval by special resolution of the shareholders in general meeting prior to allotting any voting shares if such allotment would effectively alter the control of the Company.

(cc) Amendment to Articles of Association

The Company is required not to permit or cause any amendment to be made to its Articles of Association which would cause the same to cease to comply with the mandatory provisions or the GEM Listing Rule.

(dd) Documents for inspection

The Company is required to make available at a place in Hong Kong for inspection by the public and shareholders free of charge, and for copying by shareholders at reasonable charges the following:

- a complete duplicate register of shareholders;
- a report showing the state of the issued share capital of the Company;
- the Company's latest audited financial statements and the reports (if any) of the Directors, auditors and Supervisors thereon;
- special resolutions of the Company;
- reports showing the number and nominal value of securities repurchased by the Company since the end of the last financial year, the aggregate amount paid for such securities and the maximum and minimum prices paid in respect of each class of securities repurchased (with a breakdown between Domestic Shares and H Shares);
- a copy of the latest annual return filed with SAIC or other relevant PRC authority; and
- for shareholders only, copies of minutes of meetings of shareholders.

(ee) Receiving agents

The Company is required to appoint one or more receiving agents in Hong Kong and pay to such agents dividends declared and other monies owing in respect of the H Shares to be held, pending payment, in trust for the holders of such H Shares.

(ff) Statements in share certificates

The Company is required to ensure that all its listing documents and share certificates include the statements stipulated below and to instruct and cause each of its share registrars not to register the subscription, purchase or transfer of any of its shares in the name of any particular holder unless and until such holder, delivers to such share registrar a signed form in respect of such shares bearing statements to the effect that the acquirer of shares:

- agrees with the Company and each shareholder of the Company, and the Company agrees with each shareholder, to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association;
- agrees with the Company, each shareholder, Director, Supervisor, manager and other officer of the Company and the Company acting for itself and for each Director, Supervisor, manager and other, officer agrees with each shareholder to refer all differences and claims arising from the Articles of Association or any rights or, obligations conferred or imposed by the PRC Company Law or other, relevant laws and administrative regulations concerning the affairs of the Company to arbitration in accordance with the Articles of Association. Any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct its hearing in open session and to publish its award. Such arbitration will be final and conclusive;
- agrees with the Company and each shareholder of the Company that shares in the Company are freely transferable by the holder thereof; and
- authorises the Company to enter into a contract on his behalf with each Director and officer whereby such Directors and officers undertake to observe and comply with their obligations to shareholders stipulated in the Articles of Association.

(gg) Compliance with the PRC Company Law, the Special Regulations and the Articles of Association

The Company is required to observe and comply with the PRC Company Law, the Special Regulations and the Articles of Association.

(hh) Contract between the Company and its Directors, officers and Supervisors

The Company is required to enter into a contract in writing with every Director and officer containing at least the following provisions:

- an undertaking by the Director or officer to the Company to observe and comply with the PRC Company Law, the Special Regulations, the Articles of Association, the Hong Kong Codes on Takeovers and Mergers and Share Repurchases and an agreement that the Company shall have the remedies provided in the Articles of Association and that neither the contract nor his office is capable of assignment;
- an undertaking by the Director or, officer to the Company acting as agent for each shareholder to observe and comply with his obligations to shareholders stipulated in the Articles of Association; and
- an arbitration clause which provides that whenever any differences or claims arise from that contract, the Articles of Association or any rights or obligations conferred or imposed by the PRC Company Law or other relevant laws and administrative regulations concerning the affairs of the Company between the Company and its Directors or officers and between a holder of H Shares and a Director or officer of the Company, such differences or claims will be referred to arbitration at either CIETAC in accordance with its rules or HKIAC in accordance with its securities arbitration rules, at the election of the claimant and that once a claimant refers a dispute or claim to arbitration, the other party must submit to the arbitral body elected by the claimant. Such arbitration will be final and conclusive.

Disputes over who is a shareholder and over the share register do not have to be resolved through arbitration.

If the party seeking arbitration elects to arbitrate the dispute or claim at HKIAC, then either party may apply to have such arbitration conducted in Shenzhen according to the Securities Arbitration Rules of HKIAC. The party seeking arbitration may elect to have the dispute or claim arbitrated either by CIETAC or HKIAC and once the party seeking arbitration submits a dispute or claim to arbitration, the other party must submit to the arbitral body selected by the party seeking the arbitration.

PRC laws shall govern the arbitration of disputes or claims referred to above, unless otherwise provided by laws or administrative regulations. The award of the arbitral body is final and shall be binding on the parties thereto.

The agreement to arbitrate is made by the Director or officer with the Company on its own behalf and on behalf of each shareholder. Any reference to arbitration is deemed to authorize the arbitral tribunal to conduct hearings in open session and to publish its award.

The Company is also required to enter into a contract in writing with every Supervisor containing statements in substantially the same terms.

(ii) Subsequent listing

The Company must apply for the listing of any further, securities which are of the same class as securities already listed, prior to their issue, and must not issue such securities unless it has applied for their, listing.

The Company must not apply for- the listing of any of its foreign shares on a PRC stock exchange unless the Stock Exchange is satisfied that the relative rights of the holders of overseas listed foreign shares are adequately protected.

(jj) English translation

All documents furnished by the Company, including accounts, which are in a language other than English or Chinese, must be accompanied by a certified English or Chinese translation.

(viii) *General*

If changes in the PRC laws or market practices materially alter the validity or accuracy of any of the basis upon which the additional requirements have been prepared, then the Stock Exchange may impose additional requirements or make listing of the equity securities of a PRC issuer, including the Company, subject to such special conditions as the Stock Exchange considers appropriate. Whether or, not any such changes in the PRC laws or, market practices occur, the Stock Exchange retains its general power under the GEM Listing Rules to impose additional requirements and make special conditions in respect of the listing of the Company.

(c) Other Legal and Regulatory Provision

Upon the listing of the Company on GEM, the provisions of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the Hong Kong Codes on Takeovers and Mergers and Share Repurchases and such other relevant ordinances and regulations as may be applicable to companies listed on the Stock Exchange will apply to the Company.

(d) Securities Arbitration Rules

The Articles of Association provide that certain claims arising from the Articles of Association or the PRC Company Law shall be arbitrated at either CIETAC or HKIAC in accordance with their respective rules.

The Securities Arbitration Rules of the HKIAC contain provisions allowing an arbitral tribunal to conduct a hearing in Shenzhen for cases involving the affairs of companies incorporated in the PRC and listed on GEM so that PRC parties and witnesses may attend.

Where any party applies for a hearing to take place in Shenzhen, the tribunal shall, where satisfied that such application is based on bona fide grounds, order the hearing to take place in Shenzhen conditional upon all parties including witnesses and the arbitrators being permitted to enter Shenzhen for the purposes of the hearing. Where a party (other than a PRC party) or any of its witnesses or any arbitrator is not permitted to enter Shenzhen, then the tribunal shall order that the hearing be conducted in any practicable manner, including the use of electronic media. For the purpose of the Securities Arbitration Rules, a PRC party means a party domiciled in the PRC other than the territories of Hong Kong, Macau and Taiwan.

PRC LEGAL MATTERS

Commerce & Finance Law Office, the Company's legal adviser on PRC law, has sent to the Company a letter dated 27 November, 2006, confirming that it has reviewed the summaries of PRC company and securities regulations and the summaries of certain material differences between the Hong Kong company law and the PRC company law in so far as they relate to PRC law as contained in this Appendix and that, in its opinion, such summaries are correct summaries of relevant PRC laws and regulations. This letter is available for inspection as referred to in the section of this prospectus headed "Documents Available for Inspection" in Appendix VIII.

Any person wishing to have detailed advice on PRC law and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

Taxation of Security Holders

The following is a summary of certain PRC and Hong Kong tax consequences of the ownership of the Company's H Shares by an investor that purchases such H Shares in connection with the International Placing and holds these H Shares as capital assets. This summary does not purport to address all material tax consequences of the ownership of our H Shares, and does not take into account the specific circumstances of any particular investors such as tax exempt entities, certain insurance companies, maker-dealer, investors liable for alternative minimum tax, investors that actually or constructively own 10% or more of the voting shares of the Company, investors that hold H Shares as part of a straddle or a hedging or conversion transaction whose functional currency is not U.S. dollars, some of which may be subject to special rules. This summary is based on the tax laws of the PRC and Hong Kong as in effect on the date hereof, which are subject to change (or changes in interpretation), possibly with retroactive effect.

The discussion does not address any aspects of Hong Kong or PRC taxation other than income taxation, capital taxation, stamp duty and estate taxation. Prospective investors are urged to consult their tax advisers regarding the PRC, Hong Kong and other tax consequences of owning and disposing of our H Shares.

Taxation of Dividends

PRC Taxation

Individual Investors. Pursuant to the "Individual Income Tax Law of the People's Republic of China" promulgated in 1980, as amended on October 31, 1993, August 30, 1999 and October 27, 2005, dividends paid by PRC companies to individuals are ordinarily subject to an individual income tax levied at a flat rate of 20%. For a foreign individual who is not a resident of the PRC, his receipt of dividends from a company in the PRC is ordinarily subject to an individual income tax of 20%, unless reduced by an applicable tax treaty or specifically exempted by the tax authority of the State Council. However, on July 21, 1993, the PRC State Administration of Taxation ("SAT") issued a "Notice of the State Administration of Taxation Concerning the Taxation of Gains on Transfer and Dividends from Shares (Equities) Received by Foreign Investment Enterprises, Foreign Enterprises and Foreign Individuals" ("the Tax Notice"), which states that dividends received by foreign individuals and paid by a PRC company with respect to shares listed on an overseas stock exchange ("Overseas Shares"), such as H Shares, are temporarily not subject to PRC individual income tax.

"The Amendment to the Individual Income Tax Law of the People's Republic of China by the Standing Committee of the National People's Congress" ("The Amendment") was enacted on October 31, 1993 and became effective on January 1, 1994, and rules that the effect of any past provision of any past law contradicting the Amendment with respect to individual income tax ceases on the same date. Pursuant to the Amendment, the amended "Individual Income Tax Law" and the "Provisions for Implementation of Individual Income Tax Law of the PRC", a foreign individual receiving dividends from a PRC company is subject to an Individual Income Tax of 20%, unless reduced by an applicable tax treaty or specifically exempted by the tax authority of the State Council. However, in a letter dated

July 26, 1994 to the State Economic Restructuring Commission, the Securities Commission and the CSRC, the SAT reiterated the temporary tax exemption stated in the Tax Notice for dividends received from a PRC company listed overseas. In the event of the withdrawal of this exemption, a 20% tax should be levied on dividends pursuant to the amended Individual Income Tax Law and the Provisions for Implementation of Individual Income Tax Law of the PRC. Such tax levy may be reduced pursuant to applicable agreements for avoidance of double taxation. The relevant tax authority has not levied any withholding tax on Overseas Shares dividends to the present.

Enterprises. According to the Income Tax Law of the PRC Concerning Foreign Investment Enterprises and Foreign Enterprises (中華人民共和國外商投資企業和外國企業所得稅法), dividends paid by PRC companies to foreign enterprises with no permanent establishment in the PRC (including foreign companies and other economic entities) are ordinarily subject to a PRC withholding tax levied at a flat rate of 20%. However, according to the Tax Notice, a foreign enterprise (including foreign companies and other economic entities) with no permanent establishment in the PRC receiving dividends with respect to a PRC company's Overseas Shares will temporarily not be subject to the 20% withholding tax. If such withholding tax becomes applicable in the future, the rate is subject to reduction pursuant to an applicable double taxation treaty.

Tax Treaties. Investors who do not reside in the PRC and reside in countries that have entered into double taxation treaties with the PRC may be entitled to a reduction of the withholding tax imposed on the payment of dividends to investors of the Company who do not reside in the PRC. The PRC currently has double taxation treaties with a number of countries, including without limitation Australia, Canada, France, Germany, Japan, Malaysia, the Netherlands, Singapore, the United Kingdom and the United States.

Hong Kong Taxation

Under the current practice of the Hong Kong Inland Revenue Department, no tax is payable in Hong Kong in respect of dividends paid by us.

Taxation of Capital Gains

PRC Taxation

The Tax Notice provides that gains realized by foreign enterprises that are holders of Overseas Shares (which would include the H Shares) would, temporarily, not be subject to capital gains taxes. As to individual holders of our H Shares, the Provisions for Implementation of Individual Income Tax Law of the PRC (中華人民共和國個人所得稅法實施條例) (the "Provisions"), issued on January 28, 1994, generally stipulated that gains derived from sale of equity shares shall be subject to income tax at a rate of 20%. In addition, the Provisions stipulated that measures for the levying of individual income tax on gains derived from the sale of equity securities shall be formulated separately by the Ministry of Finance and shall be implemented following approval of the State Council. However, no income tax on gains realized on the sale of equity shares has been collected. Gains on the sale of shares by individuals were temporarily exempted from individual income tax pursuant to notices issued jointly by the MOF and SAT dated March 30, 1998. In

the event this temporary exemption is withdrawn or ceases to be effective, individual holders of our H Shares may be subject to capital gains tax at the rate of 20% unless such tax is reduced or eliminated by an applicable double taxation treaty.

On November 18, 2000, the State Council issued a notice entitled “State Council Notice on the Income Tax Reduction for Interest and Other Income that Foreign Enterprises Derive in the PRC” (關於外國企業來源於我國境內的利息等所得減徵所得稅問題的通知) (the “Tax Reduction Notice”). Under the Tax Reduction Notice, beginning January 1, 2000, for foreign enterprises which have no institutions and premises in China or have set up institutions and premises but having no practical connection with its above income, a business income tax will be levied upon their interest, rent, royalties and other income at a 10% reduced tax rate. Therefore, if the exemption as described in the preceding paragraph does not apply or is not renewed, and if the Tax Reduction Notice is found not to apply, a foreign corporate shareholder of our H shares may be subject to a 20% tax on capital gains, unless reduced in accordance with an applicable double taxation treaty.

Hong Kong Taxation

No tax is imposed in Hong Kong in respect of capital gains from the sale of property such as H shares. Trading gains from the sale of property by persons carrying on a trade, profession or business in Hong Kong where such gains are derived from or arise in Hong Kong from such trade, profession or business will be chargeable to Hong Kong profits tax, which is currently imposed at the rate of 17.5% on corporations and at a maximum rate of 16% on individuals. Gains from sales of our H shares effected on the Stock Exchange will be considered to be derived from or to have arisen in Hong Kong. Liability for Hong Kong profits tax would thus arise in respect of trading gains from sales of our H shares realized by persons carrying on a business of trading or dealing in securities in Hong Kong.

Stamp Duty

PRC Stamp Duty

PRC stamp duty is imposed on the transfer of shares of PRC publicly traded companies under the Provisional Regulations of the PRC Concerning Stamp Duty (中華人民共和國印花稅暫行條例) (the “Stamp Duty Regulations”) which became effective on October 1, 1988. The Stamp Duty Regulations and the implementation rules thereof provide that PRC stamp duty is imposed on documents that are legally binding in the PRC and protected under PRC law.

Hong Kong Stamp Duty

Hong Kong stamp duty will be payable by the purchaser on every purchase and by the seller on every sale of our H shares. With effect from September 1, 2001, the duty is charged at the ad valorem rate of HK\$1 per HK\$1,000 or part thereof of the consideration for, or (if greater) the value of, the H Shares transferred (i.e. a total of HK\$2 per HK\$1,000 or part thereof is payable on a typical sale and purchase transaction of H Shares). In addition, a fixed duty of HK\$5 is currently payable on any instrument of transfer of shares.

If one of the parties to the sale is a non-resident of Hong Kong and does not pay the required stamp duty, the unpaid duty will be assessed on the instrument of transfer (if any), and the transferee will be liable for payment of such duty.

Estate Duty

PRC Estate Tax

No liability for estate tax under PRC law will arise from non-PRC nationals holding our H Shares.

Hong Kong Estate Duty

The Revenue (Abolition of Estate Duty) Ordinance 2005 abolished estate duty in respect of deaths occurring on or after February 11, 2006. In addition, estate duty in respect of deaths occurring on or after July 15, 2005 but before February 11, 2006 has been reduced to nominal duty of HK\$100 in respect of estates whose assessed value exceeds HK\$7.5 million. No estate duty is payable where the assessed value of the dutiable estate does not exceed HK\$7.5 million.

Taxation of the Company in the PRC

Income Tax

From January 1, 1994, income tax payable by PRC domestic enterprises, including state-owned enterprises and joint stock enterprises, is governed by the PRC Enterprise Income Tax Provisional Regulations (中華人民共和國企業所得稅暫行條例) (the “EIT Regulations”) which provide for a corporate income tax rate of 33% unless a lower rate is provided by law, administrative regulations or State Council regulations. The Company is generally subject to a corporate income tax at a rate of 33% pursuant to the EIT Regulations.

Value-added Tax

The PRC Provisional Regulations on Value-added Tax (“the VAT Regulations”) were promulgated on December 13, 1993 and became effective on January 1, 1994. The VAT Regulations apply to domestic and foreign investment enterprises that sell goods, provide processing or repair services or import goods in the PRC. Except for certain specified categories of goods sold or imported, the value-added tax rate for the sale or import of which is 13%, the tax rate for the provision of processing and repair services is 17%.

Business Tax

Under the Provisional Regulations on Business Tax of the PRC (中華人民共和國營業稅暫行條例) promulgated on December 13, 1993 and the provisional implementation rules thereof which took effect on January 1, 1994, business tax is levied on

all enterprises that provide “taxable services”, assignment of intangible assets and sale of immovable property in the PRC. The rates range from 3% to 20% depending on the type of taxable items.

Taxation of the Company by Hong Kong

The Company does not believe that any of its income is derived from or arises in Hong Kong for the purpose of Hong Kong taxation. The Company will therefore not be subject to Hong Kong taxation.

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

Set out below is a summary of the principal provisions of the Articles of Association which have incorporated the Mandatory Provisions as supplemented by the Opinion Regarding the Supplemental Amendments to the Articles of Association of Companies to be Listed in Hong Kong jointly promulgated by the CSRC and the State Commission for Restructuring the Economic System of the PRC and which were adopted at the first extraordinary meeting of the Company held on 29 June 2006 and as subsequently amended by the Board. Copies of the full Chinese text of the Articles of Association are available for inspection as mentioned in the paragraph headed “Documents available for inspection” in Appendix IX.

1. Directors

(a) *Power to allot and issue shares*

There are no provisions in the Articles of Association empowering the Directors to allot and issue shares.

In order to increase the share capital of the Company, the Directors shall prepare a proposal for an allotment of shares in the Company, and submit the same to shareholders in shareholders meeting for their approval by way of a special resolution. The Directors shall then submit the proposal for the share allotment to the securities regulatory authorities of the State Council for approval and subject to such approval being obtained, make separate arrangements to implement the share allotment.

Subject to the relevant PRC laws and regulations, the Company may by special resolutions at a shareholders meeting, authorise the Directors to allot or issue, either separately or concurrently once every 12 months not more than 20% of each of the existing issued Domestic Shares and overseas listed foreign shares of the Company.

(b) *Power to dispose of the assets of the Company*

The Directors shall not without the prior approval of shareholders in shareholders’ meeting, dispose or agree to dispose of any fixed assets of the Company if the aggregate of:

- (i) the expected value of the fixed assets proposed to be disposed of; and
- (ii) the total consideration received by the Company for all disposals of fixed assets which took place within the period of four months immediately preceding the proposed disposal

exceeds 33% of the value of the Company’s fixed assets as shown in the last balance sheet placed before the shareholders in shareholders’ meeting the validity of a disposal of fixed assets by the Company shall not be affected by a breach of this provision. For the purposes of this provision, disposal includes an act involving the transfer of an interest in fixed assets other than by way of security.

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

(c) Compensation of payments for loss of office

Payment to a Director or Supervisor by way of compensation for loss of office or retirement shall be stipulated in his contract with the Company. A Director or Supervisor shall not institute proceedings against the Company for any benefit due to him in respect of any such arrangement except under a contract entered into in accordance with the foregoing.

In connection with a takeover of the Company a Director or a Supervisor is entitled to compensation or other payment for loss of office or retirement subject to the obtaining of prior approval of shareholders in shareholders' meeting. A "takeover of the Company" refers to any one of the following circumstances:

- (i) an offer made by any person to all shareholders of the Company; or
- (ii) an offer made by any person with a view to the offeror becoming a controlling shareholder (as defined in the Articles of Association) of the Company.

If the relevant Director or Supervisor does not comply with the above provision, any monies received by him shall belong to those persons who have sold their shares by reason of their acceptance of the offer made, and the expenses incurred in distributing the monies pro rata amongst those persons shall be borne by that Director or Supervisor and shall not be deducted out of the monies to be distributed.

(d) Loans to Directors

The Company is prohibited from directly or indirectly making a loan or providing any guarantee in connection with a loan made to (i) its Director, Supervisor, general manager, deputy manager or other senior management officers, or (ii) a director, supervisor, general manager, deputy manager or other senior management officers of its holding company, or (iii) to a person connected with the aforementioned officers in the manner described in paragraph 1(f) below.

The prohibitions contained in this paragraph 1(d) shall not apply in the following circumstances:

- (i) the provision of a loan or a guarantee for a loan by the Company to a subsidiary of the Company;
- (ii) the provision by the Company to a Director, Supervisor, general manager, deputy manager or other senior management officers pursuant to an employment contract approved by the shareholders' meeting of the Company, of a loan or a guarantee for a loan or other funds to meet expenditure incurred by him in the interest of the Company or for the purpose of enabling him to perform his duties towards the Company; and
- (iii) where the ordinary course of business of the Company includes the lending of money or the giving of guarantees, the Company may make a loan to or provide a guarantee for a loan to a Director, Supervisor, general manager, deputy manager

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

or other senior management officers or persons connected with them (as described in paragraph 1(f) below), provided that the terms of the loan or guarantee for a loan are on normal commercial terms.

A loan made by the Company in breach of the prohibition described above shall be repaid immediately by the recipient of the loan, regardless of the terms of the loan.

A guarantee provided by the Company in breach of the prohibition described above shall not be enforceable against the Company, except in the following circumstances:

- (i) the lender was not aware of the relevant circumstances at the time the loan was advanced to the connected person of a director, supervisor, general manager, deputy manager or other senior management officers of the Company or its holding company; and
- (ii) the security provided by the Company has been lawfully sold by the lender to a bona fide purchaser.

For the purpose of the foregoing provisions, a guarantee includes giving an undertaking of obligations or provision of security to secure the performance of obligations of the obligor.

(e) Financial assistance for the acquisition of shares in the Company

Subject to the exceptions provided in the Articles of Association, where a person is purchasing or proposing to purchase shares in the Company, the Company and its subsidiaries shall not at any time and in any manner give any financial assistance to that person. The aforesaid purchaser of shares includes a person who directly or indirectly assumes obligations by virtue of such purchase of shares. The Company and its subsidiaries shall not at any time and in any manner give financial assistance for the purposes of reducing or discharging such obligations.

The following transactions are not prohibited:

- (i) the provision or financial assistance by the Company in good faith in the interest of the Company and the principal purpose of that assistance is not to acquire shares in the Company or that financial assistance is an incidental part of some larger overall plan of the Company;
- (ii) a lawful distribution of the Company's assets by way of dividend;
- (iii) the distribution of dividend by way of an allotment of bonus shares;
- (iv) a reduction of the Company's registered capital, repurchase of shares or reorganisation of the share capital in accordance with the Articles of Association;

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

- (v) the lending of money by the Company within its scope of operations in the ordinary course of its business provided that the Company's net assets are not thereby reduced or to the extent that those assets are thereby reduced, the financial assistance is provided out of distributable profits of the Company; and
- (vi) the provision of money by the Company for contribution to employees' share scheme, provided that the Company's net assets are not thereby reduced or to the extent that those assets are thereby reduced, the financial assistance is provided out of distributable profits of the Company.

For the purpose of the Articles of Association.

- (i) "financial assistance includes (but is not limited to) financial assistance provided:
 - (aa) by way of gift;
 - (bb) by way of guarantee (including the provision of an undertaking or property to secure the performance of obligations by the obligor), indemnity (other than an indemnity given in respect of the Company's own negligence or default), release or waiver;
 - (cc) by way of a loan or entering into a contract under which the obligations of the Company have to be fulfilled before the obligations of the other party to the contract, or by way of the change of the party to that loan or contract, or the assignment of any rights arising thereunder; and
 - (dd) in any other form when the Company is tenable to pay its debts or has no net assets or when its net assets may be reduced to a material extent; and
- (ii) the meaning of "assumed obligations" includes obligations assumed by the obligor as a result of entering into a contract or making any arrangement (whether or not such contract or arrangement is enforceable, and whether or not assumed by him personally or together with any other party) or by any other means whereby his financial position is changed.

(f) Disclosure of interests in contracts with the Company

Where a Director, Supervisor, general manager, deputy manager or other senior management officers of the Company has, directly or indirectly, a material interest in a contract, transaction or arrangement entered into or proposed to be entered into by the Company (other than his contract of service), he shall declare the nature and extent of his interest to the Board as soon as possible, whether or not the matters in question are otherwise subject to the approval to the Board. Unless the interested Director, Supervisor, general manager, deputy manager or other senior management officers has disclosed his interests in accordance with the Articles of Association and that matter has been approved by the Board at the meeting at which the interested Director has not been counted in quorum and has refrained from voting, the Company may cancel that contract, transaction or arrangement except as against a bona fide party thereto acting in good faith and without

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

notice of the breach of duty by that Director, Supervisor, general manager deputy manager or senior management officers For the purposes of this provision, a Director, Supervisor, general manager, deputy manager or other senior management officers is deemed to have an interest in a contract, transaction or arrangement in which a person connected to him is interested.

If a Director, Supervisor, general manager, deputy manager or other senior management officers, before the question of entering into the relevant contract, transaction or arrangement is first considered, gives to the Board a notice in writing, stating that by reason of the matters specified in the notice, he is interested in a contract, transaction or arrangement proposed to be entered into by the Company, then the relevant Director, Supervisor, general manager, deputy manager or senior management officers shall be deemed to have made a disclosure for the purpose of the above provision within the scope of that specified notice.

A person is connected with a Director, Supervisor, general manager, deputy manager or other senior management officers if he is:

- (i) the spouse or minor child of that Director, Supervisor, general manager, deputy manager or other senior management officers;
- (ii) a person acting in the capacity of trustee of that Director, Supervisor, general manager, deputy manager or other senior management officers or any person referred to in (i) above;
- (iii) a person who is a partner of that Director, Supervisor, general manager, deputy manager or other senior management officers or any person referred to in (i) and (ii) above;
- (iv) a company over which that Director, Supervisor, manager or other senior management officers, alone or together with any person referred to in (i), (ii) and (iii) above, or together with other Director(s), Supervisor(s), general manager, deputy manager or senior management officer(s) have de facto control; or
- (v) a director, supervisor, general manager deputy manager or other senior management officers of the company referred to in (iv) above.

(g) Remuneration

The Company shall enter into a contract in writing with each Director and Supervisor in respect of remuneration, with the prior approval of the shareholders' meeting of the Company. Such remuneration includes:

- (i) remuneration in respect of his service as Director, Supervisor or senior management officer of the Company;
- (ii) remuneration in respect of his service as director, supervisor or senior management officer of a subsidiary of the Company;

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

- (iii) remuneration in respect of other services provided in connection with the management of the affairs of the Company or its subsidiaries; and
- (iv) monies payable as compensation for loss of his office or retirement from office to that Director or Supervisor.

A Director or Supervisor shall not institute any proceedings against the Company for any benefit due to him in respect of the above matters except under a contract entered into in accordance with the foregoing

(h) Retirement, appointment and removal

A person shall be disqualified from being a Director, Supervisor, general manager, deputy manager or other senior management officers of the Company in any of the following circumstances:

- (i) any person who suffers from any incapacity or restricted capacity from undertaking civil obligations;
- (ii) any person who has been convicted of offences relating to bribery, corruption, trespass to assets, misappropriation of assets, or causing social economic disorder or any person who has been deprived of his political rights as a result of his having committed an offence and a period of five years has not elapsed since the completion of the term of sentence or deprivation;
- (iii) any person who was a former director, factory manager or manager of a company or enterprise which had become bankrupt or had been liquidated because of unsound management and who incurred personal liability for the insolvency or liquidation of such company or enterprise and a period of three years has not yet elapsed since the completion of insolvency or liquidation of such company or enterprise;
- (iv) any person who was a legal representative of a company or enterprise, the business licence of which was revoked on the ground of contravention of law, and who incurred personal liability therefor, where a period of three years has not yet elapsed since the revocation of the business licence;
- (v) any person who has failed to repay his relatively large amount of indebtedness when due;
- (vi) a person who because of suspected contravention of criminal law, is under investigation by judicial authorities and the case has not yet been settled;
- (vii) a person who is not eligible for enterprise leadership according to PRC law and administrative regulations;
- (viii) a person who is not a natural person; or

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

- (ix) any person who has been determined by the relevant supervisory authority of having contravened the provisions of the relevant securities laws and which involves fraudulent or dishonest acts on his part and a period of five years from the date of such determination has not yet elapsed.

A Director is not required to hold any shares of the Company. There is no stipulation that a Director must retire at a certain age.

All Directors shall be elected by shareholders' meeting of the Company and shall serve a term of three years from the date of their respective elections. Upon the expiry of his term of office, a Director may be re-elected to serve consecutive terms.

A notice of intention to propose a person for election as a Director and a notice in writing by that person of his willingness to be elected shall be given to the Company at least seven days before the date of the relevant shareholders' meeting.

The Board of the Company shall consist of eight Directors, comprising at least two executive directors. External directors, i.e. those who do not assume any executive office in the Company shall account for more than half of the composition of the board of Directors. More than two of the external directors shall be independent non-executive directors, i.e. those independent of and who do not assume any executive office in the Company.

Subject to compliance with the relevant laws and administrative regulations, shareholders in shareholders' meeting may by way of an ordinary resolution remove any Director before the expiry of the term of his office (but without prejudice to any claim for compensation pursuant to any contract).

(i) Borrowing powers

Subject to applicable laws and regulations, the Company has power to raise capital and borrow money by way of, among other means, the issue of bonds and creation of security over its assets, provided that the exercise of such powers shall not prejudice or abrogate the rights of different classes of shareholders.

2. Alterations to constitutional documents

Any amendment to any provision contained in the Articles of Association requires the sanction of a special resolution at the shareholders' meeting of the Company in accordance with the following procedures:

- (i) the Directors shall adopt a proposal to amend the Articles of Association in accordance with the Articles of Association and shall formulate proposal for amendments;
- (ii) shareholders shall be informed of the proposal for amendments and a shareholders' meeting shall be convened to vote on the amendments;

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

- (iii) the amendments shall require the sanction of more than two-thirds of the voting rights held by shareholders attending the shareholders' meeting.

Any amendment to such provisions that are included in the Articles of Association in accordance with the Mandatory Provisions shall only be effective after the approval thereof by the companies supervisory authorities of the State Council and the approval accredited by the Securities Commission of the State Council. Any amendment involving companies registration matters shall be registered in accordance with the PRC law.

3. Variation of rights of existing shares or classes of shares

Save as otherwise provided for in article 21 and article 88 of the Articles of Association, any proposal to vary or abrogate the rights conferred on any class of shareholder ("Class Rights") must be approved by a special resolution of shareholders' meeting of the Company and approved by holders of shares of that class at a separate meeting conducted in accordance with the provisions of the Articles of Association.

The following circumstances shall be deemed to be a variation or abrogation of Class Rights:

- (i) the change in the number of shares of such class, or a change in the number of shares of a class which have voting rights or distribution rights or other privileges which are equal or superior to the shares of such class;
- (ii) the exchange of all or part of the shares of such class for the shares of another class or the conversion of all or part of the Shares of another class for the shares of such class or the grant of a right to such conversion;
- (iii) the removal or reduction of rights to accrue dividends or rights to cumulative dividends attached to such class of shares;
- (iv) the reduction or removal of a preferential right to dividends or a distribution of surplus assets upon liquidation of the Company of such class of shares;
- (v) the addition, removal or reduction of any conversion privilege, option, voting right, transfer right, pre-emptive right or right to acquire securities of the Company attached to such class of shares;
- (vi) the removal or reduction of any right attached to such class of shares to receive money payable by the Company in particular currencies;
- (vii) the creation of a new class of shares which have voting rights, distribution rights or other privileges equal or superior to such class of shares;
- (viii) the imposition of restrictions or increase in restrictions on the transfer right or ownership right of the shares of such class;

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

- (ix) the issue of rights to subscribe for, or convert into shares of such class or another class;
- (x) the increase of the right or privileges of another class of shares;
- (xi) the restructuring of the Company which results in classes of shareholders bearing disproportionate responsibilities in such restructuring; and
- (xii) the variation or abrogation of provisions concerning the protection of shareholder rights of various classes of shares in the Articles of Association.

Shareholders of the affected class, whether or not having the right to vote at shareholders' meetings, shall nevertheless be entitled to vote at class meetings in respect of matters concerning sub-paragraphs (ii) to (viii), (xi) and (xii) above, but Interested Shareholder(s) (as defined below) shall have no voting rights at class meetings.

Resolutions of a class meeting shall be passed by two thirds of the votes of the shareholders of that class (including proxies) present at and who are entitled to vote at the class meeting.

Notice of class meetings needs only be served on shareholders entitled to vote thereat.

Class meetings shall be conducted in a manner as nearly as is possible as shareholders' meetings. The provisions of the Articles of Association relating to the proceedings of shareholders' meetings shall apply to class meetings.

Besides other class of shareholders, holders of Domestic Shares and overseas listed foreign shares shall be deemed to be different classes of shares.

For the purposes of the Class Rights provisions of the Articles of Association an Interested Shareholder is:

- (i) in the case of a repurchase of shares by the Company by way of a general offer to all shareholders in equal proportion or on a stock exchange by public transaction method, the controlling shareholder is defined in the Articles of Association;
- (ii) in the case of a repurchase of shares by the Company by an off-market agreement in accordance with the Articles of Association, the shareholder to which the proposed agreement relates; and
- (iii) in the case of a restructuring proposal of the Company, a shareholder who bears less than a proportionate responsibility than other shareholders of the same class or a shareholder who has an interest different from the interests of the other shareholders of that class.

4. Ordinary and special resolutions – majority required

Resolutions of shareholders' meetings may be passed by way of ordinary resolutions or special resolutions.

An ordinary resolution shall be passed by more than one half of the votes held by the shareholders present in person or by proxy at a shareholders' meeting and voting in favour of the resolution.

A special resolution shall be passed by more than two thirds of the votes held by the shareholders present in person or by proxy at a shareholders' meeting and voting in favour of the resolution.

5. Voting Rights

A shareholder has the right to attend and vote in person and to appoint a proxy to attend and vote on his behalf at shareholders' meetings. A proxy need not be a shareholder.

Subject to any special rights or restrictions as to voting rights for the time being attached to any class of shares, shareholders (including proxies) who vote at the shareholders' meeting shall exercise their voting rights in relation to the number of shares carrying the right to vote which they hold. Each share shall carry one vote.

At any meeting of shareholders, voting shall be decided on a show of hands unless a poll (before or after any vote by a show of hands) is demanded by the following persons:

- (a) the chairman of the meeting;
- (b) at least two shareholders having the right to vote present in person or by proxy;
or
- (c) one or more shareholders present in person or by proxy who, alone or together, hold 10% or more of the shares carrying the right to vote at that meeting.

Unless a poll is demanded, a declaration by the chairman that a resolution has been passed based on the result of the show of hands and of an entry to that effect in the minutes of the meeting, shall be conclusive evidence of that fact without further proof of the number or proportion of the votes recorded or the percentage of votes recorded in favour of or against such resolution. The demand for a poll may be withdrawn by the person or persons who demanded it.

A poll demanded on the election of the chairman of the meeting, or on a question of adjournment, shall be taken immediately. A poll demanded on any other matters shall be taken at such time as the chairman of the meeting decides, and the meeting may continue to proceed to discuss other matters. The result of the poll shall be declared as soon as possible and shall be deemed to be the resolution of the meeting at which the poll was demanded.

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

Where any shareholder is, under the GEM Listing Rules, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

On a poll taken at a meeting, a shareholder (including his proxy) entitled to two or more votes need not cast all his votes in the same way.

In the case of an equality of votes, whether on a show of hands or on a poll, the chairman of the meeting shall be entitled to an additional vote.

6. Requirements for annual shareholders' meetings

General meetings are divided into annual shareholders' meetings and extraordinary shareholders' meetings. General meetings shall be convened by the Board. Annual shareholders' meetings shall be held once every year within six months after the end of each financial year.

7. Accounts and audit

(a) Financial and accounting system

The Company shall formulate its financial accounting system in accordance with the relevant requirements of PRC law, administrative regulations and the principles relating to PRC accounting standards formulated by the financial supervisory authority of the State Council.

The Company shall prepare a financial report at the end of every financial year and shall have it audited in accordance with the laws and regulations.

The Directors shall place before the shareholders at every annual shareholders' meeting the financial reports required by the relevant laws, administrative regulations or prescribed documents required by regional governments and supervisory authorities to be prepared by the Company.

The financial reports of the Company shall be placed at the Company 20 days prior to the holding of the annual shareholders' meeting of the Company for inspection by shareholders. A printed copy of the financial reports together with the print copy of the report of the Directors shall, at least 21 days before the date of the annual shareholders' meeting, be delivered or sent by prepaid post by the Company to every holder of H Shares at his address as shown on the register of members.

The financial statements of the Company shall, in addition to complying with the PRC accounting standards and regulations be prepared in accordance with either international accounting standards or the accounting standards of the place at which foreign shares of the Company are listed. If there are material differences between the financial statements prepared in accordance with the aforesaid accounting standards, then those financial statements shall specify such differences in the annotations. For the purposes of distributing

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

the Company's profits after tax in a given financial year, the Company's profits after tax shall be deemed to be the lesser of the amounts stated in the two sets of financial statements.

Any interim result or financial information announced or disclosed by the Company shall be prepared in accordance with PRC accounting standards and regulations as well as in accordance with either international accounting standards or the accounting standards of the place where the foreign shares of the Company are listed.

(b) Appointment of auditors

The Company shall at each annual shareholders' meeting appoint one or more independent firms of accountants which satisfy the relevant PRC requirements to audit the annual financial report and other financial reports of the Company. The accounting firm so appointed by the Company from time to time shall be the auditor of the Company. The term of appointment of the auditors shall commence from the conclusion of the current annual shareholders' meeting until the conclusion of the next annual shareholders' meeting.

The first auditor of the Company may be appointed at the inaugural meeting of the Company or failing which, by the Board, and the auditor so appointed shall hold office until the conclusion of the first annual shareholders' meeting.

If a casual vacancy arises in the office of an auditor, the Board may prior to the holding of a shareholders' meeting appoint an independent firm of accountants to fill the casual vacancy, but if any such vacancy continues the surviving or continuing auditor(s), if any, may continue to act.

The shareholders' meeting may by ordinary resolution remove an auditor before the expiration of its term of office, notwithstanding any terms of contract between the Company and the auditor, but without prejudice to the auditor's claim, if any, against the Company arising from termination of its office.

The remuneration of an auditor appointed by the Board shall be determined by the Board. In all other cases, the remuneration and the method of remuneration of an auditor shall be determined by the shareholders' meeting.

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

(c) Change and removal of auditors

Where a resolution is passed at a shareholders' meeting to appoint a firm of accountants not currently in office to fill a casual vacancy in the office of auditor, to re-appoint as auditor a retiring auditor who was appointed by the Directors to fill a casual vacancy, or to remove an auditor before the expiration of its term of office, the following provisions shall apply:

- (i) the proposed resolution shall be sent, before notice of a shareholders' meeting of the Company is given, to the firm of accountants proposed to be appointed or the auditor who proposed to leave office or the auditor who has left office in the relevant financial year (leaving office includes leaving by removal, resignation and retirement);
- (ii) if the auditor leaving its office makes representations in writing and requests the Company to notify the shareholders of its representations, the Company shall implement the following measures (unless the representations are received too late):
 - (aa) state in the notice in connection with the resolution the fact that representations have been made by the auditor leaving office; and
 - (bb) send a copy of the representations to every shareholder entitled to receive notice of shareholders' meetings;
- (iii) if the auditors' representations have not been despatched in accordance with (ii) above, the auditor may request such representations be read at the meeting and may make further representations;
- (iv) an auditor leaving office shall be entitled to attend:
 - (aa) the shareholders' meeting at which its term of office would otherwise expire;
 - (bb) any shareholders' meeting at which it is proposed to fill the vacancy caused by its removal; and
 - (cc) any shareholders' meeting convened as a result of his resignation;

and to receive all notices of and other communications relating to, the meetings referred to above, and to speak at any such meeting on any matter which concerns it as the former auditor of the Company.

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

(d) Resignation of auditors

Any auditor may resign from office by a notice in writing deposited at the Company's legal address and such notice shall contain either of the following statements:

- (i) a statement to the effect that there are no circumstances connected with the resignation which it considers should be brought to the attention of the shareholders or creditors of the Company; or
- (ii) a statement of any such circumstances which should be accounted for.

Any such notice shall be effective on the date on which it is deposited at the legal address of the Company or on such later date as may be specified therein.

After receipt of the written notice referred to in the preceding paragraphs, the Company shall within 14 days send a copy of the notice to the relevant supervisory authority if the notice contains a statement referred to in sub-paragraph (ii) above, a copy of that notice shall be deposited at the Company for inspection by shareholders. The Company shall also send a copy of the notice to every holder of H Shares by prepaid post to his address as recorded in the register of shareholders.

Where the auditors notice of resignation contains a statement referred to in sub-paragraph (ii) above, it may require the Directors to convene an extraordinary shareholders' meeting for the purposes of receiving an explanation of the circumstances connected with its resignation.

(e) Rights of auditors

Every auditor of the Company shall have a right:

- (i) to inspect at all times the books, records and vouchers of the Company, and to require the Directors, managers or other officers in provide relevant information and explanations;
- (ii) to require the Company to take all reasonable steps to obtain from its subsidiaries such information and explanations as are necessary for the purposes of performing its duties as auditor of the Company; and
- (iii) to attend any shareholders' meeting and to receive all notices of and other communications relating to, any shareholders' meeting which a shareholder is entitled to receive, and to speak at any shareholders' meeting on any matter which concerns it as auditor of the Company.

For the purpose of the Articles of Association, any reference to "a firm of accountants" has the same meaning reference to "auditors".

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

8. Notice of meetings and business to be conducted thereat

The shareholders' meeting is the organ of power of the Company and its functions and powers shall be exercised in accordance with law.

The Company shall not without the prior approval of shareholders in shareholders' meeting enter into any contract with any person other than a Director, Supervisor, general manager, deputy manager or other senior management officers of the Company whereby the responsibility for the management for the whole or any substantial part of the business of the Company is given to such person.

The Directors shall convene an extraordinary shareholders' meeting within two months of the occurrence of any of the following events:

- (i) when the number of Directors is fewer than the number prescribed by PRC Company Law or fewer than two thirds of the number prescribed by the Articles of Association;
- (ii) when the accumulated losses of the Company amount to one third of the total amount of its share capital;
- (iii) upon the written requisition of shareholders holding 10% or more of the Company's issued shares carrying the right to vote;
- (iv) when the Directors consider it necessary or when the supervisory committee proposes to convene a shareholders' meeting; and
- (v) when two or more independent Directors propose to convene a shareholders' meeting.

Written notice of shareholders' meeting shall be given not less than 45 days before the date of the meeting, exclusive of the day on which the notice is despatched and the day of the meeting.

A notice of shareholders' meeting shall:

- (i) be given in writing;
- (ii) specify the place, the date and the time of the meeting;
- (iii) state the matters to be considered at the meeting;
- (iv) provide such information and explanation as necessary for the shareholders to make an informed decision on the matters proposed to be considered without limiting the generality of the foregoing principle where the Company proposes to merge with another, to repurchase its shares, to reorganise its share capital, or to

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

restructure in any other way, the details of the terms of, and the contract (if any) for the proposed transaction shall be provided and the effect of such proposal must be properly explained;

- (v) disclose the nature and extent of the material interests, if any, of any Director, supervisor, manager or other senior management officers in the matter to be considered at the meeting, and the effect of such matter if any, on him in his capacity as shareholder in so far as it is different from the effect on other shareholders of the same class;
- (vi) contain the full text of any special resolution proposed to be passed to the meeting;
- (vii) contain conspicuously a statement that a shareholder entitled to attend and vote is entitled to appoint one or more proxies to attend and vote instead of him and that a proxy so appointed need not be a shareholder; and
- (viii) specify the time and place for lodging the proxy forms.

Any matter not set out in the notice convening an extraordinary shareholders meeting shall not be decided at that meeting.

Where the Company convenes an annual shareholders' meeting, shareholders holding 5% or more of the Shares carrying voting rights are entitled to propose to the Company in writing new matters to be considered. The Company shall include in the agenda of that meeting those matters contained in the proposal which are within the scope of the duties of the shareholders' meeting.

In respect of holders of H Shares, notice of shareholders' meetings shall be served on all shareholders (whether or not they are entitled to vote thereat) by personal delivery or prepaid mail to the addresses recorded on the register of holders of H Shares. In respect of holders of Domestic Shares, notice of shareholders' meetings may be served in the aforesaid (manner or published on any one day within the period specified in the Articles of Association in one or more newspapers specified by the securities regulatory authorities authorised by the State Council. Once published, all holders of Domestic Shares shall be deemed to have received the relevant notice.

The Company shall give a notice so that those foreign shareholders whose registered address is in Hong Kong have sufficient time to exercise their rights or act in accordance with the terms of the notice.

The accidental omission to give notice of a meeting to, and the non-receipt of notice of a meeting by, any person entitled to receive notice shall not invalidate that shareholders meeting or any resolution passed at that meeting.

Shareholders may convene an extraordinary shareholders' meeting or class meeting in accordance with the following procedures: two or more shareholders holding on the date of the deposit of a requisition 10% or more of the Shares carrying voting rights at the proposed

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

meeting may, by signing one or more counterpart requisitions require the Directors to, and the Directors shall as soon as possible proceed to, convene an extraordinary shareholders' meeting or the relevant class meeting. If the Directors fail to issue a notice convening such a meeting within 30 days of their receipt of the requisition, the requisitioning shareholders may on their own convene such a meeting within four months of the receipt of such requisition by the Directors in a manner as nearly as possible to that of a shareholders meeting convened by the Directors. The following matters shall be approved by special resolution of a shareholders' meeting of the Company:

- (i) an increase or reduction of the Company's capital and the issue of any class of shares, warrants or other similar securities;
- (ii) issue of bond of the Company;
- (iii) the demerger, merger, dissolution and liquidation of the Company;
- (iv) any amendment to the Articles of Association: and
- (v) any other matters which the shareholders' meeting has resolved (by way of ordinary resolution) as having a material effect on the Company and should be approved by special resolution

Subject to such matters as may be specified in the Articles of Association as requiring approvals at class meetings, the following matters shall be approved by ordinary resolution of a shareholders' meeting of the Company:

- (i) work reports of the Board and the supervisory committee;
- (ii) proposals formulated by the Board for the distribution of profits and for making up accrued losses;
- (iii) appointment and removal of the members of the Board and the supervisory committee, their remuneration (including but not limited to compensation payable upon the loss of office of a Director or on completion of his term of appointment) and the method of payment of such remuneration;
- (iv) annual financial budgets and final accounts, balance sheet, profit and loss account and other financial reports of the Company;
- (v) appointment or removal of an accounting firm; and
- (vi) all other matters required to be approved by a shareholders' meeting other than those required to be approved by way of special resolution under PRC law, administrative regulations or the Articles of Association transfer of H shares.

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

9. Transfer of H Shares

Unless otherwise prescribed by law and/or administrative regulations, shares of the Company are freely transferable free from all liens.

All transfers of H Shares shall be effected by a transfer in writing in the usual common form or in such other forms as the Directors may accept and shall be duly signed by the transferor.

All fully paid up H Shares are freely transferable in accordance with the provisions of the Articles of Association, but except where the conditions set out below are satisfied, the Directors may refuse to recognise any transfer document without providing any reason:

- (i) payment of HK\$2.50 or higher charge as permitted by the Stock Exchange has been made to the Company for the purpose of registering the instrument of transfer and other documents in connection of or may affect the title of the shares;
- (ii) the transfer document relates only to H Shares which are listed on GEM;
- (iii) the stamp duty payable on the instrument of transfer has been paid;
- (iv) relevant share certificates and evidence that the transferor has the right to transfer such shares as reasonably required by the Directors have been provided;
- (v) if the shares of the Company are transferred to joint holders, the number of joint holders does not exceed four; and
- (vi) the relevant shares of the Company are free from all liens.

No shares of the Company shall be transferred to any person who is not of legal age or has mental or other legal incapacity.

Changes in the shareholders register due to the transfer of shares should not be made within 30 days of the shareholders' meeting or less than 5 days before the record date for the Company's distribution of dividends.

Subject to the approval by the securities supervisory and administrative authorities of the State Council, the shareholders of Domestic Shares of the Company may transfer their shares to overseas investors and such shares may be listed or traded overseas. Any listing or trading of the transferred shares on an overseas securities exchange shall also comply with the regulatory procedures, rules and requirements of such overseas securities exchange. The listing and trading of the transferred shares on an overseas securities exchange shall not be required to be resolved in a class meeting of the Company.

10. Power of the Company to purchase its own shares

Subject to the approval of the relevant PRC supervisory authorities and to the provisions of the Articles of Association, the Company may repurchase its issued shares in the following circumstances:

- (i) to cancel its shares for the purpose of reducing its share capital;
- (ii) to merge with another company which holds shares of the Company; or
- (iii) under any other circumstances permitted by law and administrative regulations.

A share repurchase may only be made by one of the following methods:

- (i) under a general offer to all shareholders in the same proportion;
- (ii) through open trading on the stock exchange; or
- (iii) by an off-market agreement outside a stock exchange.

The Company may with the prior approval of a shareholders' meeting obtained in accordance with the Articles of Association, repurchase its own shares pursuant to an off-market agreement. The Company may release, vary or waive its rights under an agreement so entered into by the Company if the prior approval of a shareholder' meeting is given in the same manner. An agreement to repurchase shares includes but is not limited to, an agreement to assume an obligation to repurchase or to acquire rights to repurchase shares of the Company.

For the redeemable shares which the Company has the rights to repurchase, the price shall not exceed the highest limit specified by the instrument relating to the issue of the redeemable shares other than those repurchased in the market or by way of tender. For those shares which are repurchased by way of tender, a tender offer must be offered to all the shareholders with the same conditions.

Shares repurchased by the Company shall be cancelled within the period stipulated by laws and administrative regulations and the amount of the Company's registered capital shall be reduced by the par value of those share. The Company shall apply to file authority for companies registration with which it was originally registered to amend the registration as to registered capital.

The Company shall not assign a contract to repurchase its shares or any of its rights under such a contract.

Unless the Company is in liquidation:

- (i) where the Company repurchases its shares at nominal value, payment shall be made out of distributable profits of the Company or out of the proceeds of an issue of new shares made for that purpose;

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

- (ii) where the Company redeems or repurchases its shares at a premium, payment up to the nominal value of those shares may be made out of the distributable profits of the Company or out of the proceeds of an issue of new shares made for that purpose. Payment of the portion in excess of the nominal value shall be made as follows:
 - (aa) if the shares being repurchased were issued at nominal value, payment shall be made out of the distributable profits of the Company;
 - (bb) if the shares being repurchased were issued at a premium, payment shall be made out of the book balance of the distributable profits of the Company or out of the proceeds of an issue of new shares made for that purpose, provided that the amount paid out of the said proceeds do not exceed the aggregate amount of premium received by the Company on the issue of the shares being repurchased nor shall it exceed the current amount of the Company's share premium account or capital reserve fund account, including the premium on the new shares issued;
- (iii) payment by the Company for the following purposes shall be made out of the Company's distributable profits:
 - (aa) the acquisition of rights to repurchase its own shares;
 - (bb) the variation of any agreement to repurchase its own shares; or
 - (cc) the release of any of the Company's obligations under any agreement to repurchase its shares.

To the extent that shares are repurchased out of an amount deducted from distributable profits of the Company, such amount shall be charged to the Company's share premium account or the capital reserve fund account.

Upon the reduction of registered capital, the Company shall prepare a balance sheet and a list of its assets. The Company shall notify its creditors within 10 days from the date of passing of the resolution for the reduction of registered capital and shall publish the notice at least three times in the newspaper within 30 days thereof. Creditors who receive this notice shall have the right within 30 days from the date of receiving the notice, and the creditors who have not received the notice shall have the right within 90 days from the date of the notice was first published in the newspaper, to require the Company to settle the debt or to provide corresponding security in respect of the debt.

11. Power of any subsidiary of the Company to own shares in its parent company

There are no restrictions in the Articles of Association preventing any subsidiary of the Company from holding Shares in its parent company.

12. Dividends and other methods of distribution

After making payment of relevant taxes and levies, the profits of the Company shall be applied in the following order:

- (i) making up of accrued losses;
- (ii) allocation to statutory common reserve;
- (iii) allocation to statutory public welfare fund;
- (iv) allocation to discretionary common reserve as resolved in shareholders' meeting;
- (v) 10% of the Company's distributable profits be allocated to reward fund; and
- (vi) payment of dividends in respect of ordinary share.

The detailed proportion of distributions in respect of items (v) to (vi) above for any year shall be formulated by the Directors in accordance with the operating conditions and development requirements of the Company and shall be submitted to the shareholders' meeting for approval.

No dividends shall be paid before the Company has made up its accrued losses and has made allocation to its statutory common reserve and its statutory public welfare fund. No dividend, unless the same is not paid by the Company when due and payable, shall bear interest as against the Company.

The Company shall allocate 10% of its profits after tax to the statutory common reserve provided that no allocation is required if the accumulated statutory common reserve exceeds 50% of the registered capital.

The Company shall allocate its profits to the discretionary common reserve in accordance with the resolutions passed at shareholders' meetings.

The following sums shall be appropriated to the capital common reserve:

- (i) the amount of share premium arising from the issue of shares at a premium; and
- (ii) other income required by the financial supervisory authority of the State Council to be appropriated to the capital common reserve.

The Company's common reserve (which comprises the statutory common reserve, discretionary common reserve and the capital common reserve) shall only be used for the following purposes:

- (i) to make up accrued losses;
- (ii) to expand the business operations of the Company; and

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

- (iii) to be converted into capital. The Company may, upon the approval of a special resolution passed at the shareholders' meeting, convert its common reserve into capital and issue bonus shares to existing shareholders in proportion to their existing shareholdings or to increase the nominal value of each share when converting the statutory common reserve into capital, the balance of such fund after such conversion must not be less than 25% of the registered capital of the Company.

The Company shall allocate 5% to 10% of its profits after tax to the statutory public welfare fund. The Company shall apply its statutory public welfare fund for the collective welfare of the employees of the Company from time to time.

The Directors may, subject to the approval of the shareholders in shareholders' meeting resolve to distribute interim dividends.

The Company may distribute dividends by way of cash and/or bonus shares. Dividends and other distributions declared by the Company to be payable to Domestic Shares shall be calculated, declared and paid in Renminbi. Dividends and other distributions payable on H Shares shall be calculated and declared in Renminbi but paid in Hong Kong dollars.

The Company shall appoint a receiving agent to receive on behalf of holders of H Shares dividends payable in respect of the Shares. Such receiving agent shall be a trust corporation registered under the Trustee Ordinance of Hong Kong.

The Company shall, subject to applicable laws, not exercise its powers to forfeit any unclaimed dividend in respect of H Shares until after the expiration of six years after the date of declaration of the dividend.

13. Proxies

A shareholder may attend and vote at or appoint a proxy to attend and vote on his behalf at shareholders' meetings. If a shareholder is a company, its legal representative or any person authorised by its board of directors or other governing body to act as its representative may attend the shareholders' meeting.

Any shareholder entitled to attend and vote at a shareholders' meeting shall be entitled to appoint one or more persons (whether or not a shareholder) as his proxy or proxies to attend and vote instead of him, and a proxy so appointed shall:

- (i) have the same rights as the shareholder to speak at the meeting;
- (ii) have the right to demand or join with others to demand a poll; and
- (iii) have the right to vote on a show of hands or on a poll but a proxy of a shareholder who has appointed one proxy may only vote on a poll.

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

The instrument appointing a proxy shall be in writing under the hand of the appointor or its proxy duly authorised in writing. If the appointor is a legal person, the instrument shall be signed under a legal person's seal or under the hand of its director or a proxy duly authorised in writing.

The instrument appointing a proxy shall be deposited at the legal address of the Company, or such other place the time prescribed in the notice convening the meeting, 24 hours before the holding of the relevant meeting or 24 hours before the time at which the poll is to be conducted. If such instrument is signed by a person under a power of attorney or other document of authority on behalf of the appointor, a notarially certified copy of that power of proxy or other document of authority shall also be deposited together with the said instrument at the Company's legal address or such other place prescribed in the notice convening the meeting.

Any form issued to shareholders by the Directors for appointing a proxy shall enable every shareholder, according to his intention, to instruct his proxy to vote in favour of or against each resolution proposed at the meeting. Such a form shall contain a statement that in the absence of instructions from the appointor, the proxy may vote as he thinks fit.

If the shareholder of overseas listed foreign shares in the Company is a recognised clearing house as defined in the Securities and Futures (Clearing Houses) Ordinance (Chapter 420 of the Laws of Hong Kong), it may authorise any appropriate person(s) as it thinks fit to act as its representative(s) at any shareholders' meeting or any class meeting. If more than one person is so authorised, the instrument of authorisation must clearly state the class(es) and number of shares in respect of which each such person is do authorised. The aforementioned authorised person is entitled to exercise rights on behalf of the recognised clearing house (or its proxy(ies)), as if such person were an individual shareholder of the Company.

A vote given in accordance with the terms of the instrument of proxy shall be valid notwithstanding the previous death or loss of capacity of the appointor or revocation of the proxy or the authority under which the proxy was executed, or the transfer of the share in respect of which the proxy is given, provided that no notice in writing of those matters shall have been received by the Company before the commencement of the relevant meeting.

14. Calls on shares and forfeiture of shares

The Articles of Association do not contain any provisions regarding calls on shares and forfeiture of shares.

15. Inspection of register of members

The Company shall keep a register of shareholders and enter therein the following matters:

- (i) the names and addresses, and the occupation or nature of occupation of each shareholder;

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

- (ii) the number of each class of shares held, the amount paid or payable on the Shares, and the serial number of the shares in respect of each shareholder;
- (iii) the date on which each person is entered in the register as a shareholder; and
- (iv) the date on which any person ceases to be a shareholder.

The register of shareholders shall be sufficient evidence of the holding of Shares by the shareholders unless there is evidence to the contrary.

The Company shall keep a complete register of shareholders which shall comprise the following parts:

- (i) a part maintained at the Company's legal address which shall be the register of all shareholders other than those registered in accordance with sub-paragraphs (ii) and (iii) below;
- (ii) a register of holders of overseas listed foreign shares maintained at the place of listing; and
- (iii) such parts in such other places as the Directors may deem necessary for the purpose of listing the Company's shares.

A duplicate of the register of holders of overseas listed foreign shares shall be made and maintained at the Company's legal address. The Company may appoint an overseas agent to keep the register of holders of such shares. The appointed overseas agent shall ensure at all times that the original and duplicate registers of holders of overseas listed foreign shares are the same. In the event of inconsistencies between any information recorded in the original register and that in the duplicate, the original shall prevail. Different parts of the register of shareholders shall not overlap. No transfer of any shares registered in one part of the register shall, during the continuance of the registration of those shares, be registered in any other parts of the register of shareholders. The alterations and rectification of each part of the register of shareholders shall be made in accordance with the law of its shareholders of ordinary shares of the Company shall enjoy, inter alia, the right to receive relevant information in accordance with the Articles of Association, including:

- (i) obtaining the Articles of Association after paying relevant cost;
- (ii) inspecting and making copies of the following documents after paying reasonable costs:
 - (aa) all parts of the register of shareholders;
 - (bb) biographical information of the Company's directors, supervisors, managers and other senior officers, including:
 - (1) Name and alias used at present and previously;

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

- (2) Principal address;
 - (3) Nationality;
 - (4) Profession and all other part-time jobs and positions;
 - (5) Identification documents and its number.
- (cc) Status of share capital;
- (dd) Reports of the aggregate par value, number of shares, and highest and lowest prices of each category of shares bought back by the company since the last fiscal year as well as the expenses paid by the company therefore;
- (ee) Minutes of shareholders' meeting.
- (iii) participate in the distribution of the company's remaining assets based on the number of shares held by the shareholders when the company is terminated or liquidated; and
- (iv) other rights permitted by laws, administrative regulations and the Articles of Association.

16. Quorum for shareholders' meetings and class meetings

A shareholder who intends to attend a shareholders' meeting shall deposit at the Company's legal address a written reply confirming his intention of attendance at least 20 days prior to the date of the meeting. The Company shall, according to the written replies received 20 days prior to the shareholders' meeting, calculate the number of shares carrying the right to vote represented by the shareholders proposing to attend the meeting. If the number of shares, carrying the right to vote represented by shareholders proposing to attend the meeting reaches half of the total number of shares in the Company which carry rights to vote, the Company may proceed to hold the shareholders' meeting; if that number is not reached, the Company shall within five days notify the shareholders again of the matters proposed to be discussed at the meeting, the date and venue of the meeting by way of public announcement. After such public announcement, the Company may proceed to hold the shareholders' meeting.

The above procedure applies, *mutatis mutandis*, to shareholders of each class of shares in respect of class meetings.

17. Rights of the minorities in relation to fraud or oppression

Apart from the obligations imposed by law, administrative regulations or the listing rules of the stock exchange(s) on which shares of the Company are listed, a controlling shareholder when exercising his rights as a shareholder shall not, by virtue of the exercise of his voting rights, cause a decision to be made in it manner prejudicial to the interest of the shareholders generally or any part thereof in connection with the following matters:

- (i) to relieve a Director or Supervisor of his responsibility to act honestly in the best interests of the Company;
- (ii) to approve the expropriation in any form by a Director or Supervisor (for his own benefit or for the benefit of another person), in any manner, of the Company's assets including, without limited opportunities beneficial to the Company; or
- (iii) to approve the expropriation by a Director or Supervisor (for his own benefit or for the benefit of another person) of the personal rights of other shareholders, including without limitation, rights to distributions and voting rights, but not including a restructuring of the Company submitted to and approved by shareholders in shareholders' meeting in accordance with the Articles of Association.

For these purposes, a controlling shareholder means a person who satisfies any one of the following conditions:

- (i) he, when acting alone or together with others, has the power to elect more than half of the Directors;
- (ii) he, when acting alone or together with others has the power to exercise or to control the exercise of 30% or more of the voting rights in the Company;
- (iii) he, when acting alone or together with others, holds 30% or more of the issued Shares of the Company; or
- (iv) he, when acting alone or together with others, in any other manner has de facto control of the Company.

18. Procedures on liquidation

The Company shall be dissolved and liquidated in any one of the following circumstances:

- (i) a shareholders' meeting resolved by special resolution to dissolve the Company;
- (ii) dissolution is necessary by reason of its merger or demerger;
- (iii) the Company is declared insolvent in accordance with law because it is unable to pay its debt as they fall due; or

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

(iv) the Company was ordered to be closed down by reason of its contravention of law or administrative regulations.

Where the Directors decide to liquidate the Company (for reasons other than a declaration of insolvency), the Directors shall, in the notice convening a shareholders' meeting for this purpose, include a statement to the effect that, after having made a full enquiry into the affairs of the Company, they are of the opinion that the Company will be able to pay its debts in full within 12 months from the date of commencement of the liquidation. Upon the passing of a resolution by the shareholders meeting to commence liquidation, the functions and powers of the Directors shall cease immediately.

In the event the Company shall be dissolved under (i) above, it shall set up within 15 days thereof a liquidation committee, the members of which shall be determined by an ordinary resolution passed in the shareholders' meeting. If the team has not been set up within the said period, its creditors may petition to the People's Court for the designation of the members of the liquidation committee so as to proceed with the liquidation thereof.

In the event the Company shall be dissolved under (ii) above, liquidation shall be proceeded by parties to the merger or demerger in accordance with the merger or demerger agreement.

In the event the Company shall be dissolved under (iii) above, the People's Court shall form a liquidation committee comprising of the shareholders, relevant authorities and relevant professionals in accordance with the laws to proceed with the liquidation thereof.

In the event the Company shall be dissolved under (iv) above, the relevant supervisory authorities shall form a liquidation committee comprising of the shareholders, relevant authorities and relevant professionals in accordance with the laws to proceed with the liquidation thereof.

The liquidation committee shall notify creditors within 10 days of its establishment and shall make at least three public announcements in newspapers within 60 days of its establishment. The liquidation committee shall carry out registration of creditors' rights.

After the liquidation committee has administered the assets of the Company and prepared a balance sheet and an inventory of the Company's assets, it shall draw up a proposal for the liquidation and submit the same to the shareholders' meeting or the relevant supervisory authorities for approval.

The assets of the Company shall be distributed in the order required by laws and regulations. In case there is no applicable law the assets of the Company shall be distributed in accordance with the order regarded as just and reasonable by the liquidation committee.

Any surplus assets remaining after the above payments have been made in full shall be distributed to the shareholders according to the class(es) and proportion of shares they hold.

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

Upon completion of the liquidation of the Company, the liquidation committee shall prepare a liquidation report and accounts of its income and expenditure and financial reports for the period of the liquidation. Once these accounts and reports are verified by a certified accountant of the PRC, they shall be submitted to the shareholders' meeting or the relevant supervisory authorities for confirmation.

The liquidation committee shall, within 30 days of the date of confirm by the shareholders' meeting or the relevant supervisory authorities, submit the accounts and reports mentioned above to the companies registration authority, apply for cancellation of the Company's registration and announce the cessation of the Company.

If the Company is being liquidated as a result of its dissolution and subsequent to the administration of the Company's assets and preparation of the balance sheet and inventory of assets, the liquidation committee discovers that the Company's assets are insufficient to repay its debts in full, it shall immediately suspend liquidation and apply to the people's court for a declaration of insolvency.

Once the People's Court has declared the Company to be insolvent, the liquidation committee shall hand all matters relating to the liquidation over to the People's Court.

19. Other provisions material to the Company or its shareholders

(a) General provisions and limited liability

The Company is a joint stock limited company of perpetual duration and was established by way of promotion. It is an enterprise with independent legal status.

The capital of the Company is divided into shares of equal nominal value. The liability of a shareholder to the Company is limited by the amount payable on subscription of the shares held by him. The Company shall be liable for its debts up to the extent of all its assets.

The Company may invest in other limited liability companies and joint stock limited companies and accept liability in respect of such companies up to the amount of its investment in such companies. The Company shall not become a shareholder with unlimited liability of any other economic organisations. Subject to the approval of the companies supervisory authority authorised by the State Council, the Company may, in accordance with its business and operational requirements, operate as a holding company as provided under Article 12 of the PRC Company Law.

(b) The Articles of Association

The Articles of Association constitute a legal document regulating the constitution and activities of the Company the rights and obligations between the Company and its shareholders and the shareholders inter se. The Articles of Association are binding upon the Company and its shareholders, Directors, Supervisors, managers and other officers. Such persons may bring claims an matters relating to the Company in accordance with the Articles of Association.

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

Shareholders may bring actions against the Company and vice versa, and shareholders may bring actions against other shareholders, Directors, Supervisors, managers and other officers of the Company in accordance with the Articles of Association. For these purposes, actions include proceedings commenced in court and arbitration proceedings commenced in arbitration tribunals.

(c) Shares and registered capital

The entire capital of the Company is divided into shares of equal nominal value.

The Company shall at all times have ordinary shares. The Company may, in accordance with its needs and upon obtaining approval of the companies supervisory authority authorised by the State Council, create other types of shares.

The Shares in issue and to be issued as mentioned in this prospectus are in the form of registered ordinary shares and each has a nominal value of RMB0.50.

The Company may issue shares to either or both of domestic investors and foreign investors upon obtaining approval the supervisory authorities accredited by the State Council.

For the purpose of the preceding paragraph, “foreign investors” means investors from outside the PRC and from the territories of Hong Kong, Macau and Taiwan who subscribe for shares issued by the Company; “domestic investors” means investors who subscribe for shares issued by the Company from within the PRC other than from the aforesaid territories.

The shares issued by the Company to domestic investors which are subscribed for in RMB are called “domestic shares”. The shares issued by the Company to foreign investors which are subscribed for in foreign currencies are called “foreign shares”. Foreign shares which are listed outside the PRC are called “overseas listed foreign shares” (and for the purpose of this prospectus, such overseas listed foreign shares are defined as “H Shares” in the “Definition” section of this prospectus).

The total number of issued ordinary shares of the Company under the Articles of Association as currently constituted and approved by CSRC shall upon completion of the International Placing, 145,714,286 overseas listed foreign Shares but no more than 167,571,429 Shares (assuming the Over-allotment is exercised in full), of which 340,000,000 Shares shall be Shares already in issue and issued to the promoters. The following methods may be used for increase in capital:

- (1) by offering new shares to general investors;
- (2) by placing new shares with existing shareholders;
- (3) by a bonus issue of shares to existing shareholders; or
- (4) by any other methods permitted under PRC law and administrative regulations.

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

The Company may reduce its registered capital in accordance with the provisions of the Articles of Association. The registered capital of the Company after a capital reduction shall not be lower than the lowest limit prescribed by law. Where the Company reduces its registered capital, it shall prepare a balance sheet and inventory of assets. The Company shall notify its creditors within 10 days from the date of a shareholders' resolution to reduce its registered capital, and shall make a public announcement in newspapers at least three times within 30 days thereof. The creditors shall have the right, within 30 days of receipt of the notice or within 90 days of the date of the first public announcement if the notice has not been received, to require the Company to pay its debts or provide guarantee to the amount of its debts.

(d) The board of Directors

The Directors are accountable to the shareholders in shareholders meeting and shall have the following functions and powers:

- (i) to convene shareholders meetings and to report on their work at shareholders meetings;
- (ii) to implement resolutions passed at shareholders' meeting;
- (iii) to determine the Company's business plans and investment proposals;
- (iv) to prepare the Company's annual financial budget and final accounts;
- (v) to formulate proposals for profit distribution and for making up accrued losses of the Company;
- (vi) to formulate proposals for an increase or reduction of registered capital and the issue of debt securities of the Company;
- (vii) to formulate proposals for the demerger, merger or dissolution of the Company;
- (viii) to formulate the internal management structure of the Company;
- (ix) to appoint or dismiss the general manager of the Company and, at the recommendation of the general manager, to appoint and dismiss deputy general manager(s), financial controller and other officers of the Company and to determine their remuneration and method of payment, to appoint or remove directors and members of the supervisory committee of wholly-owned subsidiaries of the Company and to appoint, change or recommend representative for the shareholders, directors and supervisors of subsidiaries or associated companies of the Company;
- (x) to formulate the basic management regime of the Company;
- (xi) to prepare proposals for amendments to the Articles of Association;

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

- (xii) to formulate proposals for major acquisitions or disposals of the assets of the Company;
- (xiii) subject to compliance with the requirements of the relevant laws, regulations, the Articles of Association, to exercise the Company's power to raise capital, borrow money, and make decisions on the charging, letting, sub-contracting or transfer of the Company's major assets; and
- (xiv) other powers conferred by shareholders' meeting or the Articles of Association.

A majority of at least two-thirds or more of the Directors shall be required for the passing of any resolution in respect of items (vi), (vii) and (xi) above. A majority of one half of the Directors shall be required for the passing of any resolutions in respect of the other matters specified above.

A meeting of the Directors shall only be held if more than one half of the Directors are present. Each Director shall have one vote. In the case of an equality of votes, the chairman shall have an additional vote.

Directors meetings shall be held at least twice every year and shall be convened by the chairman, provided that when an urgent matter arises, extraordinary meetings of the Directors may be convened upon the requisition of one third or more of the Directors jointly or upon the proposal of the general manager on the Supervisory Committee.

(e) Secretary of the Board

Secretary of the Board shall be appointed and may be dismissed by the Board. The secretary of the Board shall be a natural person who, in the opinion of the Board, has the requisite professional knowledge and experience.

The primary responsibilities of the secretary of the Board are:

- (i) to ensure that the documentation and records of the Company are complete;
- (ii) to ensure that the Company prepares and submits all reports and documents to the relevant authorities as required under the applicable laws;
- (iii) to ensure that the Company's register of shareholders is properly established and that persons entitled to the relevant records and documents of the Company are promptly furnished with the same;
- (iv) to be responsible for the disclosure of information by the Company and to ensure the timely, correct, legal, true and complete information disclosure by the Company; and
- (v) other responsibilities stipulated under the Articles of Association or required by the listing rules of the stock exchange on which the Company's shares are listed.

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

General manager (excluding deputy manager) and chief financial officers shall not concurrently act as secretary to the Directors. Director or other senior management officers may concurrently act as secretary to the Directors. An accountant of an accountants' firm related as auditor by the Company shall not concurrently act as secretary to the Directors.

(f) General manager

The Company shall have one general manager and several deputy general managers, who should be appointed and dismissed by the Board. The general manager shall be accountable to the Directors and shall have the following functions and powers:

- to be in charge of the Company's operation and management and to organize the implementation of the resolutions of the Board;
- to organize the implementation of the Company's annual business plan and investment plan;
- to draft plans for the establishment of the internal organizational structure of the Company;
- to draft the Company's basic management system;
- to formulate basic rules and regulations for the Company;
- to propose the appointment or dismissal of the deputy general managers and chief financial officer;
- appoint or dismiss management personnel other than those required to be appointed or dismissed by the Board; and
- to exercise other powers conferred by the Articles of Association and the Board.

(g) Supervisory committee

The Company shall have a supervisory committee which is responsible for the supervision of the Board, the Director(s), the general manager, the deputy manager(s) and other officers of the Company to prevent them from abusing their positions and powers and infringing the interests of the shareholders the Company and the employees.

The supervisory committee shall consist of 3 Supervisors, two of whom shall be representatives of the shareholders, one of whom shall be a representative of the employees. The representatives of the shareholders should not assume any office nor hold any interest in the Company. The representative of employees shall be elected and removed by the employees of the Company democratically and the representatives of the shareholders shall be elected and removed by the shareholders in shareholders meeting. Supervisors shall be appointed for a term of three years from the date(s) of their elections and may be re-elected to serve consecutive terms. The chairman of the supervisory committee shall be appointed and removed by two-thirds or more of the Supervisors.

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

None of the Directors, general managers, deputy managers or chief financial officer of the Company shall undertake concurrently the duties of supervisors.

The supervisory committee shall exercise the following functions and powers in accordance with law:

- (i) to check the Company's financial affairs;
- (ii) to monitor whether the Directors, managers and other officers have, in the performance of their duties, acted in contravention of any law, administrative regulations, the Articles of Association or the resolutions passed at shareholders' meetings;
- (iii) if the conduct of a Director, manager or other officers is detrimental to the interests of the Company, to require him to rectify such conduct;
- (iv) to review the Company's financial information such as the financial reports, business reports and profit distribution plans which the Directors propose to submit to the shareholders' meeting, and in case of doubt, to appoint on behalf of the Company registered accountants or practising auditors to assist in the review;
- (v) to propose the convening of extraordinary shareholders' meetings;
- (vi) to represent the Company in negotiation with the Directors or to institute proceedings against the Directors; and
- (vii) other functions and powers stipulated in the Articles of Association. Supervisors shall attend Board meetings.

Decisions of the supervisory committee shall be made by the affirmative vote of two thirds or more of the Supervisors.

(h) Obligations of Directors, Supervisors, general manager, deputy manager(s) and senior management officers of the Company

Each Director, Supervisor, general manager, deputy manager(s) and other senior management officers is under a duty, in the exercise of his powers and the discharge of his obligations, to exercise such care, diligence and skill that reasonable and prudent person would exercise in similar circumstances.

In addition to the obligations imposed by laws, administrative regulations or the rules of the stock exchange(s) which shares of the Company are listed and the duty of confidential and fiduciary obligations, each Director, Supervisor, general manager, deputy manager and other senior management officers, when exercising the functions powers conferred upon him by the Company, owes to each of the shareholders the following obligations:

- (i) not to cause the Company to exceed the scope of operations stipulated in its business licence;

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

- (ii) to act in what he considers to be in the best interests of the Company;
- (iii) not to expropriate in tiny manner the Company's assets, including (but not limited to) opportunities beneficial to the Company; and
- (iv) not to expropriate personal rights of shareholders, including (but not limited to) rights to distribution and voting rights, but not including a proposed restructuring of the Company submitted to and approved by the shareholders' meeting in accordance with the Articles of Association.

Each Director, Supervisor, general manager, deputy manager and other senior management officers has, in the performance of his duties, the duty to observe the principles of good faith and the duty not to place himself in a position where his duties and his interests may conflict. This includes (but is not limited to) the duty:

- (i) to act honestly in the best interests of the Company;
- (ii) to exercise his powers within the scope of his authority and not act in excess of his powers;
- (iii) to exercise the discretion vested in him personally and not to allow himself to act under the manipulation another person and, except where permitted by law or administrative regulations, or with the informed consent of shareholders in shareholders' meeting, not to delegate the exercise of such discretion to another person;
- (iv) to treat shareholders of the same class equally and to treat shareholders of different classes fairly;
- (v) not to enter into any contract, transaction or arrangement with the Company, except in accordance with the Articles of Association or with the informed consent of shareholders in shareholders' meeting;
- (vi) not to use the Company's assets for his own benefit in any manner without the informed shareholders in shareholders meeting;
- (vii) not to abuse his position by accepting bribes or other unlawful income and not to expropriate any manner the Company's assets including (without limitation) opportunities beneficial to the Company;
- (viii) not to accept any commission in connection with any transaction in which the Company is involved without the informed consent of shareholders in shareholders' meeting;
- (ix) to comply with the Articles of Association, to carry out his duties honestly, to safeguard the Company's interests, not to make use of his position and rights arising therefrom for his own benefit;

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

- (x) not to compete with the Company in any manner without the informed consent of shareholders' shareholders' meeting;
- (xi) not to expropriate the fund of the Company or lend the fund to others, not to open bank accounts for the Company's assets in his own name or in the name of others, not to use the Company's assets to guarantee personal loans of the Company's shareholders or others; and
- (xii) not to disclose confidential information relating to the Company obtained during the term of office without the informed consent obtained in the shareholders' meeting, not to make use of the said information unless such use is for the interest of the Company. However, disclosure of the said information to the courts or other governmental and administrative bodies shall be allowed in the following circumstances:
 - (1) as required by law;
 - (2) as required by the public interests;
 - (3) as required by the self-interests of Directors, Supervisors, general manager, deputy managers and other senior management officers.

A Director, Supervisor, general manager, deputy manager or other senior management Officers shall not direct persons connected with them (as described in section 1(f) above) to do what the Director, Supervisor general manager, deputy manager or other senior management officers himself is prohibited from doing.

(i) Shareholders obligations

A Shareholder of the Company is a person who lawfully holds shares of the Company and whose name is entered in the register of shareholders.

A shareholder shall enjoy the rights and shall bear the obligations attached to the class(es) and the proportion of shares held by him; shareholders holding the same class of shares shall be entitled to the same rights and shall bear the same obligations.

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

In addition to their right to obtain relevant information in accordance with the Articles of Association as mentioned in paragraph 15 above, shareholder of ordinary shares of the Company shall enjoy the following rights:

- (i) to receive dividends and other distributions in proportion to the number of shares held by him;
- (ii) to attend and vote or appoint proxies to attend and vote on his behalf at shareholders' meetings;
- (iii) to supervise and to put forward proposals or to make enquiries relating to the business operation of the Company;
- (iv) to transfer his shares in accordance with the applicable laws, administrative regulations and the Articles of Association;
- (v) to receive information regarding the Company in accordance with the Articles of Association;
- (vi) in the event of the termination or liquidation of the Company, to participate in the distribution of surplus assets of the Company according to the proportion of shares held by him; and
- (vii) other rights conferred by relevant laws and administrative regulations, and the Articles of Association.

A holder of ordinary shares of the Company shall have the following obligations:

- (i) to abide by the Articles of Association;
- (ii) to pay subscription monies according to the number of shares subscribed and the method of subscription; and
- (iii) other obligations imposed by law, administrative regulations and the Articles of Association.

Save in respect of terms agreed by the subscriber at the time of subscription, a shareholder shall not be liable to subscribe for any further share.

The register of shareholders shall be sufficient evidence of the holding of the shares of the Company by the shareholders, unless there is other evidence to the contrary. Alteration or rectification of each part of the register of shareholders shall be made in accordance with the law of the place where that part of the register of shareholders is deposited. Any person who has any objection in relation to the register of shareholders and seeks to register his name on the register of shareholders or to delete his name from the register of shareholders may in each case apply to a court of competent jurisdiction to rectify the register of Shareholders.

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

The Company shall not be bound to register more than four persons as the joint holders of any Share.

On the death of any one of such joint holders, the survivor(s) shall be the only person or persons recognised by the Company as having any title to any such Shares but the Directors may require such evidence of death as they may deem fit.

Only the person whose name stands first in the register of shareholders as one of the joint holders of any share shall be entitled to delivery of the certificate relating to such share or to receive notices from the Company or to attend or vote at shareholders meetings of the Company, and any notice given to such person shall constitute notice to all the other joint holders.

The share certificates shall become valid after being sealed with the Company's chop. The sealing of the Company's chop on the share certificates or the Company's securities shall be authorized by the Board of Directors.

Any shareholder who has lost his share certificate (the "original certificate") may apply to the Company for a new certificate in respect of the shares (the "relevant shares") represented by the original certificate. The Articles of Association contain provisions prescribing the procedures for the application for replacement certificate in respect of holders of Domestic Shares and H Shares. In respect of holders of H Shares, an applicant is required to submit an application in the prescribed form accompanied by a notarial certificate or a statutory declaration. Where the Company is satisfied that it has not received any objection to the issue of the replacement share certificate having regard to the requirements set out in the Articles of Association, the Company will issue a new share certificate and cancel the original certificate. All expenses of the Company relating to the cancellation of an original certificate and the issue of a new share certificate shall be borne by the applicant. The Company is entitled to refuse to take any action before reasonable security is provided by the applicant in respect of those expenses.

Subsequent to issuance of a new replacement share certificate by the Company in accordance with the above provisions, the name of the bona fide purchaser who shall thereby obtain the new share certificate or a person whose name is subsequently entered into the register of shareholders in respect of the relevant shares (if a bona fide purchaser) shall not be removed from the register of shareholders. The Company shall not be liable for any damages suffered by any person by reason of the cancellation of the original certificate or the issue of the new share certificate unless the parties concerned succeed to prove that the Company has acted fraudulently.

(j) Resolution of disputes

Whenever any dispute or claim arises from any rights or obligations provided in the Articles of Association, the PRC Company Law and other relevant laws and administrative regulations concerning the affairs of the Company between the following parties:

- (i) a holder of H Shares and the Company;

APPENDIX VII SUMMARY OF THE ARTICLES OF ASSOCIATION

(ii) a holder of H Shares and the Directors, Supervisors, general manager, deputy manager or other senior management officers of the Company; and

(iii) a holder of H Shares and a holder of Domestic Shares.

then, unless otherwise specified in the Articles of Association, such parties shall submit that dispute or claim to arbitration before either (1) CIETAC in accordance with its rules or (2) the HKIAC in accordance with its securities arbitration rules.

Once the claimant refers a dispute or claim to arbitration, the other party or parties must submit to the arbitral body selected by the claimant. If the claimant selects to arbitrate at the HKIAC, then any party to the dispute shall be entitled to request, in accordance with the requirements of the securities arbitration rules of the HKIAC, for that arbitration to be conducted in Shenzhen, the PRC.

If arbitration is sought to resolve a dispute or claim as described above, the applicable law shall be the PRC law, unless otherwise prescribed by law and administration regulations. Such arbitration shall be final and conclusive and shall be binding on all parties to the dispute.

In respect of a dispute or claim referred to above, the entire claim or dispute must be referred to arbitration and all persons (being the Company or the shareholders, Directors, Supervisors, managers or other officers of the Company) who have a cause of action based on the same facts giving rise to the dispute or claim or whose participation is necessary for the resolution of that dispute or claim shall be subject to the arbitral awards rendered by CIETAC or HKIAC.

Disputes in connection with the determination of whether a person is or is not a shareholder or of the register of shareholders need not be resolved by arbitration.

I. FURTHER INFORMATION ABOUT THE COMPANY

1. Incorporation

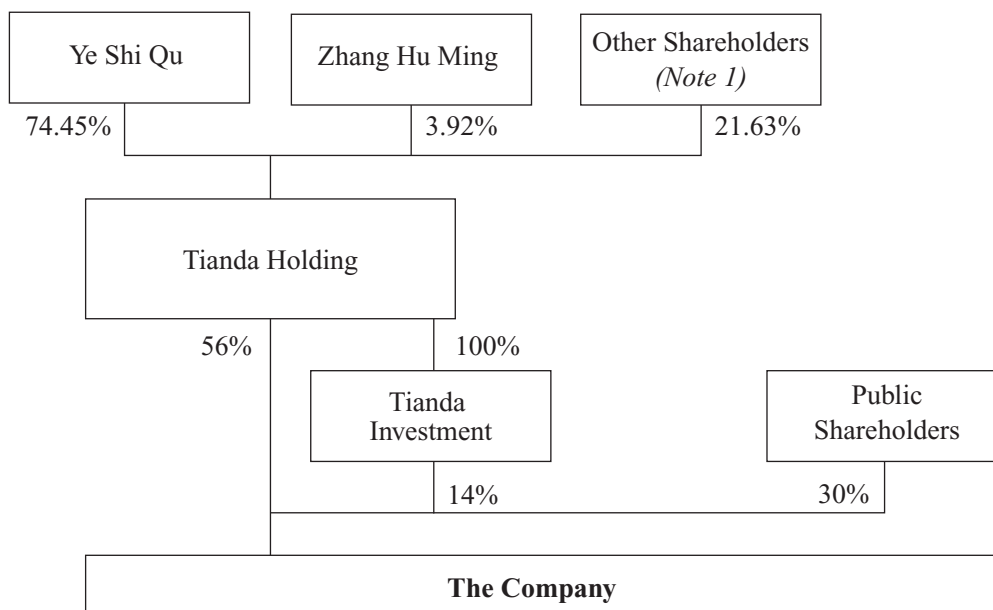
Tianda Special Steel Pipe Company, the predecessor of the Company, was registered in the PRC as a limited liability company on 23 June 2004 with Tianda Holding and Tianda Trade Union as shareholders. On 13 April 2006, the Company was established as a joint stock company with limited company and a business licence was issued to the Company whereupon.

The Company has established a place of business in Hong Kong at Room 2906, China Online Centre, 333 Lockhart Road, Wanchai, Hong Kong and on 23 September 2006, it has been registered as an oversea company in Hong Kong in compliance with Part XI of the Companies Ordinance. On 14 September 2006, Mr. Ho Kin-Cheong, Kelvin of Room 2709, Ka Yeung House, Ka Shing Court, Fanling, Hong Kong was appointed as the agent of the Company for the acceptance of service of process and notices, including writs and other legal documents, on behalf of the Company in Hong Kong as per the requirement under Part XI of the Companies Ordinance.

Since the Company was established in the PRC, it is required to comply with the laws and regulations of the PRC. A summary of the relevant laws and regulations of the PRC and a summary of Articles of Association are set out in Appendix V and Appendix VII, respectively, to this prospectus.

2. Shareholding and Company Structure

The shareholding structure of the Company (assuming that the Over-allotment Option is not exercised) upon listing on GEM is as follows:



Note 1: The other shareholders of Tianda Holding are:

	Name of Tianda Holding shareholders	Amount of registered capital held (in RMB) and percentage of equity holding	Name of Tianda Holding shareholders	Amount of registered capital held (in RMB) and percentage of equity holding	
1.	殷之付 Yin Zhi-fu	3,404,450 (1.4566%)	26.	張學仁 Zhang Xue-ren	210,000 (0.0898%)
2.	祁文輝 Qi Wen-hui	3,150,000 (1.3477%)	27.	楊登峰 Yang Deng-feng	207,200 (0.0887%)
3.	王本玲 Wang Ben-ling	3,150,000 (1.3477%)	28.	朱士華 Zhu Shi-hua	110,250 (0.0472%)
4.	江干 Jiang Gan	3,150,000 (1.3477%)	29.	李燕 Li Yan	175,000 (0.0749%)
5.	吳宗勤 Wu Zong-qin	3,150,000 (1.3477%)	30.	陳從高 Chen Cong-gao	140,000 (0.0599%)
6.	謝永洋 Xie Yong-yang	7,367,250 (3.1521%)	31.	陳西俊 Chen Xi-jun	140,000 (0.0599%)
7.	施思源 Shi Si-yuan	1,425,900 (0.6101%)	32.	陳巨勝 Chen Ju-sheng	122,500 (0.0524%)
8.	雍金貴 Yong Jin-gui	8,217,500 (3.5159%)	33.	呂思玉 Lv Si-yu	119,700 (0.0512%)
9.	劉俊昌 Liu Jun-chang	3,150,000 (1.3477%)	34.	睦群仔 Sui Qun-zai	36,750 (0.0157%)
10.	黃堯斌 Huang Yao-bin	3,150,000 (1.3477%)	35.	張春祥 Zhang Chun-xiang	186,400 (0.0798%)
11.	黃堯琪 Huang Yao-qi	2,348,400 (1.0048%)	36.	方傳俊 Fang Chuan-jun	175,000 (0.0749%)
12.	郭風祥 Guo Feng-xiang	464,100 (0.1986%)	37.	王本健 Wang Ben-jian	169,750 (0.0726%)
13.	周永軍 Zhou Yong-jun	994,700 (0.4256%)	38.	汪義 Wang Yi	157,500 (0.0674%)
14.	呂宏祥 Lu Hong-xiang	766,500 (0.3279%)	39.	王勇 Wang Yong	140,000 (0.0599%)
15.	王奎 Wang Kui	431,900 (0.1848%)	40.	沈保輝 Shen Bao-hui	119,700 (0.0512%)
16.	陳東 Chen Dong	399,700 (0.1710%)	41.	王維伍 Wang Wei-wu	102,200 (0.0437%)
17.	謝治連 Xie Zhi-lian	382,200 (0.1635%)	42.	薛長春 Xue Chang-chun	102,200 (0.0437%)
18.	周唐華 Zhou Tang-hua	367,500 (0.1572%)	43.	張成明 Zhang Cheng-ming	102,200 (0.0437%)
19.	徐公朝 Xu Gong-chao	350,000 (0.1497%)	44.	趙慶和 Zhao Qing-he	70,000 (0.0299%)
20.	申小平 Shen Xiao-ping	315,000 (0.1348%)	45.	李定勇 Li Ding-yong	49,000 (0.0210%)
21.	胡才華 Hu Cai-hua	312,200 (0.1336%)	46.	張建懷 Zhang Jian-huai	35,000 (0.0150%)
22.	薛建軍 Xue Jian-jun	183,750 (0.0786%)	47.	秦朗 Qin Lang	31,500 (0.0135%)
23.	方久林 Fang Jiu-lin	270,200 (0.1156%)			
24.	耿維龍 Geng Wei-long	473,200 (0.2025%)			
25.	何雲龍 He Yun-long	469,700 (0.2010%)			
			Total:		50,546,000 (21.6262%)

Apart from Xie Yong-yang, Zhang Jian-huai, Yong Jin-gui, Liu Jun-chang, Geng Wei-long, Lv Si-yu, Zhang Chun-xiang, Wang Yi, Huang Yao-qi and Chen Dong, none of the shareholders above is a director, supervisor or senior management at the Company.

3. Changes in the share capital and shareholding structure of the Company

On 7 September 2006, the CSRC issued the approval document Zheng Jian Guo He Zi [2006] No. 17 (證監國合字[2006]17號) approving, among other things, the subdivision of the Company's shares of RMB1.00 each into 340,000,000 shares of RMB0.50 each. The changes in the shareholding structure of the Company are as follows:

- (a) At the time of establishment of Tianda Special Steel Pipe Company on 23 June 2004, its registered capital was RMB40,000,000, all of which were credited as fully paid up and held as follows:

Name	Amount of equity contribution (RMB)	Approximate percentage of equity holding (%)
Tianda Holding	36,000,000	90
Tianda Trade Union	<u>4,000,000</u>	<u>10</u>
	<u>40,000,000</u>	<u>100</u>

- (b) On 31 January 2005, the registered capital of Tianda Special Steel Pipe Company was increased to RMB140,000,000, all of which were credited as fully paid up and held as follows:

Name	Amount of equity contribution (RMB)	Approximate percentage of equity holding (%)
Tianda Holding	136,000,000	97.1
Tianda Trade Union	<u>4,000,000</u>	<u>2.9</u>
	<u>140,000,000</u>	<u>100</u>

- (c) On 17 November 2005, the registered capital of Tianda Special Steel Pipe Company was further increased to RMB170,000,000, all of which were credited as fully paid up and held as follows:

Name	Amount of equity contribution (RMB)	Approximate percentage of equity holding (%)
Tianda Holding	136,000,000	80
Tianda Trade Union	4,000,000	2.3
Tianjin Dajin	30,000,000	17.7
	<u>170,000,000</u>	<u>100</u>

- (d) On 12 April 2006, Tianda Investment acquired the equity holding of Tianda Trade Union and Tianjin Dajin in the Company, and the shareholding structure of Tianda Special Steel Pipe Company was changed to as follows:

Name	Amount of equity contribution (RMB)	Approximate percentage of equity holding (%)
Tianda Holding	136,000,000	80
Tianda Investment	34,000,000	20
	<u>170,000,000</u>	<u>100</u>

- (e) In preparation for the listing, on 13 April 2006, the Company was established as a joint stock company with limited liability and the shareholding structure of the Company was as follows:

Name	Number of Domestic Shares of RMB1.00 each held	Approximate percentage of registered capital (%)
Tianda Holding	136,000,000	80%
Tianda Investment	34,000,000	20%
	<u>170,000,000</u>	<u>100%</u>

- (f) On 7 September 2006, CSRC approved the sub-division of Shares, and the Company's registered capital was RMB170,000,000 divided into 340,000,000 Domestic Shares of RMB0.50 each. Such Domestic Shares were paid up and held as follows:

Name	Number of Domestic Shares of RMB0.50 each held	Approximate percentage of registered capital (%)
Tianda Holding	272,000,000	80
Tianda Investment	<u>68,000,000</u>	<u>20</u>
	<u>340,000,000</u>	<u>100</u>

- (g) Immediately after the completion of the International Placing and assuming the Over-allotment Option is not exercised at all, the registered capital of the Company will be approximately RMB242,857,000 and will be held as follows:

Name of Shareholders	Nature of Shares held	Number of Shares of RMB0.50 each held	Approximate percentage of registered capital in the Company (%)
Tianda Holding	Domestic Shares	272,000,000	56
Tianda Investment	Domestic Shares	68,000,000	14
Public Shareholders	H Shares	<u>145,714,000</u>	<u>30</u>
		<u>485,714,000</u>	<u>100.00</u>

- (h) Immediately after the completion of the International Placing, and assuming the Over-allotment Option is exercised in full, the registered capital of the Company will be RMB253,785,000 and will be held as follows:

Name of Shareholders	Nature of Shares held	Number of Shares of RMB0.50 each held	Approximate percentage of registered capital in the Company (%)
Tianda Holding	Domestic Shares	272,000,000	53.6
Tianda Investment	Domestic Shares	68,000,000	13.4
Public Shareholders	H Shares	<u>167,570,000</u>	<u>33</u>
		<u>507,570,000</u>	<u>100.0</u>

- (h) Save as aforesaid, there has been no alteration in the registered capital of the Company since the date of its establishment. The Domestic Shares are not currently admitted for listing on any stock exchange and there is no trading or dealing in such securities on any other authorised trading facility in the PRC.

4. Resolutions of the shareholders passed at the Company's extraordinary general meeting on 29 June 2006

An extraordinary general meeting of the Company was held on 29 June 2006 at which the following resolutions of the shareholders, among other resolutions, were passed:

- (a) the articles of association were adopted (and, subsequent to amendments by the Board, took the form of the Articles of Association);
- (b) the International Placing of H Shares (including the additional H Shares which might be issued if the Over-allotment Option is exercised in full) and their listing on GEM were approved;
- (c) conditional upon (i) the Listing Committee of the Stock Exchange approving the listing of, and granting permission to deal in, the H Shares and (ii) the Placing Underwriting Agreement being entered into, the International Placing of up to 145,714,000 H Shares with a nominal value of RMB0.50 (assuming no exercise of the Over-allotment Option) was approved;
- (d) the Over-allotment Option was approved;

- (e) the increase of the Company's registered capital by an amount equivalent to the nominal value of the aggregate number of the H Shares to be issued under the International Placing was approved; and
- (f) the Directors were authorised to deal with all matters relating to the International Placing.

5. Corporate Reorganisation

The Company underwent a reorganisation in anticipation of the listing. The reorganisation involved, among other matters, the following procedures and approvals:

- (a) on 25 March 2006, an equity transfer agreement was entered into, pursuant to which Tianda Special Steel Pipe Company transferred its equity interest in the amount of RMB500,000 in Anhui Tianda Import and Export Company to Tianda Plastic Company for the consideration of RMB500,000;
- (b) on 12 April 2006, Tianda Trade Union and Tianjin Dajin transferred their respective equity holding in Tianda Special Steel Pipe Company to Tianda Investment;
- (c) on 12 April 2006, the promoters agreement for the establishment of the Company as a joint stock limited company was entered into between the Promoters;
- (d) on 13 April 2006, a business licence (no. 3423001300926) was issued by the Administration for Industry and Commerce of Chu Zhou Shi, whereupon the Company was established as a joint stock company with limited liability; and
- (e) an approval document Zheng Jian Guo He Zi [2006] No. 17 (證監國合字[2006]17號) was issued on 7 September 2006 by the CSRC approving, among other things, the issue of foreign listed shares and the listing of the Company on the GEM. The new H Shares are foreign listed shares (being ordinary shares).

II. SUBSIDIARY

As at the Latest Practicable Date, the Company had no subsidiary.

III. FURTHER INFORMATION ABOUT DIRECTORS, SUPERVISORS, MANAGEMENT, STAFF AND SUBSTANTIAL SHAREHOLDER

1. Directors and supervisors

1. Particulars of service contracts and remuneration of Directors and Supervisors

Each of the Directors and Supervisors has entered into a service contract with the Company. Particulars of these contracts, except as indicated, are in all material respects identical and are set out below:

- (i) each service contract is for an initial term of 3 years commencing from the Listing Date;
- (ii) the annual salary and/or allowance (as the case may be) for each of the Directors and Supervisors during his/her term of 3 years are as follows:

	Annual salary and/or allowance (RMB)
Executive Director	
Ye Shi Qu	180,000
Zhang Hu Ming	150,000
Xie Yong Yang	120,000
Non-executive Director	
Zhang Jian Huai	Nil
Liu Peng	Nil
Independent Non-executive Director	
Wu Chang Qi	50,000
Wang Xiu Zhi	50,000
Zhao Bin	50,000
Supervisor	
Liu Jun Chang	40,000
Yang Quan Fu	30,000
Yong Jin Gui	30,000

- (iii) the remuneration of each of the Directors and Supervisors may be changed by way of a resolution passed at shareholders' meeting of the Company; and
- (iv) each of the Directors and Supervisors is entitled to out-of-pocket expenses reasonably incurred during his/her term of office.

Pursuant to the service contracts entered into between the Company and the respective Directors and Supervisors, the aggregate annual remuneration payable to the executive Directors, non-executive Directors, independent non-executive Directors and Supervisors are approximately RMB450,000, nil, RMB150,000 and RMB100,000, respectively, for an initial term of 3 years.

Prior to the reorganisation undergone in April 2006, the Company did not have a board of directors and supervisors. As such no remuneration was paid by the Company to any director or supervisor for the year ended 31 December 2005. It is estimated that the aggregate remuneration payable to the Directors (including the non-executive Directors and the independent non-executive Directors) and Supervisors for the year ending 31 December 2006 will be RMB450,000 and RMB100,000 respectively.

2. *Disclosure of the Directors' and Supervisors' interests or short positions in the share capital of the Company*

Immediately following the completion of the International Placing (and assuming the Over-allotment Shares are not issued), the interest or short positions of the Directors, Supervisors or chief executive of the Company in the shares, debentures or underlying shares of the Company and its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required pursuant to rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange once the H Shares are listed, will be as follows:

Name of Company	Name of Director or Supervisor	Capacity	Nature of interest and number of Shares/amount of capital contribution (RMB)				Total number of shares/ Total amount of capital contribution	Percentage holding of shares/ interest in the registered capital of the relevant corporation	Approximate percentage of the total issued share capital of the Company immediately after completion of the International Placing
			Personal Interests	Family Interests	Corporate Interests	Other Interests			
Company	Ye Shi Qu	Interest in controlled corporation (Note 1)	-	-	340,000,000 Domestic Shares	-	340,000,000 Domestic Shares	70%	
Tianda Holding	Ye Shi Qu	Beneficial owner	RMB174,012,800	-	-	-	RMB174,012,800	74.5%	
Tianda Investment	Ye Shi Qu	Interest in controlled corporation (Note 2)	RMB50,000,000	-	-	-	RMB50,000,000	100%	
Tianda Holding	Zhang Hu Ming	Beneficial owner	RMB9,166,700	-	-	-	RMB9,166,700	3.9%	
Tianda Holding	Zhang Jian Huai	Beneficial owner	RMB35,000	-	-	-	RMB35,000	0.015%	
Tianda Holding	Yong Jin Gui	Beneficial owner	RMB8,217,500	-	-	-	RMB8,217,500	3.5%	
Tianda Holding	Liu Jun Chang	Beneficial owner	RMB3,150,000	-	-	-	RMB3,150,000	1.3%	
Tianda Holding	Xie Yong Yang	Beneficial owner	RMB7,367,250	-	-	-	RMB7,367,250	3.15%	

Notes:

1. Pursuant to the SFO, as Ye Shi Qu holds 74.5% of the equity interest in Tianda Holding and as Tianda Investment is a wholly-owned subsidiary of Tianda Holding, Ye Shi Qu is deemed to be interested in all of the 272,000,000 Domestic Shares held by Tianda Holding and 68,000,000 Domestic Shares held by Tianda Investment.
2. Pursuant to the SFO, as Ye Shi Qu holds 74.5% of the equity interest in Tianda Holding and as Tianda Investment is a wholly-owned subsidiary of Tianda Holding, Ye Shi Qu is deemed to be interested in 100% of the registered capital of Tianda Investment.

2. Shareholder

So far as the Directors or chief executive of the Company are aware, immediately following the completion of the International Placing and assuming that the Over-allotment Option is not exercised at all, the following persons will have an interest or short position in the shares, debentures or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which will be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein, or will be directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Name	Capacity	Number of Domestic Shares of RMB0.50 each held (Note 1)	Approximate percentage of the shareholding (Note 2)
Tianda Holding	Beneficial owner	272,000,000 (L)	56%
	Interests in controlled corporation (Note 3)	68,000,000 (L)	14%
Tianda Investment	Beneficial owner	68,000,000 (L)	14%
Ye Shi Qu (Note 4)	Interests in controlled corporation	340,000,000 (L)	70%

Notes:

1. “L” refers to the long position in the shares in the Company held by such person/entity.
2. For the Company, approximately percentage of the shareholding shall mean the approximate percentage of shareholding immediately after the completion of the International Placing (assuming the Over-allotment Option is not exercised).
3. Pursuant to the SFO, as Tianda Investment is a wholly-owned subsidiary of Tianda Holding, Tianda Holding is deemed to be interested in the 68,000,000 Domestic Shares held by Tianda Investment.
4. Pursuant to the SFO, as Ye Shi Qu holds 74.5% of the equity interest in Tianda Holding, and as Tianda Investment is a wholly-owned subsidiary of Tianda Holding, Ye Shi Qu is deemed to be interested in all of the 272,000,000 Domestic Shares held by Tianda Holding and 68,000,000 Domestic Shares held by Tianda Investment.

3. Related party transactions

The Company had entered into certain related party transactions during the Track Record Period. Save for a trademark assignment dated 1 July 2004 entered into between the Company and Tianda Holding for nominal consideration and free lease of a dormitory, the details of the related party transactions are set out in note 24 of the paragraph headed “Related party transactions” in the accountants’ report in Appendix I to this prospectus. The Directors confirm that the related party transactions (including those which are historical and those which are expected to continue after the Listing Date) 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.

4. Disclaimers

Save as disclosed herein:

- (i) none of the Directors, chief executive or Supervisors has any interest or short positions in the Shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of

the SFO) which are under a duty of disclosure pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have taken under such provisions of the SFO) and will have to be notified to the Company and the Stock Exchange pursuant to section 352 of the SFO once the H Shares are listed on GEM, or to be entered into the register referred to therein or which will be required, pursuant to rules 5.46 to 5.67 of the GEM Listing Rules, to be notified to the Company and the Stock Exchange once the H Shares are listed on GEM and in the case of Supervisors, which will be required to be notified as described above if they had been Directors;

- (ii) so far as is known to any of the Directors or Supervisors, there is no person who will, immediately following the completion of the International Placing, directly or indirectly have an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the issuer under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance or, who is expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Company;
- (iii) none of the Directors or Supervisors has entered or has proposed to enter into any service contracts with the Company (other than contracts expiring or determinable by the Company within one year without payment of compensation other than statutory compensation);
- (iv) none of the Directors or Supervisors or any of the experts whose names are listed in the paragraph headed “Consents of experts” in this appendix has any direct or indirect interest in the promotion of, or in any assets which have been acquired or disposed of by or leased to the Company within the two years immediately preceding the date of this prospectus, or which are proposed to be acquired or disposed of by or leased to the Company;
- (v) none of the Directors or Supervisors or any of the experts whose names are listed in the paragraph headed “Consents of experts” in this appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Company;
- (vi) none of the experts whose names are listed in the paragraph headed “Consents of experts” in this appendix has any shareholding in the Company or the right (whether legally enforceable or not) to subscribe for or to nominate other persons to subscribe for securities in the Company.

IV. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company within the two years preceding the date of this prospectus and are or may be material upon the listing of the Company's H Shares:


- (1) the equity transfer agreement dated 25 March 2006 between Tianda Special Steel Pipe Company and Tianda Plastic Company, pursuant to which Tianda Special Steel Pipe Company transferred its equity interest in the amount of RMB500,000 in Tianda Import and Export to Tianda Plastic Company for a consideration of RMB500,000;
- (2) a non-competition agreement dated 18 November 2006 and executed by the Initial Management Shareholders in favour of the Company, details of which are set out in the paragraph headed "Non-competition Agreement" in the section headed "Business" of this prospectus; and
- (3) a deed of indemnity dated 18 November 2006 and executed by the Initial Management Shareholders in favour of the Company in respect of taxation against the Company and other matters as referred to in the paragraph headed "Tax and other indemnities" in this Appendix.

2. Intellectual property rights

(1) *Trademark (and service trademark)*

(A) PRC

As at the Latest Practicable Date, the Company registered the following trademark:

Trademark Registration				
Mark	No.	Registered Owner	Effective Period	Class
	1974921	Anhui Tianda Oil Pipe Company Limited	21 December 2002 to 20 December 2012	6

(B) Hong Kong

As at the Latest Practicable Date, the Company had applied for the registration of the following trademark in Hong Kong:

Mark	Application No.	Applicant	Date of Application	Class
	300747072	Anhui Tianda Oil Pipe Company Limited	25 October 2006	6

(2) Domain Names

As at the Latest Practicable Date, the Company has registered the following domain names:

Domain Name	Registrant	Registration Date
www.td-gg.com	Anhui Tianda Oil Pipe Company Limited	29 May 2006

Note: The contents contained in the website at www.td-gg.com do not form part of this prospectus.

(3) Patents

As at the Latest Practicable Date, the Company has registered the following patents:

Patent	Certificate No	Registered Owner	Term
Specialized seamless pipes for use in heat exchange	ZL 03277615.2	Anhui Tianda Oil Pipe Company Limited	11 August 2003 to 10 August 2013

V. OTHER INFORMATION**1. Tax and other indemnities**

Under a deed of indemnity (“Deed of Indemnity”) entered into on 18 November 2006, the Initial Management Shareholders agreed and undertook jointly and severally with the Company, subject to the terms of the Deed of Indemnity, to indemnify the Company and at all times keep the same indemnified on demand from and against, among other things, all liabilities, taxation and any other claims referred to in the Deed of Indemnity in respect of any income, profit or gains earned, accrued or received and/or assets acquired on or before Listing Date (the “Effective Date”), including but not limited to:–

- (1) the amount of any and all taxation falling on the Company on or before the Effective Date;
- (2) any non-compliance with any laws and/or regulations by the Company on or before the Effective Date;
- (3) any liability of the Company to the extent that the Reorganisation (as defined in the Deed of Indemnity) is void or voidable as a result of the insolvency or lack of governmental approval or similar event of any one party to the Reorganisation;
- (4) any liability of the Company to make any payments as a result of certain contingent liabilities in respect of bank bills endorsed to the Company by Tianda Holding and its related companies;
- (5) any losses suffered by the Company as a result of Tianda Holding’s use of the trademark which attracts adverse publicity; and/or
- (6) any penalties or losses suffered by the Company as a result of historical provision of loans to Tianda Holding;
- (7) all actions, claims, losses, damages, costs (including all legal costs), charges, expenses, interests, penalties or other liabilities which the Company may reasonably and properly incur in connection therewith;

save in the following circumstances:

- (1) to the extent that provision, reserve or allowance has been made for such taxation or claim in the Accounts (as defined in the Deed of Indemnity);
- (2) to the extent that such taxation or claim arises or is incurred as a result of the imposition of any retrospective change in the law, rules and regulation or the interpretation or practice thereof coming into force after the date hereof;

- (3) to the extent of any provision or reserve made for taxation in the audited accounts of the Company for each of the two financial years ended 31 December 2005 and the six months ended 30 June 2006 which is finally established to be an over-provision or an excessive reserve;
- (4) falling on the Company after the Effective Date unless such taxation or liability would not have arisen but for any act or omission by any of the Company effected without the prior written consent or agreement of the Initial Management Shareholders otherwise than in the ordinary course of business after the date hereof;
- (5) for which the Company is primarily liable as a result of transactions entered into in the ordinary course of business after the Effective Date.

Each of the Initial Management Shareholders has also undertaken that he will not, and will procure his related parties will, not transact similar bank bill endorsement arrangements with the Company as referred to above with effect from 1 July 2006.

2. Litigation

As at the Latest Practicable Date, the Company had not engaged in any litigation or arbitration of material importance and the Directors confirmed no litigation, arbitration or claim of material importance was pending or threatened against the Company.

3. Sponsor, global coordinator, sole bookrunner and lead manager

Cazenove has made an application on behalf of the Company to the GEM Listing Committee for the listing of, and permission to deal in, any of the H Shares to be issued and/or sold under the International Placing and to be allotted and issued pursuant to the exercise of the rights of over allotment. All necessary arrangements have been made to enable the H Shares to be admitted into CCASS.

Cazenove is the sponsor, global bookrunner and lead manager in relation to the International Placing.

4. Preliminary expenses

The preliminary expenses of the Company are approximately RMB3,000 (approximately HK\$2,970) and paid by the Company.

5. Promoters

The promoters of the Company are Tianda Holding and Tianda Investment. Tianda Holding has issued share capital of RMB233,725,500, the amount paid up being RMB233,725,500. The directors of Tianda Holding are Ye Shi Qu, Qi Wen Hui, Wang Ben Ling, Yin Zhi Fu, Jiang Gan, Wu Zong Qin, Shi Si Yuan and Yong Jin Gui. The banker and auditor of Tianda Holding is Bank of China, Tianchang Sub-branch and

Tianchang Tianhua Audit Firm, respectively. Tianda Investment has issued share capital of RMB50,000,000, the amount paid up being RMB50,000,000. The banker and auditor of Tianda Investment is Agricultural Bank of China, Tianchang Sub-branch, Tongcheng Office and Tianchang Tianhua Audit Firm, respectively. The director of Tianda Investment is Ye Shi Qu. Save as disclosed in note 24 of the accountants' report in Appendix I to this prospectus, within the two years preceding the date of this prospectus, no cash amount or security or other benefit has been paid, allotted or given or proposed to be paid, allotted or given to the Promoters in connection with the International Placing or the related transactions described in this prospectus.

6. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies Ordinance insofar as applicable.

7. No material adverse change and interruption of business

To the best of knowledge of the Directors, there has been no adverse change in the financial position, state of affairs or future prospects of the Company since 30 June 2006 (being the date of the most recently published audited financial statements of the Company).

There has not been any interruption in the business of the Company which has had or may have a material adverse effect on the financial position of the Company in the 24 months preceding the date of this prospectus.

8. Taxation of holders of the H Shares

Dealings in the H Shares are subject to Hong Kong stamp duty.

9. Qualifications of the experts

Name	Qualification
Cazenove Asia Limited	Licensed corporation to carry out Type 1, 4, 6 and 9 regulated activities under the SFO
Commerce & Finance Law offices	Qualified PRC lawyers
Ernst & Young	Certified public accountants
DTZ Debenham Tie Leung Limited	Chartered surveyors and valuers

10. Consents of experts

Each of Cazenove, Commerce & Finance Law Offices, Ernst & Young and DTZ Debenham Tie Leung Limited has given and has not withdrawn its respective written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or advice and/or valuation certificate and/or the references to its name in the form and context in which they are respectively included or appeared.

11. Share Option Scheme

The Company has not adopted any share option scheme in respect of the H Shares.

12. Miscellaneous

Save as disclosed in this prospectus:

- (1) within the two years preceding the date of this prospectus, no share or loan capital of the Company has been issued or agreed to be issued, as fully or partly paid, either for cash or for a consideration other than cash;
- (2) no share or loan capital of the Company is under any option or is agreed conditionally or unconditionally to be put under option;
- (3) within the two years preceding the date of this prospectus, no discounts, brokerages or other special terms (if any) have been granted in connection with the issue or sale of any share or loan capital of the Company;
- (4) the Company has no founders or management or deferred shares;
- (5) none of the equity and debt securities of the Company is listed or dealt in any other stock exchange nor is any listing or permission to deal being or proposed to be sought;
- (6) the Company does not have any outstanding convertible debt securities;
- (7) within the two years preceding the date of this prospectus, no commissions have been paid or payable for subscription or agreeing to subscribe, procure subscription or agreeing to procure subscription of any share in the Company;
- (8) Cazenove satisfies the independence test pursuant to rule 6A.07 of the GEM Listing Rules; and
- (9) the Company has a present intention to apply for the status of a sino-foreign investment joint stock limited company, but any final decision will be made after taking into account the relevant PRC laws and regulations at the relevant time.

APPENDIX IX DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES AND AVAILABLE FOR INSPECTION

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to a copy of this prospectus and registered by the Registrar of Companies in Hong Kong include copies of the written consents referred to in the paragraph headed “Consents of experts” in Appendix VIII to this prospectus, copies of material contracts referred to in the section headed “Summary of Material Contracts” in Appendix VIII to this prospectus and the statement of adjustments prepared by Ernst & Young in arriving at the figures set out in the accountants’ report set out in appendix I to this prospectus.

Documents available for inspection

Copies of the following documents will be available for inspection at the office of Paul, Hastings, Janofsky & Walker of 22nd Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Articles of Association of the Company;
- (b) the accountants’ report prepared by Ernst & Young, the text of which is set out in appendix I of this prospectus, and the related statement of adjustments;
- (c) the unaudited pro forma prepared by Ernst & Young, the text of which is set out in Appendix II of this prospectus;
- (d) the audited financial statements of the Company for each of the two years ended 31 December 2005 prepared in accordance with PRC GAAP;
- (e) the letter relating to the profit forecast, the texts of which are set out in Appendix III to this prospectus;
- (f) the letter, summary of values and valuation certificate relating to the property interests of the Company prepared by DTZ Debenham Tie Leung Limited, the text of which is set out in Appendix IV to this prospectus;
- (g) the PRC legal opinions issued by Commerce and Finance Law Offices, the Company’s PRC legal advisers;
- (h) copies of material contracts referred to in the paragraph headed “Summary of material contracts” in Appendix VIII to this prospectus;
- (i) the written consents referred to in the paragraph headed “Consents of experts” in Appendix VIII to this prospectus;
- (j) the service contracts referred to in the paragraph headed “Particulars of service contracts” in Appendix VIII to this prospectus;

**APPENDIX IX DOCUMENTS DELIVERED TO THE REGISTRAR OF
 COMPANIES AND AVAILABLE FOR INSPECTION**

- (k) the Company Law together with an unofficial English translation thereof;
- (l) the Special Regulations together with an unofficial English translation thereof;
and
- (m) the Mandatory Provisions together with an unofficial English translation thereof.