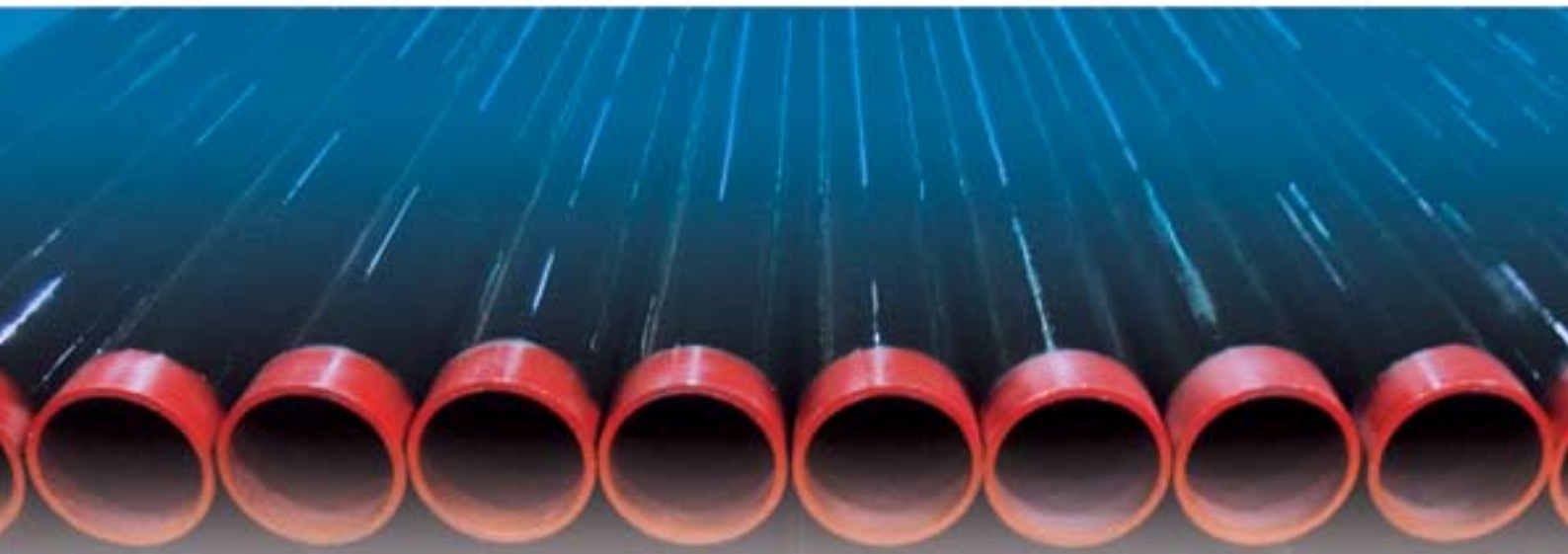




# Anhui Tianda Oil Pipe Company Limited 安徽天大石油管材股份有限公司

(a joint stock company incorporated in the People's Republic of China with limited liability)  
(Stock Code : 839 )

## LISTING BY INTRODUCTION



Sponsor

**CAZENOVE**

Cazenove Asia Limited

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## IMPORTANT

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*If you are in any doubt about any of the contents of this document, 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 BY WAY OF INTRODUCTION OF THE ENTIRE H SHARE CAPITAL ON THE MAIN BOARD OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Stock code on Main Board : 839

Stock code on GEM : 8241

#### Sponsor

CAZENOVE

Cazenove Asia Limited

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The Stock Exchange and HKSCC take no responsibility for the contents of this document, 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 document.

*This document does not constitute an offer of, nor is it calculated to invite offers for, the H Shares or other securities of the Company, nor have any such H Shares or other securities been allotted with a view to any of them being offered for sale to members of the public. No new H Shares will be issued in connection with, or pursuant to, the publication of this document.*

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 III to this document headed "Summary of relevant PRC and Hong Kong laws and regulations" and the section headed "Risk factors" in this document, respectively.

*The H Shares have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from 1 December 2006, the date on which dealings in the H Shares on GEM commenced. Subject to the granting of the listing of, and permission to deal in, the H Shares on the Main Board by the Stock Exchange and the continual compliance with the stock admission requirements of HKSCC, the H Shares will continue to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS once dealings in the H Shares on the Main Board commence.*

*All necessary arrangements have been made with HKSCC for the H Shares to continue to be accepted as eligible securities of CCASS. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.*

29 August 2007

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## EXPECTED TIMETABLE

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2007  
(Note 1)

Despatch of this document, the Shareholder circular and the related notices of the Extraordinary General Meeting and the separate Class Meetings and the related forms of proxy and reply slips to the Shareholders in relation to the Proposed Withdrawal and the Introduction .....	29 August
Latest time for lodging transfers of the Shares in order to be entitled to attend and vote at the Extraordinary General Meeting and/or the separate Class Meetings .....	4:30 p.m., 14 September
Closure of registers of members of the Company for the determination of entitlements of the Shareholders to attend and vote at the Extraordinary General Meeting and the separate Class Meetings .....	From 15 September to 15 October
Latest time for receiving reply slips for the Extraordinary General Meeting and the separate Class Meetings .....	4:30 p.m., 25 September
Latest time for lodging forms of proxy in respect of the Extraordinary General Meeting .....	2:00 p.m., 14 October
Latest time for lodging forms of proxy in respect of the H Shares Class Meeting .....	2:30 p.m., 14 October
Latest time for lodging forms of proxy in respect of the Domestic Shares Class Meeting .....	3:00 p.m., 14 October
Extraordinary General Meeting and separate Class Meetings .....	15 October
Announcement of results of the Extraordinary General Meeting and the separate Class Meetings on the GEM website .....	15 October
Notice of the Proposed Withdrawal .....	15 October
The CSRC granting approval for the listing of the H Shares on the Main Board on or before .....	15 November

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## EXPECTED TIMETABLE

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2007  
(Note 1)

Announcement in respect of the CSRC granting approval for the Proposed Withdrawal and the Introduction on or before .....	15 November
Last day of dealings in the H Shares on GEM .....	4:00 p.m., 23 November
Proposed Withdrawal effective from .....	9:30 a.m., 26 November
Dealings in the H Shares on the Main Board to commence on .....	9:30 a.m., 26 November

*Notes:*

1. All times refer to Hong Kong local time.
2. If there is any revision to the above timetable, a separate announcement will be made by the Company.

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*You should rely only on the information contained in this document 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 document.*

*Any information or representation not made in this document must not be relied on by you as having been authorised by the Company, Cazenove, any of their respective directors, officers employees, agents or representatives, or any other parties involved in the Introduction.*

*The contents contained in the websites at [www.tianda-group.com](http://www.tianda-group.com) and [www.td-gg.com](http://www.td-gg.com) do not form part of this document.*

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## SUMMARY

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*This summary aims to give you an overview of the information contained in this document. As this is a summary, it does not contain all the information that may be important to you.*

*There are risks associated with any investment. Some of the particular risks in investing in the Company are set out in the section headed “Risk factors” in this document. You should read that section carefully before making any decisions to invest in the H Shares.*

### **BUSINESS**

The Company has more than 14 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 2,075,000 tonnes in 2006 from 1,499,000 tonnes in 2002, representing an increase of approximately 38.4%. The sharp increase in the global demand for crude oil in recent years has led to a corresponding increase in capital 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. Capital expenditure of China's three main oil producers (PetroChina, Sinopec and CNOOC) increased from approximately RMB126.9 billion in 2002 to approximately RMB272.7 billion in 2006, representing a CAGR of approximately 21.1%.

The Company commenced its planning for the construction of its oil well pipe production line in 2002, and commenced construction of the production line in 2003. The Company established its hot-rolled oil well pipe production line in Chuzhou City, Anhui Province, China at the end of 2004 and it began production of oil well pipes in January 2005. 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 for the period from February 2006 to February 2009 are testaments to the high quality of the Company's products and production processes. The Company has completed its technology upgrade projects for heat treatment and threading finish for oil well pipes and commenced commercial production since January 2007 and July 2007 respectively. 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 processing, and as such increases the value of the Company's products and its competitiveness. The Directors expect that through the capability to produce such products, the Company will be able to develop potential business opportunities with the relevant oil field companies directly.



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## SUMMARY

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For the three financial years ended 31 December 2006 and the six months ended 30 June 2007, sales of oil well pipes accounted for approximately 1.7%, 51.8%, 56.1% and 61.2% of the Company's sales over the corresponding period. This substantial increase in sales of oil well pipe from 2004 is a result of the Company's establishment of its hot-rolled oil well pipe production line in Chuzhou City in December 2004 and its commercial production in January 2005.

It is expected that the Company's revenue contribution from oil well pipes will grow significantly as the Company's utilisation of its oil well pipe production capacity improves and its oil well pipe heat treatment and threading value-added production lines achieve optimal efficiency.

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 used in its oil well pipe production, as well as strict controls over testing and inspection. Throughout the years, the Company has obtained various recognitions for its production of other specialized seamless pipes including vessel pipes and boiler pipes. It has also 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 from 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 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 273 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.

## SUMMARY

Petrochemical pipes are the specialized seamless pipes for the transmission of petroleum and natural gas 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 products so as to meet market demand in this sector. The Company has obtained production certifications from the Japanese and Italian shipping classification societies for the periods from 5 January 2007 to 4 January 2012 and 9 February 2007 to 7 December 2011 respectively, resulting in the Company's vessel pipes having been certified for use in nine 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 sales by product types for the three years ended 31 December 2006 and the six months ended 30 June 2006 and 30 June 2007.

	Year ended 31 December								
	2004			2005			2006		
	Tonnes	RMB '000	% of sales	Tonnes	RMB '000	% of sales	Tonnes	RMB '000	% of sales
<u>Self-produced</u>									
Oil well pipes	255.5	2,255	0.7%	94,063.1	469,529	51.8%	144,613.3	709,243	56.1%
Petrochemical pipes	5,594.7	37,671	11.3%	6,642.7	44,868	4.9%	7,140.2	42,199	3.3%
Other specialized seamless pipes	17,266.1	110,913	33.2%	27,804.6	161,120	17.8%	47,392.2	263,825	20.8%
<b>Sub-total</b>	<b>23,116.3</b>	<b>150,839</b>	<b>45.2%</b>	<b>128,510.4</b>	<b>675,517</b>	<b>74.5%</b>	<b>199,145.7</b>	<b>1,015,267</b>	<b>80.2%</b>
<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%	4,941.4	27,798	2.2%
Other specialized seamless pipes	24,765.7	147,840	44.3%	31,315.3	198,053	21.9%	40,719.2	222,249	17.6%
<b>Sub-total</b>	<b>30,670.8</b>	<b>182,806</b>	<b>54.8%</b>	<b>36,649.4</b>	<b>231,073</b>	<b>25.5%</b>	<b>45,660.6</b>	<b>250,047</b>	<b>19.8%</b>
<b>Total</b>	<b>53,787.1</b>	<b>333,645</b>	<b>100.0%</b>	<b>165,159.8</b>	<b>906,590</b>	<b>100.0%</b>	<b>244,806.3</b>	<b>1,265,314</b>	<b>100.0%</b>

## SUMMARY

	Six months ended 30 June					
	2006			2007		
	<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	67,878.4	338,386	56.8%	90,286.0	446,188	61.2%
Petrochemical pipes	4,041.9	25,255	4.2%	3,944.4	26,327	3.6%
Other specialized seamless pipes	17,936.3	99,637	16.7%	27,773.6	144,842	19.9%
<b>Sub-total</b>	<b>89,856.6</b>	<b>463,278</b>	<b>77.7%</b>	<b>122,004.0</b>	<b>617,357</b>	<b>84.7%</b>
<u>Sourcing and distribution</u>						
Oil well pipes	—	—	—	—	—	—
Petrochemical pipes	2,709.4	16,286	2.7%	2,197.9	10,201	1.4%
Other specialized seamless pipes	21,810.4	116,565	19.6%	20,100.2	101,003	13.9%
<b>Sub-total</b>	<b>24,519.8</b>	<b>132,851</b>	<b>22.3%</b>	<b>22,298.1</b>	<b>111,204</b>	<b>15.3%</b>
<b>Total</b>	<b>114,376.4</b>	<b>596,129</b>	<b>100.0%</b>	<b>144,302.1</b>	<b>728,561</b>	<b>100.0%</b>

For each of the three years ended 31 December 2006 and the six months ended 30 June 2007, the five largest customers of the Company accounted for approximately 8.9%, 25.6%, 22.1% and 27.7% respectively of the Company's total sales. For the three years ended 31 December 2006 and the six months ended 30 June 2007, sales to the largest customer of the Company accounted for approximately 2.2%, 12.5%, 5.9% and 9.4% respectively of the Company's total sales.

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## SUMMARY

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### 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 three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007. The audited results should be read in conjunction with the accountants' report, the text of which is set out in Appendix I to this document.

## SUMMARY

### *Income statement*

	Year ended			Six months ended	
	31 December			30 June	
	2004	2005	2006	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Revenue</b>	333,645	906,590	1,265,314	596,129	728,561
Cost of sales	(288,053)	(762,409)	(1,013,539)	(487,883)	(584,960)
<b>Gross profit</b>	45,592	144,181	251,775	108,246	143,601
Other income	1	8	5,217	523	5,678
Selling and distribution costs	(8,162)	(24,249)	(41,495)	(19,440)	(24,216)
Administrative expenses	(10,198)	(19,506)	(17,682)	(6,370)	(17,284)
Other expenses	(20)	(128)	(351)	(154)	(195)
Finance revenue	217	2,290	2,226	1,588	7,323
Finance costs	(2,815)	(6,314)	(8,874)	(3,308)	(11,025)
Share of loss of an associate	(16)	(17)	(23)	(23)	—
<b>Profit before income tax</b>	24,599	96,265	190,793	81,062	103,882
Income tax income/(expense)	49,501	(24,391)	(72,302)	(27,640)	(33,332)
Profit attributable to the equity holders	74,100	71,874	118,491	53,422	70,550
Earnings per share					
— basic ( <i>note</i> )	RMB0.93	RMB0.26	RMB0.34	RMB0.16	RMB0.14

*Note:* The calculation of basic earnings per share is based on the profit for the year/period attributable to the equity holders of the Company and the weighted average number of Shares (including both Domestic Shares and H Shares) outstanding during the relevant year or period. The weighted average number of Shares for the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2006 and 2007 were 80,000,000, 273,590,000, 353,513,000, 340,000,000 and 507,570,000 respectively which were calculated as if the sub-division of the 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 Appendix VI to this document, had been in effect throughout the Track Record Period.

Both the basic and diluted earnings per share amounts for the Track Record Period are the same since there were no diluting events during the Track Record Period.

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## SUMMARY

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### HISTORY AND DEVELOPMENT

The Company's business was founded more than 14 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 underwent further restructuring and 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, as approved by the CSRC, 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.

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 City, 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 other things, 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-corrosion 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 2007, the Company successfully established its production plant in Chuzhou City, thereby taking advantage of Chuzhou City's natural gas resources and ease of access to the nearby railway and road network, all of which contributed to improving overall cost efficiencies. The Company installed an ASSEL three rolled pipe machine in Chuzhou City and another production line with cold-drawn technology in Tianchang City for the production of oil well pipes. Both locations are within Anhui Province, being approximately 125 kilometres apart. The annual production capacity of the Company increased from 25,000 tonnes in 2004 to 300,000 tonnes in 2006. In 2006, the Company's warehouse in Chuzhou City of approximately 31,522 sq.m. was also developed into a distribution and logistics centre. Apart from these achievements, the Company completed its research and development efforts on heat treatment as well as threading of finished pipes with commercial production commencing in January 2007 and July 2007, respectively. The specialized seamless pipes produced from 2005 onwards were mainly for the oil and natural gas industry.

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## SUMMARY

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The Company's overall business objectives are:

- (i) 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;
- (ii) 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; and
- (iii) To increase output efficiencies and further reduce production costs actively through research and development, optimizing craftsmanship and stringent cost control, systematic energy saving and raw materials saving; and
- (iv) 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 enhancing 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 have been used to complete the technology upgrade projects for heat treatment and threading production lines which commenced commercial production in January 2007 and July 2007 respectively. Such processing lines are capable of converting the Company's existing products into finished products that can be used directly in oil fields with no further product processing.

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## SUMMARY

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

The Company is continuing its efforts to conduct related tasks for its project under the 861 Action Plan, as well as monitoring potential merger and acquisition opportunities. The Company expects to produce high grade oil well pipes and raise the value and profit margins of its products. Based on the Company's commitment to cost control and the quality of its management, the Directors believe that the Company will enjoy considerable market share.

### *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 so as 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 City 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 increased its exports to approximately 7% of its total sales for the year ended 31 December 2006 from approximately 3% in 2005. The Company expects to gradually expand its target markets 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 north eastern and north western parts of China is home to many major oil fields, the Company will also 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 and Jilin oil field.



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## SUMMARY

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To achieve the above targets, the Company will first gradually increase its research and development team as well as 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 its 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 employ 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**

For 2007, the Company's designed capacity is 300,000 tonnes per annum. 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 completed its technology upgrade projects for heat treatment of 100,000 tonnes per annum of oil well pipes and threading for oil well pipes for 100,000 tonnes per annum and commercial production in these heat treatment and threading production lines commenced in January 2007 and July 2007 respectively.

The project on technology upgrade of oil well pipes was approved by the Economic Commission of Anhui Province in 2002. The Company then commenced phase I of the construction process in 2003, completed its production facilities in Chuzhou City at the end of 2004 and commenced production at the beginning of 2005. Phase II of such technology upgrade project is for the production of high grade oil well pipes which are anti-corrosion and used mainly in deep wells of over 3,000 metres deep and those onshore and offshore oil fields with noxious items and complicated geological conditions. Phase II of such project has been classified by relevant authorities as part of the 861 Action Plan in 2005 and 2006. 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. During the first six months of 2007, the Company's consultant, CIECC, progressed its feasibility study on phase II of the Company's project within the 861 Action Plan. The Company also passed its environmental impact assessment in respect of phase II of the Company's project within the 861 Action Plan in 2007. The Company is currently in the process of obtaining general safety and fire control approvals for phase II of the Company's project within the 861 Action Plan as well as designing energy saving methodologies.

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## SUMMARY

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The Company expects to be able to increase its annual production capacity to 600,000 tonnes by the end of 2009 taking into account completion of phase II of its project within the 861 Action Plan. By 2009, the Company expects to increase its annual production capacity by a further 50,000 tonnes through technological upgrades of its existing production lines. This will mean that the Company's overall annual production capacity by the year end of 2009 is expected to reach 650,000 tonnes. The Company may also increase its production capacity (mainly in the production of oil well pipes) through merger and acquisition as and when relevant opportunity arises. The Company has not yet identified any such acquisition targets but will continue to seek such opportunities.

The expected investment amount in respect of phase II of the Company's project within the 861 Action Plan, is expected to comprise the following:

Scope of work	Approximate budget	
	RMB	HK\$
Factory construction	70 million	72 million
Production line and equipment	520 million	536 million
General working capital	200 million	206 million
	<u>790 million</u>	<u>814 million</u>

As and when the Directors implement phase II of the Company's project within the 861 Action Plan, the Directors will take into account the market conditions at the time and, if necessary, may accelerate the investment amount or adjust the amount to be spent on the above items. These changes may be the subject of an announcement issued by the Company as and when appropriate. The Company expects to fund this through a combination of internal cash resources, bank financing and/or equity financing.

### 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" in this document. 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 listed H Shares.

#### 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

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## SUMMARY

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- 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 successfully market its 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 costs 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 the Business Plan may materially and adversely affect the Company's profitability and future growth prospects
- The Company derives most 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
- Inability to increase production capacity or to have sales increased at the same rate as production capacity increases may have an adverse impact on the Company's business, financial conditions and prospects
- 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, reputation and financial performance

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## SUMMARY

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### **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 the 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 listed H Shares**

- An active trading market for the H Shares may not be sustained or the trading price for the H Shares may fluctuate significantly after the Introduction
- 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 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

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## DEFINITIONS

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

“861 Action Plan”	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 paragraph headed “Policies and relevant regulations in China” in the section headed “Industry overview” in this document
“API”	The American Petroleum Institute, an Independent Third Party 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, a summary of which is set out in Appendix V to this document
“ASME”	American Society of Mechanical Engineers, an organisation established in the United States to promote art, science and mechanical engineering and is an Independent Third Party
“Associate(s)”	has the meaning ascribed to it under the Main Board Listing Rules
“ASTM”	American Society for Testing and Materials, a voluntary standards development organisation for technical standards for materials, products, systems and services and is an Independent Third Party
“Baosteel Special Steel Technical Centre”	Special Steel Branch Co. of Baoshan Iron & Steel Co., Ltd. (寶山銅鐵股份有限公司特殊鋼分公司), a legal person branch office (法人分支機構) established in the PRC in December 2003 and is an Independent Third Party
“Board”	the board of Directors

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## DEFINITIONS

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“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 and is an Independent Third Party
“Business Day”	a day that is not a Saturday, Sunday or a public holiday in Hong Kong
“Business Plan”	the business plan adopted by the Directors for the period from 21 November 2006 (being the latest practicable date for ascertaining information set out in the Prospectus) up to 31 December 2006 and the two financial years ending 31 December 2008, details of which are set out in the section headed “Comparison of business objectives with actual business progress” in this document
“Cazenove”	Cazenove Asia Limited, the sponsor to the Company for the Introduction and is a licensed corporation under the SFO to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities
“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 Communications 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 other things, serve as an agency for the dissemination of technical scientific information and is an Independent Third Party
“CIECC”	China International Engineering Consulting Corporation (中國國際工程諮詢公司), a corporation established in China 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

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## DEFINITIONS

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“Class Meetings”	the respective class meetings of the holders of the H Shares and holders of the Domestic Shares to be held at Zhenxing Road, Tongcheng Town, Tianchung city, Anhui Province, PRC respectively on 15 October 2007 or any adjournment thereof for the purpose of considering and approving, if thought fit, among other things, the Proposed Withdrawal and the Introduction
“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)
“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”	has the meaning ascribed to it under the Main Board Listing Rules
“CSRC”	the China Securities Regulatory Commission (中國證券監督管理委員會), 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 and is an Independent Third Party

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## DEFINITIONS

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“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 for 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 the Main Board and therefore the Domestic Shares will not be eligible for trading on the Main Board immediately after implementation of the Introduction
“EIA”	Energy Information Administration, a body established by the Congress of the United States in 1977. It is a statistical agency of the United States Department of Energy and is an Independent Third Party
“Extraordinary General Meeting”	an extraordinary general meeting of the Company to be held at Zhenxing Road, Tongcheng Town, Tianchang City, Anhui Province, the PRC on 15 October 2007 at 2:00 p.m. or any adjournment thereof for the purpose of considering and approving, if thought fit, among other things, the Proposed Withdrawal and the Introduction
“GEM”	the Growth Enterprise Market operated by the Stock Exchange
“GEM Listing”	the listing of the H Shares on GEM, the commencement of which took place on 1 December 2006
“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 and is an Independent Third Party
“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 subscribed for and traded in HK\$



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## DEFINITIONS

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“HKIAC”	Hong Kong International Arbitration Centre
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Government”	the government of Hong Kong
“Independent Third Party(ies)”	a person(s) or company(ies) which is/are not a Connected Person
“Initial Management Shareholders”	means, collectively, Tianda Holding, Tianda Investment, Ye Shi Qu, Zhang Hu Ming, Xie Yong Yang, Zhang Jian Huai, Wang Yi, Zhang Chun Xiang, Geng Wei Long, Lv Si Yu, Huang Yao Qi and Chen Dong
“International Placing”	the conditional placing of the 167,570,000 H Shares at HK\$3.0 per H Share as referred to in the Prospectus in connection with the GEM Listing
“Introduction”	the proposed listing of the H Shares on Main Board by way of an introduction pursuant to the Main Board Listing Rules
“IFRS”	International Financial Reporting Standards, including International Accounting Standards and interpretations issued by the International Accounting Standards Board
“Latest Practicable Date”	22 August 2007, being the latest practicable date prior to the printing of this document for ascertaining certain information contained herein
“Listing Committee”	the listing committee of the Board of directors of the Stock Exchange
“Main Board”	the securities market which has been operated by the Stock Exchange prior to the establishment of GEM (excluding the options market) and which stock market continues to be operated by the Stock Exchange in parallel with GEM. For the avoidance of doubt, the Main Board excludes GEM

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## DEFINITIONS

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“Main Board Listing”	the listing of the H Shares on the Main Board
“Main Board Listing Date”	the date on which dealings in the H Shares shall first commence on the Main Board (currently expected to be 26 November 2007)
“Main Board Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board Migration”	the proposed migration of the listing of the H Shares from GEM to the Main Board, which is the subject matter of the Introduction
“Mandatory Provisions”	the “Mandatory Provisions for Articles of Association of Companies to be Listed Overseas” (到境外上市公司章程必備條款) promulgated by the State Council Securities Commission (國務院證券委員會) and the State Commission for Restructuring the Economic System of the PRC (國家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 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), a company branch 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

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## DEFINITIONS

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“Over-allotment Option”	the option granted by the Company to the underwriters of the GEM Listing and exercised by Cazenove, on behalf of the underwriters, to require the Company to issue the over-allotment Shares to cover the over-allocation in the International Placing as described in the Company’s announcement dated 7 December 2006
“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
“PICC”	PICC Property and Casualty Company Limited (中國人民財產保險股份有限公司), a joint stock company with limited liability incorporated on 7 July 2003 and an Independent Third Party
“Placing Shares”	145,714,000 new H Shares initially being offered by the Company at the placing price of HK\$3.00 under the International Placing, together with (if applicable) any over-allotment Shares
“PRC” or “China”	the People’s Republic of China which, for the purpose of this document, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“PRC GAAP”	generally accepted accounting principles in the PRC
“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
“Product Inspection Waiver”	the certificate for product exemption from quality surveillance granted by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC (國家質量監督檢驗檢疫總局)

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## DEFINITIONS

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“Promoter(s)”	the promoter(s) of the Company, which are Tianda Holding and Tianda Investment
“Proposed Withdrawal”	the proposed withdrawal of listing of the H Shares on GEM
“Prospectus”	the prospectus issued by the Company on 27 November 2006 in connection with the International Placing
“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總局)
“Securities Commission”	the former Securities Commission of the State Council (前國務院證券委員會)
“SFC”	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)
“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

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## DEFINITIONS

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“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
“Substantial Shareholder”	has the meaning given to it by the Main Board Listing Rules
“Supervisor(s)”	member(s) of the supervisory committee of the Company
“Takeovers Code”	the Code on Takeovers and Mergers and Share Repurchases issued by the SFC, as amended, supplemented or, otherwise modified from time to time
“Tianchang Government”	the People’s Government of Tianchang City (天長市人民政府)
“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
“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
“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 and is a wholly-owned subsidiary of Tianda Plastic Company

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## DEFINITIONS

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“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. 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 limited liability company 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 the immediate 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 limited liability company established under the laws of China on 23 June 2004 and the immediate 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 collectively-owned enterprise established under the laws of China on 7 June 1999 and the immediate 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. All of Tianda Holding’s employees are members of Tianda Trade Union
“Tianjin Dajin”	Tianjin Dajin Electrical Appliance Co. Ltd. (天津市大津電器有限公司), a limited liability company 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

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## DEFINITIONS

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“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 collectively-owned enterprise which was ultimately controlled by the Tongcheng Government in China before it was acquired by Tianda Enterprise in February 1993
“Track Record Period”	the period from 1 January 2004 to 30 June 2007
“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”	the value-added tax in 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 document as translations of their Chinese names for identification purpose only. In the event of any inconsistency, the Chinese version shall prevail.

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## DEFINITIONS

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

HK\$1.00 = RMB0.97

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 at all.

The contents contained in the websites at [www.tianda-group.com](http://www.tianda-group.com) and [www.td-gg.com](http://www.td-gg.com) do not form part of this document.



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## GLOSSARY OF TECHNICAL TERMS

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*This glossary contains explanations of certain terms used in this document 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 <sub>2</sub> S-resistant
“09CrMoAL”	the name of a material used to produce specialized seamless pipes that is Cl <sup>-</sup> 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 to, among other things, meeting certain quality standards as prescribed by API
“API Spec 5CT”	a standard issued by the API to provide standards for pipes used in petroleum and natural gas industries such as oil well pipes
“ASSEL three rolled pipe machine”	a type of rolled pipe machine which rolls pipes on long floating mandrel
“Cl <sup>-</sup> acid resistant seamless steel pipe”	on the basis of specific chemical composition, such specialized seamless pipe that is Cl <sup>-</sup> acid resistant
“CAGR”	compound annual growth rate
“CO <sub>2</sub> ”	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 <sup>-</sup> ”	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

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## GLOSSARY OF TECHNICAL TERMS

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“GDP”	gross domestic product
“H <sub>2</sub> 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 <sub>2</sub> S-resistant seamless steel pipe”	on the basis of specific chemical components, such specialized seamless pipe is H <sub>2</sub> 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
“”MT” or “tonne””	metric tonne and for reference only, one metric tonne is equivalent to about 1,000 kg

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## RISK FACTORS

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*You should carefully consider all of the information in this document including the risks and uncertainties described below before making an investment in the H Shares. You should pay particular attention to the fact that the Company is a PRC company and is governed by a legal and regulatory environment which in some respects may differ from that which prevails in other countries. The business, financial condition or results of operations of the Company could be materially adversely affected by any of these risks. The trading price of the H Shares could decline due to any of these risks, and you may lose all or part of your investment. For more information concerning the PRC and certain related matters discussed below, please refer to Appendix III “Summary of relevant PRC and Hong Kong laws and regulations” and Appendix V “Summary of the Articles of Association” to this document.*

### **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 three financial years ended 31 December 2006 and the six months ended 30 June 2007 was derived from the specialized seamless pipes for the oil and natural gas industry. For the three years ended 31 December 2006 and the six months ended 30 June 2007, sales of the oil well and petrochemical pipes accounted for approximately 22.5%, 60.3%, 61.6% and 66.2% of the Company’s sales, and, for the same period, sales of oil well pipes accounted for approximately 1.7%, 51.8%, 56.1% and 61.2% 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

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## RISK FACTORS

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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 three years ended 31 December 2006 and the six months ended 30 June 2007, the Company sourced approximately 52.6%, 50.3%, 61.0% and 59.7% respectively of its total purchases from the Company's top five suppliers. Over the same periods, the Company's largest supplier accounted for approximately 14.8%, 26.4%, 34.6% and 26.3% of the Company's total purchases respectively for the same periods. 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 oil well pipes revenues had been, and may continue to be, derived from a limited number of customers. For each of the three years ended 31 December 2006 and the six months ended 30 June 2007, the Company's sales to its five largest customers accounted for approximately 8.9%, 25.6%, 22.1% and 27.7% respectively of the Company's total sales. 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 successfully market its 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.

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## **RISK FACTORS**

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As part of the Company's overall expansion strategy, the Company commenced to offer value-added services such as heat treatment and threading of its oil well pipes in January 2007 and July 2007. As these are new manufacturing technologies and machinery to the Company, the Company may face difficulties or time delays in marketing such new products. Failure to market 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 and senior management". The core management and technical teams have been involved in the Company's operations for more than 14 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 in charge of cold-drawn steel pipe plant), Lv Si Yu (vice general manager in charge of sales and marketing) and Huang Yao Qi (financial controller). Each executive Director entered into a service contract with the Company for a term of three years commencing from 1 December 2006, being the date of the GEM Listing. 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 usually include product warranties of six or 12 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.

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## **RISK FACTORS**

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### **Increasing environmental compliance costs 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 tax credits of approximately RMB57,796,000 and RMB8,900,000 for the two years ended 31 December 2005. Details of such tax credits are set out in note 9 to the accountants' report in Appendix I to this document. The PRC Enterprise Income Tax Law was promulgated on 16 March 2007, which will become effective on 1 January 2008. According to this new law, the income tax rate will be reduced to 25%. The State Council is drafting detailed rules for this new law.

Consequently, 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 three to six months after their issue. Under the terms of issue or endorsement of such bank drafts to suppliers, such suppliers may have recourse to the Company if the bank defaults payment of such bank drafts. As at 30 June 2007, the aggregate bank drafts with recourse to the Company amounted to approximately RMB262.4 million. If such banks default 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.

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## **RISK FACTORS**

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### **Historical dividends are not indicative of future dividends**

Dividends declared by the Company amounted to approximately RMB17.0 million, RMB56.7 million and RMB25.4 million for the years ended 31 December 2004, 2005 and 2006, 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, among other things, 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 dividends payable in the future.

### **The Company's inability to successfully implement the Business Plan 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 the Business Plan, 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 the Business Plan may materially and adversely affect the Company's profitability and future growth prospects.

### **The Company derives most 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**

Most 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.

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## RISK FACTORS

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**Inability to increase production capacity or to have sales increased at the same rate as production capacity increases may have an adverse impact on the Company's business, financial conditions and prospects**

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 by 2009 as the Company is progressing its project within the 861 Action Plan. The Company's sales may not increase at the same rate as increases in production capacity. As such, 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**

As at 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 an oil well pipe production line in Chuzhou City and the corresponding assets were not being classified as current assets. They were classified as non-current assets under property, plant and equipment as at the same date. As the operations of the Company expand and as the Company proceeds with its project within the 861 Action Plan, more working capital will be required. If the Company takes on short-term bank debts 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 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 financial results of the Company.

**If inventory control is not carried out appropriately, this may have an adverse effect on the Company's business, reputation 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 2007, the Company had inventories of approximately RMB209.5 million. Inventories as at 31 December 2004, 2005 and 2006 amounted to approximately RMB27.9 million, RMB131.4 million and RMB201.8 million respectively. The average inventory<sup>(Note)</sup> turnover days during the Track Record Period were 34 days, 38 days, 60 days and 64 days, respectively. The Company's inventories represented approximately 7.7%, 22.4%, 17.4% and 18.1% of its total assets as at 31 December 2004, 2005, 2006 and 30 June 2007 respectively. As part

*Note:* Average inventory equals inventory at the beginning of the year plus inventory at the end of the year (or as at 30 June 2007 as the case may be) and divided by two. Turnover of inventory equals average inventory divided by cost of sales and multiplied by 365 (or 181 for the six months ended 30 June 2007).



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## **RISK FACTORS**

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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.

#### **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 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 for its oil well pipes, which is considered as value adding process of iron and steel. 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.

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## **RISK FACTORS**

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

PRC oil and gas companies are extensively regulated by the PRC government. The central government authorities and reform commissions, 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 and the State Administration 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 the 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 paragraph headed "Relationship between oil price and capital expenditure of major oil and gas producers in China" in the section headed "Industry overview" in this document, there is a positive correlation between world oil prices and capital expenditure of major oil and gas producers in China. Global oil prices, since 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 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.

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## RISK FACTORS

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Most 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 RMB against the US\$ 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 RMB into foreign currencies, including HK\$ and US\$, 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 20 July 2005, the official exchange rate for the conversion of RMB to US\$ was generally stable.

On 21 July 2005, the PBOC 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 PBOC, 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 dividends paid in HK\$ to holders of H Shares at time of conversion from RMB to HK\$.

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.

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## **RISK FACTORS**

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### **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 investors' 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 Main Board Listing Rules. The Mandatory Provisions and the additional provisions required by the Main Board 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 Main Board Listing Rules does not guarantee that holders of the H Shares can enjoy similar protections offered to them in other jurisdictions.

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## **RISK FACTORS**

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### **Changes to the PRC regulatory framework may adversely affect the Company**

The PRC Securities Law 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 PRC Securities Law 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 save for a draft bill which was published in the HKSAR Government's gazette on 23 February 2007), 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.

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## RISK FACTORS

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Additional information relating to arbitrations, including the Arbitration Law of the PRC (中國仲裁法) which became effective on 1 September 1995, are set out in the paragraph headed “The Arbitration Law” in Appendix III to this document.

### **RISK FACTORS RELATING TO THE LISTED H SHARES**

#### **An active trading market for the H Shares may not be sustained or the trading price for the H Shares may fluctuate significantly after the Introduction**

Prior to the Introduction, the H Shares have been traded on GEM. The price of the H Shares traded on GEM may not be indicative of the price at which the H Shares will be traded on the Main Board. After the Introduction, the price and trading volume of the H Shares will be determined in the market place and may be volatile. In addition, there can be no assurance that an active trading market for the H Shares will be developed, or, if it will be developed, that it will be sustained after the Introduction, or that the market price of the H Shares will not decline below the price of the H Shares traded on GEM.

The trading price of the H Shares could also be subject to significant volatility in response to, among other factors:

- (i) investors’ perceptions of the Company and its future plans;
- (ii) variations in the Company’s operating results;
- (iii) changes in the Company’s pricing policy as a result of the fluctuation in the purchase price of raw materials;
- (iv) changes in the Company’s senior management personnel; and
- (v) general economic and other factors in the PRC and the Company’s other principal markets.

**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 H Shares and the Company’s ability to raise capital in the future, and may result in dilution of H Share shareholdings**

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## **RISK FACTORS**

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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 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 or specifically exempted by the tax authority of the State Council.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE MAIN BOARD LISTING RULES

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### MANAGEMENT PRESENCE

Pursuant to Rules 8.12 and 19A.15 of the Main Board Listing Rules, the Company must have a sufficient management presence in Hong Kong. This normally means that at least two of the executive Directors must be ordinarily resident in Hong Kong. As the principal business operations of the Company are primarily located in the PRC, the senior management members of the Company are therefore based in China. As at the Latest Practicable Date, Ho Kin-Cheong, Kelvin, the company secretary and qualified accountant of the Company, is ordinarily resident in Hong Kong and none of the executive Directors is a Hong Kong resident and based in Hong Kong. The Directors believe that it would be practically difficult and commercially not feasible for the Company to appoint two Hong Kong residents as executive Directors or to relocate the Company's executive Directors who are resident in China to Hong Kong merely for the purpose of complying with Rules 8.12 and 19A.15 of the Main Board Listing Rules.

The Company has received from the Stock Exchange a waiver from compliance with Rules 8.12 and 19A.15 of the Main Board Listing Rules subject to the following conditions:

- (i) The Company has appointed Ye Shi Qu and Ho Kin-Cheong, Kelvin as its two authorised representatives pursuant to Rule 5.25 of the GEM Listing Rules and will appoint them pursuant to Rule 3.05 of the Main Board Listing Rules, who will continue to act as the Company's principal channel of communication with the Stock Exchange. Although Ye Shi Qu is not ordinarily resident in Hong Kong, he possesses valid travel documents to visit Hong Kong at any time. Ho Kin-Cheong, Kelvin is a Hong Kong resident.
- (ii) Each of the authorized representatives will be available to meet with the Stock Exchange in Hong Kong within a reasonable period of time upon request and will be readily contactable by mobile, office telephone and facsimile. Each of the two authorized representatives has been duly authorized to communicate on behalf of the Company with the Stock Exchange.
- (iii) Both authorized representatives have means to contact all members of the Board (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact the members of the Board for any matters.
- (iv) The Company has appointed a compliance adviser for the purpose of, among other things, obtaining professional advice on matters relating to compliance with the Main Board Listing Rules. Pursuant to a compliance adviser agreement entered into between the compliance adviser and the Company, the Company has appointed the compliance adviser for the period commencing



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## WAIVERS FROM STRICT COMPLIANCE WITH THE MAIN BOARD LISTING RULES

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on the Main Board Listing Date and ending on the date that the Company complies with the obligation to distribute its annual report or summary financial report in respect of its financial results for the first full financial year commencing after the Main Board Listing Date, and the compliance adviser will provide professional advice on matters relating to compliance with the Main Board Listing Rules and other obligations for companies listed in Hong Kong. The compliance adviser will, in addition to the authorised representatives, act as the Company's principal channel of communication with the Stock Exchange.

- (v) The compliance adviser agreement provides that the compliance adviser shall have access at all times to the authorised representatives, the Directors and other officers of the Company to ensure that it is in a position to provide prompt responses to any queries or requests from the Stock Exchange in respect of the Company.

### **NON-DISPOSAL OF SHARES**

The Company has applied to the Stock Exchange for, and the Stock Exchange has granted, a waiver from strict compliance with the restrictions on further issues of securities within six months of listing on the Main Board as required by Rule 10.08 of the Main Board Listing Rules and a consequential waiver from strict compliance with the restrictions under Rule 10.07(1)(a) of the Main Board Listing Rules in respect of the deemed disposal of Shares by the controlling Shareholders upon the issue of securities by the Company within six months of the Main Board Listing subject to the following conditions:

- (i) any issue of Shares (or convertible securities) during the first six months after the Main Board Listing must be either for cash to fund a specific acquisition or as part or full consideration for an acquisition;
- (ii) the acquisition must be for assets or business(es) that will contribute to the growth of the operation of the Company; and
- (iii) Ye Shi Qu and Tianda Holding shall not cease to be the controlling Shareholders by virtue of the deemed disposal of Shares upon the issue of securities by the Company within six months of the Main Board Listing.

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## WAIVERS FROM STRICT COMPLIANCE WITH THE MAIN BOARD LISTING RULES

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The Company has applied to the Stock Exchange for waiver from strict compliance with Rule 10.08 of the Main Board Listing Rules and the consequential waiver from strict compliance with Rule 10.07(1)(a) of the Main Board Listing Rules for the following reasons:

- (i) the Company will not raise any new funds pursuant to the Introduction. Therefore, the Shareholders would not suffer any dilution of their interests as a result of the Main Board Listing;
- (ii) Ye Shi Qu and Tianda Holding, the controlling Shareholders, have not disposed of any Shares since the establishment of the Company and intend not to dispose of any Shares owned by them within six months from the Main Board Listing Date; and
- (iii) the interests of the Shareholders are protected since any further issue of Shares by the Company would be subject to Shareholders' approval as required under Rule 19A.38 of the Main Board Listing Rules.

Save for the above, the Company has not separately applied for a waiver from compliance with Rule 10.07(1)(a) of the Main Board Listing Rules.

Tianda Holding and Tianda Investment undertook to the Company and the Stock Exchange in connection with its GEM Listing in December 2006 that for a period up to and including 30 November 2007, they would not (i) dispose of (nor enter into agreement to dispose of) or permit the registered holder to dispose of (or enter into any agreement to dispose of) any of their direct or indirect interests in the Company; or (ii) otherwise create (nor enter into any agreement to create) or permit the registered holder to create (or enter into any agreement to create) any options, rights, interests or encumbrances in respect of any such interest. Pursuant to the Main Board Listing Rules and in the absence of a waiver, the time period for such undertaking would be extended to impose disposal restrictions for the period of an additional one year period from the Main Board Listing Date.

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## **INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS DOCUMENT**

This document, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Companies Ordinance and the Main Board 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:

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

### **NO CHANGE IN BUSINESS**

No change in business of the Company is being contemplated following the Introduction.

### **APPLICATION FOR LISTING ON MAIN BOARD**

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, on the Main Board, the 167,570,000 H Shares in issue.

### **REGULAR PUBLICATION OF RESULTS**

After the implementation of the Introduction, the Company will cease the practice of quarterly reporting and will follow the relevant requirements of the Main Board Listing Rules which include publishing its interim results and annual results within three months and four months from the end of the relevant periods or financial year ends, respectively. The Directors are of the view that following the reporting requirements under the Main Board Listing Rules, investors and the Shareholders will continue to have access to relevant information on the Company. The Directors also believe that the cessation of quarterly reporting would save publishing costs and other related expenses and enable management to devote more time and resources to the operation of the Company's business, which is in the interests of the Company and the Shareholders as a whole.

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## **INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION**

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### **HONG KONG STAMP DUTY**

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

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

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

The Company, Cazenove, any of their respective directors, officers, employees and/or representatives or other parties involved in the Introduction do not accept responsibility for any tax effects on, or liability of, any person resulting from purchasing or holding or disposing of or dealing in the H Shares or any rights thereof.

### **HONG KONG H SHARE REGISTER**

The register of members of the Domestic Shares will be maintained in the PRC by China Securities Depositing and Clearing Corporation Limited and the register of members of the H Shares will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Unless the Directors otherwise agree, all transfers and other documents of title of H Shares for the purposes of trading on Main Board must be lodged for registration with and registered by the H Share registrar of the Company in Hong Kong and may not be lodged in the PRC.

### **REGISTRATION OF SUBSCRIPTION, PURCHASE AND TRANSFER OF H SHARES**

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

- (i) agrees with the Company and each other Shareholder 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 and officer of the Company to refer all disputes and claims arising from the Articles of Association or any rights and 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 any reference to arbitration shall be deemed to authorise

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## **INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION**

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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 that H Shares in the registered capital of the Company are freely transferable by the registered holder(s) thereof; and
- (iv) authorises the Company to enter into a contract on such holder's behalf with each Director, Supervisor and officer of the Company, whereby such Directors, Supervisor and officers of the Company undertake to observe and comply with their obligations to shareholders as stipulated in the Articles of Association.

### **H SHARES WILL CONTINUE TO BE ELIGIBLE FOR ADMISSION INTO CCASS**

The H Shares have been accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from 1 December 2006, the date on which dealings in the H Shares on GEM commenced. If the Stock Exchange grants the listing of, and permission to deal in, the H Shares on Main Board and the Company continues to comply with the stock admission requirements of HKSCC, the H Shares will continue to be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the commencement date of dealings in the H Shares on Main Board. 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. Investors should seek advice from their stockbroker or other professional adviser for details of those settlement arrangements, as such arrangements will affect their rights and interests. All necessary arrangements have been made for the H Shares in issue to continue 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.

### **COMMENCEMENT OF DEALINGS IN THE H SHARES**

Dealings in the H Shares are expected to commence on Monday, 26 November 2007.

### **CONDITIONS OF THE INTRODUCTION**

The implementation of the Main Board Migration is conditional upon:

- (i) the Listing Committee granting approval for the listing of, and permission to deal in, the H Shares on the Main Board and the Listing Committee of GEM granting approval for the Proposed Withdrawal;
- (ii) the granting of the relevant approval by the CSRC and other relevant PRC authorities (if necessary) in connection with the Proposed Withdrawal and the Introduction;

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## INFORMATION ABOUT THIS DOCUMENT AND THE INTRODUCTION

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- (iii) the passing of the relevant resolutions at the Extraordinary General Meeting and the separate Class Meetings (as the case may be) to approve the Proposed Withdrawal, the Introduction and the reduction of the notice period as referred to in condition (v) below;
- (iv) the publication of a notice of the Proposed Withdrawal after obtaining the approval of Shareholders referred to in condition (iii) above not less than five clear Business Days prior to the Main Board Listing Date;
- (v) the Listing Committee of GEM granting a waiver for the reduction of the notice period for the Proposed Withdrawal from a minimum of three months under Rule 9.19(3) of the GEM Listing Rules to at least five clear Business Days from the date on which the Shareholders shall have approved the Proposed Withdrawal at the Extraordinary General Meeting and the separate Class Meetings; and
- (vi) the obtaining of all other relevant consents (if any) which are required in connection with the implementation of the Main Board Migration and fulfillment of all conditions which may be attached to such consents.

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## CORPORATE INFORMATION

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<b>REGISTERED ADDRESS</b>	Zhenxing Road Tongcheng Town Tianchang City Anhui Province the PRC
<b>PRINCIPAL PLACE OF BUSINESS IN HONG KONG</b>	Room 2906 China Online Centre 333 Lockhart Road Wanchai Hong Kong
<b>COMPANY SECRETARY</b>	Ho Kin Cheong, Kelvin (FCCA, CPA) Room 2709 Ka Yeung House Ka Shing Court Fanling Hong Kong
<b>COMPLIANCE OFFICER</b>	Zhang Hu Ming (張胡明)
<b>QUALIFIED ACCOUNTANT</b>	Ho Kin Cheong, Kelvin (FCCA, CPA)
<b>COMPLIANCE ADVISER</b>	Cazenove Asia Limited* 50th Floor, One Exchange Square 8 Connaught Place Central Hong Kong  Sommerley Limited** 10th Floor, The Hong Kong Club Building 3A Chater Road Central, Hong Kong
<b>AUDIT COMMITTEE</b>	Zhao Bin (趙斌) ( <i>Chairman</i> ) Wu Chang Qi (吳昌期) Zhang Jian Huai (張建懷)
<b>REMUNERATION AND NOMINATION COMMITTEE</b>	Wu Chang Qi (吳昌期) ( <i>Chairman</i> ) Wang Xiu Zhi (王秀智) Xie Yong Yang (謝永洋)

\* Appointment to take effect on the Main Board Listing Date.

\*\* Termination to take effect on the Main Board Listing Date.

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## CORPORATE INFORMATION

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### STRATEGY AND RISK

Wang Xiu Zhi (王秀智) (*Chairman*)

### CONTROL COMMITTEE

Wu Chang Qi (吳昌期)

Zhang Hu Ming (張胡明)

### AUTHORISED

Ye Shi Qu (葉世渠)

### REPRESENTATIVES

Room 201, Block 1

Tianda Residential District

4 Zhenxing Road

Tongcheng Town

Tianchang City

Anhui Province

the PRC

Ho Kin Cheong, Kelvin

Room 2709

Ka Yeung House

Ka Shing Court

Fanling

Hong Kong

### 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 City

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 City

Anhui Province

the PRC



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## CORPORATE INFORMATION

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

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

**HONG KONG H 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

**RECEIVING AGENT**

ICBC (Asia) Trustee Company Limited  
33rd Floor, ICBC Tower  
3 Garden Road  
Central  
Hong Kong

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## PARTIES INVOLVED IN THE INTRODUCTION

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

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## PARTIES INVOLVED IN THE INTRODUCTION

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Name	Address	Nationality
<i>Independent non-executive Directors:</i>		
Wu Chang Qi (吳昌期)	Room 302, Block 3, Provincial Government Dormitory Area 1 Shucheng Road Luyang District, Hefei Anhui Province the PRC	Chinese
Wang Xiu Zhi (王秀智) <sup>Note</sup>	Room 305, Block 3, Provincial Government Dormitory Area 2 Shucheng Road Luyang District, Hefei Anhui Province the PRC	Chinese
Zhao Bin (趙斌)	Room 401, Baoyuan Apartment Xueyuan Road 11, Haidian District Beijing the PRC	Chinese
Li Chi Chung (李智聰) <sup>Note</sup>	Flat 7G, Block 7 Kenswood Court Kingswood Villas Tin Shui Wai New Territories Hong Kong	Chinese

*Note:* It is expected that upon completion of the Main Board Migration, Wang Xiu Zhi will resign and Li Chi Chung will be appointed as an independent non-executive Director. Please refer to the section headed “Directors, Supervisors and senior management” in this document for further information.

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## PARTIES INVOLVED IN THE INTRODUCTION

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### SUPERVISORS

Name	Address	Nationality
Liu Jun Chang (劉俊昌)	Room 306, Block 1, Tianda Residential District, 4 Zhenxing Road, Tongcheng Town, Tianchang City Anhui Province the PRC	Chinese
Yong Jin Gui (雍金貴)	Room 403, Block 2, Tianda Residential District, 4 Zhenxing Road, Tongcheng Town, Tianchang City Anhui Province the PRC	Chinese
Yang Quan Fu (楊全富)	Room 102, Block 1, Tianda Residential District, 4 Zhenxing Road, Tongcheng Town, Tianchang City Anhui Province the PRC	Chinese

### SPONSOR

Cazenove Asia Limited  
50th Floor, One Exchange Square  
8 Connaught Place  
Central  
Hong Kong

### LEGAL ADVISERS TO THE COMPANY

*As to Hong Kong law:*  
Paul, Hastings, Janofsky & Walker  
22nd Floor, Bank of China Tower  
1 Garden Road  
Central  
Hong Kong

*As to PRC law:*  
Commerce and Finance Law Offices  
6th Floor, NCI Tower  
A12 Jianguomenwai Avenue  
Chaoyang District  
Beijing 100022  
China

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## PARTIES INVOLVED IN THE INTRODUCTION

---

**LEGAL ADVISERS TO THE  
SPONSOR**

*As to Hong Kong law:*  
Richards Butler  
20th Floor, Alexandra House  
16-20 Chater Road  
Central  
Hong Kong

*As to PRC law:*  
Global Law Office  
37th Floor, Jingtuan Center  
Chaoyang District  
Beijing 100020  
China

**AUDITORS AND REPORTING  
ACCOUNTANTS**

Ernst & Young  
*Certified Public Accountants*  
18/F, Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

**PROPERTY VALUER**

DTZ Debenham Tie Leung Limited  
10th Floor, Jardine House  
1 Connaught Place  
Central  
Hong Kong

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## INDUSTRY OVERVIEW

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*The information set out in this section has been extracted from various official government related publications. Such information is not generated, nor independently verified by the Company, Cazenove or any of their respective advisers or affiliates. The official information may not be consistent with other information compiled within or outside the PRC. The Directors have taken reasonable care in the extraction, compilation and reproduction of the information in this section.*

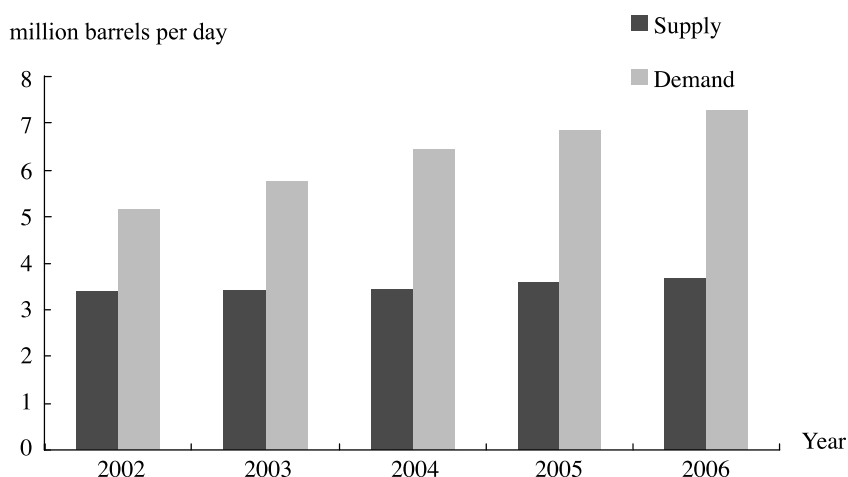
### CRUDE OIL INDUSTRY OVERVIEW

#### 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 2002 to 2006, the total world demand for oil grew by approximately 8.2%. During that period, the global demand for crude oil increased from 78.1 million barrels per day in 2002 to 84.5 million barrels per day in 2006, representing a CAGR of approximately 2.0%. Oil demand worldwide has resulted in increasing oil prices. According to the EIA, US crude oil imported acquisition cost by refiners increased by approximately 1.5 times from 2002 to 2006. In the same period, as compared with the world, China's demand for oil grew at a much faster rate of approximately 40.4% from 5.2 million barrels per day in 2002 to 7.3 million barrels per day in 2006, representing a CAGR of approximately 8.9%. The following graph shows the total supply of and demand for crude oil in China from 2002 to 2006.

#### Total supply of and demand for crude oil in China from 2002 to 2006



Source: EIA

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## INDUSTRY OVERVIEW

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### Demand

Since the early 1980's, China has experienced rapid economic growth which has also generated strong increase in demand for petroleum resources. Between 2002 and 2006, China's GDP increased by a CAGR of approximately 14.9%, 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 2006, second to the United States based on the following table. However, China's crude oil consumption on a per capita basis in 2006 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 2006.

#### Major oil consuming countries in the world in 2006

<b>Country</b>	<b>Total oil consumption</b> <i>million barrels per day</i>	<b>Per capita consumption</b> <i>barrels per annum</i>
United States	20.6	25.5
China	7.3	2.0
Japan	5.2	15.0
Germany	2.6	11.6
Canada	2.2	25.0
South Korea	2.2	16.3
Mexico	2.1	7.0
France	2.0	12.0
United Kingdom	1.8	11.2
Italy	1.7	10.8
	<hr/> <hr/>	<hr/> <hr/>
Total world demand	84.5	4.8

Sources: EIA and World Bank

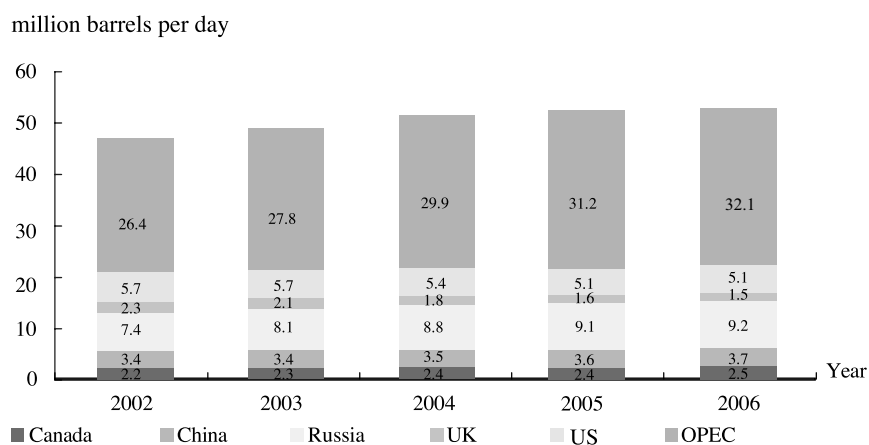
## INDUSTRY OVERVIEW

### 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 2006, all the three companies together accounted for approximately 93.1% 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 document below, statistics relating to PetroChina, Sinopec and CNOOC are used as key indicators for China's oil producers.

The following graph sets forth the total crude oil production by various regions in the world from 2002 to 2006. As illustrated, China still plays a relatively minor role in the crude oil production.

**Total crude oil production by various regions in the world from 2002 to 2006**



Source: EIA



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## INDUSTRY OVERVIEW

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### Crude oil produced

	2002	2003	2004	2005	2006	CAGR
	<i>million barrels</i>					<i>%</i>
PetroChina	770	775	778	823	831	1.9%
Sinopec	270	271	274	279	285	1.4%
CNOOC	109	112	117	130	136	5.7%
<hr/>						
Total	1,149	1,158	1,169	1,232	1,252	2.2%
Year on year growth	—	0.8%	0.9%	5.4%	1.6%	—

### Proven oil reserves

	2002	2003	2004	2005	2006	CAGR
	<i>million barrels</i>					<i>%</i>
PetroChina	10,937	11,495	11,501	11,536	11,618	1.5%
Sinopec	3,320	3,257	3,267	3,294	3,295	-0.2%
CNOOC	1,424	1,436	1,456	1,457	1,490	1.1%
<hr/>						
Total	15,681	16,188	16,224	16,287	16,403	1.1%
Year on year growth	—	3.2%	0.2%	0.4%	0.7%	—

*Sources:* 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: proven 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 the United States's total estimated oil resource, 23.4% of Canada, 4.2% of the Middle East.

### Estimated world oil resources, 1995-2025

Region	Proven reserves	Reserve growth	Undiscovered	Total
			<i>billion barrels</i>	
<b>Matured market economies</b>				
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
<b>Transitional economies</b>				
Former Soviet Union	77.8	137.7	170.8	386.3
Eastern Europe	1.5	1.5	1.4	4.4
<b>Emerging economies</b>				
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
<b>Total world</b>	<b>1,277.7</b>	<b>730.2</b>	<b>938.9</b>	<b>2,946.8</b>
OPEC	885.2	395.6	400.5	1,681.3
Non-OPEC	392.5	334.6	538.4	1,265.5

*Note:* Reserves include crude oil (including concentrates) and LPG.

*Sources:* Proven reserves as of 1 January 2005: Oil & Gas Journal. Reserve growth (total) and undiscovered: US Geological Survey and World Petroleum Assessment 2000. Estimates of regional reserve growth: EIA and International Energy Outlook 2002.

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## INDUSTRY OVERVIEW

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### Import and export

From 2002 to 2006, China's crude oil consumption increased at a CAGR of approximately 9.0% from 5.2 million barrels per day to 7.3 million barrels per day while the world's crude oil production increased at a CAGR of approximately 2.0% from 78.1 million barrels per day to 84.5 million barrels per day over the same period. China has become a net importer of oil every year since 1996 and, in 2006, the net imports of China reached 3.4 million barrels per day (equivalent to approximately 46.6% of China's total oil consumption per day in that year).

### CAPITAL EXPENDITURE OF CHINA'S THREE MAIN OIL AND GAS PRODUCERS

#### Overview

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

As illustrated in the table below, capital expenditure by China's three main oil and gas producers, PetroChina, Sinopec and CNOOC, increased from RMB126.9 billion in 2002 to RMB272.7 billion in 2006, representing a CAGR of 21.1%.

	<b>Capital expenditure by China's three main oil producers</b>					
	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>CAGR</b>
	<i>RMB billion</i>					<i>%</i>
PetroChina	73.7	83.0	98.9	124.8	148.7	19.2%
Sinopec	41.6	45.0	64.8	58.7	79.8	17.7%
CNOOC	11.6	12.4	18.6	17.5	44.2	39.8%
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	126.9	140.4	182.3	201.0	272.7	21.1%
Year on year growth	—	10.6%	29.8%	10.3%	35.7%	—

*Sources:* Annual reports of PetroChina, Sinopec and CNOOC

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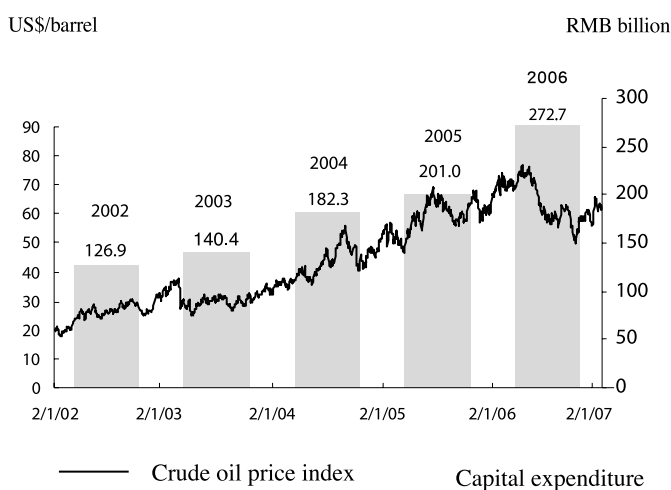
## INDUSTRY OVERVIEW

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### Relationship between oil price and capital expenditure of major oil and gas producers in China

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 capital expenditure on crude oil exploration, refining and transmission.

### Relationship between the West Texas Intermediate Crude Oil Price Index and the capital expenditure of major oil and gas producers in China



Sources: Bloomberg and annual reports of the companies

Note: Major oil and gas producers in China refers to PetroChina, Sinopec and CNOOC

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## INDUSTRY OVERVIEW

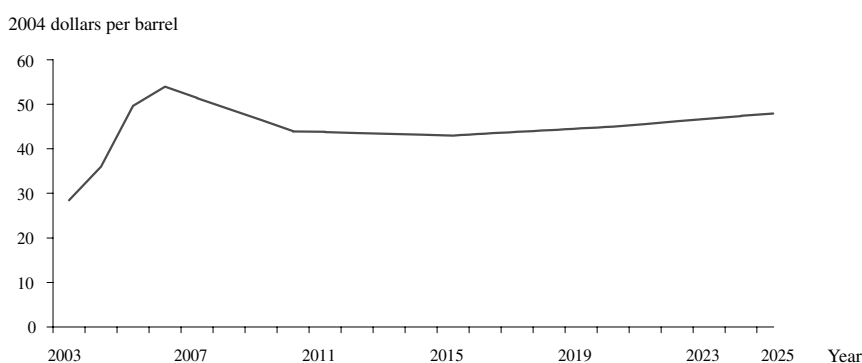
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### Future perspective

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 the 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 US refiners.

### Petroleum product prices\*



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

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

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## INDUSTRY OVERVIEW

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### OIL WELL PIPE INDUSTRY IN CHINA

#### Overview

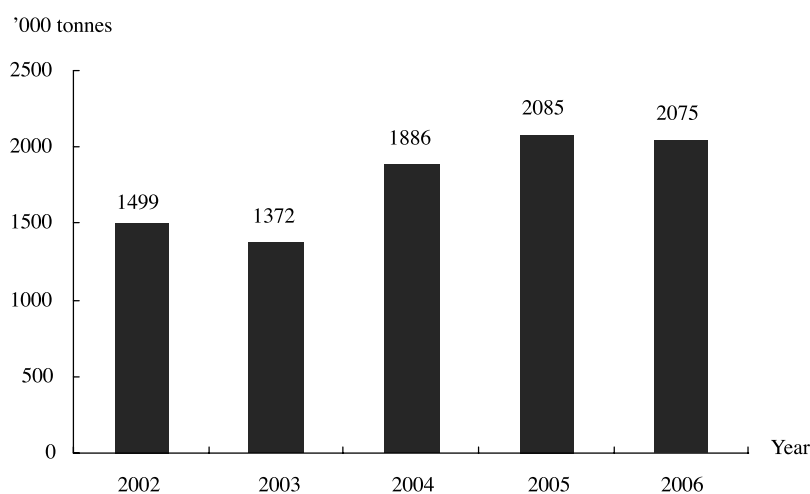
Oil well pipes (mainly oil transfer pipes and casing pipes etc.) are a type of seamless pipe and one of the major production equipment used in oil and natural gas exploration activities. In order to maximise and ensure a steady output from oil fields during the course of exploration for petroleum, it 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 105,000 oil and gas wells completed in the world every year between 2002 and 2006. For every metre in depth of an oil well, the drilling and related activities consumes approximately 60 kg of oil well pipes. 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. Set out below is a graph showing the consumption of oil well pipes in China during the same period.

**Consumption of oil well pipes in China  
between 2002 and 2006**



Source: China Iron and Steel Association

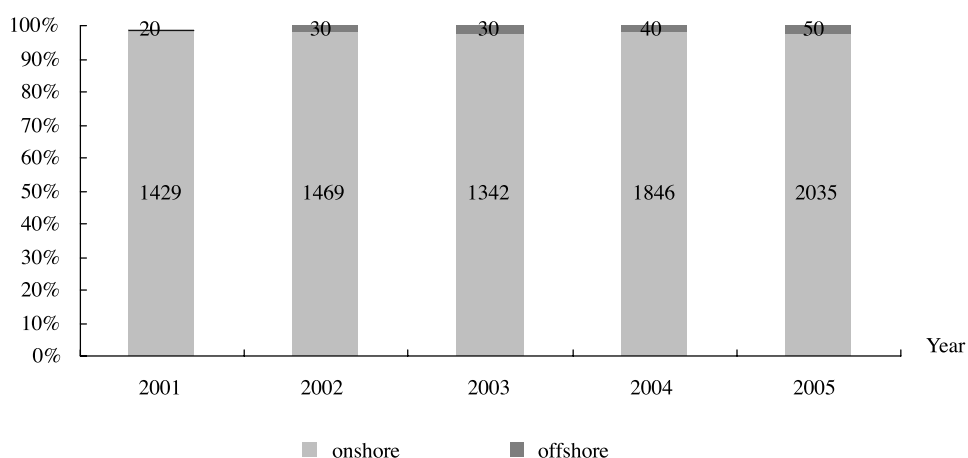
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## INDUSTRY OVERVIEW

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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 showing the consumption of oil well pipes in onshore and offshore oil explorations of major oil and gas producers in China during recent years.

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



*Source:* China Metallurgical Industrial Planning and Research Institute

*Note 1:* Major oil and gas producers in China 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, among others, the China Iron and Steel Association, PetroChina and Sinopec. The engagement fee for such report was RMB40,000.

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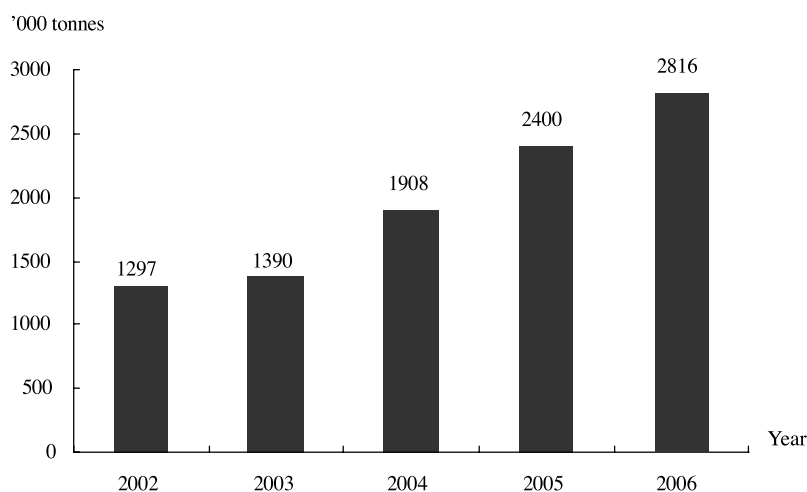
## INDUSTRY OVERVIEW

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### 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 1,297,000 tonnes in 2002 to 2,815,600 tonnes in 2006, representing a CAGR of approximately 21.4%. Set out below is a graph showing the output of oil well pipes in China during recent years.

**Output of oil well pipes in China between 2002 and 2006**



Source: China Iron and Steel Association

### Import and 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.



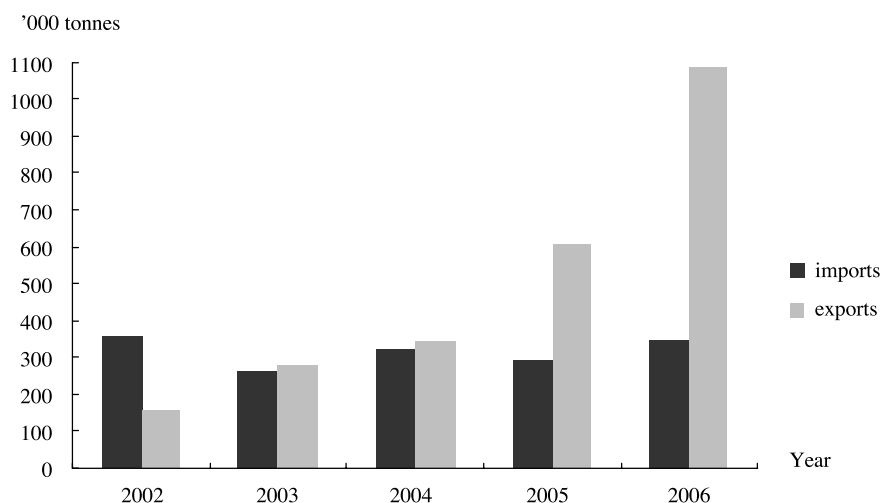
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## INDUSTRY OVERVIEW

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As shown in the graph below, since 2003, China has become a net exporter of oil well pipes. In 2006, imports and exports of oil well pipes were 348,400 tonnes and 1,088,800 tonnes respectively.

### Imports and exports of oil well pipes in China between 2002 and 2006



Source: 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

### 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	<b>The Company</b> (安徽天大石油管材股份有限公司)	<b>90</b>	<b>3.8%</b>
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	2,400	100.0%

Source: 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 activities in China
- limited impact of increases in costs of main raw materials on margins of oil well pipe producers

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## INDUSTRY OVERVIEW

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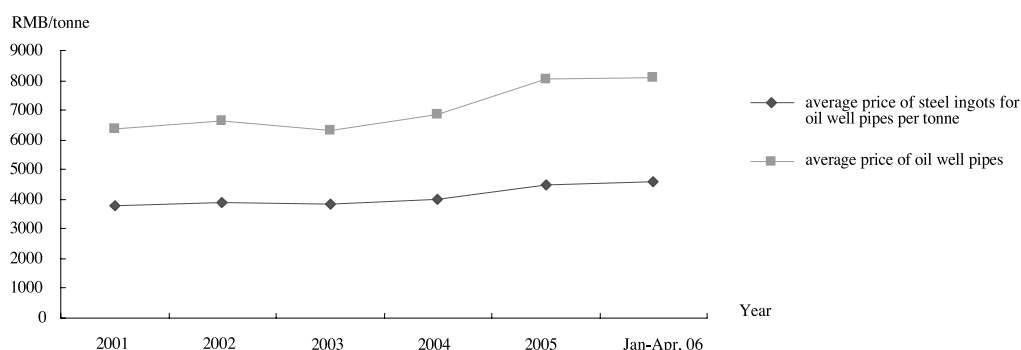
### *Increased oil exploration activities in China*

Increased oil exploration activities 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 the current level or higher, oil producers would be prepared to drill deeper to pump 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 more oil well pipes will be consumed in the near term.

### *Limited impact of increases in costs of main raw materials on margins of oil well pipe producers*

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 period, 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.

**Relationship between raw material price and product average selling price in China**



Source: China Iron and Steel Association

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## INDUSTRY OVERVIEW

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### 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 Implementations of Relevant Policy Measures For Facilitating the Emergence of Central China by the Central Committee of China Communist Party and 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 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 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” (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

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## INDUSTRY OVERVIEW

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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 H<sub>2</sub>S and CO<sub>2</sub> resistant as well as open air corrosion-resistant and fire-resistant products such as oil well pipes, steel pipes and plates. Under this policy, foreign investors are in general not allowed to have a majority stake in domestic iron and steel companies.

- On 22 June 2007, the Ministry of Finance and the State Administration of Taxation issued a “Notice on Reduction of the export tax refund rate of certain goods”《關於調低部份商品出口退稅率的通知》([2007] 90), under which, the export tax refund rate of certain products of iron and steel was reduced to 5%. Oil casing pipe was clearly not under the list of those products and still belonged to encouraged products.
- *“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 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. 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”. In May 2006, the Company was notified that their proposal for a phase II high steel grade oil well pipes and petrochemical pipes expansion project had been included in the Anhui Province 861 Action Plan.

The Board resolved on 16 January 2007 that it would proceed with phase II of the 861 Action Plan as the relevant governmental approval for the “Eleventh Five Year Plan” technological upgrade of oil well pipe project has been obtained. During the first six months of 2007, the Company’s consultant, CIECC, progressed its feasibility study on phase II of the 861 Action Plan. The Company also passed its environmental impact assessment in respect of phase II of the 861 Action Plan in 2007. The Company is currently in the process of obtaining general safety and fire control approvals for the phase II of the 861 Action Plan, designing energy saving methodologies and short-listing a reputable metallurgical and heavy industry enterprise to manufacture the production equipment of the project.

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## HISTORY AND DEVELOPMENT

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### HISTORY AND DEVELOPMENT

The Company's business was founded more than 14 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 underwent further restructuring and 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, as approved by the CSRC, 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 City, 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 the 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 other things, petrochemical pipes as well as vessel pipes and boiler pipes. These pipes were mainly alloy seamless pipes. During the 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-corrosion 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 2007, the Company successfully established its production plant in Chuzhou City, thereby taking advantage of Chuzhou City's natural gas resources and ease of access to the nearby railway and road network, all of which contributed to improving overall cost efficiencies. The Company installed an ASSEL three rolled pipe machine in Chuzhou City and another production line with cold-drawn technology in Tianchang City for the production of oil well pipes. Both locations are within Anhui Province and are approximately 125 kilometres apart. The annual production capacity of the Company increased from 25,000 tonnes in 2004 to 300,000 tonnes in 2006. In 2006, the

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## HISTORY AND DEVELOPMENT

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Company's warehouse in Chuzhou City of approximately 31,522 sq.m. was also developed into a distribution and logistics centre. Apart from these achievements, the Company completed its research and development efforts on heat treatment as well as threading of finished pipes with commercial production commencing in January 2007 and July 2007, respectively. The specialized seamless pipes produced from 2005 onwards were mainly for the oil and natural gas industry.

More details of the Company's activities for the three years ended 31 December 2006 and the six months ended 30 June 2007 are set out below.

### **Corporate restructuring and reorganisation of the Company**

Prior to the restructuring of Tianda Enterprise into Tianda Holding in 2004, Ye Shi Qu had been the legal representative of Tianda Enterprise since January 1995. As its legal representative, Ye Shi Qu was empowered to govern Tianda Enterprise's financial and operational policies. The Company has either been under the control of Tianda Enterprise before its restructuring or under Tianda Holding after its reorganisation. 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. Ye Shi Qu), 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 Ye Shi Qu'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, 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, 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 were approximately RMB53,300,000.

In April 2004, the relevant PRC governmental authorities approved the restructuring proposal of Tianda Holding. As part of this restructuring, 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.

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## HISTORY AND DEVELOPMENT

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On 23 June 2004, Tianda Holding, one of the controlling Shareholders 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 reorganisation for Tianda Special Steel Pipe Company was 23 June 2004. Subsequently in July 2004, registration was made at the Tianchang City Industry and Commerce Administration 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 of 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 other things, 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 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 of 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 three years ended 31 December 2006, Tianda Import and Export made losses in the amounts of RMB64,000, RMB68,000 and RMB92,000 respectively, of



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## HISTORY AND DEVELOPMENT

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which the Company's share of such losses for the respective periods were RMB16,000, RMB17,000 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 15 in the accountants' report in Appendix I to this document.

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 the GEM 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.

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 registered at the Tianchang City Industry and Commerce Administration of Anhui Province and the Company's 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 registration at the Chuzhou City Administration for Industry and Commerce of Anhui Province, 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) and was issued a legal person 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.

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## HISTORY AND DEVELOPMENT

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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 conversion 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 under the same management of the Company for a period including the three preceding financial years ended 31 December 2006. At the same time, the ownership of the Company has been substantially the same for at least the most recent audited financial year.

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

In June 1989, Tianchang Intertexture was established as a collectively-owned enterprise. Upon establishment, the registered capital of Tianchang Intertexture was RMB1,774,300 and it was involved in the production of packaging products. Ye Shi Qu 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 enterprises. 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. Ye Shi Qu 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. Ye Shi Qu 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 the Tongcheng Government as consented by the Tianchang Government, while the rest was owned by Tianda Enterprise's collective owners. Tianda Enterprise and the Tongcheng Government entered into an agreement whereby Tianda Enterprise paid an amount equivalent to 10% of its net asset value to the Tongcheng Government, and Tongcheng Government then no longer owned any interest in Tianda Enterprise. Tianda Enterprise had settled the aforesaid payment to Tongcheng Government.

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## HISTORY AND DEVELOPMENT

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In June 2002, the 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 Tianchang Government and the Tongcheng Government for approval. The restructuring proposal included employing organizations (which were Independent Third Parties at that time) 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 Tianchang Government and the 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 whereby 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 Tianchang Government, the People's Government of Chuzhou City and the People's Government of Anhui Province, with the above People's Governments having confirmed in writing that the restructuring of Tianda Holding had complied with the relevant legal regulations. On 27 October 2004, Tianda Enterprise proceeded with its own deregistration.

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

In June 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 in registered capital, the shareholding of the 10 natural persons changed to as follows: Ye Shi Qu held 42.7% and each of Zhang Hu Ming, Yin Zhi Fu, Qi Wen Hui, Wang Ben Ling, Wu Zhong Qin, Xie Yong Yang, Liu Jun Chang, Jiang Gan and Huang Yao Bin held 2.7%. In the same month, Ye Shi Qu 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. After such increases of registered capital, the shareholders of Tianda Holding in June 2004 consisted of 10 natural persons including Ye Shi Qu and Zhang Hu Ming, and Tianda Trade Union. The shareholding changed so that Ye Shi Qu held 57% and each of Zhang Hu Ming, Yin Zhi Fu, Qi Wen Hui, Wang Ben Ling, Wu Zhong Qin, Xie Yong Yang, Liu Jun Chang, Jiang Gan and Huang Yao Bin held 2%.

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## HISTORY AND DEVELOPMENT

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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 Ye Shi Qu in October 2004. After the increases in registered capital and the stake transfer, the shareholding of the 10 natural persons changed to that Ye Shi Qu held 77.1%, Zhang Hu Ming held 4.6%, Yin Zhi Fu held 2.1%, Qi Wen Hui held 2.1%, and each of Wang Ben Ling, Wu Zhong Qin, Xie Yong Yang, Liu Jun Chang, Jiang Gan and Huang Yao 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 was 47. At all relevant times, Ye Shi Qu 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 RMB1,000,000 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.

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.

Tianda Holding's other businesses through its operating subsidiaries other than the Company include, among other things, 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.

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## HISTORY AND DEVELOPMENT

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### LISTING ON GEM

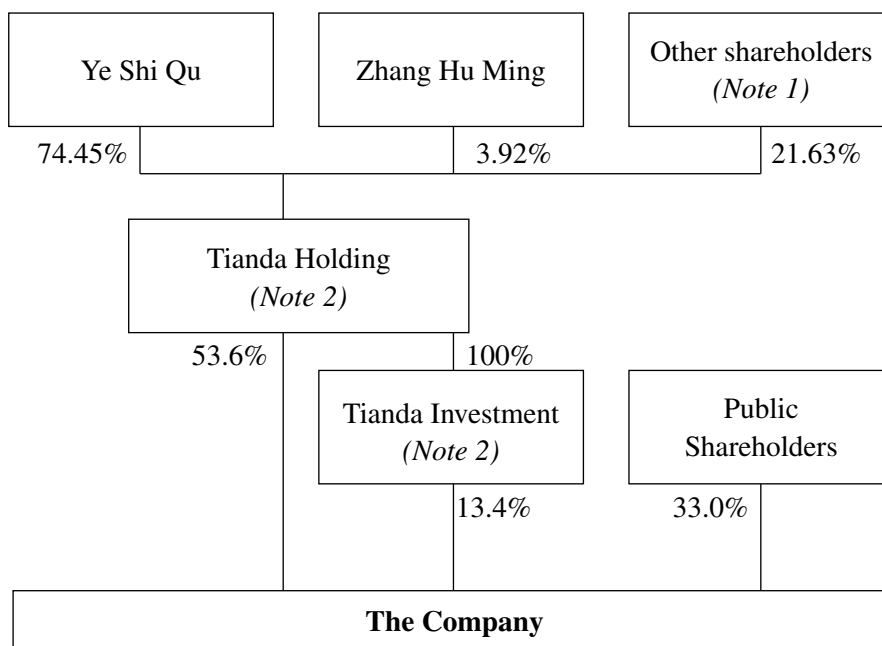
On 29 June 2006, a shareholders' meeting of the Company was held, at which, among other things, the GEM Listing was approved.

On 7 September 2006, the CSRC issued an approval document Zheng Jian Guo He Zi [2006] No. 17 (証監團合字[2006] 17號) (an approval document approving the issue of the H Shares by the Company) to approve the issue and listing of the H Shares on GEM.

The GEM Listing was approved by the Stock Exchange and the H Shares have been listed and traded on GEM since 1 December 2006 (stock code: 8241). As at the Latest Practicable Date, based on the closing price of HK\$5.30 per H Share as quoted on GEM and the total number of Shares in issue of 507,570,000, the Company had a market capitalization of approximately HK\$2.69 billion.

### SHAREHOLDING AND COMPANY STRUCTURE

The shareholding structure of the Company immediately after the Main Board Migration is as follows:



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## HISTORY AND DEVELOPMENT

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*Note 1:* Apart from Ye Shi Qu and Zhang Hu Ming, there are 45 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 45 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 VI to this document. In particular, the respective equity holding of each of the Directors and senior management of the Company in Tianda Holding is as follows: Ye Shi Qu (74.45%), Zhang Hu Ming (3.92%), Xie Yong Yang (3.1521%), Zhang Jian Huai (0.0150%), Wang Yi (0.0674%), Zhang Chun Xiang (0.0798%), Geng Wei Long (0.2025%), Lv Si Yu (0.0512%), Huang Yao Qi (1.0048%) and Chen Dong (0.1710%).

*Note 2:* Tianda Holding and Tianda Investment undertook to the Company and the Stock Exchange in connection with its GEM Listing in December 2006 that for a period up to and including 30 November 2007, they would 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 their direct or indirect interests 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. Save for a waiver granted by the Stock Exchange from strict compliance with the restrictions under Rule 10.08 and a consequential waiver from strict compliance with the restrictions under Rule 10.07(1)(a) of the Main Board Listing Rules in respect of deemed disposal of Shares by the controlling shareholders of the Company for the six month period after the Main Board Listing Date, such Shares held by Ye Shi Qu and Tianda Holding are subject to the disposal restrictions under Rule 10.07(1)(a) of the Main Board Listing Rules. Save for the consequential waiver above, no specific waiver has been applied for by Ye Shi Qu or Tianda Holding under Rule 10.07(1)(a) of the Main Board Listing Rules.

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## BUSINESS

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### INTRODUCTION

The Company has more than 14 years of experience in the manufacture, sourcing and distribution of specialized seamless pipes. It 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 three years ended 31 December 2006 and the six months ended 30 June 2007 was approximately RMB24.6 million, RMB96.3 million, RMB190.8 million and RMB103.9 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%, 56.1% and 61.2% of the Company's revenue for the three financial years ended 31 December 2006 and the six months ended 30 June 2007. Other products accounted for 98.3%, 48.2%, 43.9% and 38.8% of the Company's sales for the three financial years ended 31 December 2006 and the six months ended 30 June 2007.

A majority of the Company's revenue for the two financial years ended 31 December 2006 and the six months ended 30 June 2007 came from the sales of specialized seamless pipes to the oil and natural gas industry. For the three financial years ended 31 December 2006 and the six months ended 30 June 2007, sales to the oil and natural gas industry accounted for approximately 22.5%, 60.3%, 61.6% and 66.2% of the Company's sales. It is expected that the Company's revenue contribution from oil well pipes will grow as the Company's utilisation of its oil well pipe production capacity continues to increase and its oil well pipe heat treatment and threading value-added production lines achieve optimal efficiency. The Company has commenced such heat treatment and threading value-added service since January and July 2007 respectively, and such finished products are being sold for direct use by oil fields.

Although oil well pipe became the Company's principal product in 2005, the Company's first involvement in the oil well pipe 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 a hot-rolled oil well pipe production line. The Company's hot-rolled oil well pipe production line in Chuzhou City was established in December 2004 and it began production of oil well pipes in January 2005 when the hot-rolled oil well pipe production line was put into commercial production. The Company

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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 Company also established its cold drawn oil well pipe production line in Tianchang City and commenced commercial production in 2006. The award of the Product 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 from its oil well pipe production lines, as well as strict controls over testing and inspection. Throughout the years, the Company has obtained various recognitions for its production of other specialized seamless pipes including vessel pipes and boiler pipes. It has also 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 from 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 integrated services 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. These 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 14 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 increase in market share is evident from the Company's increase in sales of oil well pipes (in terms of tonnage) by approximately 109 times in 2005 and by approximately 53.7% in 2006 whilst the consumption of oil well pipes in China (in terms of tonnage) only increased by approximately 10.6% in 2005 and decreased by approximately 0.5% in 2006. The particular high growth rate of the Company's sales of oil well pipes in 2005 is the result of the commencement of commercial production of oil well



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pipes in 2005. 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 in 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 32 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 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 pipes. The Company continues to develop its operational expertise in maintaining and servicing an extensive logistic and sourcing network. As at 30 June 2007, the Company had 10 personnel dedicated to sourcing and distribution and acquired in 2006 premises of approximately 258,507 sq.m. and a warehouse of approximately 31,522 sq.m. in Chuzhou City 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 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

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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, Japan and Italy. The relevant shipping registers conduct site visits at the Company from time to time in order to ensure continuing effectiveness of the certificates granted to the Company throughout the relevant validity periods. The obtaining of these certificates evidences the recognition of the quality control and manufacturing standard of the Company as products produced pursuant to these certificates may be used in the corresponding countries' vessel constructions. 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.

### **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 14 years of experience in the production of specialized seamless pipes, 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, and are indirectly interested in the Company through Tianda Holding.

The making of specialized seamless pipes 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, 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.

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The Company's production equipment are 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 in Chuzhou City, Anhui Province, where natural gas, an important production factor to the Company, is relatively cheap. 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 City 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 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 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, among other things. Further, the State Council 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 section headed "Industry overview" in this document.

On 22 June 2007, the Ministry of Finance and the State Administration of Taxation issued a "Notice on reduction of the export tax refund rate of certain goods"《關於調低部份商品出口退稅率的通知》([2007] 90), pursuant to which, the export tax rebate of certain products of iron and steel was reduced to 5%. Oil casing pipe was not under the list of those products and still belonged to the category of encouraged products. As exports of oil well pipes are explicitly carved out for the reduction of export tax refund rate under the notice, sales of the Company's oil well pipe products are unaffected by the notice. For the Company's seamless pipe products other than oil well pipes, the Directors confirmed that exports of these products constitute an immaterial portion of the Company's turnover.

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### 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 granted by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC	The specialized seamless pipes produced by the Company passed the strict review and are exempted from the sampling inspection on production by the General Administration of Quality Supervision, Inspection and Quarantine of the PRC	December 2005–December 2008
	Manufacturing Licence of Special Equipment issued by the General Administration of the PRC for Quality Supervision and Inspection and Quarantine	Obtained qualification for the production of low, medium and high pressure boilers, seamless steel pipes for heat exchange, seamless steel pipes for petroleum crucking, high pressure seamless steel pipes for chemical faultly and stainless seamless steel pipes.	July 2006–February 2009

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Country	Authority granting the certificate/approval	Description and significance	Current validity period
	New products evaluated and certified by National Boiler and Pressure Vessels Technology Standardisation Committee	Obtained qualification for the production of 07Cr2AlMo and 09CrMoAL and passed the review by National Boiler and Pressure Vessels Technology Standardisation Committee	December 2003–December 2008
	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
United States	Officially authorised to use the American Petroleum Institute (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

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Country	Authority granting the certificate/approval	Description and Significance	Current validity period
Germany	Approval of Material Manufacturers certified by Germanischer Lloyd	Certification covers specialized seamless pipe to be used for construction of ships classed with Germanischer Lloyd	April 2006–January 2009
	Approved manufacturer certified by Germanischer Lloyd	Certification covers seamless steel pipes complying with the 97/23/EC standard used for general purposes	February 2007–May 2009
Norway	Approved manufacturer certified by Det Norske Veritas	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
United Kingdom	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
Japan	Approved manufacturer certified by Nippon Kaiji Kyokai	Certification covers specialized seamless pipes to be used for boilers, heat exchangers or specialized seamless pipes covered by Nippon Kaiji Kyokai	January 2007–January 2012
Italy	Approved manufacturer certified by RINA	Certification covers specialized seamless pipes to be used for construction of ships or specialized seamless pipes classed with RINA	February 2007–December 2011

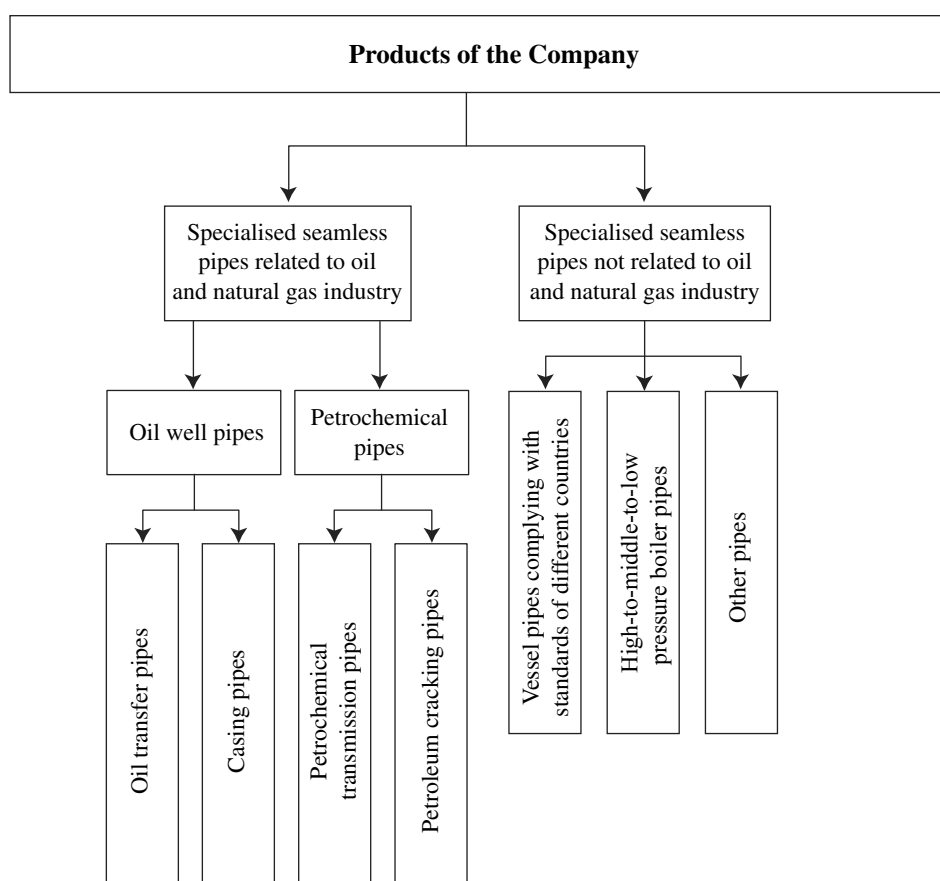
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## PRODUCTS

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. These Company's 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:



The Company supplies those products 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 oil fields by its customers after threading and heat treatment.

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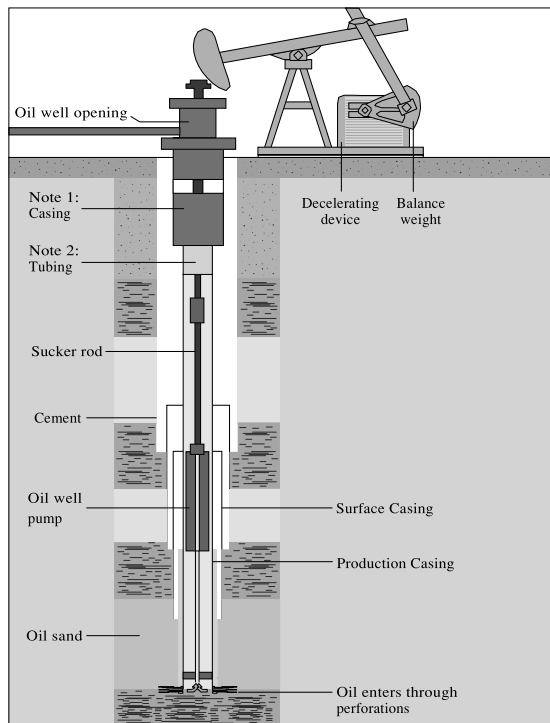
### *Specialized seamless pipes for the oil and gas industry*

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 273 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.



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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 and interchangeable equipment and operations through the use of proven and 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 has obtained production certifications from the Japanese and Italian shipping classification societies for the periods from 5 January 2007 to 4 January 2012 and 9 February 2007 to 7 December 2011 respectively, resulting in the Company's vessel pipes having been certified for use in nine countries and it has also successfully developed pipes for low, medium and high pressure boilers.

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The following table sets out the percentages of the Company's total sales by product types for the three years ended 31 December 2006 and the six months ended 30 June 2006 and 30 June 2007.

	Year ended 31 December								
	2004			2005			2006		
	<i>Tonnes</i>	<i>RMB '000</i>	<i>% of sales</i>	<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%	144,613.3	709,243	56.1%
Petrochemical pipes	5,594.7	37,671	11.3%	6,642.7	44,868	4.9%	7,140.2	42,199	3.3%
Other specialized seamless pipes	17,266.1	110,913	33.2%	27,804.6	161,120	17.8%	47,392.2	263,825	20.8%
<b>Sub-total</b>	<b>23,116.3</b>	<b>150,839</b>	<b>45.2%</b>	<b>128,510.4</b>	<b>675,517</b>	<b>74.5%</b>	<b>199,145.7</b>	<b>1,015,267</b>	<b>80.2%</b>
<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%	4,941.4	27,798	2.2%
Other specialized seamless pipes	24,765.7	147,840	44.3%	31,315.3	198,053	21.9%	40,719.2	222,249	17.6%
<b>Sub-total</b>	<b>30,670.8</b>	<b>182,806</b>	<b>54.8%</b>	<b>36,649.4</b>	<b>231,073</b>	<b>25.5%</b>	<b>45,660.6</b>	<b>250,047</b>	<b>19.8%</b>
<b>Total</b>	<b>53,787.1</b>	<b>333,645</b>	<b>100.0%</b>	<b>165,159.8</b>	<b>906,590</b>	<b>100.0%</b>	<b>244,806.3</b>	<b>1,265,314</b>	<b>100.0%</b>
<b>Six months ended 30 June</b>									
	<b>2006</b>			<b>2007</b>					
	<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	67,878.4	338,386	56.8%	90,286.0	446,188	61.2%			
Petrochemical pipes	4,041.9	25,255	4.2%	3,944.4	26,327	3.6%			
Other specialized seamless pipes	17,936.3	99,637	16.7%	27,773.6	144,842	19.9%			
<b>Sub-total</b>	<b>89,856.6</b>	<b>463,278</b>	<b>77.7%</b>	<b>122,004.0</b>	<b>617,357</b>	<b>84.7%</b>			
<u>Sourcing and distribution</u>									
Oil well pipes	—	—	—	—	—	—			
Petrochemical pipes	2,709.4	16,286	2.7%	2,197.9	10,201	1.4%			
Other specialized seamless pipes	21,810.4	116,565	19.6%	20,100.2	101,003	13.9%			
<b>Sub-total</b>	<b>24,519.8</b>	<b>132,851</b>	<b>22.3%</b>	<b>22,298.1</b>	<b>111,204</b>	<b>15.3%</b>			
<b>Total</b>	<b>114,376.4</b>	<b>596,129</b>	<b>100.0%</b>	<b>144,302.1</b>	<b>728,561</b>	<b>100.0%</b>			

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### 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 and 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 the price of 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 are 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.

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### *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.

In accordance with the requirements of its customers, the sales manager relays the types and specifications of products 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:

- (i) supplier's production capacity and quality control;
- (ii) whether the raw materials manufactured by the supplier meet the national and the Company's standards;
- (iii) 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;
- (iv) the supplier is equipped with its own research capabilities and has a clear vision for development in the industry; and

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- (v) 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:

- (i) review or monitor the production process of the supplier;
- (ii) collect information regarding the supplier on its product development, production facility, management team and any other major developments in the industry;
- (iii) maintain control on the level of inventory and accounts payable through financial management; and
- (iv) 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. 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. 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 three years ended 31 December 2006 and the six months ended 30 June 2007, the largest five suppliers of the Company accounted for approximately 52.6%, 50.3%, 61.0% and 59.7% respectively of the Company's total purchases. Over the same period, the Company's largest supplier accounted for approximately 14.8%, 26.4%, 34.6% and 26.3% 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 were interested in more than 5% of the issued share capital of the Company as at the Latest Practicable Date had any interest in any of the five largest suppliers of the Company during the Track Record Period. Tianda Company Limited, a subsidiary of Tianda Holding, has been supplying pipe protection casings to the Company. Tianda Plastic Company, another subsidiary of Tianda Holding, has also been supplying a kind of raw material, namely, plastic for packaging, to the Company. Please refer to the paragraph headed "Continuing connected transactions of the Company" in the section headed "Substantial and controlling Shareholders" in this document for further details. The Company's five largest suppliers in the Track Record Period do not include Tianda Company Limited and Tianda Plastic Company and are Independent Third Parties.

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### INVENTORY CONTROL

As at 30 June 2007, the Company had inventories of approximately RMB209.5 million, comprising raw materials, work-in-progress and finished goods. For the three years ended 31 December 2006 and the six months ended 30 June 2007, the inventory turnover days of the Company were approximately 34 days, 38 days, 60 days and 64 days respectively. The Directors consider that the level of inventories being around one to two months 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.

The Company adopts inventory control that allows 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. 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 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 three years ended 31 December 2006 and the six months ended 30 June 2007, provision for obsolete inventory amounted to approximately nil, RMB1.8 million, RMB2.1 million and RMB2.7 million respectively.

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## BUSINESS

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### **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 2007, the Company employed 82 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.

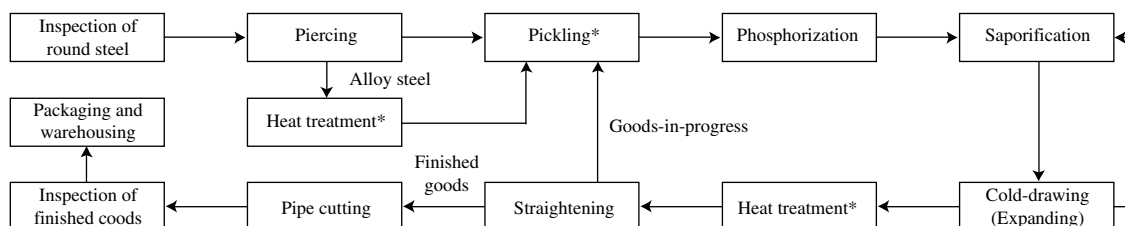
#### **Product control**

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.

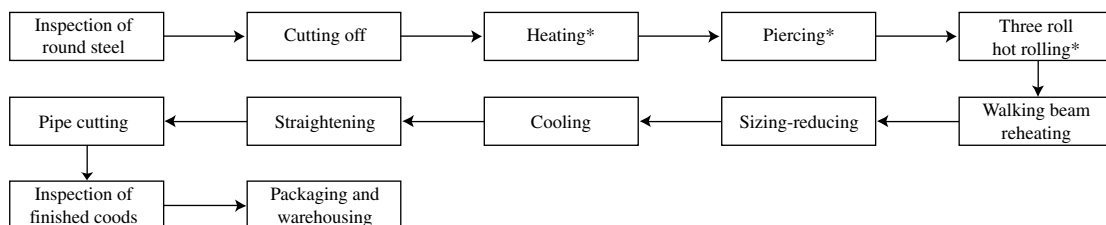
**PRODUCTION PROCESS AND FACILITIES**

The Company has established two production bases in Tianchang City and Chuzhou City, 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 City, and hot-rolled steel pipe technology which is used in Chuzhou City. 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 processes:

**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**

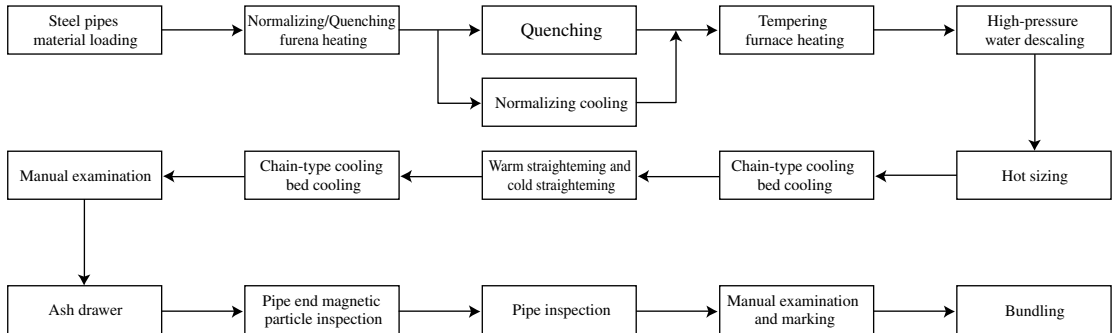
Through technology upgrades, the Company has increased the standard and upgraded the value of its products. The Company has completed its technology upgrade projects in Chuzhou City for heat treatment of 100,000 tonnes of oil well pipes and threading finish for oil well pipes for up to 100,000 tonnes per annum and commenced commercial production since January 2007 and July 2007 respectively. The oil well pipes can, after threading, be used directly in the oil fields without further processing, thereby improving the Company’s products. Oil well pipes which have been subject to heat treatment can be used in harsher geological conditions, thereby expanding the Company’s product offering.



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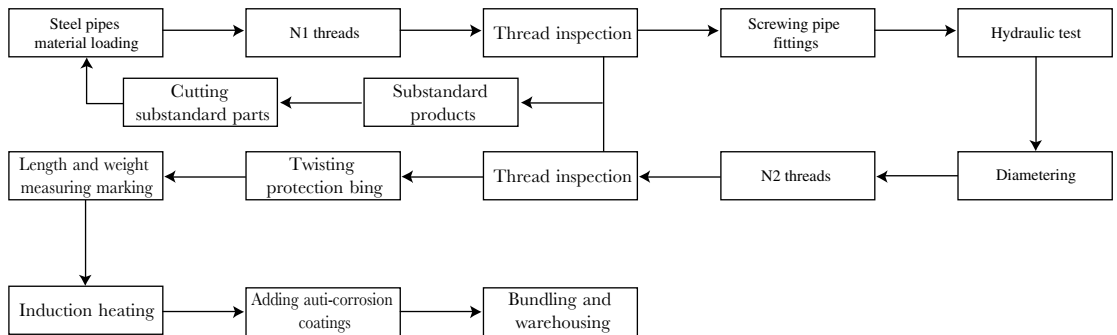
The following diagrams illustrate their respective production processes:

## The workflow of heat treatment technology

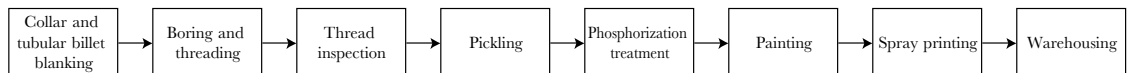


## The workflow of threading technology

### (i) For oil well pipes



### (ii) For processing connecting parts



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### Production facilities and sourcing and production packaging/logistics

The Company's production bases in Tianchang City and Chuzhou City are approximately 125 kilometres apart. The gross floor area of the plant in Tianchang City 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 City is approximately 43,840 sq.m. and it 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. The Company has its threading and heat treatment facilities in Chuzhou City. There is also a warehouse of approximately 31,522 sq.m. in Chuzhou City from which the Company has set up its distribution and logistics centre.



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The total production capacity of the Company for 2007 is 300,000 tonnes, and 25,000 tonnes, 200,000 tonnes and 300,000 tonnes for 2004, 2005 and 2006 respectively. As a general indication only, such production capacity can be translated into:

Period	Oil well pipes <i>Tonnes</i>	Other specialized seamless pipes including	Total production capacity <i>Tonnes</i>
		petrochemical pipes <i>Tonnes</i>	
2004	5,000	20,000	25,000
2005	150,000	50,000	200,000
2006	250,000	50,000	300,000
2007	250,000	50,000	300,000

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

	Year ended 31 December						Six months ended 30 June					
	2004			2005			2006			2007 (half year statistics)		
	Production capacity <i>Tonnes</i>	Actual production <i>Tonnes</i>	Utilisation rate	Production capacity <i>Tonnes</i>	Actual production <i>Tonnes</i>	Utilisation rate	Production capacity <i>Tonnes</i>	Actual production <i>Tonnes</i>	Utilisation rate	Production capacity <i>Tonnes</i>	Actual production <i>Tonnes</i>	Utilisation rate
Tianchang facility	25,000	25,300	>100%	50,000	27,700	55.4%	100,000	61,900	61.9%	50,000	44,300	88.6
Chuzhou facility	—	—	—	150,000	107,300	71.5%	200,000	145,200	72.6%	100,000	77,700	77.7

*Note:* The production capacities for the six months ended 30 June 2007 are 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 cold-drawn oil well pipe production line. For the Chuzhou facility, the production capacity increased to 200,000 tonnes in 2006 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. 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 at market prices. For electricity, the Company purchases most of the electricity it requires for its production from a local power station at market price.

### 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 PRC as promulgated

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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 PRC 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 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 wastes generated by the Company are 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 as follows:

- (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; and
- (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.

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The Company invested an aggregate of approximately RMB10.2 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 three years ended 31 December 2006 and the six months ended 30 June 2007 was approximately RMB6,632,000, RMB168,000, RMB3,368,000 and RMB21,000 respectively. The Company's investment in environmental protection continues to increase and approximately RMB1.1 million is expected to be spent for the full year ending 31 December 2007. For the three years ended 31 December 2006 and the six months ended 30 June 2007, the contamination disposal fee paid by the Company was approximately RMB18,000, RMB22,000, RMB32,000 and nil respectively. According to the "Administration Provisions on the Collection and 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 completed its expansion of its production facilities through technology upgrades for the heat treatment of oil well pipes of 100,000 tonnes per annum and for the threading production line of 100,000 tonnes per annum and commenced commercial production since January 2007 and July 2007 respectively. The environmental impact assessment documents for the above two projects have been approved by the Chuzhou Environmental Protection Bureau.

### SALES AND MARKETING

#### Sales

The Company had a sales force of 19, 22, 30 and 32 people as at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007 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 and Ningxia
Northern, Central and Southern China areas	Beijing, Tianjin, Hebei, Inner Mongolia, Shanxi, Hubei, Hunan, Henan, Guangdong, Guangxi and Hainan
Eastern and Northeastern China areas	Shanghai, Shandong, Anhui, Zhejiang, Fujian, Jiangsu, Jiangxi, Heilongjiang, Jilin and Liaoning

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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 2007, the sales force responsible for domestic sales in China comprised 25 people and the remaining seven people were primarily responsible for exports. For each of the three years ended 31 December 2006 and the six months ended 30 June 2007, the export sales accounted for approximately less than 1%, 2.7%, 7.1% and 16.2% of the Company's total sales respectively. The increase in export sales is a result of the Company's strategy to steadily expand its overseas market of its oil well pipes. 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.

### Top five customers of the Company for the six months ended 30 June 2007

		Sales amount <i>RMB'000</i>	% of sales	Product sold	Business scope	Location of oil field
1)	CPMEC Xi'an Company (中國石油物資西安公司)	68,614	9.4%	Oil well pipes	Operates in oil equipment products	Shaanxi, Xinjiang, Canzhou
2)	Shengli Oilfield Highland Petroleum Equipment Co. Ltd. (勝利油田高原石油裝備 有限責任公司)	46,458	6.4%	Oil well pipes	Manufactures and operates in oil equipment products	Shandong, Xinjiang, Shaanxi, Harbin
3)	Wuxi Seamless Oil Pipes Co., Ltd. (無錫西姆萊斯石油專用管 製造有限公司)	41,493	5.7%	Oil well pipes	Manufactures oil transfer pipes and casing pipes	Canzhou, Xinjiang, Shaanxi, Harbin, Tianjin
4)	Dalipal Pipe Company Ltd (達力普石油專用管有限公司)	29,297	4.0%	Oil well pipes	Manufactures oil transfer pipes and casing pipes	Canzhou, Xinjiang, Shaanxi, Harbin
5)	Prime Resource Corp	16,222	2.2%	Petrochemical pipes, vessel pipes	Trading company	Not applicable
	<b>Total</b>	<b>202,084</b>	<b>27.7%</b>			

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### Top five customers of the Company for the year ended 31 December 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)	75,003	5.9%	Oil well pipes	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)	60,098	4.7%	Oil well pipes	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)	57,459	4.5%	Oil well pipes	Manufactures casing pipes, oil transfer pipes and pipe joints	Harbin, Xinjiang and Shaanxi
4) Shanghai Yuechang Trading Co. Ltd (上海玥昌貿易有限公司)	54,062	4.3%	Oil well pipes	Manufactures casing pipes and oil transfer pipes	Harbin, Cangzhou, Shaanxi
5) Dalipal Pipe Company Ltd. (達力普石油專用管有限公司)	34,534	2.7%	Oil well pipes	Manufactures casing pipes and oil transfer pipes	Harbin, Cangzhou, Xinjiang, Shaanxi
Total	<u>281,156</u>	<u>22.1%</u>			

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### Top five customers of the Company for the year ended 31 December 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)	112,970	12.5%	Oil well pipes	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 pipes	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 pipes	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 pipes	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 pipes	Operates in oil well pipes	Harbin and Henan
<b>Total</b>	<b><u>231,148</u></b>	<b><u>25.6%</u></b>			



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### 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	Constructs vessels
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 pipes	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 pipes	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 pipes	Operates in pressure containers
Total	<u>29,157</u>	<u>8.9%</u>		

For each of the three years ended 31 December 2006 and the six months ended 30 June 2007, the five largest customers of the Company accounted for approximately 8.9%, 25.6%, 22.1% and 27.7% respectively of the Company's total sales. For the three years ended 31 December 2006 and the six months ended 30 June 2007, sales to the largest customer of the Company accounted for approximately 2.2%, 12.5%, 5.9% and 9.4% respectively of the Company's total sales.

For the three years ended 31 December 2006 and the six months ended 30 June 2007, the Company had active customers\* of approximately 2,000, 1,400, 1,300 and 880 respectively. For the respective periods in the three years ended 31 December 2006 and the six months ended 30 June 2007, about 440, 410, 400 and 135 active customers were oil fields or their designated processing factories and about 80, 70, 54 and 44 active customers were ship-builders.

\* active customers are those who made at least one purchase from the Company during the relevant periods.

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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 three years ended 31 December 2006 and the six months ended 30 June 2007, 99.3%, 97.3%, 92.9% and 83.8% of the Company's sales was settled in Renminbi while 0.7%, 2.7%, 7.1% and 16.2% 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 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 were interested in more than 5% of the issued share capital of the Company as at the Latest Practicable Date had any interest in any of the five largest customers of the Company during the three years ended 31 December 2006 and the six months ended 30 June 2007. The Company's five largest customers 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 2007, this increased to 32 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.

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- *Promote 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 in 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 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).

- *Participate 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 and in the Second All-China International Tube & Pipe Industry Trade Fair 2006 held at Shanghai Expo Exhibition Centre in September 2006. During these exhibitions, the Company entered into product contracts with certain customers from within and outside the PRC and achieved good results. The Company also participated in the Seventh Chinese International Oil and Petrochemical Technological Equipment Exhibition held in Beijing in April 2007, the Third International Steel Pipe Industrial Exhibition held in Shanghai in May 2007 and the Shanghai China Oil E-Commerce Exhibition 2007 held in Shanghai in June 2007. 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.

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### *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 tonnage. 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 taking into account international and domestic market demand and supply conditions. Sales prices are negotiated once a week. The pricing for such products results in an average gross margin of approximately 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. 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 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 three years ended 31 December 2006 and the six months ended 30 June 2007.

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### 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 H<sub>2</sub>S 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 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 and has successfully developed its threading and heat treatment production lines which commenced production in 2007. 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 thicken oil transfer pipe products with circular thread and ladder thread according to the API standard.

In relation to other specialized seamless pipes, apart from continuing to comply with other international production standards, the Company obtained pipe production certifications from Japan and Italy in January and February 2007 respectively. By 2009, the Company expects to conduct research and development on high pressure boiler pipes for use at power stations according to ASTM and ASME standards.

#### Divisions and tasks

As at 30 June 2007, the Company's research and development team consisted of 30 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 including engineering, production technology and quality assurance. Their education background include six employees with bachelor's degrees, 23 employees with diplomas and one employee with a master's degree. In terms of work

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experience, 15 employees of the research team have one to five years of work experience, eight employees of the research team have six to ten years of work experience, three employees of the research team has 11 to 15 years of work experience, three employees of the research team have 16 to 20 years of work experience and one employee of the research team has 21 to 25 years of work experience. Staff training takes the form of continuous education courses and 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 approximately RMB405,000, RMB526,000, RMB2,736,000 and RMB987,000 respectively in the three years ended 31 December 2006 and the six months ended 30 June 2007 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 will also be present in such meeting.

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### 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 memoranda with partners during the Track Record Period:

Objective	Responsibilities	Ownership of the intellectual property rights	Date and duration of the agreement/ memorandum	Project investment by the Company <i>RMB</i>	Amount invested by the Company up to the Latest Practicable Date <i>RMB</i>
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	<p>Baosteel is responsible for preparing the technical documents and corresponding physical and chemical functional tests for metallurgy, rolling and heat treatment of billets for various specialized seamless pipes.</p> <p>The Company is responsible for preparing the documents for rolling, tubing and heat treatment of various types of specialized seamless pipes.</p>	<p>Rights regarding the pipes owned by the Company</p> <p>Rights regarding the billets owned by Baoshan Iron and Steel Company Limited</p>	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	Xian Tubular Goods Research Center 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	Dated 30 January 2007 to 30 January 2008, to be renewed upon expiry of the agreement	two related projects 5,000,000	two related projects 400,000

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Objective	Responsibilities	Ownership of the intellectual property rights	Date and duration of the agreement/ memorandum	Project investment by the Company <i>RMB</i>	Amount invested by the Company up to the Latest Practicable Date <i>RMB</i>
Jointly research in the development of St52 seamless pipes with Baotou City Fuxing Kemao Limited	<p>Fuxing Kemao Limited is responsible for the documentation in relation to the smelting of pipe billets, rolling mechanism, heat treatment of pipes and their corresponding chemical properties testing.</p> <p>The Company is responsible for the documentation of the steel pipe rolling mechanism, formation of steel pipes and heat treatment of steel pipes.</p>	<p>Rights regarding pipe billets owned by Fuxing Kemao Limited.</p> <p>Rights regarding steel pipes owned by the Company</p>	Dated 29 April 2007 and lasts until the fifth anniversary of the date on which the research in the new product is successful	Costs in relation to steel pipes, which are expected to be about RMB3,000,000	500,000
07Cr2AlMo and 09CrMoAL jointly developed by Baosteel Group Shanghai No. 5 Steel Co. Ltd. Technical Centre and Hefei General Machinery Research Institute	<p>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 treatment of billets for various specialized seamless pipes.</p> <p>The Company is responsible for preparing the documents for rolling, tubing and heat processing of various types of specialized seamless pipes.</p> <p>Hefei General Machinery Research Institute is responsible for conducting the mechanics function, craftsmanship function and non-defective inspection for the Company.</p>	<p>Rights regarding the pipes owned by the Company</p> <p>Rights regarding the billets owned by Baosteel Group Shanghai No. 5 Steel Co. Ltd.</p>	Dated 11 October 2002 and lasted until the research in the new product being successfully developed in 2006	400,000	400,000



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As at 30 June 2007, 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 memoranda among the Company and its research and development partners, there is no profit-sharing arrangement among the Company and its research partners. There is no separate confidentiality agreement among the parties. However, in the agreements or memoranda with its research partners, there is a confidentiality clause that the parties to the agreement or memoranda 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 agreements or memoranda (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 Company's 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.

In terms of the relevant licences, permits, certificates or approvals obtained for the purposes of conducting its business, the Company currently holds the following:

<b>Approval document</b>	<b>Issuing authority</b>	<b>Validity period</b>
Business licence	Anhui Provincial Chuzhou Municipal Administration for Industry and Commerce	Long term subject to annual inspection approvals
The Archival Filing and Registration Form of Foreign Trade Operators	Foreign Trade and Business Cooperation Bureau	Valid indefinitely provided there is no alteration of the Company's foreign trade business and the corresponding PRC regulations.

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<b>Approval document</b>	<b>Issuing authority</b>	<b>Validity period</b>
National Special Equipment Manufacturing License (for certain seamless oil well pipes)	State General Administration of Quality Supervision, Inspection and Quarantine	26 July 2006- 25 February 2009
The Technique Qualification of Materials Used for Boiler & Pressure Vessels (No. 033)	China Standardization Committee on Boiler and Pressure Vessels	25 December 2003- 24 December 2008
The Technique Qualification of Materials Used for Boiler & Pressure Vessels (No. 034)	China Standardization Committee on Boiler and Pressure Vessels	25 December 2003- 24 December 2008
The Technique Qualification of Materials Used by Boiler & Pressure Vessels (No. 035)	China Standardization Committee on Boiler and Pressure Vessels	25 December 2003- 24 December 2008
The Certificate of Works Approval	Nanjing Sub-branch of China Classification Society	3 April 2006- 2 April 2010
The Certificate of Quality Control System (ISO9001: 2000) (0106Q1946R2M/3400)	China Quality Certification Centre	17 August 2006- 16 August 2009

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In assuring ongoing compliance with the requirements of all relevant approvals, permits, licences and certificates required and obtained by the Company for its operations, the audit committee of the Company's corporate governance and quality control divisions reviews and ensures compliance with these approvals, permits etc. Prior to the expiry of these approvals, permits etc., the Company would make the necessary arrangements to renew them on time.

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. In addition to the code for safety at work, the Company 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 section headed "Industry overview" in this document. Consumption of oil well pipes in China grew from approximately 1,499,000 tonnes in 2002 to 2,075,000 tonnes in 2006, representing a CAGR of approximately 8.5%. Output for the same period had grown from approximately 1,297,000 tonnes to 2,815,600 tonnes, representing a CAGR of approximately 21.4%. Since 2003, China has become a net exporter of oil well pipes.

The oil well pipe market was 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. In 2005, the Company was ranked seventh in the top ten 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 customers. The Directors expect that new entrants into this market segment would not result in significant competition for the Company. Firstly, the oil well pipe industry is 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.

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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:

- (i) focused line of business;
- (ii) successful market oriented business strategy;
- (iii) strong sourcing and distribution capabilities to provide one-stop shop service;
- (iv) corporate branding and quality products;
- (v) experienced senior management team together with strong technology know-how and technical expertise;
- (vi) competitive cost structure; and
- (vii) participation in an industry which is a sector encouraged by the PRC government.

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

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 high grade quality products, the Company does not consider itself to be in the same competitive market segment of such foreign companies.

Since the GEM Listing, it has access to means of raising funds in the equity market. This will allow the Company to have more options to finance its business expansion plans.

Crude oil plays a fundamental role in the industrial development of developing countries. From 2002 to 2006, the total world demand for oil grew by approximately 8.2%. During that period, the global demand for crude oil increased from 78.1 million barrels per day in 2002 to 84.5 million barrels per day in 2006, representing a CAGR of approximately 2.0%. From 2002 to 2006, China's demand for oil grew at a much faster rate of approximately 40.9% from 5.2 million barrels per day in 2002 to 7.3 million barrels per day in 2006, representing a CAGR of approximately 9.0%.

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## **BUSINESS**

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On the demand side, investment by various countries in the exploration for oil in the short term is expected to be on a rising trend. Consumption of oil well pipes is therefore also expected to increase considerably. On 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 of the Company.

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## SUBSTANTIAL AND CONTROLLING SHAREHOLDERS

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### RELATIONSHIPS WITH CONTROLLING SHAREHOLDER

Ye Shi Qu is, through Tianda Holding, the ultimate controlling Shareholder. The Company is capable of carrying on its business independently of, and does not place any reliance on, Ye Shi Qu 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 Ye Shi Qu's Associates, these have mostly been discontinued since the GEM Listing. In respect of those continuing connected transactions after the GEM Listing, that is the lease of a premise, purchase of water, pipe protection casings, packaging materials and the selling of specialized seamless pipes, the details of which are set out in the paragraph headed "Continuing connected transactions of the Company" in the section headed "Substantial and controlling Shareholders", all of them are exempt from reporting, announcement and independent Shareholders' approval in light of the small amounts involved save for those disclosed in the Company's announcement dated 14 March 2007. The Directors therefore believe that the Company does not place undue reliance on Ye Shi Qu and his Associates in respect of those continuing connected transactions because of the scale of the transactions. Consequently, the Directors also believe that the Company will be capable of carrying on its business independently of Ye Shi Qu and his Associates after the Main Board Listing.

#### 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.

The Directors and the senior management of the Company is independent from the management team of Tianda Holding and its Associates save for Zhang Jian Huai, the non-executive Director, who also serves as the deputy financial controller of Tianda Holding. In the event of any conflicts, Zhang Jian Huai will abstain from voting on resolutions at the board meetings of the Company and he shall not be counted in the Board's quorum for the purpose of such resolutions.

#### 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 Zhang Hu Ming who is the deputy chairman, executive director and general manager of the Company. In addition, 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 in Tianda Holding,

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## SUBSTANTIAL AND CONTROLLING SHAREHOLDERS

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each of Zhang Hu Ming and Huang Yao Qi 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 Ye Shi Qu. There is no financial assistance, either in the form of advances or guarantees, from Ye Shi Qu. Tianda Holding previously provided various guarantees in support of the bank loans to the Company. Details of such guarantees during the Track Record Period are set out in note 26 to the accountants' report in Appendix I to this document. The Directors have confirmed that the guarantees provided by Tianda Holding during the Track Record Period have been released upon the GEM Listing and no such guarantees have been provided by Tianda Holding thereafter. The Company has its own treasury function without such guarantees since then.

### **Fiduciary duties of Directors**

At the time of the GEM Listing, 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 will continue to apply after the Main Board Listing both under the Main Board Listing Rules and PRC law and will encompass those matters set out in the Rule 3.08 of the Main Board Listing Rules 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, Zhang Hu Ming and Xie Yong Yang had already resigned from their directorships with Tianda Holding on 13 November 2006. Ye Shi Qu had also resigned from its directorship with Tianda Holding and Tianda Investment on 30 May 2007.

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## SUBSTANTIAL AND CONTROLLING SHAREHOLDERS

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Further, an audit committee consisting of two independent non-executive Directors and one non-executive Director who are responsible for reviewing and monitoring connected transactions under the requirements of Chapter 20 of the GEM Listing Rules, will continue to monitor such connected transactions under the requirements of Chapter 14A of the Main Board Listing Rules. The Articles of Association and the Main Board 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.

### CONTINUING CONNECTED TRANSACTIONS OF THE COMPANY

The Company has entered into agreements in respect of certain transactions during the Track Record Period which, after its GEM Listing Date, became continuing connected transactions, namely:

- the lease of a premise in Tianchang City from Tianda Holding for staff quarters. The annual rent payable to Tianda Holding under the lease was RMB96,200 and the rent paid to Tianda Holding for the six months ended 30 June 2007 was RMB48,000.
- water supply from Tianda Holding for cooling down pipes during the production process. The amount incurred by the Company for the water supplied by Tianda Holding for the three years ended 31 December 2006 and the six months ended 30 June 2007 were approximately RMB513,000, RMB838,000, RMB617,000 and RMB371,000, respectively.
- the supply of pipe protection casings from Tianda Company Limited. The amount incurred by the Company for the pipe protection casings supplied by Tianda Company Limited for the three years ended 31 December 2006 and the six months ended 30 June 2007 were approximately RMB1,582,000, RMB26,600, RMB5,136,000 and RMB206,000, respectively.
- the supply of packaging materials from Tianda Plastic Company. The amount incurred by the Company for the packaging materials supplied by Tianda Plastic Company for the two years ended 31 December 2006 and the six months ended 30 June 2007 were RMB6,800, RMB119,000 and RMB77,000, respectively.
- the selling of specialized seamless pipes to Tinada Holding. The transactions amounted to approximately RMB4,170,000, RMB1,312,000, RMB399,000 and nil, respectively, for each of the three years ended 31 December 2006 and the six months ended 30 June 2007.

Save for the supply of pipe protection casings referred to below, the transaction amount for each of the above continuing connected transactions for 2006 was less than 0.1% under the applicable ratios of Chapter 19 of GEM Listing Rules and therefore constituted a de minimis transaction 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. The supply of pipe protection casings for 2006 exceeded 0.1% but was less than 2.5% under the applicable ratios of Chapter 19 of the GEM



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## **SUBSTANTIAL AND CONTROLLING SHAREHOLDERS**

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Listing Rules, and an announcement was made by the Company on 14 March 2007. For the financial year ending 31 December 2007, the subject transactions are expected to be de minimis under Chapter 14A of the Main Board Listing Rules and will therefore be exempt from the reporting, announcement and independent Shareholders' approval requirements under the Main Board Listing Rules.

Given such a small scale of the continuing connected transactions and the ability of the Company to operate independently, the details of which are set out above and in the paragraph headed "Relationships with controlling Shareholder" in the section headed "Substantial and controlling Shareholders", the Directors consider that the Company does not place any undue reliance on Ye Shi Qu or his Associates.

Following the Main Board Listing Date and based on the historical transaction amounts during the Track Record Period, the Directors, having taken into account market conditions, anticipate that the amount payable by the Company for each of the above continuing connected transactions for each of the three years ending 31 December 2009 will be less than HK\$1 million (or approximately RMB970,000) each year, representing approximately 0.077% of the total revenue of the Company for the year ended 31 December 2006, and will amount to less than 0.1% under the applicable ratios of Chapter 14 of the Main Board Listing Rules and are thus expected to be exempt from further reporting, announcement and independent Shareholders' approval requirements under the Main Board 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 and Initial Management 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 24 August 2007, each of the Initial Management Shareholders has undertaken unconditionally that during the period in which he/it remains as a Shareholder and one year thereafter, among other things:

- (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 to engage or participate in any behaviour which may prejudice the interests of the Company and the Shareholders;

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## SUBSTANTIAL AND CONTROLLING SHAREHOLDERS

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- (iii) in the event the Initial Management Shareholders were given any business opportunities that are or may involve in direct or indirect competition with the business 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 terms 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 in the annual report of the Company.

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.

In the context of independent non-executive Directors considering whether the Company is to take up business offers as informed by the relevant Initial Management Shareholder, since Zhao Bin and Wu Chang Qi are familiar with the PRC regulatory environment and Li Chi Chung is familiar with the Hong Kong regulatory requirements, even though the independent non-executive Directors may not have extensive knowledge and experience in the seamless pipe industry, they will be able to apprehend and analyse the relevant situations so as to make decisions which are in the interests of the Shareholders as a whole. Further, the independent non-executive Directors can seek advice from relevant and appropriate senior management of the Company and/or expert opinion, if necessary, at their request at the cost of the Company.

Independent non-executive Directors will review on an annual basis the compliance with the non-competition agreement by the 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-competition 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.

## SUBSTANTIAL AND CONTROLLING SHAREHOLDERS

### SUBSTANTIAL SHAREHOLDERS

So far as the Directors or chief executive of the Company are aware, as at the Latest Practicable Date, the following persons (other than a Director or the chief executive of the Company) had 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 is required, pursuant to section 336 of the SFO, to be entered in the register referred to therein or any option in respect of such capital:

Name	Capacity	Class of Shares	Number of Shares (Note 1)	% of total number of Shares in the relevant class	% of total number of issued Shares
Tianda Holding	Beneficial owner	Domestic Shares	272,000,000 (L)	80.0%	53.6%
	Interests in controlled corporation (Note 2)	Domestic Shares	68,000,000 (L)	20.0%	13.4%
Tianda Investment	Beneficial owner	Domestic Shares	68,000,000 (L)	20.0%	13.4%
Hillhouse Capital Management, Ltd.	Interests in controlled corporation	H Shares	25,180,000 (L)	15.0%	5.0%
Baring Asset Management Limited	Investment manager	H Shares	19,908,000 (L)	11.9%	3.9%
Northern Trust Fiduciary Services (Ireland) Limited	Trustee	H Shares	19,686,000 (L)	11.7%	3.9%
GLHH Fund II. L.P.	Beneficial owner	H Shares	16,825,000 (L)	10.0%	3.3%
Credit Agricole Asset Management	Interests in controlled corporation	H Shares	10,212,000 (L)	6.1%	2.0%
Gaoling Fund, L.P.	Beneficial owner	H Shares	8,787,000 (L)	5.2%	1.7%
Credit Agricole Asset Management Hong Kong Limited	Investment manager	H Shares	8,434,000 (L)	5.0%	1.7%

*Notes:*

1. “L” refers to the long position in the shares in the Company held by such person/entity.
2. 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.

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## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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### 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 export opportunities to the international market and ultimately, to become a world-class oil well pipe manufacturer.

The Company's overall business objectives are:

- (i) 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;
- (ii) 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;
- (iii) To increase output efficiencies and further reduce production costs actively through research and development, optimizing craftsmanship and stringent cost control, systematic energy saving and raw materials saving; and
- (iv) 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 enhancing 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 have been used to complete the technology upgrade projects for heat treatment and threading production lines which commenced commercial production in January 2007 and July 2007 respectively. Such processing lines are capable of converting the Company's existing products into finished products that can be used directly in oil fields with no further product processing.

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## **COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS**

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

The Company is continuing its efforts to conduct related tasks for its project under the 861 Action Plan, as well as monitoring potential merger and acquisition opportunities. In pursuing such merger and acquisition opportunities, the Company would take into account factors including whether the target company operates in a similar industry as the Company, whether the acquisition of such target company would enhance the Company's production capacity or market share, production capacity, the quality of the target company's management team, regulatory compliance and the potential risks involved. The Company expects to produce high grade oil well pipes and raise the value and profit margins of its products. Based on the Company's commitment to cost control and the quality of its management, the Directors believe that the Company will enjoy considerable market share.

### *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 so as 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 City 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 increased its exports to approximately 7% of its total sales for the year ended 31 December 2006 from approximately 3% in 2005. The Company expects to gradually expand its target markets 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

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## **COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS**

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the eastern and northern parts of China. As the north eastern and north western parts of China is home to many major oil fields, the Company will also 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 and Jilin oil field.

To achieve the above targets, the Company will first gradually increase its research and development team as well as 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 its 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 employ 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**

For 2007, the Company's designed capacity is 300,000 tonnes per annum. 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 completed its technology upgrade projects for heat treatment of 100,000 tonnes per annum of oil well pipes and threading for oil well pipes for 100,000 tonnes per annum and commercial production in these heat treatment and threading production lines commenced in January 2007 and July 2007 respectively.

The project on technology upgrade of oil well pipes was approved by the Economic Commission of Anhui Province in 2002. The Company then commenced phase I of the construction process in 2003 and completed its production facilities and commenced production at the end of 2004. Phase II of such technology upgrade project is for the production of high grade oil well pipes which are anti-corrosion and used mainly in deep wells of over 3,000 metres deep and those

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## **COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS**

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onshore and offshore oil fields with noxious items and complicated geological conditions. Phase II of such project has been classified by relevant authorities as part of the 861 Action Plan in 2005 and 2006. 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. During the first six months of 2007, the Company's consultant, CIECC, progressed its feasibility study on phase II of the Company's project within the 861 Action Plan. The Company also passed its environmental impact assessment in respect of phase II of the Company's project within the 861 Action Plan in 2007. The Company is currently in the process of obtaining general safety and fire control approvals for phase II of the Company's project within the 861 Action Plan as well as designing energy saving methodologies.

The Company expects to be able to increase its annual production capacity to 600,000 tonnes by the end of 2009 taking into account completion of phase II of its project within the 861 Action Plan, which is a 100% increase in production capacity as compared with the Company's production capacity in 2007. By 2009, the Company expects to increase its annual production capacity by a further 50,000 tonnes through technological upgrades of its existing production lines. This will mean that the Company's overall annual production capacity by the year end of 2009 is expected to reach 650,000 tonnes. The Company may also increase its production capacity (mainly in the production of oil well pipes) through merger and acquisition when relevant opportunity arises. The Company has not yet identified any such acquisition targets but will continue to seek such opportunities .

Oil and gas exploration involve oil wells which can contain a large amount of corrosive chemicals and materials which could 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 metres or less. The oil well pipes which the Company intends to produce under phase II of its project within the 861 Action Plan are high grade oil well pipes for use in deep oil wells over 3,000 metres. 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 is in the process of short-listing 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" (技術改造國產設備投資抵免企業所得稅暫行辦法) promulgated by the State Tax Bureau, to the extent such purchases of equipment are

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## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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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 expected investment amount in respect of phase II of the Company's project within the 861 Action Plan, is expected to comprise the following:

<b>Scope of work</b>	<b>Approximate budget</b>	
	<i>RMB</i>	<i>HK\$</i>
Factory construction	70 million	72 million
Production line and equipment	520 million	536 million
General working capital	200 million	206 million
	<u>790 million</u>	<u>814 million</u>

As and when the Directors implement phase II of the Company's project within the 861 Action Plan, the Directors will take into account the market conditions at the time and, if necessary, may accelerate the investment amount or adjust the amount to be spent on the above items. These changes may be the subject of an announcement issued by the Company as and when appropriate.

The Company expects to fund the above through a combination of internal cash resources, bank financing and/or 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 ending 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 Main Board 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.



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## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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The following is a summary of comparison of the Company's actual business progress with its business objectives as set out in the Prospectus for the period from 21 November 2006, being the latest practicable date as stated in the Prospectus, to 31 December 2006 and from 1 January 2007 to 30 June 2007.

### **Product improvement and development**

#### *Business objectives as stated in the Prospectus*

##### **From 21 November 2006 to 31 December 2006**

- i. the Company intends to improve and develop products in response to market demands and changes.
- ii. Through the research in the production technologies and craftsmanship of heat treatment 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.

##### **From 1 January 2007 to 30 June 2007**

- 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.

#### *Actual business progress*

The Company progressed the establishment of the threading production line. Due to delays in the delivery of equipment for the threading production line, not all of the expected payments had been disbursed as at 31 December 2006.

The Company successfully obtained its pipe production certifications from Japan and Italy for specialized seamless pipes use in the construction of vessels for the periods from 5 January 2007 to 4 January 2012 and 9 February 2007 to 7 December 2011 respectively. It has also completed its construction of oil well pipe heat treatment production line in January 2007 and commenced production in the same month. The Company has contracted for purchase of some of the ultra-sound inspection equipment for the purpose of inspecting high grade steel oil well pipes.

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## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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### Equipment technology upgrade

*Business objectives as stated in the Prospectus*

**From 21 November 2006 to 31 December 2006**

**From 1 January 2007 to 30 June 2007**

N/A

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.

*Actual business progress*

N/A

The Company increased production efficiency of its production equipment via technological upgrades of its existing production lines, resulting in higher production efficiency and utilization rates, and was the result of the Company's research study in its production technology and equipment. Such technology upgrades led to the increase in the Company's production lines utilisation rates (and thus better production efficiency) from 69% in 2006 to 81% during the first six months of 2007, calculated by way of dividing production volume by designed capacity by way of illustration only. The Company spent approximately HK\$15 million on such technology upgrades.

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## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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### Research and development

*Business objectives as stated in the Prospectus*

**From 21 November 2006 to 31 December 2006**

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 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.

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

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.

iii. Early stage preparation for the processing of screw marks and thickening of oil transferpipes.

**From 1 January 2007 to 30 June 2007**

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. Enhancement of the technique in heat treatment of oil well pipes and development of pressure resistant oil well pipes with high grade steel, such as P110.

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 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.

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## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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### Research and development *(continued)*

#### *Actual business progress*

##### **From 21 November 2006 to 31 December 2006**

The Company took part in the research and development of high-grade steel oil well pipe products such as X42 steel pipes for transferring oil, N80-Q and P110.

##### **From 1 January 2007 to 30 June 2007**

The Company continued to research and develop N80-Q, L80 and P110 high grade steel products which are specific for the automobile industry utilising oil well pipe production technologies, further improving the Company's product offerings. Research and development costs spent and revenue generated from the sales of N80-Q, L80 and P110 high grade steel products during this period amounted to approximately RMB987,000 and RMB126.1 million respectively. During this same period, the Company completed its research and development in the processing technique of screw marks and asymmetrical screw marks for oil well pipes which complies with the API standard.

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## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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### Sale and marketing

#### *Business objectives as stated in the Prospectus*

##### **From 21 November 2006 to 31 December 2006**

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.

#### *Actual business progress*

The entire budgeted amount of HK\$0.5 million was spent mainly for advertising in professional publications and websites like such as Alibaba, both at the national level and provincial level.

##### **From 1 January 2007 to 30 June 2007**

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.

The Company has established a new web page "Investor Relations" on its website and strengthened its internet advertising efforts. The Company also participated in the Seventh Chinese International Oil and Petrochemical Technological Equipment Exhibition in Beijing, The Third International Steel Pipe Industrial Exhibition held in Shanghai and the Shanghai China Oil E-Commerce Exhibition 2007 respectively during the period from April 2007 to June 2007.

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## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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### **Production packaging/Logistics**

*Business objectives as stated in the Prospectus*

**From 21 November 2006 to 31 December 2006**

The Company will develop its distribution and logistics centre by increasing production storage area by approximately 40,000 sq.m.

**From 1 January 2007 to 30 June 2007**

The Company will continue the development of its distribution and logistics centre by increasing production storage area by approximately 40,000 sq.m.

*Actual business progress*

The Company acquired a piece of land near its facilities in Tongcheng (details of which are set out in property number 5 under Group III in Appendix II of this document) for RMB556,540 and plant design was completed. There was a delay in the obtaining of such land approvals as a result of weather and other factors including the late retrieval of the agricultural products grown on the land. However such land approvals have been obtained towards the end of December 2006.

The Company continued to develop its distribution and logistics centre.

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## COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

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### **Production packaging/Logistics** *(continued)*

#### **Phase II of the 861 Action Plan feasibility study**

##### *Business objectives as stated in the Prospectus*

The Company will continue its initial phase of investment in the areas of feasibility study, environmental impact assessment, equipment know-how and administration and other expenses.

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.

##### *Actual business progress*

This project was still under way. A total of HK\$600,000 was spent for conducting the feasibility study in this phase. During this period, the Company also had numerous technical exchanges and commercial negotiations with a number of design companies.

The Company's consultant CIECC as well as other institutions were appointed to conduct its feasibility study on phase II of the Company's project within the 861 Action Plan. The Company spent a total of approximately HK\$3.5 million for such feasibility study. The Company had also passed its environmental impact assessment in April 2007. The Company is technologically ready and is progressing the relevant preparation works in respect of phase II of the Company's project within the 861 Action Plan, which included the preparation work for obtaining general safety and fire control approvals, designing energy saving methodologies and short-listing a reputable metallurgical and heavy industry enterprise to manufacture the production equipment of the project.

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## **COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS**

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### **USE OF PROCEEDS FROM THE INTERNATIONAL PLACING IN DECEMBER 2006**

The Company raised approximately HK\$461.0 million of net proceeds through the International Placing and the exercise of the Over-allotment Option in December 2006. Set out below is the intended use of proceeds since the GEM Listing up to 31 December 2008 according to the same percentages as stated in the Prospectus:

- approximately HK\$120.9 million for product improvement and development;
- approximately HK\$52.4 million for equipment technology upgrade;
- approximately HK\$39.6 million for research and development;
- approximately HK\$7.2 million for sales and marketing;
- approximately HK\$19.8 million for production packaging/logistics;
- approximately HK\$9.9 million for phase II of the 861 Action Plan Feasibility Study;
- approximately HK\$189.2 million for phase II of the 861 Action Plan in respect of the development of high grade steel oil well pipe production; and
- approximately HK\$22.0 million for working capital.

During the period from GEM Listing to 31 December 2006, the Company conducted its business in accordance with the Business Plan and business objectives as stated in the Prospectus. The Company expects to achieve the business objectives as set out in the Prospectus for 2007 as scheduled. The Company's actual use of proceeds for the period since the GEM Listing up to and including 30 June 2007 was approximately HK\$117.0 million in the following manners:

- approximately HK\$71.6 million for product improvement and development;
- approximately HK\$15.0 million for equipment technology upgrade;
- approximately HK\$1.0 million for research and development;
- approximately HK\$1.4 million for sales and marketing;
- approximately HK\$4.8 million for production packaging/logistics;
- approximately HK\$3.5 million for phase II of the 861 Action Plan Feasibility Study; and
- approximately HK\$19.7 million for working capital.

The Company will use the remaining unutilised net proceeds of approximately HK\$344.0 million in accordance with its planned usage as set out in the Prospectus and as revised by the announcement of the Company dated 7 December 2006 regarding the exercise of the Over-allotment Option. The Company will from time to time review the Business Plan in the interests of the Shareholders.



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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### DIRECTORS

The Board consists of eight Directors, two of whom are non-executive Directors and three of whom are independent non-executive Directors. The Directors were elected at a meeting of the Shareholders for a term of three years, renewable upon re-election and re-appointment. Each of the executive Directors has entered into a service contract with the Company dated 13 November 2006 and under which they have agreed to act as executive Directors until 12 November 2009. 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 in 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 Main Board Listing Rules and relevant laws and regulations.

#### Executive Directors

*Ye Shi Qu*, aged 57. He is the Chairman and an executive Director. Ye Shi Qu is responsible for formulating the overall strategies and business directions of the Company. Ye Shi Qu is the founder of Tianda Holding and has been its Chairman since then. Ye Shi Qu resigned from the directorship and legal representative position of Tianda Holding on 31 May 2007. Ye Shi Qu is very experienced in the management of specialized seamless pipe production with over 14 years of experience in this industry and has demonstrated a keen understanding of this industry. Ye Shi Qu had been awarded the Model of National Agricultural Labour and National Excellent County Entrepreneur as a result of his contributions to county enterprises (鄉鎮企業). He has also been awarded the Third China Best Entrepreneur of Privately owned Enterprises and the Top Ten Entrepreneur in Anhui Province. The Directors believe that these awards recognise Ye Shi Qu’s management strength which he utilises to lead the management of the Company. Ye Shi Qu is also a director of Konka Group Co., Ltd., a company listed on The Shenzhen Stock Exchange which is engaged in the business of consumer electronics. Ye Shi Qu 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. Ye Shi Qu was appointed as a Director in April 2006 and has been involved in the Company’s business since 1993 (then operated by one of the Company’s predecessors). Ye Shi Qu is the uncle of Liu Peng, a non-executive Director.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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*Zhang Hu Ming*, aged 38. He is the Deputy Chairman, an executive Director and the General Manager of the Company. Zhang Hu Ming 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. Zhang Hu Ming is very experienced in the specialized seamless pipe industry and its management with over 14 years of experience in the industry. Since 1995, Zhang Hu Ming 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, Zhang Hu Ming was awarded National Excellent County Entrepreneur in 2005 and was the representative of the Tenth Session of Anhui National People's Congress, recognising his contributions made to county enterprises and decision making capabilities which are fundamental to his management role in the Company. Zhang Hu Ming 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. Zhang Hu Ming was appointed as a Director in April 2006 and has been involved in the Company's business since 1993 (then operated by one of the Company's predecessors).

*Xie Yong Yang*, aged 48. He is an executive Director. Xie Yong Yang 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. Xie Yong Yang has been 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 Xie Yong Yang's resignation from Tianda Holding, he also participated in the research, decision making and planning for major projects of Tianda Holding. The Directors believe the Company's management benefits from Xie Yong Yang's experience above. Xie Yong Yang was graduated from the Hefei Industrial University with a post-secondary qualification in economics management. Xie Yong Yang was appointed as a Director in April 2006 and has been involved in the Company's business since April 2000 (when it was then operated by one of the Company's predecessors). Xie Yong Yang is the brother-in-law of Huang Yao Qi, the financial controller of the Company.

### **Non-executive Directors**

*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 with over 14 years of experience in financial practices and operation. Since 2005, he has been the deputy financial controller of Tianda Holding. Zhang Jian Huai graduated from the Institute of Chinese Communist Party with a bachelor degree in economics management. Since August 2007, Zhang Jian Huai has been the chairman of the supervisory committee

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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of Konka Group Co., Ltd., a company listed on The Shenzhen Stock Exchange which is engaged in the business of customer electronics. Zhang Jian Huai was appointed as a Director in April 2006 and has been involved in the Company's business since October 2005 (when it was then operated by one of the Company's predecessors). The Directors believe the Company benefits from Zhang Jian Huai's financial and accounting experience and, in particular, his contributions as a member of the Company's audit committee to review and analyse the Company's financial statements and accounts. In the event of any conflicts, Zhang Jian Huai will abstain from voting on resolutions at the board meetings of the Company and he shall not be counted in the Board's quorum for the purpose of such resolutions.

*Liu Peng*, aged 30. 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 Tsinghua University and Sloan School of Management under Massachusetts Institute of Technology in the US. Liu Peng has 10 years of experience in corporate capital operation and corporate management. Since August 2007, Liu Peng has been a director of Konka Group Co., Ltd., a company listed on The Shenzhen Stock Exchange which is engaged in the business of customer electronics. The Directors believe the management team benefits from Liu Peng's knowledge in business administration and management in the day-to-day running of the Company's business. Liu Peng was appointed as Director since April 2006 and was redesignated as non-executive Director in June 2006. Liu Peng is the nephew of Ye Shi Qu, Chairman of the Board.

### **Independent non-executive Directors**

*Zhao Bin*, aged 41. Zhao Bin is a PRC registered accountant and a PRC registered valuer. Zhao Bin was appointed as an independent non-executive Director in July 2006. Zhao Bin is the shareholder, deputy chief accountant and deputy general manager of Beijing Zhongxing Xinshizi Accounting Firm. Between 1996 and 2002, Zhao Bin was engaged by the auditing and valuation department at Anhui Huapo Accounting Firm, Jinhai Branch. Zhao Bin has also been engaged in the teaching and academic research of accounting, auditing, financial management and securities investment at Anhui Polytechnic University. In 1991, Zhao Bin was awarded a master degree by Anhui Polytechnic University (formerly known as Huinan Mining College). Between March 2002 and 2006, Zhao Bin was engaged in doctoral research at the China Mining University in Beijing. The Directors believe the Company benefits from Zhao Bin's extensive experience in the auditing and establishment of financial management, internal control and risk management for companies and his over 15 years of experience in these areas. The Board considers Zhao Bin has the appropriate professional qualification or expertise in accounting and financial management as provided in Rule 3.10 of the Main Board Listing Rules and is an appropriate candidate for being independent non-executive Director. He was appointed as an independent non-executive Director in July 2006.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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*Wu Chang Qi*, aged 71. He is the president of the Assembly for Association of Business Management and the Association of Entrepreneur of Anhui Province, Honorary Chairman of University of Anhui and Anhui Province International Entrepreneur Exchange Association and as such, he is very knowledgeable in the area of enterprise management. Wu Chang Qi has over 40 years of experience in the area of enterprise management for he has been appointed to take up roles in various governmental departments of different levels since 1980. Wu Chang Qi was a member to the sixth, eighth and ninth Provincial People's Congress and a member to the 12th Communist Party's National Congress. He graduated from Hangzhou Civil Engineering College. The Directors believe Wu Chang Qi's experience with the regulatory environment and enterprise management can assist the Board to evaluate business opportunities from the management perspective. He was appointed as an independent non-executive Director in June 2006.

*Wang Xiu Zhi*, aged 71. He is honorary 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. Wang Xiu Zhi has been engaged in the management of metallurgy industry for many years and considerably experienced in corporate management area with over 40 years of experience. The Directors believe the Company benefits from Wang Xiu Zhi's experience in the metallurgy industry as a whole in performing his role to analyse business opportunities of the Company. He was appointed as an independent non-executive Director in June 2006.

### **Proposed change of independent non-executive Directors**

Subject to Shareholders' approval at the Extraordinary General Meeting, the Company intends to appoint Mr. Li Chi Chung as an independent non-executive Director. His biography is as follows:

*Li Chi Chung*, aged 38. Li Chi Chung is currently a solicitor practising in Hong Kong. He obtained a bachelor degree in laws from The University of Sheffield in England in 1990. Li Chi Chung was admitted as a solicitor of the High Court of Hong Kong in 1993 and his practice has been focused on commercial related matters for more than 14 years. Li Chi Chung is currently an independent non-executive director of PINE Technology Holdings Limited and a non-executive director of Maxitech International Holdings Limited (to be renamed as Richfield Group Holdings Limited), both of which are companies listed on GEM. He is also an independent non-executive director of Eagle Nice (International) Holdings Limited and Kenford Group Holdings Limited respectively which are companies listed on the Main Board. He is the company secretary of Prime Investments Holdings Limited, a company listed on the Main Board. He was an independent non-executive director of Artel Solutions Group Holding Limited, a company listed on the Main Board.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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Wang Xiu Zhi is expected to resign from the post of independent non-executive Director due to health reasons and that he has reached the retirement age. The Board will be able to function effectively and to protect Shareholders' interests subsequent to the proposed change of independent non-executive Directors. The proposed appointment will have a positive impact on the Company's corporate governance as Li Chi Chung has experience as a director of a number of listed companies and will be able to provide an impartial and external opinion to protect the interests of the Shareholders. Further, as a solicitor practising in the commercial and corporate areas, he can advise and guide the Board in respect of compliance with the applicable laws and the Main Board Listing Rules including various requirements relating to Directors' duties and internal controls.

### **SUPERVISORS**

*Liu Jun Chang*, aged 41. He was named Model Labour of Anhui Province in September 2002 in recognition of his contribution to the development of Tianda Holding. He graduated from Hefei Industrial University with a major in economics management in June 2002. He has 18 years of experience in corporate management. He is the chairman of the supervisory committee of Tianda Holding and was appointed as the chairman of the supervisory committee of the Company on 13 April 2006, taking advantage of his experience as chairman of Tianda Holding's supervisory committee to supervise, among other things, the performance of the Directors' and senior management's duties. Liu Jun Chang has been involved in the Company's business since August 2004 when it was then operated by one of the Company's predecessors.

*Yong Jin Gui*, aged 32. He graduated from Anhui Agricultural University with a major in agricultural machinery. He joined the Company after graduation and he has approximately 9 years of experience in corporate management. He was appointed as a director of Tianda Holding in July 2004. He was appointed as a Supervisor on 13 April 2006 and has been involved in the Company's business since August 2004 (when it was then operated by one of the Company's predecessors). Yong Jin Gui is also a director of Tianda Import and Export. The Directors believe the Company benefits from Mr Yong's knowledge of directors' duties, as a result of himself being a director of Tianda Holding and Tianda Import and Export, in performing his supervisory role as a member of the Company's supervisory committee.

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

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### SENIOR MANAGEMENT

*Ho Kin Cheong*, Kelvin, aged 40. He is the Qualified Accountant, Company Secretary and deputy financial controller of the Company. Ho Kin Cheong, Kelvin 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 (now known as Hong Kong Baptist University). Ho Kin Cheong, Kelvin has over 15 years of experience in finance and accounting. Prior to joining the Company, between June 1992 and September 2006, Ho Kin Cheong, Kelvin 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 EPI (Holdings) Limited. Ho Kin Cheong, Kelvin 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. Ho Kin Cheong, Kelvin joined the Company on 11 September 2006.

*Wang Yi*, aged 35. He graduated from Anhui Mechanical and Electrical Institute with a major in heat treatment in 1997. He joined the Company after graduation and has been involved in production management of the Company (then operated by one of the Company's predecessors) for over 10 years since July 1997. In 2002, through assisting in the preparation for the construction of hot-rolled oil well pipe production line as in charged by Zhang Hu Ming, the General Manager, he devoted much effort to the successful commencement of operation of Chuzhou City production plant. 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 City production plant.

*Zhang Chun Xiang*, aged 36. He graduated from Anhui Mechanical and Electrical Institute with a major in heat treatment 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. Zhang Chun Xiang 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.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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*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. Geng Wei Long has been engaged in production management for 13 years. He has been involved in the Company's business since 1993 (then 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 City headquarters.

*Lu 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 by taking a part-time course during the course of his career. 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 of 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.

*Huang Yao Qi*, aged 43. She graduated from Hefei Industrial University in June 2002 with a major in economics and management. Huang Yao Qi has been involved in financial work, including corporate financial accounting, financial analysis and financial management, 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. Huang Yao Qi is the sister-in-law of Xie Yong Yan, an executive Director.

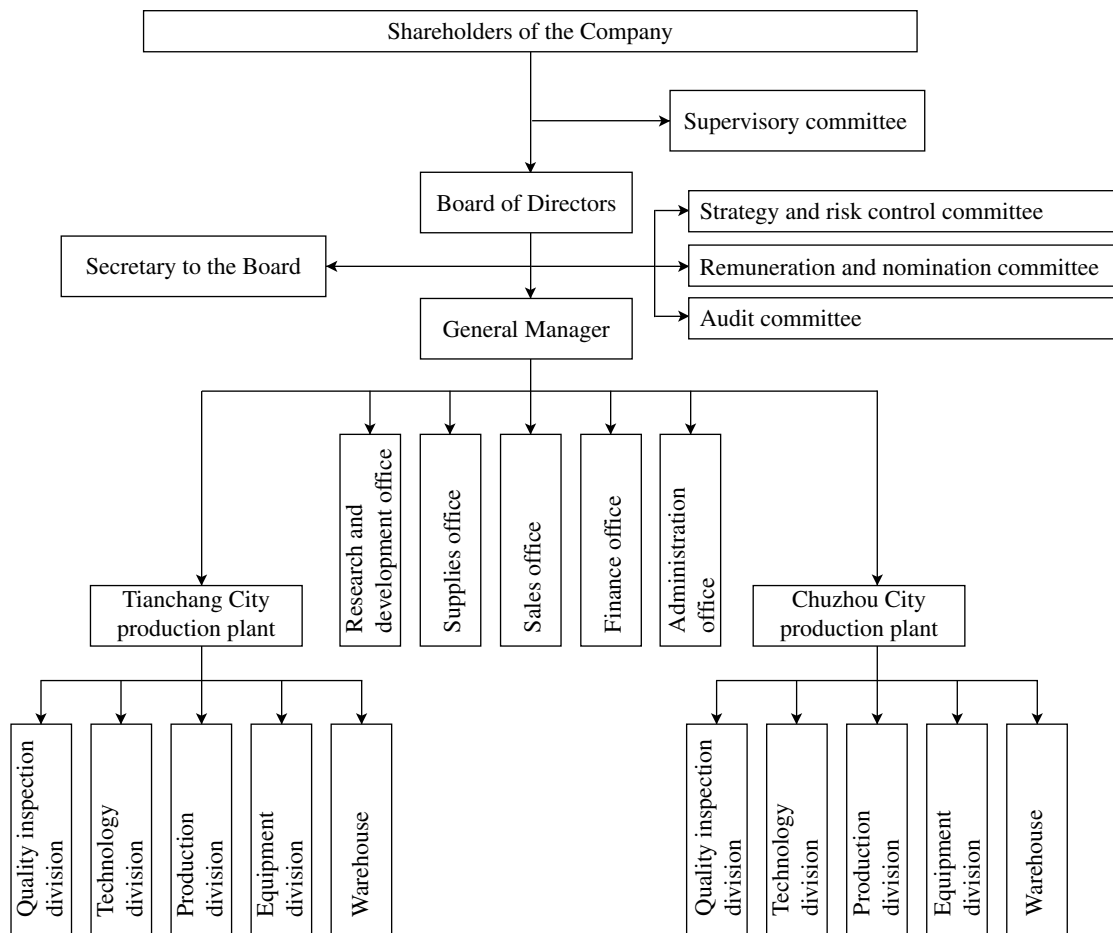
*Chen Dong*, aged 26. He graduated from Chuzhou Broadcasting and Television University in June 2000. He was the head for the corporate office of Tianda Holding from March 2002 to May 2007 and his key roles and responsibilities were preparing board meeting materials, keeping records of board meetings, preparing office memoranda and co-coordinating different departments of Tianda Holding. Chen Dong joined Tianda Holding since his graduation and has 7 years of experience in corporate management. 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 on 13 April 2006.

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# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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## ORGANIZATION OF THE COMPANY



The Board established three special committees on 24 July 2006, namely strategy and risk control committee, remuneration and nomination committee and audit committee. Each committee has its specific responsibilities and authorities.

### Strategy and risk control committee

The strategy and risk control committee of the Company comprised three Directors, namely Wang Xiu Zhi (chairman of the committee), Wu Chang Qi and 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, to assist the Board to supervise and examine the risk control strategy of the Company and to enhance the Company's risk control system. Should Wang Xiu Zhi resign from the Company, the Company expects to appoint Li Chi Chung (subject to his appointment as a Director being approved by the Shareholders at the Extraordinary General Meeting) as a member of the strategy and risk control committee to fill the vacancy left by the resignation of Wang Xiu Zhi.



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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### **Remuneration and nomination committee**

The remuneration and nomination committee of the Company comprised three Directors, namely Wu Chang Qi (chairman), Wang Xiu Zhi and Xie Yong Yang. The main responsibilities of the committee is to review and consider the remuneration policies and structure for the Directors and senior management and make proposals to the Board, 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, to nominate candidates for Directors, to examine nominations for Directors and to make recommendations to the Board for the appointments. Should Wang Xiu Zhi resign from the Company, the Company intends to appoint Zhao Bin as a member of the remuneration and nomination committee to fill the vacancy left by Wang Xiu Zhi.

### **Audit committee**

The Company established an audit committee on 24 July 2006 with written terms of reference in compliance with Rules 3.21 to 3.22 of the Main Board 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 three members comprising the two independent non-executive Directors and one non-executive Director, namely Zhao Bin, Wu Chang Qi and Zhang Jian Huai. 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 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 Holding 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 14A of the Main Board Listing Rules. Disclosure in relation to such transactions will be made by the Company in compliance with the requirements of the Main Board Listing Rules.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### COMPLIANCE OFFICER

Zhang Hu Ming, is the Deputy Chairman of the Board, an executive Director and General Manager of the Company. Zhang Hu Ming's personal particulars are set out in the paragraph headed "Executive Directors" in this section. Zhang Hu Ming will be advising on and assisting the Board in implementing procedures to ensure the Company will comply with the Main Board 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.

### COMPLIANCE ADVISER

Pursuant to the compliance adviser agreement dated 9 October 2006 entered into between the Company and Somerley Limited, Somerley Limited's engagement as the Company's compliance adviser will terminate upon the Proposed Withdrawal taking place. The Directors are not aware of any material matters that need to be drawn to the attention of the Shareholders in respect of the termination of Somerley Limited as the Company's compliance adviser.

In connection with the Main Board Migration, the Directors have resolved to appoint Cazenove, being the sponsor to the Company for the Main Board Migration, as the Company's compliance adviser. The appointment of Cazenove will take effect on the Main Board Listing Date and ending on the date on which the Company complies with Rule 13.46 of the Main Board Listing Rules in respect of its financial results for the first full financial year (i.e. currently expected to be the financial year ending 31 December 2008) after the Main Board Listing Date.

The compliance adviser will advise the Company on the following matters:

- (i) before the publication of any regulatory announcement, circular or financial report;
- (ii) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (iii) where the Company proposes to use the proceeds of the International Placing in a manner different from that detailed in the Prospectus or where the business activities, developments or results of the Company deviate from any forecast, estimate, or other information in the Prospectus; and
- (iv) where the Stock Exchange makes an inquiry of the Company regarding unusual movements in the price or trading volume of the Company.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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### STAFF

#### Overview

As at 30 June 2007, the Company had 1,018 full-time employees, whose functions in the Company are analyzed as follows:

Research and development	30
Production	819
Quality control	82
Sales and marketing	32
Administration	55
	<hr/>
Total	1,018
	<hr/> <hr/>

#### 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.

#### Staff benefits

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

As stipulated in 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.

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## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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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%, 2% 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.

The Company has applied for a mandatory provident fund scheme in respect of its employee in Hong Kong. The contribution made is at a rate of 5% of the employee's salary by each of the Company and the employee.

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## SHARE CAPITAL

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### SHARE CAPITAL

As at the Latest Practicable Date, the share capital of the Company was as follows:

	<i>RMB</i>
340,000,000 Domestic Shares in issue ( <i>note</i> )	170,000,000
167,570,000 H Shares in issue	83,785,000
<u>507,570,000</u> Shares in issue	<u>253,785,000</u>

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

### Minimum public float

Under the Main Board Listing Rules, as the Company will have both Domestic Shares and H Shares in issue after the Main Board Listing, the minimum level of public float to be maintained by the Company at all times after Main Board Listing is 25% of its share capital in issue from time to time, and the Company would be considered as having met the minimum public float requirement if the aggregate of the H Shares in issue and such other securities held by the public would amount to at least 25% of the then issued share capital of the Company, and the percentage of H Shares in public hands shall be not less than 15% of the Company's issued share capital, with all such H Shares being held by the public.

### Ranking

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 the 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.

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## SHARE CAPITAL

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All the existing Domestic Shares are held by the Promoters as promoter shares (as defined in the Company Law). Promoter shares may not be sold within a period of time from the date of the GEM Listing 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.

### **Transfer of Domestic Shares for listing and trading on overseas stock 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 an overseas stock exchange:

- (i) the transfer and trading of such transferred shares shall have duly completed any requisite internal approval process and obtained the approval from the relevant PRC regulatory authorities, including the CSRC; such transfer and trading shall in all respects comply with the regulations prescribed by the State Council securities regulatory authority;
- (ii) such transfer and trading shall in all respects comply with the regulations, requirements and procedures prescribed by the relevant overseas stock exchange, but the listing or trading of such shares on an overseas stock exchange (including, without limitation, the Main Board) are not subject to the approval of a class meeting of Shareholders;
- (iii) In the event that the Domestic Shares are to be transferred to overseas investors and to be traded as H Shares on the Main Board, such transfer and conversion will need to obtain the approval of the relevant PRC regulatory authorities, including the CSRC. The Company can apply for the listing of all or any portion of the Domestic Shares on the Main Board 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 the Main Board Listing is ordinarily considered by the Stock Exchange to be an administrative matter. No application for the listing of such Domestic Shares on the Main Board has been made as at the Latest Practicable Date;

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## SHARE CAPITAL

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- (iv) 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 laws) and registered in the register of Shareholders 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 the Main Board, 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 the Main Board 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 despatch of H Share certificates, and (b) the admission of the converted shares to trade on the Main Board will comply with the Main Board 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;
- (v) in the event that the relevant stock exchange operates a scripless share trading system similar to CCASS and the holder of the relevant shares elects to deposit his shares in such system for trading, such shares may need to be registered under the name of, and represented by the global certificate issued to, the nominee of such trading system.

Except as described above, and in relation to the despatch of notices and financial reports to Shareholders, dispute resolution, registration of shares in different parts of the register of Shareholders, the method of share transfer and the appointment of receiving agents, all as provided for in the Articles of Association and summarised in Appendix V to this document, the Domestic Shares and the H Shares will rank *pari passu* with each other in all respects and, in particular, will rank equally for all dividends or distributions declared, paid or made after the date of this document. The transfer of Domestic Shares is subject to such restrictions as the PRC laws may impose from time to time.

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## SHARE CAPITAL

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### ISSUING MANDATE

At the extraordinary general meeting of the Company held on 18 June 2007, a special resolution was passed to grant the Board a general mandate to issue Domestic Shares and/or H Shares, the details of which are as follows:

- (i) the Board has been granted, during the Relevant Period (as defined below), an unconditional general mandate (the “General Mandate”) to separately or concurrently issue, allot and deal with additional Domestic Shares and/or H Shares, and to make or grant offers, agreements and options in respect thereof, subject to the following conditions:
  - (a) the General Mandate shall not extend beyond the Relevant Period save that the Board may during the Relevant Period make or grant offers, agreements or options which may require the exercise of such powers after the end of the Relevant Period;
  - (b) the aggregate nominal amount of the Domestic Shares or H Shares allotted and issued or agreed conditionally or unconditionally to be allotted and issued (whether pursuant to an option or otherwise) by the Board (otherwise than pursuant to any scrip dividend scheme (or similar arrangement providing for the allotment and issue of shares in lieu of the whole or part of a dividend), any share option scheme, a Rights Issue (as defined below) or any separate approval of the Shareholders) shall not exceed:
    - (1) 20% of the aggregate nominal amount of the Domestic Shares in issue; and
    - (2) 20% of the aggregate nominal amount of the H Shares in issue,respectively, in each case as at date of passing the special resolution; and
  - (c) the Board will only exercise its power under such mandate in accordance with the Company Law and the Main Board Listing Rules and/or the GEM Listing Rules (as the case may be) (as each of them may be amended from time to time) and only if all necessary approvals from the CSRC and/or other relevant PRC government authorities are obtained;

“Relevant Period” means the period from the passing of the special resolution until the earlier of: (i) the conclusion of the next annual general meeting of the Company following the passing of the special resolution, unless, by special resolution passed at that meeting, the mandate is renewed, either unconditionally or subject to conditions; or (ii) the expiry of the period within which the next annual general meeting is required by the Articles of Association or any applicable law to be held; or (iii) the passing of another special resolution of the Company in a general meeting revoking or varying the authority set out in the special resolution.



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## SHARE CAPITAL

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“Rights Issue” means the allotment or issue of Shares or other securities which would or might require Shares to be allotted and issued pursuant to an offer made to all the Shareholders (excluding, as the Board may decide, for such purpose any Shareholder who is resident in a place where such offer is not permitted under the law or regulation of that place) entitled to such offer, pro rata (apart from fractional entitlements) to their then existing holdings of Shares;

- (ii) contingent on the Board resolving to exercise the General Mandate and/or issue Shares pursuant to paragraph (i) above, the Board has been authorized:
- (a) to approve, execute and do or procure to be executed and done, all such documents, deeds, and matters as it may consider necessary in connection with the exercise of the General Mandate and/or the issue of such Shares, including, without limitation, to determine the time, price, quantity and place of issue, to make all necessary applications to the relevant authorities, to enter into underwriting agreements (or any other agreements);
  - (b) to determine the use of proceeds and to make all necessary filings and registrations with the relevant PRC, Hong Kong and/or any other places and jurisdictions (as appropriate); and
  - (c) to increase the registered capital of the Company and make all necessary amendments to the Articles of Association to reflect such increase and to register the increased capital with the relevant authorities in the PRC, Hong Kong and/or other places and jurisdictions (as appropriate) as so to reflect the new capital and/or share capital structure of the Company.

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## FINANCIAL INFORMATION

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### 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 document. The financial statements have been prepared in accordance with IFRS.

#### Overview of the Company’s operations

The Company has more than 14 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-builders, 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 City was established at the end of 2004 and it began production of oil well pipes in January 2005. The Company also established its cold-drawn oil well pipe production line in Tianchang City and commenced commercial production in 2006. 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. The Company’s cost of sales remained at approximately 86.3%, 84.1%, 80.1% and 80.3% of its turnover for the three years ended 31 December 2006 and the six months ended 30 June 2007 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 year ended 31 December 2006 can also be attributable to the inventory of raw materials (mainly steel billets) which had been bulk purchased in March 2006 when costs for such raw materials were relatively low.

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## FINANCIAL INFORMATION

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### **Basis of presentation**

The following financial information is prepared as if the Company's structure as at the date of this document had been in existence throughout the three years ended 31 December 2006 and the six months ended 30 June 2007, or from the respective dates of establishment or incorporation of the Company or its predecessors.

The financial information set out in the accountants' report in Appendix I to this document, 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, 2005 and 2006 and 30 June 2007, 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.

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## FINANCIAL INFORMATION

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### *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 three years ended 31 December 2006 and the six months ended 30 June 2007.

### *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 period-ends 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 periods which they are identified.

### *Trade receivables 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 reserve fund*

In accordance with the Company Law and the Articles of Association, the Company is required to allocate 10% of its profit after tax, as determined in accordance with PRC GAAP, to the statutory surplus reserve until such reserve reaches 50% of the registered capital of the Company. Such reserve 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.

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## FINANCIAL INFORMATION

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### *Statutory public welfare fund*

According to the paper issued by the Ministry of Finance on 15 March 2006 (Cai Qi [2006] No. 67), “enterprises established after 1 January 2006 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. 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 statutory public welfare fund.

### *Taxes*

No provision for Hong Kong profits tax has been made as the Company had no assessable profits arising in Hong Kong during the three years ended 31 December 2006 and the six months ended 30 June 2007.

The applicable income tax rate of the Company in the PRC was 33% for the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007.

## **TRADING RECORD**

The table below summarises the audited results of the Company for each of the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007. The audited results should be read in conjunction with the accountants’ report, the text of which is set out in Appendix I to this document.

## FINANCIAL INFORMATION

### *Income statement*

	Year ended 31 December			Six months ended 30 June	
	2004 <i>RMB'000</i>	2005 <i>RMB'000</i>	2006 <i>RMB'000</i>	2006 <i>RMB'000</i>	2007 <i>RMB'000</i>
<b>Revenue</b>	333,645	906,590	1,265,314	596,129	728,561
Cost of sales	<u>(288,053)</u>	<u>(762,409)</u>	<u>(1,013,539)</u>	<u>(487,883)</u>	<u>(584,960)</u>
<b>Gross profit</b>	45,592	144,181	251,775	108,246	143,601
Other income	1	8	5,217	523	5,678
Selling and distribution costs	(8,162)	(24,249)	(41,495)	(19,440)	(24,216)
Administrative expenses	(10,198)	(19,506)	(17,682)	(6,370)	(17,284)
Other expenses	(20)	(128)	(351)	(154)	(195)
Finance revenue	217	2,290	2,226	1,588	7,323
Finance costs	(2,815)	(6,314)	(8,874)	(3,308)	(11,025)
Share of loss of an associate	<u>(16)</u>	<u>(17)</u>	<u>(23)</u>	<u>(23)</u>	<u>—</u>
<b>Profit before income tax</b>	<u>24,599</u>	<u>96,265</u>	<u>190,793</u>	<u>81,062</u>	<u>103,882</u>
Income tax income/(expense)	<u>49,501</u>	<u>(24,391)</u>	<u>(72,302)</u>	<u>(27,640)</u>	<u>(33,332)</u>
Profit attributable to the equity holders	<u>74,100</u>	<u>71,874</u>	<u>118,491</u>	<u>53,422</u>	<u>70,550</u>
Earnings per share — basic ( <i>note</i> )	<u><u>RMB0.93</u></u>	<u><u>RMB0.26</u></u>	<u><u>RMB0.34</u></u>	<u><u>RMB0.16</u></u>	<u><u>RMB0.14</u></u>

*Note:* The calculation of basic earnings per share is based on the profit for the year/period attributable to the equity holders of the Company and the weighted average number of Shares (including both Domestic Shares and H Shares) outstanding during the relevant year or period. The weighted average number of Shares for the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2006 and 2007 were 80,000,000, 273,590,000, 353,513,000, 340,000,000 and 507,570,000 respectively which were calculated as if the sub-division of the 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 Appendix VI to this document, had been in effect throughout the Track Record Period.

Both the basic and diluted earnings per share amounts for the Track Record Period are the same since there were no diluting events during the Track Record Period.

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### **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:

1. *Oil and gas exploration activities*

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.

2. *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 City in 2004 and 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 such oil well pipe production line commenced production in 2005 with the then production capability of 150,000 tonnes.

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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 three years ended 31 December 2006 and the six months ended 30 June 2007:

	Year ended 31 December			Six months ended 30 June
	2004	2005	2006	2007 (half year statistics)
Designed production capacity ( '000 tonnes)	25	200	300	150*
Production volume ( '000 tonnes)	25.3	135	207	122
Utilization rate	>100%	67.5%	69.0%	81.3%

\* The designed production capacity for the six months ended 30 June 2007 is derived, for illustration purposes only, by way of dividing the 2007 annual production capacity of 300,000 tonnes by two.

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 increased to 69.0% in 2006 and 81.3% in the first half of 2007. This was attributable to both the production technology upgrades in the Chuzhou City hot-rolled production line (increased capacity of which cannot be utilised at the optimal level at the time) and the Tianchang City new cold-drawn oil well pipe production line implemented in the first half of 2006 and improved production efficiency towards the end of June 2007. As at the Latest Practicable Date, the Company's designed capacity was 300,000 tonnes. The actual production volume for the six months up to 30 June 2007 was approximately 122,000 tonnes, representing a utilization rate of approximately 81.3%. For further information about the Company's production capacity, please see the section headed "Business" in this document.



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### 3. *Product mix*

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

The Company has made continuous efforts to increase profitability by selling higher margin products. With strong technology know-how and long-established industry knowledge, the Company is able to adjust its product mix to meet the changing needs of customers' preference. The Company's flexibility and responsiveness to market demand was reflected by its emphasis on the production of oil well pipes in 2005. In response to the expected long-term growth in the oil and gas industry brought about by strong demand for petroleum and increasing oil prices, the Company focused on the production of oil well pipes in 2005. As at the Latest Practicable Date, in addition to both oil well pipes (including oil transfer pipes and casing pipes) and petrochemical pipes both of 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 three years ended 31 December 2006 and the six months ended 30 June 2007, sales of the oil well pipes and petrochemical pipes accounted for approximately 22.5%, 60.3%, 61.6% and 66.2% of the Company's turnover. The Company's sales of other specialized seamless pipes for the three years ended 31 December 2006 and the six months ended 30 June 2007 represented approximately 77.5%, 39.7%, 38.4% and 33.8% of the Company's total turnover.

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The following table sets out the sales breakdown of the Company in the three years ended 31 December 2006 and the six months ended 30 June 2006 and 30 June 2007:

	Year ended 31 December								
	2004			2005			2006		
	<i>Tonnes</i>	<i>RMB'000</i>	<i>% of sales</i>	<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%	144,613.3	709,243	56.1%
Petrochemical pipes	5,594.7	37,671	11.3%	6,642.7	44,868	4.9%	7,140.2	42,199	3.3%
Other specialized seamless pipes	17,266.1	110,913	33.2%	27,804.6	161,120	17.8%	47,392.2	263,825	20.8%
<b>Sub-total</b>	<b>23,116.3</b>	<b>150,839</b>	<b>45.2%</b>	<b>128,510.4</b>	<b>675,517</b>	<b>74.5%</b>	<b>199,145.7</b>	<b>1,015,267</b>	<b>80.2%</b>
<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%	4,941.4	27,798	2.2%
Other specialized seamless pipes	24,765.7	147,840	44.3%	31,315.3	198,053	21.9%	40,719.2	222,249	17.6%
<b>Sub-total</b>	<b>30,670.8</b>	<b>182,806</b>	<b>54.8%</b>	<b>36,649.4</b>	<b>231,073</b>	<b>25.5%</b>	<b>45,660.6</b>	<b>250,047</b>	<b>19.8%</b>
<b>Total</b>	<b>53,787.1</b>	<b>333,645</b>	<b>100.0%</b>	<b>165,159.8</b>	<b>906,590</b>	<b>100.0%</b>	<b>244,806.3</b>	<b>1,265,314</b>	<b>100.0%</b>
<b>Six months ended 30 June</b>									
	2006			2007					
	<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	67,878.4	338,386	56.8%	90,286.0	446,188	61.2%			
Petrochemical pipes	4,041.9	25,255	4.2%	3,944.4	26,327	3.6%			
Other specialized seamless pipes	17,936.3	99,637	16.7%	27,773.6	144,842	19.9%			
<b>Sub-total</b>	<b>89,856.6</b>	<b>463,278</b>	<b>77.7%</b>	<b>122,004.0</b>	<b>617,357</b>	<b>84.7%</b>			
<u>Sourcing and distribution</u>									
Oil well pipes	—	—	—	—	—	—			
Petrochemical pipes	2,709.4	16,286	2.7%	2,197.9	10,201	1.4%			
Other specialized seamless pipes	21,810.4	116,565	19.6%	20,100.2	101,003	13.9%			
<b>Sub-total</b>	<b>24,519.8</b>	<b>132,851</b>	<b>22.3%</b>	<b>22,298.1</b>	<b>111,204</b>	<b>15.3%</b>			
<b>Total</b>	<b>114,376.4</b>	<b>596,129</b>	<b>100.0%</b>	<b>144,302.1</b>	<b>728,561</b>	<b>100.0%</b>			

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In 2004, there was small scale manufacturing of oil well pipes in Tianchang City plant produced by using cold-drawn technology. In 2005, the Company began to use hot-rolled technology to produce oil well pipes in the Company's Chuzhou City plant. 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.

#### 4. *Pricing of the Company's products*

Market forces of supply and demand generally determine the pricing of the Company's products. During the three years ended 31 December 2006 and the six months ended 30 June 2007, 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.

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### 5. 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 and sourcing and distribution of pipes during the three years ended 31 December 2006 and the six months ended 30 June 2006 and 30 June 2007:

	Year ended 31 December						Six months ended 30 June			
	2004		2005		2006		2006		2007	
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
Cost of sales										
of self produced										
pipes										
Raw materials ( <i>note</i> )	109,788	85.4%	490,259	88.3%	699,630	88.2%	326,632	88.0%	415,219	85.3%
Fuels and utilities	10,673	8.3%	36,409	6.5%	52,265	6.6%	24,639	6.6%	33,776	6.9%
Depreciation and amortisation	1,701	1.3%	17,050	3.1%	20,241	2.5%	10,367	2.8%	11,869	2.4%
Staff cost	4,909	3.8%	9,038	1.6%	14,767	1.9%	7,080	1.9%	7,752	1.6%
Repairing and others	1,491	1.2%	2,527	0.5%	6,410	0.8%	2,485	0.7%	18,382	3.8%
<b>Total</b>	<b>128,562</b>	<b>100.0%</b>	<b>555,283</b>	<b>100.0%</b>	<b>793,313</b>	<b>100.0%</b>	<b>371,203</b>	<b>100.0%</b>	<b>486,998</b>	<b>100.0%</b>
Cost of sales of sourcing and distribution of pipes	159,491	100.0%	207,126	100.0%	220,226	100.0%	116,680	100.0%	97,962	100.0%

*Note:* Raw materials represent the cost of sales 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 its top five suppliers which are Independent Third Parties. For the three years ended 31 December 2006 and the six months ended 30 June 2007, raw materials represented 85.4%, 88.3%, 88.2% and 85.3% 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%, 68.9% and 67.3% of the Company's self produced pipes turnover for the three years ended 31 December 2006 and six months ended 30 June 2007 respectively. The percentage of raw material costs to sales for the Company's self produced pipes have been relatively stable. This was primarily

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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. The slight decrease in the percentage of raw material costs to sales in the six months ended 30 June 2007, was primarily as the result of the launch of the oil well pipe heat treatment production line in January 2007. Heat treatment does not consume raw materials, but instead, consumption of fuel and utilities in production were increased.

(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 City uses mainly natural gas and for the three years ended 31 December 2006 and the six months ended 30 June 2007, the Company spent nil, RMB14.1 million, RMB18.7 million and RMB11.3 million on natural gas respectively. Expenditure on natural gas by the Chuzhou City plant for 30 June 2007 was RMB11.3 million as compared to RMB9.3 million for the six months ended 30 June 2006. As for the production line in Tianchang City, it uses mainly coal as its fuel for production. For the three years ended 31 December 2006 and the six months ended 30 June 2007, the Tianchang City production line spent RMB7.5 million, RMB8.3 million and RMB15.6 million and RMB10.5 million on coal respectively. Expenditure on coal by the Tianchang City plant for 30 June 2007 was RMB10.5 million as compared to RMB7.1 million for the six months ended 30 June 2006. 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 City.

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 Province, the Company can enjoy relatively steady power supply for its production purposes. For the three years ended 31 December 2006, the electricity costs attributable to Tianchang City production line was RMB2.7 million, RMB5.0 million and RMB6.2 million respectively whilst electricity for each of the six months ended 30 June 2006 and 30 June 2007 were RMB2.6 million and RMB4.5 million respectively. Electricity costs attributable to the Chuzhou City plant for the three years ended 31 December 2006 were nil, RMB8.1 million and RMB11.1 million respectively whilst the expenditure for the six months ended 30 June 2006 and 30 June 2007 were RMB5.3 million and RMB7.4 million respectively.

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Although there was an increase in electricity and natural gas costs since the commencement of the automated oil well pipe production line in Chuzhou City, 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. As mentioned above, the commencement of oil well pipe heat treatment production in January 2007 resulted in the increase in fuel and utilities for the six months ended 30 June 2007.

### (iii) Sourcing and distribution

The cost of sales of the Company's sourcing and distribution of pipes increased from approximately RMB159.5 million for the year ended 31 December 2004 to approximately RMB207.1 million for the year ended 31 December 2005, and to approximately RMB220.2 million for the year ended 31 December 2006. However, the cost of sales decreased from approximately RMB116.7 million for the six months ended 30 June 2006 to approximately RMB98.0 million for the six months ended 30 June 2007. These fluctuations are principally in line with the Company's trend on its turnovers for sourcing and distribution of pipes during the same periods.

### Margin analysis

The following table summarises a breakdown of the Company's gross margins for the three years ended 31 December 2006 and the six months ended 30 June 2006 and 30 June 2007:

	Year ended 31 December			Six months ended 30 June	
	2004 <i>Gross Margin</i>	2005 <i>Gross Margin</i>	2006 <i>Gross Margin</i>	2006 <i>Gross Margin</i>	2007 <i>Gross Margin</i>
<u>Self-produced</u>					
Oil well pipes	8.9%	18.4%	23.6%	21.4%	23.3%
Petrochemical pipes	19.8%	21.4%	24.7%	24.8%	19.4%
Other specialized seamless pipes	13.2%	15.0%	16.7%	13.5%	14.8%
<b>Sub-total (note)</b>	<u>14.8%</u>	<u>17.8%</u>	<u>21.9%</u>	<u>19.9%</u>	<u>21.1%</u>
<u>Sourcing and distribution</u>					
Oil well pipes	8.2%	—	—	—	—
Petrochemical pipes	15.0%	14.5%	14.2%	13.8%	11.8%
Other specialized seamless pipes	12.4%	9.7%	11.6%	11.9%	11.9%
<b>Sub-total (note)</b>	<u>12.8%</u>	<u>10.4%</u>	<u>11.9%</u>	<u>12.2%</u>	<u>11.9%</u>
<b>Total (note)</b>	<u>13.7%</u>	<u>15.9%</u>	<u>19.9%</u>	<u>18.2%</u>	<u>19.7%</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.

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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 to the increase in gross margin of oil well pipes from 18.4% for the year ended 31 December 2005 to 23.6% for the year ended 31 December 2006 was due to the higher production efficiency of the Chuzhou City hot-rolled oil well pipe production line as well as the implementation of a new cold-drawn oil well pipe production line in Tianchang City in 2006 which provides for an additional 50,000 tonnes production capacity for the Company. 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 21.4% for the six months 30 June 2006 to 23.3% for the six months ended 30 June 2007. 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 experienced an increase from 13.2% in 2004 to 15.0% and 16.7% in 2005 and 2006 respectively because of the benefit from economies of scale of increasing production volume of other specialized seamless pipe.

For sourcing and distribution, the Company stopped sourcing and distributing oil well pipes since it commenced production on its own in 2005. 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 and to 14.2% in 2006 was related to the change in product mix where there was an increase in sales volume of relatively lower gross margin products.

As for sourcing and distribution of other specialized seamless pipes, there was 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 and increased to 11.6% for the year ended 31 December 2006; it remained stable at 11.9% for the six months ended 30 June 2006 and 2007. The pricing of products sourced from suppliers is generally 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 9.7% to 13% range. The fluctuations during the Track Record Period were results of the change in product mix where the Company increased its sales volume for certain types of products with a different gross margin.

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The following table summarises the Company's margins and per tonne profits for the three years ended 31 December 2006 and the six months ended 30 June 2006 and 30 June 2007:

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
Operating margin	8.2%	11.1%	15.6%	13.9%	14.8%
Net margin before tax	7.4%	10.6%	15.1%	13.6%	14.3%
Net margin after tax without tax credit in respect of purchase of domestically-produced property, plant and equipment	4.9%	6.9%	9.4%	9.0%	9.7%
Net margin after tax	22.2%	7.9%	9.4%	9.0%	9.7%
Gross profit per tonne (RMB)	847.6	873.0	1,028.5	946.4	995.1
Operating profit per tonne (RMB)	505.9	607.3	806.6	724.0	745.5
Net profit per tonne before tax (RMB)	457.3	582.9	779.4	708.7	719.9
Net profit per tonne after tax (RMB)	1,377.7	435.2	484.0	467.1	488.9

Generally, the gross profit per tonne of the Company's products for the three years ended 31 December 2006 and the six months ended 30 June 2007 were RMB847.6, RMB873.0, RMB1,028.5 and RMB995.1 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 2005 were 94,063 tonnes, and accounted for 51.8% of the total sales in 2005. As oil well pipes were products requiring more sophisticated technology, it commanded a better market price and the gross profit margin was 18.4% in 2005. By leveraging the hot-rolled production line at Chuzhou City 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 23.6% in 2006.



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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 56.1% in 2006 and 61.2% for the six months ended 30 June 2007, 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. Income tax expense was approximately RMB72.3 million for year 2006 and approximately RMB33.3 million for the six months ended 30 June 2007. Details of income tax expense/income are 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.

### DISCUSSION OF PERFORMANCE ON A PERIOD AGAINST PERIOD BASIS

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

##### *Turnover*

The Company's turnover for the year ended 31 December 2005 was RMB906.6 million, representing approximately 2.7 times of that in 2004 of RMB333.6 million. This increase was primarily attributable to the Company's increased sales volume. The Company's sale volume of self-produced pipes, was approximately 128,510 tonnes in 2005, representing approximately 5.6 times of the 23,116 tonnes in 2004. The increase in production was as a result of the launch of one newly established hot-rolled oil well pipe production line in Chuzhou City 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.

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### *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 City 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 City 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 three 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.

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### *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 City 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, respectively. Effective on 1 January 2006 and thereafter, 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 Holding 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 RMB100.3 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 City 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 11.1% 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.

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### *Finance costs*

The Company's finance costs for the year ended 31 December 2005 was RMB6.3 million, representing approximately 2.3 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 City production operation. Without taking capitalized interest into account, finance costs increased by 10.5% from RMB5.7 million for the year ended 31 December 2004 to RMB6.3 million for the year ended 31 December 2005. The increase was primarily attributable to the increase in interest expense in 2005, which was due to an increase in long term borrowings from RMB65.0 million in 2004 to RMB85.0 million in 2005.

### *Profit before taxation*

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

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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 City.

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:

	<b>Year ended</b>	
	<b>31 December</b>	
	<b>2004</b>	<b>2005</b>
	<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
	(57,796)	19,245
Income tax expenses/(income) reported in the income statement	(49,501)	24,391

The effective tax rate for the year ended 31 December 2005 was 25.3%. However, in view of the net income tax income for the year ended 31 December 2004, there was no effective tax rate for the year ended 31 December 2004. Excluding the recognition of one-off investment tax credits in 2004 and in 2005 as mentioned in the preceding 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.

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### Year ended 31 December 2006 compared to year ended 31 December 2005

#### *Turnover*

The Company's turnover for the year ended 31 December 2006 was approximately RMB1,265.3 million, representing approximately 1.4 times of that in 2005 of RMB906.6 million. This increase was primarily attributable to the Company's increased sales volume. The Company's sale volume of self-produced pipes, was approximately 199,146 tonnes in 2006, representing approximately 1.5 times of the 128,510 tonnes in 2005. The increase in production was as a result of the launch of a new 50,000-tonne cold-drawn oil well pipe production line in Tianchang City in early of 2006 and the more efficient utilization of the hot-rolled oil well pipe production line in Chuzhou City which has been established to produce oil well pipes in early of 2005. For self-produced oil well and petrochemical pipes, turnover in 2006 was RMB751.4 million, representing approximately 1.5 times of that in 2005 of RMB514.4 million. For self-produced other specialized seamless pipes, turnover increased by 63.7% from RMB161.1 million in 2005 to RMB263.8 million in 2006. As for trading of specialized seamless pipes, turnover of the Company increased by 8.2% from RMB231.1 million in 2005 to RMB250 million in 2006.

#### *Cost of sales*

The Company's cost of sales for the year ended 31 December 2006 was RMB1,013.5 million, representing approximately 1.3 times of that in 2005 of RMB762.4 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 2006 as results of the launch of a new 50,000-tonne cold-drawn oil well pipe production line in Tianchang City in early of 2006, as well as better utilization and efficiency of the Chuzhou City hot-rolled oil well pipe production line. For self-produced oil well and petrochemical pipes, cost of sales was RMB573.7 million for the year ended 31 December 2006, representing approximately 1.4 times of that in 2005 of RMB418.3 million. For self-produced other specialized seamless pipes, cost of sales increased by 60.3% from RMB137.0 million in 2005 to RMB219.6 million in 2006. As for trading of specialized seamless pipes, cost of sales of the Company increased by 6.3% from RMB207.1 million in 2005 to RMB220.2 million in 2006.

#### *Gross profit*

The Company's gross profit for the year ended 31 December 2006 was RMB251.8 million, representing approximately 1.7 times of that in 2005 of RMB144.2 million. This was primarily attributable to the substantial increase in production volume as results of the launch of a new 50,000-tonne cold-drawn oil well pipe production line in Tianchang City in early of 2006, as well as the better utilization and efficiency of the Chuzhou City hot-rolled oil well pipe production line. In addition, unit gross profit

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increased by 17.8% from RMB873.0 per tonne in 2005 to RMB1,028.5 per tonne in 2006. The Company's gross profit margin also increased from 15.9% for the year ended 31 December 2005 to 19.9% for the year ended 31 December 2006.

### *Selling and distribution costs*

The Company's selling and distribution costs for the year ended 31 December 2006 was RMB41.5 million, representing approximately 1.7 times of that in 2005 of RMB24.2 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 RMB36.8 million for the year ended 31 December 2006, representing approximately 1.7 times of that in 2005 of RMB21.4 million, especially for the significant increase in overseas transportation costs from RMB0.5 million for the year ended 31 December 2005 to RMB27 million for the year ended 31 December 2006, as a result of rapid increase in overseas sales in 2006.

### *Administrative expenses*

Despite the increased staff costs and research and development costs, the Company's administrative expenses decreased by 9.2% from RMB19.5 million in the year ended 31 December 2005 to RMB17.7 million in the year ended 31 December 2006, primarily as a result of ceasing payment of management fees to Tianda Holding since 1 January 2006.

### *Profit from operating activities*

The Company's profit from operating activities for the year ended 31 December 2006 was RMB197.5 million, representing approximately 2.0 times of that in 2005 of RMB100.3 million. This was primarily attributable to the results of the launch of a new 50,000-tonne cold-drawn oil well pipe production line in Tongcheng City as well as the better utilization and efficiency of the production of oil well pipes in Chuzhou City which substantially increased sales volume. The Company's operating margin (profit from operating activities expressed as a percentage of sales) also increased from 11.1% to 15.6% during the same period.

### *Finance revenue*

The Company's finance revenue for the year ended 31 December 2006 was RMB2.2 million, representing a decrease of approximately 4.3% of that in 2005 of RMB2.3 million. This finance revenue was made up of bank interest income and interest on a balance due from Tianda Holding.

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### *Finance costs*

The Company received net proceeds of approximately HK\$461 million from its GEM Listing and the exercise of the Over-allotment Option. The Company's finance costs for the year ended 31 December 2006 was RMB8.9 million, representing an increase of approximately 41.3% of that in 2005 of RMB6.3 million. The significant increase in finance costs, primarily as a result of the foreign exchange losses of RMB1.2 million in 2006, was the result of the continuous appreciation of RMB against HK\$ which impacted the Company to the extent it held the above listing proceeds in HK\$.

### *Profit before taxation*

The Company's profit before taxation for the year ended 31 December 2006 was RMB190.8 million, representing approximately 2.0 times of that in 2005 of RMB96.3 million. The Company's profit before taxation margin (profit before taxation expressed as a percentage of sales) increased from 10.6% in the year ended 31 December 2005 to 15.1% in the year ended 31 December 2006, primarily as a result of the increase in sales of the higher gross profit margin of oil well pipes produced by the Chuzhou City production line and the changes in the items discussed above.

### *Income tax expense/income*

There was one-off investment tax credit of RMB8.9 million for capital expenditure on domestically-made equipment in 2005. Such investment tax credit was granted pursuant to the relevant approval documents from the local PRC tax authorities in line with policies to purchase domestically-made equipment 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 City. The Company's income tax expense further increased to RMB72.3 million for the same reason and there were no similar tax credits applicable in 2006.



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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:

	<b>Year ended 31 December</b>		
	<b>2004</b>	<b>2005</b>	<b>2006</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax charge	8,295	5,146	33,751
Deferred income tax relating to origination and reversal of temporary differences	<u>(57,796)</u>	<u>19,245</u>	<u>38,551</u>
Income tax expenses/(income) reported in the income statement	<u><u>(49,501)</u></u>	<u><u>24,391</u></u>	<u><u>72,302</u></u>

The effective tax rate for the year ended 31 December 2006 was 37.9%. The effective tax rate for the year ended 31 December 2005 was 25.3%. The effective tax rate was higher in 2006 than 2005. The increase in the effective tax rate was mainly attributable to the increased undeductible payroll expenditures and the absence of income tax credit in 2006. 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 and paid more than RMB1,600 from 2006 onwards. Furthermore, the employees' salaries continued to increase because of the better operating performance of the Company since 2005, which in turn resulted in more undeductible payroll expenditures, although the monthly tax deductible payroll per head has been increased to RMB1,600 since 1 July 2006 and afterwards.

### *Net profit attributable to equity holders*

The Company's net profit attributable to equity holders increased by 64.81% from RMB71.9 million in the year ended 31 December 2005 to RMB118.5 million in the year ended 31 December 2006. The Company's profit margin (net operating profit expressed as a percentage of sales) increased from 7.9% in the year ended 31 December 2005 to 9.4% in the year ended 31 December 2006, primarily as a result of the general increase in the Company's sales and a combination of the above factors.

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### **Six months ended 30 June 2007 compared to six months ended 30 June 2006**

#### *Turnover*

The Company's overall turnover increased by 22.2% from RMB596.1 million for the six months ended 30 June 2006 to RMB728.6 million for the six months ended 30 June 2007. This increase was primarily attributable to the Company's increased sales as a result of increased production (from approximately 89,856.6 tonnes for the six months ended 30 June 2006 to approximately 122,004.0 tonnes for the six months ended 30 June 2007) and increased utilization (utilisation rate of 61.5% for the six months ended 30 June 2006 to 81.3% for the six months ended 30 June 2007) of the oil well pipe production line in Tianchang City and Chuzhou City and the persistent market demand of oil well pipes in the PRC during the same period. The commencement of production of the Company's heat treatment in January 2007 has also contributed to this increase in turnover.

#### *Cost of sales*

The Company's cost of sales increased by 19.9% from RMB487.9 million for the six months ended 30 June 2006 to RMB585.0 million for the six months ended 30 June 2007, which is slightly lower than the increase in the Company's turnover. The above increase in cost of sales is primarily attributable to the increase in sales of oil well pipes which is enabled by its increased production volume as a result of the more optimal performance, utilisation and efficiency of the Chuzhou City and Tianchang City production lines as compared with 2006. The utilisation rates of the Chuzhou City and Tianchang City production lines have been increased to 77.7% and 88.6% respectively for the six months ended 30 June 2007, compared with the utilisation rates of 66.7% and 51.2% respectively for the corresponding period in 2006.

#### *Gross profit*

The Company's gross profit increased by 32.7% from RMB108.2 million for the six months ended 30 June 2006 to RMB143.6 million for the six months ended 30 June 2007. The Company's gross profit margin increased from 18.2% for the six months ended 30 June 2006 to 19.7% for the six months ended 30 June 2007, primarily as a result of the increase in sales of oil well pipes (due to the Company's increase in production in its Chuzhou City and Tianchang City production lines as described above) as a proportion of the Company's total turnover as well as the commencement of sales of heat processed oil well pipes which have higher profit margins.

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### *Selling and distribution costs*

The Company's selling and distribution costs increased by 24.7% from RMB19.4 million for the six months ended 30 June 2006 to RMB24.2 million for the six months ended 30 June 2007. 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 19.4% from RMB16.5 million for the six months ended 30 June 2006 to RMB19.7 million for the six months ended 30 June 2007. The increase in transportation cost was attributable to the expansion of the Company's overseas client base. Furthermore, the Company had to bear more expensive international freight costs incurred as a result of increased overseas sales in the first half of 2007.

### *Administrative expenses*

The Company's administrative expenses increased by 170.3% from RMB6.4 million for the six months ended 30 June 2006 to RMB17.3 million for the six months ended 30 June 2007, primarily as a result of the increase in salaries and other staff costs for the management team in all levels so as to reward their contributions to the Company's development and growth, overheads incurred for the Company being a listed company in Hong Kong and professional fees incurred for the Main Board Migration.

### *Profit from operating activities*

The Company's profit from operating activities for the six months ended 30 June 2007 was RMB107.6 million, representing approximately 1.3 times of that for the corresponding period in 2006 of RMB82.8 million. The Company's operating margin (profit from operating activities expressed as a percentage of sales) increased slightly from 13.9% for the six months ended 30 June 2006 to 14.8% for the six months ended 30 June 2007, primarily as a result of the substantial increase in turnover from RMB596.1 million to RMB728.6 million attributable to both of the higher utilisation rate of the oil well pipe production lines in Tianchang City and Chuzhou City, as well as the increase in profit margin for selling a larger proportion of oil well pipes in terms of the Company's sales and the commencement of the sale of heat processed oil well pipes.

### *Finance revenue*

The Company's finance revenue for the six months ended 30 June 2007 was RMB7.3 million, representing approximately 4.6 times of that for the corresponding period in 2006 of RMB1.6 million. This was primarily attributable to the interest received for the time deposit of the listing proceeds from the International Placing.

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### *Finance costs*

The Company's finance costs increased by 233.3% from RMB3.3 million for the six months ended 30 June 2006 to RMB11.0 million for the six months ended 30 June 2007, primarily as a result of the foreign exchange loss of RMB7.3 million because of the appreciation of RMB against HK\$ when the listing proceeds from the International Placing was in HK\$. Following the scheduled application of the listing proceeds from the International Placing, foreign exchange losses of such scale are not expected to recur.

### *Profit before taxation*

The Company's overall profit before taxation for the six months ended 30 June 2007 was RMB103.9 million, representing approximately 1.3 times of that for the corresponding period in 2006 of RMB81.1 million. The Company's overall profit before taxation margin (profit before taxation expressed as a percentage of sales) increased from 13.6% for the six months ended 30 June 2006 to 14.3% for the six months ended 30 June 2007, primarily as a result of increased sales volume contributed by both of the higher utilisation rate of the oil well pipe production lines in Tianchang City and Chuzhou City together with the changes in the items discussed above.

### *Income tax expense*

Income tax expense for the six months ended 30 June 2007 was RMB33.3 million, representing approximately 1.2 times that for the corresponding period in 2006 of RMB27.6 million. This increase in income tax expense was in line with the increase in profit before taxation over the same period. The effective tax rate for the six months ended 30 June 2007 was 32.1%.

The corporate tax rates applicable to the Company's income or profits for the six months ended 30 June 2006 and 2007 was 33%. The major components of income tax expenses for the Track Record Period are as follows:

	<b>Six months ended 30 June</b>	
	<b>2006</b>	<b>2007</b>
	<i>RMB'000</i>	<i>RMB'000</i>
Current income tax	5,146	34,817
Adjustments in respect of current tax of previous years	—	(1,485)
Deferred income tax relating to origination and reversal of temporary differences	22,494	—
	<hr/>	<hr/>
Income tax expenses reported in the income statement	<u>27,640</u>	<u>33,332</u>

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The effective tax rate for the six months ended 30 June 2006 and the six months ended 30 June 2007 was 34.1% and 32.1% respectively. A slightly lower effective tax rate for the six months ended 30 June 2007 was primarily resulted from adjustments in respect of current tax in 2006 because of an additional 50% deduction of research and development costs incurred in 2006 that was approved by the tax authorities in 2007, as well as the increase in monthly salary tax deduction cap per head from RMB960 in the first half of 2006 to RMB1,600 in the first half of 2007.

### *Net profit attributable to the equity holders*

The Company's net profit attributable to the equity holders for the six months ended 30 June 2007 was RMB70.6 million, representing approximately 1.3 times of that for the corresponding period in 2006 of RMB53.4 million. The Company's profit margin (net profit expressed as a percentage of sales) increased from 9.0% for the six months ended 30 June 2006 to 9.7% for the six months ended 30 June 2007, primarily as a result of increased sales of oil well pipes heat processed oil well pipes with higher margins and increased economies of scale.

### *Dividends*

The Company declared a dividend of RMB25.4 million for the year ended 31 December 2006, representing approximately 21.4% of the net profit for year ended 31 December 2006. Such dividends have been fully settled prior to 30 June 2007. The Directors consider that, taking into account 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 proposed dividend distribution was approved in the annual general meeting dated on 10 May 2007 and fully paid before 30 June 2007.

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### ANALYSIS OF MAJOR BALANCE SHEET ITEMS AND FINANCIAL RATIOS

The following table illustrates major balance sheet items and key financial ratios of the Company during the three years ended 31 December 2006 and the six months ended 30 June 2007.

#### *Balance Sheet*

	31 December			30 June	
	2004 <i>RMB'000</i>	2005 <i>RMB'000</i>	2006 <i>RMB'000</i>	2006 <i>RMB'000</i>	2007 <i>RMB'000</i>
<b>Non-current assets</b>					
Property, plant and equipment	206,084	230,689	342,052	263,758	378,260
Prepaid land premiums	11,091	10,852	28,158	28,460	30,256
Investment in an associate	471	454	—	—	—
Deferred tax assets	57,796	38,551	—	16,057	—
<b>Total non-current assets</b>	<u>275,442</u>	<u>280,546</u>	<u>370,210</u>	<u>308,275</u>	<u>408,516</u>
<b>Current assets</b>					
Inventories	27,907	131,385	201,828	198,812	209,471
Trade and notes receivables	8,096	22,214	92,591	10,571	93,052
Prepayments, deposits and other receivables	46,900	138,755	57,513	25,985	95,930
Cash and bank balances	3,604	12,749	436,429	28,289	353,232
<b>Total current assets</b>	<u>86,507</u>	<u>305,103</u>	<u>788,361</u>	<u>263,657</u>	<u>751,685</u>
<b>Total assets</b>	<u><u>361,949</u></u>	<u><u>585,649</u></u>	<u><u>1,158,571</u></u>	<u><u>571,932</u></u>	<u><u>1,160,201</u></u>
<b>Equity attributable to equity holders</b>					
Paid-up capital/Issued capital	40,000	170,000	253,785	170,000	253,785
Reserves	86,469	141,302	558,208	138,061	628,758
Proposed final dividend	—	—	25,379	—	—
<b>Total equity</b>	<u>126,469</u>	<u>311,302</u>	<u>837,372</u>	<u>308,061</u>	<u>882,543</u>
<b>Current liabilities</b>					
Interest-bearing loans and borrowings	25,000	25,000	70,000	75,000	30,000
Trade and notes payables	24,549	45,874	66,910	30,382	58,354
Income tax payable	923	914	27,342	3,237	42,792
Accrued liabilities and other payables	120,008	117,559	121,947	120,252	146,512
<b>Total current liabilities</b>	<u>170,480</u>	<u>189,347</u>	<u>286,199</u>	<u>228,871</u>	<u>277,658</u>
<b>Non-current liabilities</b>					
Interest-bearing loans and borrowings	65,000	85,000	35,000	35,000	—
<b>Total equity and liabilities</b>	<u><u>361,949</u></u>	<u><u>585,649</u></u>	<u><u>1,158,571</u></u>	<u><u>571,932</u></u>	<u><u>1,160,201</u></u>

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### Key financial ratios

	Year ended 31			Six months ended	
	2004	2005	2006	2006 <sup>(7)</sup>	2007 <sup>(7)</sup>
Current ratio <sup>(1)</sup>	50.7%	161.1%	275.5%	115.2%	270.7%
Inventories turnover days <sup>(2)</sup>	34 days	38 days	60 days	61 days	64 days
Debtor turnover days <sup>(3)</sup>	8 days	6 days	17 days	5 days	23 days
Creditor turnover days <sup>(4)</sup>	18 days	17 days	20 days	14 days	19 days
Interest cover <sup>(5)</sup>	9.8 times	16.6 times	30.4 times	27.2 times	34.4 times
Gearing ratio <sup>(6)</sup>	25%	19%	9%	19%	3%

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 the six months ended 30 June, the number of days shall be 181 instead of 365.

### Capital expenditures and investment

#### *Property, plant and equipment*

The Company's property, plant and equipment has 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 City 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 City production line which commenced production in early 2005. The Company's property, plant and equipment further increased to RMB342.1 million in 2006 primarily as a result of the implementation of heat treatment and threading production lines in Chuzhou City and the Company's purchase of the hot-rolled production plant in Chuzhou City from Tianda Holding as part of the Company's strategic development plan.

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The gross cost of the heater kiln of RMB19.6 million included in plant and machinery is depreciated on a double-declining-balance basis by reference to its expected accelerating physical wear and tear in an overloaded operation during the high temperature heating and reheating processes in production. According to such basis, the subject asset is depreciated on or declining-balance basis at an accelerated rate which is double the normal rate calculated from the expected useful life of the asset.

### *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. The Company's leasehold land's carrying value increased to RMB28.2 million in 2006 as a result of the purchases of two pieces of land in Chuzhou City of RMB17.8 million in total in 2006.

### **Working capital**

After due and careful enquiries and taking into account the financial resources available to the Company, including internally generated funds and the available banking facilities agreed to be granted by the relevant banks, the Directors are of the opinion that the Company has sufficient working capital for the requirements currently and for the period ending 12 months from the date of this document.

### **Current ratios**

The current ratio for the six months ended 30 June 2006 was 115.2%. 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 City. As the production line started to generate operating cash in 2005 and 2006, the Company's current ratios as at 31 December 2005, 31 December 2006 and 30 June 2007 improved to 161.1%, 275.5% and 270.7%.

### **Inventory analysis**

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

	<b>Year ended</b>			<b>Six months ended</b>	
	<b>31 December</b>			<b>30 June</b>	
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2006</b>	<b>2007</b>
Turnover of inventory (days)	34	38	60	61	64

*Note:* Average inventory equals inventory at the beginning of the year plus inventory at the end of the year (or as at 30 June 2006 and 2007 as the case may be) and divided by two. Turnover of inventory equals average inventory divided by cost of sales and multiplied by 365 (or 181 for the six months ended 30 June 2006 and 2007).



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The turnover of inventory increased from 34 days in 2004 to 38 days in 2005 and to 60 days in 2006. 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 Chuzhou 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 in the number of inventory turnover days in 2005. Inventories further increased to RMB201.8 million in 2006, as a result of the increased production capacity. In addition, the Company stored more oil well pipes at the end of 2006 for the purpose of providing seamless pipes for value-added heat treatment as the Company's heat treatment production line was launched in January 2007. In this connection, the turnover of inventories increased to 60 days in 2006. For this same reason, the Company maintained a higher turnover ratio for the six months ended 30 June 2007 compared to that ratio for the six months ended 30 June 2006. The inventory was RMB209.5 million as at 30 June 2007 and this amount has been reduced to approximately RMB110.9 million as at 31 July 2007 after the subsequent usage and sales made by the Company. The inventory is classified into different categories. Taking into account the sales of RMB728.6 million for the six months ended 30 June 2007 and the planned production schedules for the second half of 2007, the Directors are of the view that the cash committed to inventory is reasonable and did not materially and adversely affect the Company's cash flow for the relevant period.

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

### Trade and notes receivables

#### *Turnover of trade and notes receivables*

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

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
Turnover of trade and notes receivables (days)	8	6	17	5	23

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*Note:* 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 2006 and 2007 as the case may be) and divided by two. 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 2006 and 2007).

The trade and notes receivables turnover days decreased by 2 days from 8 days in 2004 to 6 days in 2005 and increased to 17 days in 2006. The decrease in turnover days in 2005 was 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 2005. The increase in turnover days in 2006 was primarily attributable to the Company's increase in export sales as well as an incidental credit granted at the end of 2006 to a new strategic oil field which the Directors believe will have significant potential to the business of the Company. The Company's overseas customers use letters of credit which would involve granting of certain credit period. Otherwise, the Company only delivers its products after receiving the full purchase price from the customers. For this same reason, the trade and notes receivables turnover days also increased to 23 days for the first half of 2007. However, the Company still has a small trade and notes receivables turnover period in addition to the above mainly because customers usually make prepayments for their orders but the final invoice amount is only determined at the time of delivery when the final cost is determined. Thus discrepancies between the invoice amount and the prepaid amount resulted in a trade and notes receivables turnover period which was related to sales by the Company to its major and long term customers.

### *Average age of trade and notes receivables*

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

	31 December			30 June	
	2004	2005	2006	2006	2007
<b>Age of trade and notes receivables</b>					
Within 1 year	90.5%	96.3%	99.7%	92.8%	99.6%
0 — 3 months	74.7%	92.5%	99.4%	88.3%	99.6%
3 — 6 months	0.3%	2.9%	—%	—%	—%
6 — 9 months	2.5%	—%	0.3%	2.3%	—%
9 — 12 months	13.0%	0.9%	—%	2.2%	—%
Over 1 year	9.5%	3.7%	0.3%	7.2%	0.4%
Total	<u>100.0%</u>	<u>100.0%</u>	<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

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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 for a period between 1 to 45 days or in other specific cases, a credit period is granted to customers with a long relationship or credit worthy history. Trade and notes receivables as at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007 were RMB8.1 million, RMB22.2 million, RMB92.6 million and RMB93.1 million respectively. As at 31 December 2004, 31 December 2005, 31 December 2006 and 30 June 2007, approximately 90.5%, 96.3%, 99.7% and 99.6% of the balance of trade and notes receivables was due and receivable within a period of one year. In respect of the trade receivables of RMB31.7 million (net of provision) as at 30 June 2007, RMB22.3 million was subsequently settled as at 31 July 2007. These receivables include the discrepancy between the prepayment from customers and the final total selling price as well as the bank drafts received by the Company but were yet not to be cashed. For clients of substantial size and those with credit worthy history, the Company may allow 1 to 45 days for settlement of the aforesaid discrepancy between prepayment and final total selling price.

The accumulated balance of the Company's provisions for bad and doubtful debts as at 31 December 2004, as at 31 December 2005, as at 31 December 2006 and as at 30 June 2007 amounted to approximately RMB0.8 million, RMB1.1 million, RMB0.2 million and RMB0.4 million respectively.

### Prepayments, deposits and other receivables

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

	<b>31 December</b>			<b>30 June</b>
	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
	<i>RMB'000</i>	<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	38,166	94,255
Other receivables	114	751	19,620	1,288
Bank interest receivables	—	—	—	487
Receivable from Tianda Holding	—	108,793	—	—
	<u>46,900</u>	<u>138,755</u>	<u>57,786</u>	<u>96,030</u>
Less: Provision for prepayments and other receivables	—	—	(273)	(100)
	<u><u>46,900</u></u>	<u><u>138,755</u></u>	<u><u>57,513</u></u>	<u><u>95,930</u></u>

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 attributable to the increase in amount due from Tianda Holding in 2005. The increase in prepayments from RMB23.5 million as at 30 June 2006 to RMB94.3 million as at 30 June 2007 was primarily due to strategic bulk purchases of steel billets as management of the Company expected the market price of steel billets

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might go up dramatically. 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 City 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 City was transferred to Tianda Holding as part of the central administration of funds, resulting in an amount of RMB108.8 million due from Tianda Holding as at 31 December 2005. Such current account transfers between Tianda Holding and the Company did not comply with the provisions under PRC law as neither of their approved business scopes include the authority to advance monies. Such transactions have been properly recorded in the accounts of the Company. As the Company is not qualified to engage in lending business, the provision of loan by the Company to Tianda Holding was in breach of the Rules for Loans published by the People's Bank of China on 28 June 1996 and which became effective on 1 August 1996 ("Loan Rules"). According to the Loan Rules, the loans arranged by the enterprises themselves are subject to a penalty the amount of which is between over one time but under five times of the amount of proceeds received by the lender. Based on the interest received by the Company from Tianda Holding, the maximum penalty is RMB18,700,000. The People's Bank of China has not prepared any implementation regulations for the Loan Rules. According to the understanding of the Company, the People's Bank of China or other administrative authorities had never commenced any investigation on the Company with regard to the loans made to Tianda Holding. The Company had not received any notice from the People's Bank of China or other administrative authorities with respect to investigating matters related to the loan above and issuing penalty to the Company. However, the entire amount from Tianda Holding was settled as at 30 June 2006 and no further advances of this nature to Tianda Holding took place after 30 June 2006. As the matter has been rectified, the Company's 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 30 June 2006.

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 Zhang Hu Ming, the Deputy Chairman and General Manager of the Company and the financial management tasks will be handled by Huang Yao Qi, the Financial Controller of the Company. Further, Ho Kin Cheong, Kelvin, the Qualified Accountant 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 Ho Kin Cheong, Kelvin

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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.

### Trade and notes payables

#### *Turnover of trade and notes payables*

Turnover of trade and notes payables remained between 14 to 20 days during the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007. 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	2006	2006	2007
Turnover of trade and notes payables (days)	18	17	20	14	19

*Note:* 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 2006 and 2007 as the case may be) and divided by two. 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 2006 and 2007).

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. The subsequent settlement up to 31 July 2007 of trade and notes payable of approximately RMB58.4 million as at 30 June 2007 amounted to approximately RMB12.0 million. The subsequent settlement of trade and notes payables up to 31 July 2007 constitutes a relatively small portion of the trade and notes payables as of 30 June 2007 due to the late issuance of supplier invoices in July 2007 from some of the Company's suppliers.

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### *Average age of trade and notes payables*

The following table sets forth the average age of trade and notes payables as at the dates indicated:

	31 December			30 June	
	2004	2005	2006	2006	2007
<b>Age of trade and notes payables</b>					
Within 1 year	99.3%	99.6%	99.1%	99.5%	98.4%
0 — 3 months	98.4%	99.6%	99.1%	99.5%	98.4%
3 — 6 months	—%	—%	—%	—%	—%
6 — 9 months	0.4%	—%	—%	—%	—%
9 — 12 months	0.5%	—%	—%	—%	—%
Over 1 year	0.7%	0.4%	0.9%	0.5%	1.6%
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

The Company's trade and notes payables are 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 as at the dates presented:

	31 December			30 June	
	2004	2005	2006	2006	2007
	<i>RMB millions</i>				
Advances from customers	17.0	66.1	51.1	62.7	67.1
Payroll payables	2.1	2.5	6.7	4.3	6.5
Welfare payables	2.7	3.5	5.4	4.5	4.4
Other payables	54.8	44.7	58.6	48.7	68.5
Due to Tianda Holding	43.4	—	0.2	0.1	—
Due to other related party	—	0.8	—	—	—
	<u>120.0</u>	<u>117.6</u>	<u>122.0</u>	<u>120.3</u>	<u>146.5</u>

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

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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 City. The Company's accrued liabilities and other payables slightly decreased by RMB2.4 million from RMB120.0 million in 2004 to RMB117.6 million in 2005, and is primarily attributable to the decrease of RMB43.4 million due to Tianda Holding, the decrease of RMB8.5 million as the result of repayment of construction costs. The above decrease of RMB51.9 million was offset by the increase of RMB49.1 million in advance receipts from customers due to increase in sales of the products and the advances paid by the customers. In 2006, accrued liabilities and other payables increased RMB4.4 million to RMB122 million mainly as a result of the increase in the Company's employees' wages and the construction costs of the threading and heat treatment production lines.

On 9 January 2006, Tianda Trade Union made a non-interest bearing advance of RMB17 million to the Company and which was 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 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% as at 31 December 2004 to 19% and 9% as at 31 December 2005 and 2006 respectively since there were no additional production lines for the six months ended 30 June 2006. The substantial improvement of the Company's gearing ratio was primarily attributable to the receipt of its proceeds from the GEM Listing.

### **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 in endorsed bank drafts received from the Company's customers which were transferred to the Company's suppliers for payment. Upon receiving the bank accepted drafts from the Company's customers, the subject trade receivables will be considered settled and derecognised from the balance sheet of the Company as the risks and rewards of such trade receivables are considered substantially transferred out at that point in time. On the same basis, the subject trade payables will be settled and derecognised from the balance sheet of the Company upon the Company endorsing any bank accepted drafts to its suppliers for settling such trade payables. The Company

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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 in three to six months after their issue. In the event that the banks default such payment, the holders of the bank drafts may have recourse to the Company. The Directors believe that the possibility of banks defaulting is remote, however the same has been disclosed as contingent liabilities in relation to the outstanding bank accepted drafts endorsed with recourse. The increase in bank drafts is due to the increase in sales of the Company. Prior to 30 June 2006, Tianda Holding had also arranged for bank drafts to be issued on behalf of its subsidiaries, including the Company. Tianda Holding will arrange for bank drafts to be endorsed in favour of the Company and the Company would then utilize these bank drafts to pay its suppliers. Tianda Holding has ceased such practice from 1 July 2006. The reason Tianda Holding arranged for bank drafts to be issued on behalf of its subsidiaries (including the Company) for the period prior to 30 June 2006 was due to the practice at that time for Tianda Holding to centrally administer its subsidiaries' use of funds. Contingent liabilities decreased from RMB227.2 million as at 31 December 2005 to RMB131.2 million as at 31 December 2006. This decrease is mainly attributable to the release of guarantees in relation to bank loans given by the Company to its related parties and the decrease in endorsed bank drafts at the end of 2006 since the Company received listing proceeds in December 2006, resulting in the Company's decreasing its utilisation of endorsing bank drafts to suppliers to obtain a more favorable purchasing price on the source of raw materials. As at 30 June 2007, the contingent liabilities of the Company were approximately RMB262.5 million comprising RMB245.8 million in respect of bank drafts endorsed with recourse and RMB16.6 million in respect of bank drafts discounted with recourse.

### **Capital commitments**

As at 30 June 2007, the Company had capital commitments amounting to approximately RMB27.6 million in relation to an equipment technology upgrade project and miscellaneous construction and purchase of equipment. Such amount is expected to be paid off in 2008 and to be mainly funded by proceeds from the GEM Listing.

### **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 debts. The Company has also substantially improved its liquidity as a result of receipt of its proceeds from the International Placing.



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### 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 City oil well pipe production line in 2004. When the amount due to Tianda Holding was excluded from the calculation, current ratio became 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 City production line was not fully settled in 2004 and part of the cost was settled in 2005. The Company had net current assets of RMB502.2 million as at 31 December 2006, which was mainly attributable to the additional cash received from its listing proceeds from its GEM Listing.

As at 30 June 2007, the Company's current assets and current liabilities were RMB751.7 million and RMB277.7 million respectively. The following table summarizes the details of the Company's current assets and liabilities as at 30 June 2007:

	<b>30 June 2007</b> <i>RMB million</i>
<b>Current assets</b>	
Inventories	209.5
Trade and notes receivables	93.1
Prepayments, deposits and other receivables	95.9
Cash and bank balances	353.2
	<hr/>
	751.7
	<hr/>
<b>Current liabilities</b>	
Interest-bearing loans and borrowings	30.0
Trade and notes payables	58.4
Income tax payable	42.8
Accrued liabilities and other payables	146.5
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	277.7
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<b>Net current assets</b>	<b>474.0</b>
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### CASH FLOWS

The following discussion is based on the cash flow statements of the Company for the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007.

The following table summarizes the Company's cash flows for each of the three years ended 31 December 2006 and the six months ended 30 June 2006 and 2007:

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>	<i>RMB million</i>
Net cash inflow from operating activities	14.6	83.6	84.8	49.3	57.0
Net cash inflow/(outflow) from investing activities	(72.5)	(101.2)	(452.8)	(29.1)	303.9
Net cash inflow/(outflow) from financing activities	58.5	26.8	441.1	(4.7)	(93.5)
Cash and cash equivalent at end of year/period	3.6	12.7	85.8	28.3	353.2

As at 30 June 2007, the Company had cash and cash equivalent of RMB353.2 million and reported a net cash inflow from operating activities of RMB57.0 million during the six months ended 30 June 2007. 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 RMB7.7 million from RMB49.3 million for the six months ended 30 June 2006 to RMB57.0 million for the six months ended 30 June 2007. This is evidenced by the increasing trend of the operating profit before working capital which were RMB29.0 million, RMB120.7 million, RMB217.6 million and RMB114.8 million for the three financial years ended 31 December 2006 and the six months ended 30 June 2007. 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.

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Net cash inflow from operating activities increased by RMB69.0 million from RMB14.6 million in 2004 to RMB83.6 million in 2005, primarily attributable 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 City production line. The Company's net cash inflow further increased by RMB1.2 million to RMB84.8 million for the year ended 31 December 2006. This was mainly attributable to the increase in profits before tax which was in turn led to by the increase in the Company's sales of oil well pipes which has a higher profit margin than its other products.

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

The steady increase in inventories during the Track Record Period which offsets partial cash inflow was mainly due to the increase in 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, and to RMB46.9 million as at 31 December 2006 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, and to RMB45.7 million as at 31 December 2006.

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 were 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 hot-rolled oil well pipe production line in Chuzhou City 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 and 31 December 2005. The significant increase in prepayment balance in 2006 was primarily attributable to the increasing production as the Company placed more purchasing orders for raw materials.

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The balance of trade and notes payables steadily increased as at 31 December 2004, 2005 and 2006, 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 2007 compared to 31 December 2006 for payment of the raw material purchases, therefore the balance of trade and notes payables decreased accordingly.

### **Investing activities**

Net cash flow from investing activities increased by RMB333.0 million from a net cash outflow of RMB29.1 million for the six months ended 30 June 2006 to a net inflow of RMB303.9 million for the six months ended 30 June 2007. The increase of RMB333.0 million was primarily attributable to the receipt of time deposits of RMB350.6 million with an original maturity of over three months in the first half of 2007, on which the Company invested its International Placing proceeds at the end of 2006.

Net cash outflow from investing activities increased by RMB28.7 million from a net cash outflow of RMB72.5 million in 2004 to a net cash outflow of RMB101.2 million in 2005, primarily attributable to the payment of RMB51.4 million for the Chuzhou City oil well pipe production line. 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 section headed “Business” in this document. No such sharing occurred in from 2006 onwards.

Net cash outflow from investing activities increased by RMB351.6 million from a net cash outflow of RMB101.2 million in 2005 to a net cash outflow of RMB452.8 million in 2006. This is primarily attributable to investment of time deposits of RMB350.6 million with an original maturity period of over three months at the end of 2006 after the Company received proceeds of approximately HK\$461 million from the International Placing.

### **Financing activities**

Net cash flow from financing activities increase by RMB88.8 million from a net cash outflow of RMB4.7 million for the six months ended 30 June 2006 to a net cash outflow of RMB93.5 million for the six months ended 30 June 2007. The increase of RMB88.8 million was primarily the result of the repayment of bank loans and payment of dividends.

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## FINANCIAL INFORMATION

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Net cash inflow from financing activities decreased by RMB31.7 million from a net cash inflow of RMB58.5 million in 2004 to a net cash inflow of RMB26.8 million in 2005, primarily attributable to an increase of RMB45.0 million in 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. Net cash inflow from financing activities increased by RMB414.3 million from RMB26.8 million in 2005 to RMB441.1 million in 2006, primarily attributable to the proceeds of approximately HK\$461 million from the International Placing.

### 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. The Company does not offer credit terms without the specific approval of management for transaction of its operating units. 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.

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### **Foreign exchange rate risk**

Since 2003, the Company has begun selling its products to overseas customers where payments have been made in US\$. Such export sales have increased from approximately 3% of the Company's total sales in 2005 to 16% of the Company's total sales in the first half of 2007, resulting in a larger amount of the Company's revenue being denominated 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 factors — Risk factors relating to the PRC — The Company is subject to the foreign exchange controls imposed by the PRC government and this may affect the Company's ability to make dividend payments in HK\$".

### **DISCLOSURE UNDER CHAPTER 13 OF THE MAIN BOARD LISTING RULES**

The Directors have confirmed that, as at the Latest Practicable Date, they were not aware of any circumstances which would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Main Board Listing Rules.

### **PROPERTY INTERESTS**

Particulars of the Company's property interests are set out in Appendix II to this document. DTZ Debenham Tie Leung has valued the property interests of the Company as at 30 June 2007. The text of its letter, summary of valuations and the valuation certificates are set at in Appendix II to this document.

According to the valuation by DTZ Debenham Tie Leung Limited, the valuation of the Company's property interests as at 30 June 2007 amounted to RMB152,850,000.

The net book value of the Company's property interest was RMB125.1 million as at 30 June 2007, which consisted of buildings of RMB94.8 million recorded in property, plant and equipment and prepaid land premiums of RMB30.3 million in the balance sheet of the Company.

### **DISTRIBUTABLE RESERVES**

As at 30 June 2007, there were approximately RMB212.8 million reserves available for distribution to the equity holders of the Company.

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## FINANCIAL INFORMATION

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The statutory accounts of the Company are prepared in accordance with PRC GAAP. The dividends which the Company can legally distribute are determined by reference to the profits reflected in its 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 year 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 and the statutory public welfare fund, 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 on 20 March 2006 representing approximately 78.9% of the net profit for 2005. The Company declared a dividend of RMB25.4 million in 2007 representing approximately 21.4% of the net profit for 2006. The Directors consider that, taking into account 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 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 setting off the funds due from Tianda Holding.

The Directors expect that in future, interim and final dividends (if any) will be declared in or about September and April of each year respectively. Subject to any unforeseen material events, 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. For holders of the H Shares, cash dividend payments, if any, shall be declared by the Board in RMB and paid in HK\$. If the Company does not have sufficient foreign exchange reserves to pay dividends in HK\$, it intends to exchange

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the required Hong Kong dollars from authorised banks in the PRC or through other legal means. The declaration, payment, and amount of dividends will be subject to the discretion of the Directors and will be dependent on the Company's earnings, financial condition, cash requirements and availability, the provisions of relevant laws and all other relevant factors. There can be no assurance that the Company will be able to declare or distribute any dividend in the amount set out in any plan of the Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by the Company in the future.

### NO MATERIAL ADVERSE CHANGE

The Directors confirm that they have performed sufficient due diligence on the Company to ensure that, up to the Latest Practicable Date, there has been no material adverse change in the financial position or prospects of the Company since 30 June 2007 (being the end of the period reported on in the accountants' report in Appendix I to this document) and there is no event since 30 June 2007 which would materially and adversely affect the information shown in Appendix I "Accountants' report" to this document.

### INDEBTEDNESS

As at 30 June 2007 (being the latest practicable date for preparing the information in this section), the Company's total indebtedness amounted to RMB30 million as analysed below:

	<i>RMB million</i>
Unsecured bank loans	<u>30</u>

As at 30 June 2007, the unutilized available banking facilities agreed to be granted by the relevant banks amounted to RMB600 million.



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As at 30 June 2007, the Company had the following capital commitments:

*RMB million*

Acquisition of property, plant and equipment	<u>27.6</u>
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All of these commitments were contracted but not provided for.

As at 30 June 2007, the Company had the following contingent liabilities:

*RMB million*

Bank accepted drafts endorsed with recourse	<u>245.8</u>
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Bank accepted drafts discounted with recourse	<u>16.6</u>
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The Directors have confirmed that save as disclosed above, as at the close of business on 30 June 2007, 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. The Directors have further confirmed that since 30 June 2007 (being the indebtedness date), save for two bank loans of RMB20 million each taken out by the Company in July and August 2007, respectively, there has been no material change in indebtedness and contingent liabilities.



安永會計師事務所

18th Floor  
Two International Finance Centre  
8 Finance Street  
Central  
Hong Kong

29 August 2007

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, 2005 and 2006 and the six-month periods ended 30 June 2006 and 2007 (the “Relevant Periods”) for inclusion in the introduction document of the Company dated 29 August 2007 (the “Introduction Document”) in connection with the proposed listing of the entire issued H shares of the Company on the Main Board (the “Main Board”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) by way of introduction.

As set out in the section headed “History and development” in the Introduction Document, 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. Pursuant to the approval document from the China Securities Regulatory Commission (the “CSRC”) , Zheng Jian Guo He Zi [2006] No.17, the Company was authorised to issue new H shares. On 1 December 2006, 145,714,000 H shares with a nominal value of RMB0.50 each were issued by way of an international placing at a price of HK\$3.00 per share and listed on the Growth Enterprise Market (the “GEM”) of the Stock Exchange. On 7 December 2006, 21,856,000 H shares under the over-allotment option arrangement with a nominal value of RMB0.50 each were issued at a price of HK\$3.00 per share and listed on the GEM of the Stock Exchange. The detailed movement of the share capital is set out in note 23 of Section II of this report. The Company has proposed to withdraw its listing from the GEM of the Stock Exchange so as to arrange its H shares to be listed on the Main Board of the Stock Exchange.

The Company is principally engaged in the design, manufacturing and sale of specialised 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 specialised 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, 2005 and 2006, 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-month period ended 30 June 2007, 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 Relevant Periods and the balance sheets of the Company as at 31 December 2004, 2005 and 2006 and 30 June 2007, 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 International Financial Reporting Standards (the "IFRSs") on the basis set out in note 2 of Section II below.

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information of the Company in accordance with IFRSs. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information for the Relevant Periods and to report our opinion to you.

### **PROCEDURES PERFORMED IN RESPECT OF THE RELEVANT PERIODS**

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

For the purpose of this report, we have undertaken an independent audit of the Company's financial statements 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.

## OPINION IN RESPECT OF THE RELEVANT PERIODS

In our opinion, the Financial Information set out below, for the purpose of this report, and prepared in accordance with IFRSs, gives a true and fair view of the results and cash flows of the Company for the Relevant Periods, and of the state of affairs of the Company as at 31 December 2004, 2005 and 2006 and 30 June 2007.

## I. FINANCIAL INFORMATION

## Income statement

	Notes	Year ended 31 December			Six months ended 30 June	
		2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000	2007 RMB'000
<b>Revenue</b>	4	333,645	906,590	1,265,314	596,129	728,561
Cost of sales		(288,053)	(762,409)	(1,013,539)	(487,883)	(584,960)
<b>Gross profit</b>		45,592	144,181	251,775	108,246	143,601
Other income	5	1	8	5,217	523	5,678
Selling and distribution costs		(8,162)	(24,249)	(41,495)	(19,440)	(24,216)
Administrative expenses		(10,198)	(19,506)	(17,682)	(6,370)	(17,284)
Other expenses	5	(20)	(128)	(351)	(154)	(195)
Finance revenue	6	217	2,290	2,226	1,588	7,323
Finance costs	6	(2,815)	(6,314)	(8,874)	(3,308)	(11,025)
Share of loss of an associate	15	(16)	(17)	(23)	(23)	—
<b>Profit before tax</b>	7	24,599	96,265	190,793	81,062	103,882
Income tax income/(expense)	9	49,501	(24,391)	(72,302)	(27,640)	(33,332)
<b>Profit attributable to the equity holders</b>		<u>74,100</u>	<u>71,874</u>	<u>118,491</u>	<u>53,422</u>	<u>70,550</u>
<b>Dividends</b>	11					
Dividend		886	17,041	56,663	56,663	25,379
Proposed final dividend		—	—	25,379	—	—
		<u>886</u>	<u>17,041</u>	<u>82,042</u>	<u>56,663</u>	<u>25,379</u>
<b>Earnings per share</b> basic, for profit for the year/period	10	<u>RMB0.93</u>	<u>RMB0.26</u>	<u>RMB0.34</u>	<u>RMB0.16</u>	<u>RMB0.14</u>

**Balance Sheet**

	<i>Notes</i>	31 December			30 June
		2004 <i>RMB'000</i>	2005 <i>RMB'000</i>	2006 <i>RMB'000</i>	2007 <i>RMB'000</i>
<b>Non-current assets</b>					
Property, plant and equipment	13	206,084	230,689	342,052	378,260
Prepaid land premiums	14	11,091	10,852	28,158	30,256
Investment in an associate	15	471	454	—	—
Deferred tax assets	9	57,796	38,551	—	—
<b>Total non-current assets</b>		<u>275,442</u>	<u>280,546</u>	<u>370,210</u>	<u>408,516</u>
<b>Current assets</b>					
Inventories	16	27,907	131,385	201,828	209,471
Trade and notes receivables	17	8,096	22,214	92,591	93,052
Prepayments, deposits and other receivables	18	46,900	138,755	57,513	95,930
Cash and bank balances	19	3,604	12,749	436,429	353,232
<b>Total current assets</b>		<u>86,507</u>	<u>305,103</u>	<u>788,361</u>	<u>751,685</u>
<b>Total assets</b>		<u>361,949</u>	<u>585,649</u>	<u>1,158,571</u>	<u>1,160,201</u>
<b>Current liabilities</b>					
Interest-bearing loans and borrowings	20	25,000	25,000	70,000	30,000
Trade and notes payables	21	24,549	45,874	66,910	58,354
Income tax payable	9	923	914	27,342	42,792
Accrued liabilities and other payables	22	120,008	117,559	121,947	146,512
<b>Total current liabilities</b>		<u>170,480</u>	<u>189,347</u>	<u>286,199</u>	<u>277,658</u>
<b>Net current assets/(liabilities)</b>		<u>(83,973)</u>	<u>115,756</u>	<u>502,162</u>	<u>474,027</u>
<b>Total assets less current liabilities</b>		<u>191,469</u>	<u>396,302</u>	<u>872,372</u>	<u>882,543</u>
<b>Non-current liabilities</b>					
Interest-bearing loans and borrowings	20	65,000	85,000	35,000	—
<b>Equity attributable to equity holders</b>					
Paid-up capital/Issued capital	23	40,000	170,000	253,785	253,785
Reserves	24	86,469	141,302	558,208	628,758
Proposed final dividend	11	—	—	25,379	—
<b>Total equity</b>		<u>126,469</u>	<u>311,302</u>	<u>837,372</u>	<u>882,543</u>
<b>Total equity and liabilities</b>		<u>361,949</u>	<u>585,649</u>	<u>1,158,571</u>	<u>1,160,201</u>

## Statement of Changes in Equity

	Attributable to equity holders of the Company							Total RMB'000
	Paid-up capital/ Issued capital RMB'000 (Note 23)	Share premium account RMB'000 (Note 23)	Statutory surplus reserve RMB'000 (Note 24)	Statutory public welfare fund RMB'000 (Note 24)	General surplus reserve RMB'000 (Note 24)	Retained earnings RMB'000 (Note 24)	Proposed final dividend RMB'000 (Note 11)	
At 1 January 2004	40,000	—	2,665	1,332	—	9,258	—	53,255
Profit for the year	—	—	—	—	—	74,100	—	74,100
Appropriation of statutory surplus reserve and statutory public welfare fund	—	—	1,630	815	—	(2,445)	—	—
2003 final dividend declared	—	—	—	—	—	(886)	—	(886)
At 31 December 2004	40,000	—	4,295	2,147	—	80,027	—	126,469
Profit for the year	—	—	—	—	—	71,874	—	71,874
Capital injection	130,000	—	—	—	—	—	—	130,000
Appropriation of statutory surplus reserve and statutory public welfare fund	—	—	8,974	4,487	—	(13,461)	—	—
2004 final dividend declared	—	—	—	—	—	(17,041)	—	(17,041)
At 31 December 2005	170,000	—	13,269	6,634	—	121,399	—	311,302
Profit for the year	—	—	—	—	—	118,491	—	118,491
Issue of H shares	83,785	380,457	—	—	—	—	—	464,242
Transfer of statutory public welfare fund	—	—	—	(6,634)	6,634	—	—	—
Appropriation of statutory surplus reserve	—	—	15,606	—	—	(15,606)	—	—
2005 final dividend declared	—	—	—	—	—	(56,663)	—	(56,663)
Proposed 2006 final dividend	—	—	—	—	—	(25,379)	25,379	—
At 31 December 2006	253,785	380,457	28,875	—	6,634	142,242	25,379	837,372
Profit for the period	—	—	—	—	—	70,550	—	70,550
2006 final dividend declared	—	—	—	—	—	—	(25,379)	(25,379)
At 30 June 2007	<u>253,785</u>	<u>380,457</u>	<u>28,875</u>	<u>—</u>	<u>6,634</u>	<u>212,792</u>	<u>—</u>	<u>882,543</u>
At 31 December 2005	170,000	—	13,269	6,634	—	121,399	—	311,302
Profit for the period	—	—	—	—	—	53,422	—	53,422
Transfer of statutory public welfare fund	—	—	—	(6,634)	6,634	—	—	—
2005 final dividend declared	—	—	—	—	—	(56,663)	—	(56,663)
At 30 June 2006	<u>170,000</u>	<u>—</u>	<u>13,269</u>	<u>—</u>	<u>6,634</u>	<u>118,158</u>	<u>—</u>	<u>308,061</u>

**Cash Flow Statement**

	<i>Notes</i>	Year ended 31 December			Six months ended 30 June	
		2004	2005	2006	2006	2007
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Operating activities</b>						
Profit before tax		24,599	96,265	190,793	81,062	103,882
Adjustments to reconcile profit before tax to net cash flows						
Non-cash:						
Share of loss of an associate	15	16	17	23	23	—
Gain from sale of an equity interest in an associate		—	—	(69)	(69)	—
Depreciation and amortisation	7	1,797	18,460	22,039	10,863	14,184
Provision for bad and doubtful debts	7	—	235	273	553	224
Provision for obsolete inventories	7	—	1,800	250	—	690
Interest expense	6	2,810	6,163	6,501	3,092	3,113
Interest income	6	(217)	(2,290)	(2,226)	(1,588)	(7,323)
Operating profit before working capital changes		29,005	120,650	217,584	93,936	114,770
Working capital adjustments:						
Increase in inventories		(2,911)	(105,278)	(70,693)	(67,427)	(8,333)
Decrease/(increase) in trade and notes receivables		(1,625)	(14,353)	(70,377)	11,643	(585)
Decrease/(increase) in prepayments, deposits and other receivables		(32,541)	16,938	(14,223)	3,424	(51,631)
Increase/(decrease) in trade and notes payables		20,543	21,325	21,036	(15,492)	(8,556)
Increase in accrued liabilities and other payables		10,934	49,453	8,802	26,044	29,191
Income tax paid		(8,788)	(5,155)	(7,323)	(2,823)	(17,882)
<b>Net cash flow from operating activities</b>		<u>14,617</u>	<u>83,580</u>	<u>84,806</u>	<u>49,305</u>	<u>56,974</u>

	<i>Notes</i>	Year ended 31 December			Six months ended 30 June	
		2004 <i>RMB'000</i>	2005 <i>RMB'000</i>	2006 <i>RMB'000</i>	2006 <i>RMB'000</i>	2007 <i>RMB'000</i>
<b>Net cash flow</b>						
<b>from operating activities</b>		14,617	83,580	84,806	49,305	56,974
<b>Investing activities</b>						
Interest received		217	99	677	39	6,836
Proceeds from sale of an equity interest in an associate	15	—	—	500	500	—
Purchases of property, plant and equipment and prepaid land premiums		(26,117)	(51,368)	(122,141)	(48,339)	(53,545)
Receipt of/(Investment on) deposits with an original maturity of over three months		—	—	(350,630)	—	350,630
Funds collected from/(transferred to) Tianda Holding		(46,611)	(49,962)	18,748	18,748	—
<b>Net cash flows from/(used) in investing activities</b>		(72,511)	(101,231)	(452,846)	(29,052)	303,921
<b>Financing activities</b>						
New interest-bearing loans and borrowings		90,000	45,000	20,000	—	56,000
Repayment of interest-bearing loans and borrowings		(25,000)	(25,000)	(25,000)	—	(131,000)
Interest paid		(5,658)	(6,163)	(6,322)	(3,092)	(3,292)
Dividends paid	11	(886)	(17,041)	(1,621)	(1,621)	(25,379)
Proceeds from issue of shares		—	30,000	460,959	—	10,209
Transaction costs of issue of shares		—	—	(6,926)	—	—
<b>Net cash flows from/(used) in financing activities</b>		58,456	26,796	441,090	(4,713)	(93,462)
Net increase in cash and cash equivalents		562	9,145	73,050	15,540	267,433
Cash and cash equivalents at 1 January		3,042	3,604	12,749	12,749	85,799
<b>Cash and cash equivalents at the end of year/period</b>		<u>3,604</u>	<u>12,749</u>	<u>85,799</u>	<u>28,289</u>	<u>353,232</u>
<b>Analysis of balances of cash and cash equivalents</b>						
Cash and bank balances		3,604	12,749	436,429	28,289	353,232
Less: Time deposits with original maturity of over three months when acquired		—	—	(350,630)	—	—
		<u>3,604</u>	<u>12,749</u>	<u>85,799</u>	<u>28,289</u>	<u>353,232</u>



**II. NOTES TO FINANCIAL INFORMATION****1. Corporate information**

The Company was incorporated as a limited liability company on 23 June 2004 in the PRC.

In the opinion of the directors, the holding company of the Company is Tianda Holding. Mr. Ye Shi Qu (葉世渠) held a majority of equity interest (ranged from 57% to 77%) in Tianda Holding during the Relevant Periods, who therefore is the ultimate shareholder of the Company.

**2.1 Basis of preparation**

The Financial Information has been prepared on a historical cost basis. 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 the disclosure requirement of the Hong Kong Companies Ordinance.

**2.2 Impact of issued but not yet effective IFRSs**

Unless otherwise stated, the Company has not applied the following new and revised IFRSs and IFRIC Interpretations that have been issued but are not yet effective. These IFRSs and IFRICs are effective for annual periods beginning after 1 January 2007.

IAS 23 (revised)	Borrowing costs
IFRS 8	Operating Segments
IFRIC 11	IFRS2 — Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 13	Customer Loyalty Programmes
IFRIC 14	IAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The Company is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, it has concluded that while the adoption of IFRS 8 may result in new or amended disclosures, this new IFRS is unlikely to have a significant impact on the Company's results of operations and financial position. The Company expects that the adoption of the other pronouncements listed above will not have any significant impact on the Company's financial statements or are not relevant to the activities of the Company in the period of initial application.

## 2.3 Significant accounting estimates and assumptions

### Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### *Useful lives and residual values of property, plant and equipment*

The directors of the Company determine the estimated useful lives and residual values and consequently the related depreciation charges. This estimate is based on the historical experience of the actual useful lives and residual values of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. The directors of the Company will increase the depreciation charge where useful lives and residual values are less than previously estimated, or they will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

#### *Estimated impairment of receivables*

The Company records impairment of receivables based on an assessment of the recoverability of trade receivables and prepayments, deposits and other receivables. The identification of doubtful debts requires the directors' estimates. Where the expectation is different from the original estimate, the difference will impact the carrying values of the trade receivables and prepayments, deposits and other receivables and doubtful debt expenses in the period in which the estimate has been changed.

#### *Estimated write-downs of inventories to net realisable value*

The Company writes down inventories to net realisable value based on an assessment of the realisability of inventories. The assessment of write-downs requires the directors' judgement and estimate. Where the expectation is different from the original estimate, the difference will impact the carrying values of inventories and write-downs of inventories in the period in which the estimate has been changed.

## 2.4 Summary of significant accounting policies

The principal accounting policies adopted by the Company in arriving at the Financial Information set out in this report, which conform with IFRSs, are set out below:

### 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 the 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 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 its use or disposal. Any gain or loss arising on 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 capitalised interest costs on 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**

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases.

*Company as a lessee*

Operating lease payments are recognised as an expense in the income statement on the straight-line basis over the lease term.

Prepaid land premiums under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the 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 the borrowing costs ceases when the assets are substantially ready for their intended use. Investment income earned at the temporary investment of specific borrowings pending their expenditures on a qualifying asset is deducted from the borrowing costs capitalised.

Other borrowing costs are recognised as expenses when incurred.

**Research and development costs**

Research costs are expensed as incurred. An intangible asset arising from development expenditure on an individual project is recognised 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 the asset and the ability to measure reliably the expenditure during the development.

During the period of development, the asset is tested for impairment annually. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future sales. During the period of which the asset is not yet in use, it is tested for impairment annually.

**Impairment of non-financial 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 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. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indications. An impairment loss is charged to the income statement in the period in which it arises.

For assets excluding goodwill, 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 Company makes an estimate of recoverable amount. 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 a reversal is recognised in the income statement in the period when 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.

**Inventories**

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis. The costs of raw materials, low value consumables and merchandise comprise the purchasing costs of the materials and merchandises and other costs incurred in bringing the materials and merchandises to their present locations and conditions. The costs of work in progress and finished goods, comprise direct materials, direct labour and an appropriate proportion of manufacturing overheads based on normal operating capacity.

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 ranging from 1 to 45 days are recognised and carried at original invoice amounts less allowances for any uncollectible amounts, which is considered as the fair value of the consideration to be received.

A 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 considered as 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 the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the income statement net of any reimbursement.

When the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

**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 translation**

The financial statements are presented in RMB, which is the Company's functional and presentation currency.

Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions.

**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**

For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the balance sheet, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

**Derecognition of financial assets and liabilities***Financial assets*

Financial assets consist of trade and notes receivables as well as prepayments, deposits and other receivables. A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) 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, 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*

Financial liabilities consist of trade and notes payables, income tax payable as well as accrued liabilities and other payables. 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 the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

#### **Taxes**

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 income tax*

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

#### *Deferred income tax*

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases 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.



Deferred income tax assets are recognised for all deductible temporary differences, carry forward 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 carry forward 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.

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. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow all or part of the deferred tax asset to be recovered.

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 income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income 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. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates and other sales taxes or duties. The following specific recognition criteria must also be met before the revenue is recognised:

#### *Sale of goods*

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on dispatch of the goods, provided that the Company maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

#### *Interest income*

Revenue is recognised as interest accrues using the effective interest method by applying the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

**Government grants**

Government grants are recognised 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, it is set up as deferred income 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).

**3. Segment information**

Segment information is presented by way of two segment formats:

- (i) on a primary segment reporting basis, by business segment; and
- (ii) on a secondary segment reporting basis, by geographical segment.

The Company's operating business are structured and managed separately according to the nature of its operations and its products. Each of the Company's business segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other business segment. Summary details of the business segments are as follows:

- Manufacturing seamless steel pipes
- Sourcing and distributing seamless steel pipes

In determining the Company's geographical segments, revenues are attributed to the segments based on the location of the customers.

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

## (a) Business segments

The following table presents revenue, profit and certain asset, liability and expenditure information for the Company's business segments for the years ended 31 December 2004, 2005 and 2006 and the six-month periods ended 30 June 2006 and 2007.

*Year ended 31 December 2004*

	<b>Manufacturing seamless steel pipes RMB'000</b>	<b>Sourcing and distributing seamless steel pipes RMB'000</b>	<b>Total RMB'000</b>
<b>Revenue</b>	<u>150,839</u>	<u>182,806</u>	<u>333,645</u>
<b>Results</b>			
Segment gross profit	22,277	23,315	45,592
Unallocated other income			1
Unallocated expenses			(18,380)
Net finance costs			(2,598)
Share of loss of an associate			(16)
Profit before tax			24,599
Income tax income			49,501
Profit for the year			<u>74,100</u>
<b>As at 31 December 2004</b>			
<b>Assets</b>			
Segment assets	235,320	9,762	245,082
Investment in an associate			471
Unallocated assets			116,396
Total assets			<u>361,949</u>
<b>Liabilities</b>			
Segment liabilities			—
Unallocated liabilities			235,480
Total liabilities			<u>235,480</u>
<b>Other segment information</b>			
Capital expenditure	124,360	—	124,360
Depreciation and amortisation	1,797	—	1,797
Impairment of assets recognised	<u>—</u>	<u>—</u>	<u>—</u>

*Year ended 31 December 2005*

	<b>Manufacturing seamless steel pipes RMB'000</b>	<b>Sourcing and distributing seamless steel pipes RMB'000</b>	<b>Total RMB'000</b>
<b>Revenue</b>	<u>675,517</u>	<u>231,073</u>	<u>906,590</u>
<b>Results</b>			
Segment gross profit	120,234	23,947	144,181
Unallocated other income			8
Unallocated expenses			(43,883)
Net finance costs			(4,024)
Share of loss of an associate			<u>(17)</u>
Profit before tax			96,265
Income tax expense			<u>(24,391)</u>
Profit for the year			<u><u>71,874</u></u>
<b>As at 31 December 2005</b>			
<b>Assets</b>			
Segment assets	362,417	10,509	372,926
Investment in an associate			454
Unallocated assets			<u>212,269</u>
Total assets			<u><u>585,649</u></u>
<b>Liabilities</b>			
Segment liabilities			—
Unallocated liabilities			<u>274,347</u>
Total liabilities			<u><u>274,347</u></u>
<b>Other segment information</b>			
Capital expenditure	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>

Year ended 31 December 2006

	<b>Manufacturing seamless steel pipes RMB'000</b>	<b>Sourcing and distributing seamless steel pipes RMB'000</b>	<b>Total RMB'000</b>
<b>Revenue</b>	<u>1,015,267</u>	<u>250,047</u>	<u>1,265,314</u>
<b>Results</b>			
Segment gross profit	221,954	29,821	251,775
Unallocated other income			5,217
Unallocated expenses			(59,528)
Net finance costs			(6,648)
Share of loss of an associate			(23)
Profit before tax			190,793
Income tax expense			(72,302)
Profit for the year			<u>118,491</u>
<b>As at 31 December 2006</b>			
<b>Assets</b>			
Segment assets	548,526	23,512	572,038
Unallocated assets			586,533
Total assets			<u>1,158,571</u>
<b>Liabilities</b>			
Segment liabilities			—
Unallocated liabilities			321,199
Total liabilities			<u>321,199</u>
<b>Other segment information</b>			
Capital expenditure	150,708	—	150,708
Depreciation and amortisation	22,039	—	22,039
Impairment of assets recognised	<u>523</u>	<u>—</u>	<u>523</u>

Six months ended 30 June 2006

	<b>Manufacturing seamless steel pipes RMB'000</b>	<b>Sourcing and distributing seamless steel pipes RMB'000</b>	<b>Total RMB'000</b>
<b>Revenue</b>	<u>463,278</u>	<u>132,851</u>	<u>596,129</u>
<b>Results</b>			
Segment gross profit	92,075	16,171	108,246
Unallocated other income			523
Unallocated expenses			(25,964)
Net finance costs			(1,720)
Share of loss of an associate			(23)
Profit before tax			81,062
Income tax expense			(27,640)
Profit for the period			<u>53,422</u>
<b>As at 30 June 2006</b>			
<b>Assets</b>			
Segment assets	478,127	12,903	491,030
Unallocated assets			80,902
Total assets			<u>571,932</u>
<b>Liabilities</b>			
Segment liabilities			—
Unallocated liabilities			263,871
Total liabilities			<u>263,871</u>
<b>Other segment information</b>			
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>

Six months ended 30 June 2007

	<b>Manufacturing seamless steel pipes RMB'000</b>	<b>Sourcing and distributing seamless steel pipes RMB'000</b>	<b>Total RMB'000</b>
<b>Revenue</b>	<u>617,357</u>	<u>111,204</u>	<u>728,561</u>
<b>Results</b>			
Segment gross profit	130,359	13,242	143,601
Unallocated other income			5,678
Unallocated expenses			(41,695)
Net finance costs			(3,702)
Share of loss of an associate			—
Profit before tax			103,882
Income tax expense			<u>(33,332)</u>
Profit for the period			<u>70,550</u>
<b>As at 30 June 2007</b>			
<b>Assets</b>			
Segment assets	589,930	28,057	617,987
Unallocated assets			<u>542,214</u>
Total assets			<u>1,160,201</u>
<b>Liabilities</b>			
Segment liabilities			—
Unallocated liabilities			<u>277,658</u>
Total liabilities			<u>277,658</u>
<b>Other segment information</b>			
Capital expenditure	52,490	—	52,490
Depreciation and amortisation	14,184	—	14,184
Impairment of assets recognised	<u>914</u>	<u>—</u>	<u>914</u>

## (b) Geographical segments

The principal assets employed by the Company are located in Anhui Province, the PRC. Therefore, no segment information based on the geographical location of the Company's assets is presented for the Relevant Periods.

The following table presents revenue for the Company's geographic segments for the years ended 31 December 2004, 2005 and 2006 and the six-month periods ended 30 June 2006 and 2007.

	Year ended 31 December			Six months ended 30 June	
	2004 <i>RMB'000</i>	2005 <i>RMB'000</i>	2006 <i>RMB'000</i>	2006 <i>RMB'000</i>	2007 <i>RMB'000</i>
PRC	330,535	882,527	1,175,367	576,141	610,376
Overseas	3,110	24,063	89,947	19,988	118,185
	<u>333,645</u>	<u>906,590</u>	<u>1,265,314</u>	<u>596,129</u>	<u>728,561</u>

## 4. Revenue

Revenue represents the net invoiced value of goods sold, net of value-added tax, after allowances 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>	2006 <i>RMB'000</i>	2006 <i>RMB'000</i>	2007 <i>RMB'000</i>
Sales of goods	334,462	907,519	1,268,625	597,599	730,200
Less: Government surcharges	(817)	(929)	(3,311)	(1,470)	(1,639)
Revenue	<u>333,645</u>	<u>906,590</u>	<u>1,265,314</u>	<u>596,129</u>	<u>728,561</u>



## 5. Other income and expenses

	Year			Six months	
	ended 31 December			ended 30 June	
	2004	2005	2006	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Other income</b>					
Government grants	1	8	4,943	420	5,513
Profit on sale of investment in an associate	—	—	69	69	—
Other income	—	—	205	34	165
	<u>1</u>	<u>8</u>	<u>5,217</u>	<u>523</u>	<u>5,678</u>

Government grants have been received from the local government authorities in relation to the refund of value-added tax and income tax paid. There are no unfulfilled conditions of contingencies attaching to these grants.

	Year			Six months	
	ended 31 December			ended 30 June	
	2004	2005	2006	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Other expenses</b>					
Bank charges	20	128	351	154	115
Other expenses	—	—	—	—	80
	<u>20</u>	<u>128</u>	<u>351</u>	<u>154</u>	<u>195</u>

## 6. Finance revenue and costs

	Year ended 31 December			Six months ended 30 June	
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000	2007 RMB'000
<b>Finance revenue</b>					
Bank interest income	217	99	677	39	7,323
Interest on balance due from Tianda Holding	—	2,191	1,549	1,549	—
	<u>217</u>	<u>2,290</u>	<u>2,226</u>	<u>1,588</u>	<u>7,323</u>
<b>Finance costs</b>					
Bank loan interest	5,658	6,163	6,456	3,092	2,841
Interest arising from bill discounting	—	—	45	—	272
Total interest expense	5,658	6,163	6,501	3,092	3,113
Less: Interest capitalised	(2,848)	—	—	—	—
	<u>2,810</u>	<u>6,163</u>	<u>6,501</u>	<u>3,092</u>	<u>3,113</u>
Foreign exchange losses	5	151	2,373	216	7,912
	<u>2,815</u>	<u>6,314</u>	<u>8,874</u>	<u>3,308</u>	<u>11,025</u>

Including in the foreign exchange losses of RMB7,912,000 for the six-month period ended 30 June 2007, a foreign exchange loss of RMB7,291,000 (year ended 31 December 2006: RMB1,185,000, six-month period ended 30 June 2006 and two years ended 31 December 2005: Nil) was incurred as the result of the depreciation of HK dollars against RMB in relation to the collected international placing proceeds denominated in HK dollars in December 2006.

## 7. Profit before tax

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

	Notes	Year ended 31 December			Six months ended 30 June	
		2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000	2007 RMB'000
Costs of sales		288,053	762,409	1,013,539	487,883	584,960
Depreciation	13	1,778	18,221	21,499	10,625	13,875
Amortisation of prepaid land premiums	14	19	239	540	238	309
Provision for bad and doubtful debts		—	235	273	553	224
Provision for obsolete inventories		—	1,800	250	—	690
Research and development costs		405	526	2,736	1,012	987
Auditors' remuneration		2	2	725	—	667
Staff costs (including directors', and supervisors' remuneration as set out in Note 8):						
— salaries and other staff costs		5,877	10,579	19,637	8,434	12,008
— retirement benefits contributions		616	1,077	2,315	560	1,630
		<u>5,877</u>	<u>10,579</u>	<u>19,637</u>	<u>8,434</u>	<u>12,008</u>
		<u>616</u>	<u>1,077</u>	<u>2,315</u>	<u>560</u>	<u>1,630</u>

## 8. Directors' and supervisors' 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	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Fees	—	—	—	—	—
Other emoluments					
Salaries, allowances, bonuses and other benefits	—	—	342	57	545
Retirement benefits contributions	—	—	9	3	8
	<u>—</u>	<u>—</u>	<u>351</u>	<u>60</u>	<u>553</u>

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

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Directors:					
Ye Shi Qu	—	—	116	24	162
Zhang Hu Ming	—	—	101	24	162
Zhang Jian Huai	—	—	—	—	—
Xie Yong Yang	—	—	70	—	102
Liu Peng	—	—	—	—	—
	<u>—</u>	<u>—</u>	<u>287</u>	<u>48</u>	<u>426</u>
Supervisors:					
Yong Jin Gui	—	—	15	—	15
Yang Quan Fu	—	—	15	—	17
Liu Jun Chang	—	—	34	12	20
	<u>—</u>	<u>—</u>	<u>64</u>	<u>12</u>	<u>52</u>
Independent directors:					
Wu Chang Qi	—	—	—	—	25
Wang Xiu Zhi	—	—	—	—	25
Zhao Bin	—	—	—	—	25
	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>75</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	2006	2006	2007
Directors and supervisors	—	—	4	2	4
Non-director and non-supervisor employees	5	5	1	3	1
	<u>5</u>	<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 <i>RMB'000</i>	2005 <i>RMB'000</i>	2006 <i>RMB'000</i>	2006 <i>RMB'000</i>	2007 <i>RMB'000</i>
Salaries, allowances, bonuses and other benefits	113	120	203	52	330
Retirement benefits contributions	5	6	2	3	6
	<u>118</u>	<u>126</u>	<u>205</u>	<u>55</u>	<u>336</u>

## 9. 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% on its taxable income according to the PRC Enterprise Income Tax Law.

During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Therefore, the applicable income tax rate of the Company will become 25% according to the New Corporate Income Tax Law starting from 1 January 2008.

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

	Year ended 31 December			Six months ended 30 June	
	2004 <i>RMB'000</i>	2005 <i>RMB'000</i>	2006 <i>RMB'000</i>	2006 <i>RMB'000</i>	2007 <i>RMB'000</i>
Current income tax charge	8,295	5,146	33,751	5,146	34,817
Adjustments in respect of current tax of previous years/periods	—	—	—	—	(1,485)
Deferred income tax relating to origination and reversal of temporary differences	(57,796)	19,245	38,551	22,494	—
Income tax expense/(income) reported in the income statement	<u>(49,501)</u>	<u>24,391</u>	<u>72,302</u>	<u>27,640</u>	<u>33,332</u>

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

	Year			Six months	
	ended 31 December			ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Accounting profit before income tax	24,599	96,265	190,793	81,062	103,882
Tax at an applicable tax rate of 33%	8,118	31,767	62,962	26,750	34,281
Adjustments in respect of current tax of previous years/periods	—	—	—	—	(1,485)
Investment tax credits in respect of purchases of domestically-produced property, plant and equipment	(57,796)	(8,900)	—	—	—
Adjustment of investment tax credits	—	—	7,262	—	—
Tax effect of expense items which are not deductible for income tax purposes	177	1,524	2,078	890	536
Income tax expense/(income) reported in the income statement	(49,501)	24,391	72,302	27,640	33,332
Effective tax rate	(201.23%)	25.34%	37.90%	34.10%	32.09%

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

	Year			Six months	
	ended 31 December			ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At the beginning of year/period	1,416	923	914	914	27,342
Provision for the year/period	8,295	5,146	33,751	5,146	33,332
Payment during the year/period	(8,788)	(5,155)	(7,323)	(2,823)	(17,882)
At the end of year/period	923	914	27,342	3,237	42,792

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

	Year ended 31 December			Six months ended 30 June	
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000	2007 RMB'000
At the beginning of year/period	—	57,796	38,551	38,551	—
Deferred tax credited/(charged) to the income statement during the year/period	57,796	(19,245)	(38,551)	(22,494)	—
At the end of year/period	<u>57,796</u>	<u>38,551</u>	<u>—</u>	<u>16,057</u>	<u>—</u>

#### 10. Earnings per share

The calculation of basic earnings per share is based on the profit for the year/period attributable to the equity holders of the Company and the weighted average number of shares (including Domestic Shares and H Shares) outstanding during the Relevant Periods. The weighted average number of shares for the three years ended 31 December 2004, 2005 and 2006 and the six-month periods ended 30 June 2006 and 2007 are 80,000,000, 273,590,000, 353,513,000, 340,000,000 and 507,570,000, respectively, which is calculated as if the subdivision of the Company's Domestic Shares from one share of nominal value of RMB1.00 into two Domestic Shares of RMB0.50 each 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.

#### 11. Dividends

	Year ended 31 December			Six months ended 30 June	
	2004 RMB'000	2005 RMB'000	2006 RMB'000	2006 RMB'000	2007 RMB'000
Dividend	886	17,041	56,663	56,663	25,379
Proposed final dividend	—	—	25,379	—	—
	<u>886</u>	<u>17,041</u>	<u>82,042</u>	<u>56,663</u>	<u>25,379</u>

Pursuant to a resolution of an annual shareholders' meeting on 10 May 2007, the Company's shareholders approved the proposed dividend for the year ended 31 December 2006 of RMB25,379,000 in aggregate to the then shareholders.

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 setting off against the funds due from Tianda Holding in March 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.

**12. Retirement benefits**

As stipulated by PRC 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 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 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.

**13. Property, plant and equipment**

	<b>Buildings</b>	<b>Plant and machinery</b>	<b>Motor vehicles</b>	<b>Office and other equipment</b>	<b>Construction in progress</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cost:</b>						
As at 1 January 2004	11,657	10,242	—	4,995	63,153	90,047
Additions	—	12,653	93	367	110,202	123,315
Transferred from						
construction in progress	47,313	122,502	—	—	(169,815)	—
As at 31 December 2004 and 1 January 2005	58,970	145,397	93	5,362	3,540	213,362
Additions	—	7,890	—	4,706	30,230	42,826
Transferred from						
construction in progress	15,045	14,448	—	—	(29,493)	—
As at 31 December 2005 and 1 January 2006	74,015	167,735	93	10,068	4,277	256,188
Additions	22,857	5,287	—	310	104,408	132,862
Transferred from						
construction in progress	720	13,391	8	1,194	(15,313)	—
As at 31 December 2006 and 1 January 2007	97,592	186,413	101	11,572	93,372	389,050
Additions	949	11,744	1,044	1,192	36,929	51,858
Transferred from						
construction in progress	3,454	71,770	—	138	(75,362)	—
Transferred to prepaid land premiums	—	—	—	—	(1,775)	(1,775)
As at 30 June 2007	101,995	269,927	1,145	12,902	53,164	439,133

	<b>Buildings</b>	<b>Plant and machinery</b>	<b>Motor vehicles</b>	<b>Office and other equipment</b>	<b>Construction in progress</b>	<b>Total</b>
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Accumulated depreciation:</b>						
As at 1 January 2004	1,430	2,324	—	1,746	—	5,500
Charge for the year	317	981	—	480	—	1,778
As at 31 December 2004 and 1 January 2005	1,747	3,305	—	2,226	—	7,278
Charge for the year	1,623	16,047	9	542	—	18,221
As at 31 December 2005 and 1 January 2006	3,370	19,352	9	2,768	—	25,499
Charge for the year	2,472	17,954	9	1,064	—	21,499
As at 31 December 2006 and 1 January 2007	5,842	37,306	18	3,832	—	46,998
Charge for the period	1,360	11,859	23	633	—	13,875
As at 30 June 2007	7,202	49,165	41	4,465	—	60,873
<b>Net book value:</b>						
As at 31 December 2004	57,223	142,092	93	3,136	3,540	206,084
As at 31 December 2005	70,645	148,383	84	7,300	4,277	230,689
As at 31 December 2006	91,750	149,107	83	7,740	93,372	342,052
As at 30 June 2007	94,793	220,762	1,104	8,437	53,164	378,260

All buildings of the Company are located in mainland China.



## 14. Prepaid land premiums

	Year			Six months	
	ended 31 December			ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Cost:</b>					
At the beginning of year/period	10,275	11,320	11,320	11,320	29,166
Additions	1,045	—	17,846	17,846	632
Transferred from construction in progress	—	—	—	—	1,775
At the end of year/period	11,320	11,320	29,166	29,166	31,573
<b>Accumulated amortisation:</b>					
At the beginning of year/period	210	229	468	468	1,008
Charge for the year/period	19	239	540	238	309
At the end of year/period	229	468	1,008	706	1,317
Net book value at the end of year/period	11,091	10,852	28,158	28,460	30,256

## 15. Investment in an associate

	31 December			30 June	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Share of the associate's balance sheet:					
Current assets	1,402	840	—	—	—
Current liabilities	(931)	(386)	—	—	—
Net assets	471	454	—	—	—
Disposal of an associate	—	—	500	—	—
Carrying amount of the investment	471	454	—	—	—

	Year			Six months	
	ended 31 December			ended 30 June	
	2004	2005	2006	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Share of the associate's revenue and loss:					
Revenue	5,145	5,354	1,269	1,269	—
Loss	(16)	(17)	(23)	(23)	—

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

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

Pursuant to the equity transfer agreement between Anhui Tianda Group Plastic Compound Products Company Limited ("Tianda Plastic Company", a 90%-owned subsidiary of Tianda Holding) and the Company in March 2006, the Company disposed of its equity interest in Tianda Import and Export in its entirety to Tianda Plastic Company for a consideration of RMB500,000 that was the Company's original investment in Tianda Import and Export. On 4 April 2006, Tianda Plastic Company settled the consideration in full to the Company.

#### 16. Inventories

	31 December			30 June
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials, at cost	9,615	85,071	114,060	119,378
Work in progress, at cost	2,346	2,223	12,134	11,880
Finished goods and merchandises	15,946	44,091	75,634	78,213
	<u>27,907</u>	<u>131,385</u>	<u>201,828</u>	<u>209,471</u>

Included in inventories as at 30 June 2007 were certain finished goods carried at a net realisable value of RMB1,987,000 (31 December 2006: RMB610,000; 31 December 2005: RMB860,000; 31 December 2004: Nil).

## 17. Trade and notes receivables

	31 December			30 June
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Notes receivable — third parties	100	12,260	45,729	61,392
Trade receivables — third parties	7,773	10,207	47,097	32,019
Receivable from related parties	147	—	—	—
Receivable from an associate	911	817	—	—
	8,931	23,284	92,826	93,411
Less: Provision for bad and doubtful debts	(835)	(1,070)	(235)	(359)
	<u>8,096</u>	<u>22,214</u>	<u>92,591</u>	<u>93,052</u>

Pursuant to the tax bureau's approval, the Company wrote off uncollectible trade receivables of RMB835,000 during the year ended 31 December 2006 (the years ended 31 December 2005 and 2004: Nil; the six-month periods ended 30 June 2007 and 2006: Nil).

The balances of notes receivable are unsecured, interest-free and aged less than 6 months

An ageing analysis of the trade receivables on the balance sheet dates, based on the invoice date, is as follows:

	31 December			30 June
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Outstanding balances with ages:				
Within one year	7,984	10,169	46,840	31,604
Between one and two years	40	18	257	158
Between two and three years	207	39	—	257
Over three years	600	798	—	—
	<u>8,831</u>	<u>11,024</u>	<u>47,097</u>	<u>32,019</u>

The balances of trade receivables are unsecured, interest-free and are generally on credit terms of 1 to 45 days.

## 18. Prepayments, deposits and other receivables

	31 December			30 June
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Prepayments	34,786	29,211	38,166	94,255
Bank deposits pledged for bank drafts issued	12,000	—	—	—
Other receivables	114	751	19,620	1,288
Bank interest receivables	—	—	—	487
Receivable from Tianda Holding	—	108,793	—	—
	<u>46,900</u>	<u>138,755</u>	<u>57,786</u>	<u>96,030</u>
Less: Provision for prepayments and other receivables	—	—	(273)	(100)
	<u>46,900</u>	<u>138,755</u>	<u>57,513</u>	<u>95,930</u>

The Company wrote off uncollectible prepayments of RMB273,000 during the six-month period ended 30 June 2007 (the years ended 31 December 2006, 2005 and 2004: Nil; the six-month period ended 30 June 2006: Nil).

As at 31 December 2005, the balance due from Tianda Holding was unsecured, had no fixed terms of repayment and bore interest at a rate of 6.14% per annum.

All balances, except for the receivable from Tianda Holding, are unsecured, interest-free and have no fixed terms of repayment.

## 19. Cash and bank balances

	31 December			30 June
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Cash at banks and on hand	3,604	12,749	10,575	353,232
Short-term deposits with maturity of three months or less	—	—	75,224	—
Short-term deposits with maturity of over three months	—	—	350,630	—
	<u>3,604</u>	<u>12,749</u>	<u>436,429</u>	<u>353,232</u>

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between seven days and six months, depending on the immediate cash requirements of the Company, and earn interest at the respective short-term deposit rates.

**20. Interest-bearing loans and borrowings**

	31 December			30 June
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Bank loans:				
Unsecured	—	—	105,000	30,000
Secured	90,000	110,000	—	—
	90,000	110,000	105,000	30,000
Repayable:				
Within one year	25,000	25,000	70,000	30,000
In the second year	—	50,000	35,000	—
In the third to fifth years, inclusive	65,000	35,000	—	—
	90,000	110,000	105,000	30,000
Portion classified as current liabilities	(25,000)	(25,000)	(70,000)	(30,000)
Long term portion	65,000	85,000	35,000	—

Bank loans bear interest at commercial rates ranging from 5.58%-6.39% per annum for the six-month period ended 30 June 2007 (the year ended 31 December 2006: 5.58%-6.12%; the year ended 31 December 2005: 5.58%-5.86%; the year ended 31 December 2004: 5.31%-5.58%; the six-month period ended 30 June 2006: 5.58%-5.86%).

As of 31 December 2005, the bank loans of the Company of RMB110,000,000 (31 December 2004: RMB90,000,000) were guaranteed by Tianda Holding. These bank guarantees were released in December 2006 and all the bank loans were unsecured thereafter.

**21. Trade and notes payables**

	31 December			30 June
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Notes payable — third parties	12,000	—	20,746	—
Trade payables — third parties	12,549	45,874	41,846	57,565
Amount due to Tianda Holding	—	—	419	789
Amount due to other related parties	—	—	3,899	—
	24,549	45,874	66,910	58,354

All notes payable balances are unsecured, interest-free and are payable in six months.

The amount due to Tianda Holding and other related parties are unsecured, interest-free and have no fixed terms of repayment. All remaining trade payable balances are unsecured, interest-free and are generally on a credit term of 30 days.

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

	31 December			30 June
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Outstanding balances with ages:				
Within one year	24,381	45,707	66,290	57,435
Between one and two years	10	51	453	752
Between two and three years	45	3	51	—
Over three years	113	113	116	167
	<u>24,549</u>	<u>45,874</u>	<u>66,910</u>	<u>58,354</u>

## 22. Accrued liabilities and other payables

	31 December			30 June
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Advances from customers	17,030	66,071	51,135	67,063
Payroll payables	2,075	2,529	6,670	6,501
Welfare payables	2,659	3,467	5,352	4,422
Other payables	54,884	44,690	58,625	68,526
Payable to Tianda Holding	43,360	—	165	—
Payable to another related party	—	802	—	—
	<u>120,008</u>	<u>117,559</u>	<u>121,947</u>	<u>146,512</u>

The balance due to Tianda Holding as of 31 December 2004 is unsecured with no fixed terms of repayment and bears interest at a rate of 5.35% per annum.

Except for the 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.

Included in the other payables as at 30 June 2007 was a finance appropriation of RMB6,500,000 (31 December 2006: RMB5,500,000; 31 December 2005 and 2004: Nil; 30 June 2006: Nil) received from the local government for the construction of an aqueduct. The aggregated capital expenditure on the construction of the aqueduct as at 30 June 2007 were approximately RMB3,538,000 (31 December 2006: RMB1,686,000; 31 December 2005 and 2004: Nil; 30 June 2006: Nil).

**23. Paid-up capital/Issued capital**

	31 December			30 June
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Shares				
Registered, issued and fully paid:				
Domestic shares of RMB0.50				
each, currently not listed	40,000	170,000	170,000	170,000
H shares of RMB0.50 each	—	—	83,785	83,785
Total	40,000	170,000	253,785	253,785

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 RMB30,000,000 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 CSRC approved the Company's subdivision of one Domestic Share of a nominal value of RMB1.00 into two Domestic Shares of RMB0.50 each.

Pursuant to the approval document from the CSRC, Zheng Jian Guo He Zi [2006] No.17, the Company was authorised to issue new H shares. On 1 December 2006, 145,714,000 H shares with a nominal value of RMB0.50 each were issued to the public by way of international placing at a price of HK\$3.00 (equivalent to approximately RMB3.02145) per share. On 7 December 2006, 21,856,000 H shares under the over-allotment option arrangement with a nominal value of RMB0.50 each were issued at a price of HK\$3.00 (equivalent to approximately RMB3.02037) per share. The net proceeds from the above share offer, after deducting the related underwriting and other expenses, were RMB464,242,000.

A summary of the transactions during the Relevant Periods with reference to the above movements in the Company's paid-up capital/issued capital is as follows:

	Numbers of shares in issue '000	Issued share capital RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2004, 31 December 2004 and 1 January 2005	80,000	40,000	—	40,000
Capital injection on 28 January 2005	200,000	100,000	—	100,000
Capital injection on 11 November 2005	60,000	30,000	—	30,000
At 31 December 2005 and 1 January 2006	340,000	170,000	—	170,000
H share issue on 1 December 2006	145,714	72,857	367,411	440,268
H share issue on 7 December 2006	21,856	10,928	55,085	66,013
	507,570	253,785	422,496	676,281
Deduct: Share issue expenses	—	—	(42,039)	(42,039)
At 31 December 2006 and 30 June 2007	<u>507,570</u>	<u>253,785</u>	<u>380,457</u>	<u>634,242</u>

## 24. 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 the Accounting Standards for Business Enterprises, the Accounting system for Business Enterprises and other related regulations issued by the Ministry of Finance of the People's Republic of China ("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/issued 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 was required to transfer 5% of its profit after tax, as determined in accordance with PRC GAAP applicable to the Company, to the statutory public welfare fund (the "PWF") which was 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 was utilised, an amount equal to the lower of the cost of the assets and the balance of the PWF was transferred from the PWF to the general surplus reserve (“GSR”). The GSR was non-distributable other than in liquidation. On disposal of the relevant assets, the original transfers from the PWF were reversed.

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

#### **Distributable reserves**

For dividend purposes, the amount which the Company can legally distribute by way of dividend is based on the lesser amount of the retained earnings determined in accordance with 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.

#### **25. Financial instruments**

The Company’s principal financial instruments comprise interest-bearing loans and borrowings, trade and notes payables. The main purpose of these financial instruments is to raise finance for the Company’s operations. The Company has various financial assets such as trade and notes receivables as well as prepayments, deposits and other receivables, which arise directly from its operations. The particular recognition methods adopted are disclosed in the accounting policy statements associated with each item.

It is, and has been, during the Relevant Periods, the Company’s policy that no trading in financial instruments should be undertaken.

The main risks arising from the Company’s financial instruments are interest rate risk, foreign currency 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 which are summarised below:

##### **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. Since the Company’s bank loans all bear fixed interest and are due within two years, its exposure to risk of changes in market interest rates is low.

**Foreign currency risk**

Currently, the PRC government imposes control over foreign currencies. RMB, the official currency in the PRC, is not freely convertible. Enterprises operating in the PRC can enter into exchange transactions through the People's Bank of China or other authorised financial institutions. Payments for imported materials or services and remittance of earnings outside of the PRC are subject to the availability of foreign currencies which depends on the foreign currency denominated earnings of the enterprises, or must be arranged through the People's Bank of China or other authorised financial institutions. Approval for exchanges at the People's Bank of China or other authorised financial institutions is granted to enterprises in the PRC for valid reasons such as purchases of imported materials and remittance of earnings. While conversion of RMB to Hong Kong dollars or other foreign currencies can generally be effected at the People's Bank of China or other authorised financial institutions, there is no guarantee that it can be effected at all times.

The Company does not have any significant investment out of mainland China, however, the Company has transactions currency exposures. Such exposure arises from sales in currencies other than the Company's functional currency. Approximately 16% of the Company's sales for the six-month period ended 30 June 2007 (the year ended 31 December 2006: 7%; the year ended 31 December 2005: 3%; the year ended 31 December 2004: 1%; the six-month period ended 30 June 2006: 3%) are denominated in currencies other than the functional currency of the Company making the sales. As practice, the Company sells out all the currencies other than the functional currency to the banks immediately upon receipt of those currencies.

The following table demonstrates the sensitivity to a reasonably possible change in the Hong Kong dollar exchange rate, with all other variables held constant, of the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

	<b>Increase/decrease in Hong Kong dollar rate</b>	<b>Effect on profit before tax RMB'000</b>
Six-month period ended 30 June 2007	+5%	6,156
	-5%	(6,156)
Year ended 31 December 2006	+5%	20,666
	-5%	(20,666)
Six-month period ended 30 June 2006/ two years ended 31 December 2005 and 2004	+5%	—
	-5%	—

**Credit risk**

It is the Company's policy that all customers are required to pay advances before products are delivered. Credit terms of 1 to 45 days are granted to customers with a shortfall between advances received and invoiced amounts, subject to the credit verification procedures. In addition, receivable balances are monitored on an ongoing basis, and therefore, the Company's exposure to bad debts is not significant. The Company has no exposure to significant concentration of credit risk.

With respect to the credit risk arising from cash and short-term deposits, 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.

**Liquidity risk**

The Company monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial investments and financial assets (eg. accounts receivables, other financial assets) and projected cash flows from operations.

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use of bank accepted drafts and bank loans.

The table below summaries the maturity profile of the Company's financial liabilities at 30 June 2007, 31 December 2006, 31 December 2005 and 31 December 2004 based on contractual undiscounted payments.

	<b>On demand</b> <i>RMB'000</i>	<b>Less than 3 months</b> <i>RMB'000</i>	<b>3 to 12 months</b> <i>RMB'000</i>	<b>1 to 5 years</b> <i>RMB'000</i>	<b>&gt;5 years</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
31 December 2004						
Interest-bearing loans and borrowings	—	—	25,000	65,000	—	90,000
Trade and notes payables	12,549	12,000	—	—	—	24,549
Accrued liabilities and other payables	120,008	—	—	—	—	120,008
	<u>132,557</u>	<u>12,000</u>	<u>25,000</u>	<u>65,000</u>	<u>—</u>	<u>234,557</u>
31 December 2005						
Interest-bearing loans and borrowings	—	—	25,000	85,000	—	110,000
Trade and notes payables	45,874	—	—	—	—	45,874
Accrued liabilities and other payables	117,559	—	—	—	—	117,559
	<u>164,433</u>	<u>—</u>	<u>25,000</u>	<u>85,000</u>	<u>—</u>	<u>273,433</u>
31 December 2006						
Interest-bearing loans and borrowings	—	30,000	40,000	35,000	—	105,000
Trade and notes payables	46,164	20,746	—	—	—	66,910
Accrued liabilities and other payables	121,947	—	—	—	—	121,947
	<u>168,111</u>	<u>50,746</u>	<u>40,000</u>	<u>35,000</u>	<u>—</u>	<u>293,857</u>
30 June 2007						
Interest-bearing loans and borrowings	—	—	30,000	—	—	30,000
Trade and notes payables	58,354	—	—	—	—	58,354
Accrued liabilities and other payables	146,512	—	—	—	—	146,512
	<u>204,866</u>	<u>—</u>	<u>30,000</u>	<u>—</u>	<u>—</u>	<u>234,866</u>

**Capital management**

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholder or issue new shares. No changes were made in the objectives, policies or processes during the Relevant Periods.

The Company monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The Company includes within net debt, interest-bearing loans and borrowings, trade and notes payables, accrued liabilities and other payables, less cash and bank balances. Capital includes equity attributable to the equity holders.

	31 December			30 June
	2004	2005	2006	2007
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Interest-bearing loans and borrowings	90,000	110,000	105,000	30,000
Trade and notes payables	24,549	45,874	66,910	58,354
Accrued Liabilities and other payables	120,008	117,559	121,947	146,512
Less: Cash and bank balances	(3,604)	(12,749)	(436,429)	(353,232)
Net debt	<u>203,953</u>	<u>260,684</u>	<u>(142,572)</u>	<u>(118,366)</u>
Equity	<u>126,469</u>	<u>311,302</u>	<u>837,372</u>	<u>882,543</u>
Capital and net debt	<u><u>357,422</u></u>	<u><u>571,986</u></u>	<u><u>694,800</u></u>	<u><u>764,177</u></u>

**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 the financial assets and liabilities of the Company at the balance sheet dates approximated to their fair values.

## 26. 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	2006 RMB'000	2006 RMB'000	2007 RMB'000
<u>Discontinuing:</u>					
Purchases of property, plant and equipment and prepaid land premiums from Tianda Holding (note a) related parties (note b)	—	—	36,552	36,552	—
	—	30	7	7	—
	—	30	36,559	36,559	—
Disposal of an associate to a related party (note c)	—	—	500	500	—
Management fees paid/payable to Tianda Holding (note d)	5,017	9,075	—	—	—
Interest expense paid/payable to Tianda Holding (note e)	1,456	—	—	—	—
Interest income received/receivable from Tianda Holding (note e)	—	2,191	1,549	1,549	—
Guarantees for the bank loans provided to a related party (note f)	—	40,000	—	55,000	—
Guarantees for the bank loans provided by Tianda Holding (note g)	90,000	110,000	—	110,000	—
<u>Continuing:</u>					
Sales of seamless pipes to Tianda Holding (note b) an associate (note b) related parties (note b)	—	—	284	193	—
	3,766	698	—	—	—
	404	614	115	53	—
	4,170	1,312	399	246	—
Purchases of water from Tianda Holding (note h)	513	838	617	298	371
Purchases of pipe protection castings and packaging materials from related parties (note i)	1,582	33	5,255	1,975	283
Lease of a dormitory from Tianda Holding (note j)	—	—	96	48	48

*Notes:*

- (a) 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 in June 2006 for a consideration of RMB36,552,000. These property, plant and equipment together with the piece of land were acquired by Tianda Holding in 2005 from a third party company at a consideration of RMB34,571,000.
- (b) These transactions were carried out based on costs incurred, as agreed between the Company and Tianda Holding as well as the related parties.
- (c) Pursuant to the equity transfer agreement between Tianda Plastic Company and the Company in March 2006, the Company disposed of its equity interest in Tianda Import and Export in its 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 90%-owned subsidiary of Tianda Holding.
- (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 years ended 31 December 2004 and 2005, respectively. The management fees covered services from Tianda Holding including public relations work with the government, arranging legal, tax, commerce and financing activities, feasibility studies and the management of major investments, employee administration, remunerating directors, as well as providing road and other facilities, etc. With effect from 1 January 2006 and after, no such management fees need to be paid as agreed between Tianda Holding and the Company.
- (e) During the two years ended 31 December 2004 and 2005 and the six-month period ended 30 June 2006, 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-month period ended 30 June 2006, the maximum balance receivable from Tianda Holding amounted to RMB100,559,000 (the year ended 31 December 2004: maximum payable of RMB43,360,000; the year ended 31 December 2005: maximum receivable of RMB108,793,000). The funds transfers were unsecured and had no fixed terms of repayments, bearing the interest rate of approximately 6.14% per annum (the year ended 31 December 2005: 5.35% to 6.14%; the year ended 31 December 2004: 5.35%). No such fund transfer has been made after 30 June 2006.
- (f) During the year ended 31 December 2005 and the six-month period ended 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. No such guarantee has been provided by the Company after 7 July 2006.
- (g) During the two years ended 31 December 2004 and 2005 and the six-month period ended 30 June 2006, Tianda Holding provided corporate guarantees to the Company in connection with the bank loans as disclosed in Note 20.
- (h) The purchases were conducted based on mutually agreed terms with reference to market price.
- (i) These transactions were in respect of purchases of pipe protection castings and packaging materials that were carried out based on costs incurred plus a margin of 5 - 10%, as agreed between the Company and the related parties.
- (j) Before 1 January 2006, the Company leased a dormitory from Tianda Holding free of charge. Pursuant to the dormitory lease agreement entered with Tianda Holding, the Company paid an annual rent of RMB96,000 for a period from 1 January 2006 to 31 December 2008.
- (k) Pursuant to a trademark assignment agreement entered with Tianda Holding on 1 July 2004, the Company was authorised to use the trademark of Tianda at an annual fee charge of RMB10 for a period from 1 July 2004 to 14 October 2006.
- (l) During two years ended 31 December 2004 and 2005 and the six-month period ended 30 June 2006, Tianda Holding endorsed bank accepted drafts to the Company that were subsequently endorsed to suppliers by the Company. No such endorsement was made after 30 June 2006. 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).

**27. 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 26 (a).

**28. Capital commitments**

	31 December			30 June
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Contracted, but not provided for	5,605	3,534	25,337	27,579

**29. Contingent liabilities**

At the balance sheet date, the Company had the following contingent liabilities:

	31 December			30 June
	2004	2005	2006	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantees given in connection with bank loans to a related party	—	40,000	—	—
Bank accepted drafts endorsed with recourse	34,188	187,189	131,168	245,781
Bank accepted drafts discounted with recourse	—	—	—	16,650

**30. Subsequent events**

Save as disclosed in the following, the Company did not have any significant events subsequent to 30 June 2007.

**Subsequent new bank borrowings**

The Company made new one-year period unsecured bank borrowings of RMB20 million at an annual interest rate of 6.84% on 27 July 2007 and of RMB20 million at an annual interest rate of 6.84% on 9 August 2007, respectively.

**31. Subsequent financial statements**

No audited financial statements have been prepared by the Company in respect of any period subsequent to 30 June 2007.

Yours faithfully,

**Ernst & Young**

*Certified Public Accountants*

Hong Kong



The following is the text of a letter, summary of valuations and valuation certificates prepared for the purpose of incorporation in this document 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 June 2007.



10th Floor  
Jardine House  
1 Connaught Place  
Central  
Hong Kong

29 August 2007

The Directors  
Anhui Tianda Oil Pipe Company Limited  
Room 2906  
China Online Centre  
333 Lockhart Road  
Wanchai  
Hong Kong

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 June 2007.

### **DEFINITION OF MARKET VALUE**

Our valuation of each of the property interests is our opinion of its market value which in accordance with The HKIS Valuation Standards on Properties (First Edition 2005) published by 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 & ASSUMPTIONS**

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 Offices, 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 and are set out in the notes in the respective valuation certificate.

No allowance has been made in our valuations of the properties for any charges, mortgages or amounts owing on the properties nor for 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 any onerous nature which could affect their values.

**VALUATION METHODOLOGY**

In valuing the properties in Group I which are held by the Company for owner-occupation, 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 properties in Group II and Group III which are held by the Company for future development and under development respectively, we have valued the properties by the direct comparison approach assuming sale of the properties in their existing state with the benefit of vacant possession and by making reference to comparable sales transactions as available in the relevant market. We have also taken into account the expended construction costs and the construction costs that will be expended to complete the development to reflect the quality of the completed development.

Property in Group IV 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.

In valuing the properties, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors.

### **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, development cost, site and floor areas and all other relevant matters.

Dimensions, measurements and areas included in the valuation certificates 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. 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 VALUATION

Property	Capital value in existing state as at 30 June 2007 <i>RMB</i>	Interest attributable to the Company <i>%</i>	Capital value in existing state attributable to the Company as at 30 June 2007 <i>RMB</i>
<b>Group I — Properties held by the Company for owner-occupation in the PRC</b>			
1. An industrial complex located at Zhenxing Road, Tongcheng Town, Tianchang City, Anhui Province, the PRC	33,700,000	100	33,700,000
2. An industrial complex located at Ziwei Road South, Langya District, Chuzhou City, Anhui Province, the PRC	61,100,000	100	61,100,000
3. An industrial complex located on the west side of East Ring Road, Langya District, Chuzhou City, Anhui Province, the PRC	42,000,000	100	42,000,000
	<b>Sub-total:</b>		<u>136,800,000</u>

## SUMMARY OF VALUATION

Property	Capital value in existing state as at 30 June 2007 <i>RMB</i>	Interest attributable to the Company <i>%</i>	Capital value in existing state attributable to the Company as at 30 June 2007 <i>RMB</i>
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**Group II — Property held by the Company for future development in the PRC**

4.	Two plots of land located at north east corner at the intersection of Huifeng Road East and Ziwei Road South, Chuzhou Development Zone, Langya District, Chuzhou City, Anhui Province, the PRC	15,400,000	100	15,400,000
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**Group III — Property held by the Company under development in the PRC**

5.	A plot of land located at Tongcheng Town, Tianchang City, Chuzhou City, Anhui Province, the PRC	650,000	100	650,000
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**Group IV — Property leased by the Company in the PRC**

6.	Various dormitory units in Anhui Tianda Enterprises (Group) Industrial Complex, Zhenxing Road, Tongcheng Town, Tianchang City, Anhui Province, the PRC			No commercial value
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**Grand-total:**


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**152,850,000**


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## VALUATION CERTIFICATE

## Group I — Properties held by the Company for owner-occupation in the PRC

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 30 June 2007 RMB
1. An industrial complex located at Zhenxing Road, Tongcheng Town, Tianchang City, Anhui Province, the PRC	<p>The property comprises an industrial complex erected upon two plots 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 52,224.41 sq.m. (562,144 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 pipe production workshop.	33,700,000

## Notes:

- (1) According to two Certificates for the Use of State-owned Land Tian Guo Yong (2006) Zi Di No. 017 and Tian Guo Yong (2006) Zi Di No. 018 both dated 28 April 2006 issued by Tianchang City Land Resources & Housing 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 (sq.m.)
Tian Guo Yong (2006) Zi Di No. 017	Industrial	13 December 2050	12,718.50
Tian Guo Yong (2006) Zi Di No. 018	Industrial	13 December 2050	100,945.00
<b>Total</b>			<b><u>113,663.50</u></b>

- (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 52,224.41 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 (sq.m.)
(2006) 33-1	Workshop	1	8,732.39
	Warehouse	1	2,209.20
	Warehouse	1	15,056.93
	Power supply Building	1	390.30
	Workshop	1	7,427.75
Sub-total			<u>33,816.57</u>
(2006) 33-2	Office Building	2	1,100.94
	Guardhouse	1	73.50
	Workshop	1	1,588.25
	Workshop	1	1,307.75
	Workshop	1	1,352.20
Sub-total			<u>5,422.64</u>



Certificate No.	Building	No. of storey	Gross floor area (sq.m.)
(2006) 33-3	Boiler house	1	248.96
	Bathhouse	1	125.60
	Workshop	1	12,211.43
	Workshop	1	399.21
		Sub-total	12,985.20
		<b>Total</b>	<b>52,224.41</b>

(3) According to Business Licence No. 3423001300926, the Company was registered on 13 March 2007 with a registered capital of RMB253,785,000.

(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) Zi Di No. 017 and Tian Guo Yong (2006) Zi 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 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 total gross floor area of 52,224.41 sq.m.

(iii) All the land premium and the deed tax of transferring the land and building use rights of the property have been settled in full.

(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 within the residual term of land use rights.

(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 June 2007 RMB
2. An industrial complex located at Ziwei Road South, Langya District, Chuzhou City, Anhui Province, the PRC	<p>The property comprises an industrial complex erected upon a plot of land with a 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, a 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/mining warehouse use.</p>	The property is currently occupied by the Company as steel pipe production workshop.	61,100,000

*Notes:*

- (1) According to Certificate for the Use of State-owned Land Chu Guo Yong (2006) Zi Di No. 00296 issued in 2006 by Chuzhou City Land Resources & Housing Administrative Bureau, the land use rights of the property, comprising a 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/ mining warehouse 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 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, the Company was registered on 13 March 2007 with a registered capital of RMB253,785,000.
- (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) Zi 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/ mining warehouse use.
- (ii) 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 total gross floor area of 43,840.10 sq.m.
- (iii) All the land premium and the deed tax of transferring the land and building use rights of the property have been settled in full.
- (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 within the residual term of land use rights.
- (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 June 2007 RMB
3. An industrial complex located on the west side of East Ring Road, Langya District, Chuzhou City, Anhui Province, the PRC	<p>The property comprises an industrial complex erected upon a plot of land with a 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 and a single-storey warehouse completed in 2004.</p> <p>The property has a total gross floor area of 31,656 sq.m. (340,745 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/ mining warehouse use.</p>	The property is occupied by the Company as production workshop.	42,000,000

*Notes:*

- (1) According to Certificate for the Use of State-owned Land Chu Guo Yong (2006) Zi Di No. 00297 dated 19 May 2006 issued by Chuzhou City 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/ mining warehouse use.
- (2) According to 2 Certificates for Building Ownership Chu Fang Quan Zheng (2006) Zi Di No. 00260 and (2007) Zi Di No. 00250 dated 19 May 2006 and 30 June 2007 respectively, issued by Chuzhou City Land Resources & Housing Administrative Bureau, the building ownership rights of the property, comprising a single storey (partly two-storey) industrial workshop and a single-storey warehouse with a total gross floor area of 31,656 sq.m. are vested in the Company.

Details of the Certificates are summarized as follows:

Certificate No.	Building	Gross floor area (sq.m.)
00260	Industrial workshop	31,522.41
00250	Warehouse	133.59
	<b>Total:</b>	31,656.00

- (3) According to the Agreement for Transfer of Real Estate signed between Anhui Tianda Enterprise (Group) Company Limited (“Party A”) and Anhui Tianda Enterprise Group Special Steel Tube Company Limited (the immediate predecessor of the Company) (“Party B”) on 2 March 2006, Party A agreed to transfer the land located on the west side of East Ring Road, Chuzhou City, with a site area of 258,507 sq.m., the workshop with a total gross floor area of 31,522.41 sq.m. and the electricity appliances and other ancillary facilities to Party B for a consideration of RMB36,551,925.54.
- (4) According to Business Licence No. 3423001300926, the Company was registered on 13 March 2007 with a registered capital of RMB253,785,000.
- (5) 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) Zi 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/ mining warehouse use.
- (ii) The Company has obtained Certificate for Building Ownership Chu Fang Quan Zheng (2006) Zi Di No. 00260 and (2007) Zi Di No. 00250 in respect of the building ownership rights of the property, comprising a total gross floor area of 31,656 sq.m.
- (iii) According to the Agreement for Transfer of Real Estate signed between Anhui Tianda Enterprise (Group) Company Limited (“Party A”) and Anhui Tianda Enterprise Group Special Steel Tube Company Limited (the immediate predecessor of the Company) (“Party B”) on 2 March 2006, Party A agreed to transfer the land located on the west side of East Ring Road, Chuzhou City, with a site area of 258,507 sq.m., the workshop with a total gross floor area of 31,522.41 sq.m. and the electricity appliances and other ancillary facilities to Party B for a consideration of RMB36,551,925.54.

- (iv) All the land premium and the deed tax of transferring the land and building use rights of the property have been settled in full.
  - (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 within the residual term of land use rights.
  - (vi) The property is not subject to any mortgage.
- (6) 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
Agreement for Transfer of Real Estate	Yes
Business Licence	Yes

## VALUATION CERTIFICATE

## Group II — Property held by the Company for future development in the PRC

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 30 June 2007 <i>RMB</i>
4. Two plots of land located at north east corner at the intersection of Huifeng Road East and Ziwei Road South, Chuzhou Development Zone, Langya District, Chuzhou City, Anhui Province, the PRC	The property comprises two plots of land with a total site area of 187,067 sq.m. (2,013,589 sq.ft.).  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.	The property is currently vacant.	15,400,000

*Notes:*

- (1) According to Certificate for the Use of State-owned Land Chu Guo Yong (2006) Zi Di No. 00294 issued by Chuzhou City Land Resources & Housing Administrative Bureau 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 use.

According to Certificate for the Use of State-owned Land Chu Guo Yong (2006) Zi Di No. 00219 issued by Chuzhou City Land Resources & Housing Administrative Bureau on 25 April 2006, 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 use.

- (2) According to Contract for Grant of State-owned Land Use Rights dated 17 August 2004 entered between Chuzhou City Land Resources & Housing Administrative Bureau and Anhui Tianda Enterprise Group (“Tianda Enterprise”) (the immediate 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.

According to Contract for Grant of State-owned Land Use Rights dated 4 April 2006 entered between Chuzhou City Land Resources & Housing Administrative Bureau and Anhui Tianda Enterprise Group Special Steel Tube Company Limited (“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. The land grant fee is RMB5,147,520.

- (3) According to Business Licence No. 3423001300926, the Company was registered on 13 March 2007 with a registered capital of RMB253,785,000.

- (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 Chu Guo Yong (2006) Zi Di No. 00294 and (2006) Zi 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.

(ii) All the land premium and the deed tax of transferring the land and building use rights of the property have been settled in full.

(iii) The Company is entitled to transfer, lease and mortgage the land use rights of the property at no extra land premium within the residual term of land use rights after completion of more than 25% of the total development cost.

(iv) 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 held by the Company under development in the PRC

Property	Description and tenure	Particulars of occupancy	Capital Value in existing state as at 30 June 2007 RMB
5. A plot of land located at Tongcheng Town, Tianchang City, Chuzhou City, Anhui Province, the PRC	<p>The property comprises a plot of land with a site area of 18,052 sq.m. (194,312 sq.ft.).</p> <p>The property is proposed to be developed as an industrial complex with a planned total gross floor area of 7,921 sq.m. (85,262 sq.ft.).</p> <p>The land use rights of the property have been granted for a term due to expire on 11 December 2056 for industrial use.</p>	The property is under construction and is scheduled for completion in late 2007.	650,000

*Notes:*

- (1) According to Certificate for the Use of State-owned Land Tian Tong Guo Yong (2006) Di No. 041 dated 11 December 2006 issued by Tianchang City Land Resources & Housing Administrative Bureau, the land use rights of the property, comprising a site area of 18,052 sq.m., have been granted to the Company for a term due to expire on 11 December 2056 for industrial use.
- (2) According to Contract for Grant of State-owned Land Use Rights dated 11 December 2006 entered between Tianchang City Land Resources & Housing Administrative Bureau and the Company, the Company has been granted with the land use rights of the property located at the Tongcheng Town with a site area of 18,052 sq.m. The land grant fee is RMB556,540.
- (3) According to Planning Permit for Construction Works No. 2007040044 issued by Tianchang City Planning Bureau on 23 April 2007, the industrial complex with a total gross floor area of 7,921 sq.m. has been approved for construction works.

- (4) According to Permit for Commencement of Construction Works No. 232107050038 issued by Tianchang City Construction Bureau on 10 May 2007, the industrial building with a total gross floor area of 7,921 sq.m. has been permitted for construction works for a valid period from 10 March 2007 to 30 August 2007.
- (5) According to Business Licence No. 3423001300926, the Company was registered on 13 March 2007 with a registered capital of RMB253,785,000.
- (6) 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 Tian Tong Guo Yong (2006) Di No. 041 in respect of the land use rights of the property, comprising a site area of 18,052 sq.m. for a term due to expire on 11 December 2056 for industrial use.
  - (ii) All the land premium and the deed tax of transferring the land use rights of the property have been settled in full.
  - (iii) The Company is entitled to transfer, lease and mortgage the land use rights of the property at no extra land premium within the residual term of land use rights.
  - (iv) The proposed design and construction of the development are in compliance with the local planning regulations and have been approved by the relevant authorities.
  - (v) The property is not subject to any mortgage.
- (7) 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
Planning Permit for Construction Works	Yes
Permit for Commencement of Construction Works	Yes
Business Licence	Yes

## VALUATION CERTIFICATE

## Group IV — Property leased by the Company in the PRC

Property	Description and tenure	Capital Value in existing state as at 30 June 2007
		RMB
6. 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 Anhui Tianda Enterprise (Group) Company Limited (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 &amp; utilities charges.</p>	No commercial value

*Notes:*

- (1) According to the 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 approximately 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) 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 Real Estate Title Certificate Fang Di Quan Tong Zi (2004) Di No.067 in respect of the property. The lessor is entitled to lease the property to the Company. Under the PRC laws, the tenancy agreement of the property is legal, valid, enforceable and binding upon both lessor and lessee.

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 corporate, securities and foreign exchange control. Laws and regulations relating to taxation in the PRC are discussed separately in Appendix IV to this document. 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 Main Board 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 29 December 1993, the Standing Committee of the Eighth National People's Congress adopted the Company Law, which came into effect on 1 May 1994 and was amended on 25 December 1999 and on 28 August 2004. On 27 October 2005, the Standing Committee of the Tenth NPC reviewed and passed the new amended Company Law, which came into effect from 1 January 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 4 July 1994, the Special Regulations were passed at the Twenty-Second Standing Committee Meeting of the State Council, and they were promulgated and implemented on 4 August 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 former State Economic System Restructuring Commission on 27 August 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.

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 industry and commerce administration 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 who are not staff representatives 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;
- (xi) to amend the company's articles of association; and
- (xii) other functions as specified in the articles of association.

Shareholders' general meeting is required to be held at least 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 V.

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, among other powers, 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 one third 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 management**

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 management**

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:

- (i) Misappropriating the company's fund;
- (ii) Depositing the company's fund into an account in his own name or in any other individual's name;
- (iii) 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;
- (iv) Signing a contract or dealing with this company by violating the articles of association or without consent of the shareholders' meeting or shareholders' assembly;
- (v) 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;
- (vi) Taking commissions on the transactions between others and this company into his own pocket;
- (vii) Illegally disclosing the company's secrets;
- (viii) 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 executive 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 executive 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 relevant with liquidation 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 Main 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 Main 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 Main 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 Main 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 V).

**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 22 April 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 12 June 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 2 September 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, among other things, fines, confiscation of profits and suspension of trading. In serious cases, criminal liability may be imposed.

On 4 August 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 25 December 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 of domestic listed foreign shares and disclosure of information of joint stock limited companies having domestic listed foreign Shares.

On 29 December 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 1 July 1999 and was amended on 28 August 2004. On 27 October 2005, the Standing Committee of the Tenth NPC reviewed and passed the new amended Securities Law which came into effect from 1 January 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 29 March 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, among other things, 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 14 July 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 21 September 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 31 August 1994 and came into effect on 1 September 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 Main Board 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 Main Board 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 CIETAC or the 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 1 May 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 arbitrator 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 10 June 1958 pursuant to a resolution of the Standing Committee of the NPC passed on 2 December 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 1 July 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 21 June 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 1 February 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 28 December 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 1 January 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 29 January 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 1 April 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 14 January 1997. This latest amendment affirmatively states that the State shall not restrict international current account payments and transfers.

On 20 June 1996, the PBOC promulgated the “Regulations for Administration of Settlement, Sale and Payment of Foreign Exchange” (the “Settlement Regulations”) which became effective on 1 July 1996. The Settlement Regulations 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 25 October 1998, the PBOC and the SAFE promulgated the Notice Concerning the Discontinuance of Foreign Exchange Swapping Business pursuant to which and with effect from 1 December 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 1 January 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-US\$ 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 1 July 1994 and was amended on 25 December 1999, on 28 August 2004 and on 27 October 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 and Taiwan of the PRC 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 at the date of establishment 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.

*(xvii) 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) Main Board Listing Rules**

The Main Board 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 the Stock Exchange. 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 one financial years thereafter, a compliance adviser to provide the Company with professional advice on continuous compliance with the Main Board 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 Main Board 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 Main Board 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 take all reasonable steps to brief all new Directors and Supervisors appointed by the Company as to the nature of their responsibilities under the Main Board 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 Main Board 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 Main Board Listing Rules and the annual reports and accounts, interim 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 Main Board 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 Listing Division or the 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 the Stock Exchange 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 the Stock Exchange, the Main Board 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 15% of the PRC issuer's issued share capital having an expected market capitalization at the time of listing of not less than HK\$50,000,000; and (iii) the aggregate amount of H shares and other securities held by the public must constitute not less than 25% of the PRC issuer's issued share capital.

(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 the Stock Exchange in accordance with the provisions of the Main Board 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 the Stock Exchange. 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 Takeovers Code 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 the Main Board of Stock Exchange, the Company has undertaken to comply, upon any of its securities being admitted to listing on the Stock Exchange, with all of the requirements of the Main Board Listing Rules from time to time in force. The Main Board 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 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 Takeovers Code 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 Main Board 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 the Stock Exchange, the provisions of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), the Takeovers Code 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 Offices, the Company's legal adviser on PRC law, has sent to the Company a legal opinion, 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 headed "Documents available for inspection" in Appendix VII to this document.

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 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 US\$, 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 as at the Latest Practicable Date, 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 31 October 1993, 30 August 1999 and 27 October 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 21 July 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 31 October 1993 and became effective on 1 January 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 26 July 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 listed foreign invested 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 which are not treated as foreign invested enterprises 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 listed foreign invested 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. 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 28 January 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. The Tax Notices also provides that gains realized by foreign investors or individuals on the sale of overseas shares were temporarily exempted from income tax. 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 18 November 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 1 October 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 1 September 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 11 February 2006. In addition, estate duty in respect of deaths occurring on or after 15 July 2005 but before 11 February 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 1 January 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. On 16 March 2007, the NPC of China enacted a new enterprise income tax law, under which an companies, including foreign invested enterprises, or FIES, would be subject to enterprise income tax at a uniform rate of 25%. Preferential tax treatments will continue to be granted to entities that are classified as “high and new technology enterprises strongly supported by the State” or conduct business in encouraged sectors. The new tax law will become effective on 1 January 2008 and the detailed implementing rules for the new tax law have not been promulgated yet.

### **Value-added Tax**

The PRC Provisional Regulations on Value-added Tax (“the VAT Regulations”) were promulgated on 13 December 1993 and became effective on 1 January 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 (中華人民共和國企業所得稅暫行條例) promulgated on 26 November 1993 and the provisional implementation rules thereof which took effect on 1 January 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.

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. Copies of the full Chinese text of the Articles of Association are available for inspection as mentioned in the section headed “Documents available for inspection” in Appendix VII.

## **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. The Board may implement the issue of Domestic Shares and overseas listed foreign shares in accordance with the plan of the Company as approved by CSRC by way of separate issues, within 15 months after approval is obtained from the CSRC.

### **(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.

**(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 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;
- (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 unable 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 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, general manager, deputy 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;
- (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
- (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;
- (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 CSRC. 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;
- (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 more than 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.

Where any shareholder is, under the Main Board 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 Board 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 Board 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 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.

**(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.

**(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".

**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 Board 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 but inclusive of the date 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 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 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.

## **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;
- (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 surplus reserve;
- (iii) allocation to statutory public welfare fund;
- (iv) allocation to general surplus reserve as resolved in shareholders' meeting; and
- (v) payment of dividends to then qualifying shareholders.

The detailed proportion of distributions in respect of items (v) to (vi) above for any year shall be formulated by the Board 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 surplus 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 surplus reserve provided that no allocation is required if the accumulated statutory surplus reserve exceeds 50% of the registered capital.

The Company shall allocate its profits to the general surplus reserve in accordance with the resolutions passed at shareholders' meetings.

The following sums shall be appropriated to the share premium:

- (i) the amount of 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 share premium.

The Company's surplus reserve (which comprises the statutory surplus reserve, general surplus reserve and the share premium) shall only be used for the following purposes:

- (i) to make up accrued losses;
- (ii) to expand the business operations of the Company; and
- (iii) to be converted into capital. The Company may, upon the approval of a special resolution passed at the shareholders' meeting, convert its surplus reserve into capital by issuing bonus shares to existing shareholders in proportion to their existing shareholdings or to increase the nominal value of each share. When converting the statutory surplus reserve into capital, the balance of such fund after such conversion must not be less than 25% of the registered capital before such conversion of the Company.

The Company shall apply its statutory public welfare fund for the collective welfare of the employees of the Company from time to time.

The Board may, subject to the approval of the shareholders in shareholders' meeting, resolve to distribute interim or special 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 more than one proxy may only vote on a poll.

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 Board 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;
- (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 Board 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. 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;
    - (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 its 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
- (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 Board 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.

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 on matters relating to the Company in accordance with 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, issue other types of shares.

The Shares in issue and to be issued as mentioned in this document 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 document, such overseas listed foreign shares are defined as “H Shares” in the “Definition” section of this document).



The total number of issued ordinary shares of the Company under the Articles of Association as currently constituted and approved by CSRC is 145,714,000 overseas listed foreign Shares, and after the over-allotment option was exercised in full, the total number of overseas listed foreign shares is 167,570,000 overseas listed foreign shares. 340,000,000 Domestic Shares are 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.

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.

As at the Latest Practicable Date, the total number of issued Share capital is 507,570,000 Shares.

**(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;
- (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 converted 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 it 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 send 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.

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 Board 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.

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;
- (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;
- (x) not to compete with the Company in any manner without the informed consent of 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.

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.

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;
- (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**

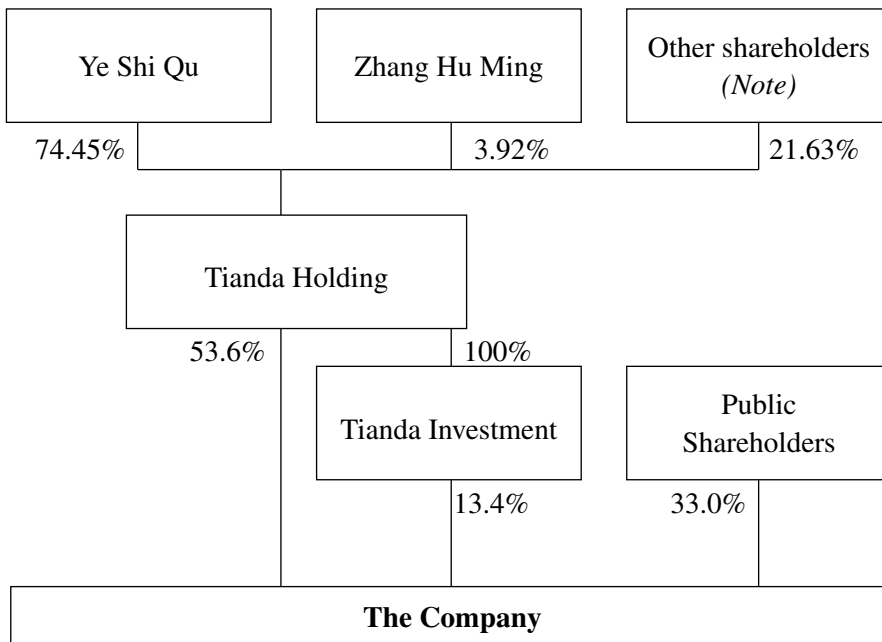
Tianda Special Steel Pipe Company, the predecessor of the Company, was registered in the PRC as a limited liability company on 23 June 2004 with Tianda Holding and Tianda Trade Union as shareholders. On 13 April 2006, the Company was established as a joint stock company with limited company and a business 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 overseas company in Hong Kong in compliance with Part XI of the Companies Ordinance. On 14 September 2006, 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 III and Appendix V, respectively, to this document.

## 2. Shareholding and Company structure

As at the Latest Practicable Date, the shareholding structure of the Company is as follows:



Note: 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%)	23. 耿維龍 Geng Wei Long	473,200 (0.2025%)
2. 祁文輝 Qi Wen Hui	3,150,000 (1.3477%)	24. 何雲龍 He Yun Long	469,700 (0.2010%)
3. 王本玲 Wang Ben Ling	3,150,000 (1.3477%)	25. 張學仁 Zhang Xue Ren	210,000 (0.0898%)
4. 江干 Jiang Gan	3,150,000 (1.3477%)	26. 楊登峰 Yang Deng Feng	207,200 (0.0887%)
5. 吳宗勤 Wu Zong Qin	3,150,000 (1.3477%)	27. 朱士華 Zhu Shi Hua	110,250 (0.0472%)
6. 謝永洋 Xie Yong Yang	7,367,250 (3.1521%)	28. 李燕 Li Yan	175,000 (0.0749%)
7. 施思源 Shi Si Yuan	1,425,900 (0.6101%)	29. 陳從高 Chen Cong Gao	140,000 (0.0599%)
8. 雍金貴 Yong Jin Gui	8,217,500 (3.5159%)	30. 陳巨勝 Chen Ju Sheng	122,500 (0.0524%)
9. 劉俊昌 Liu Jun Chang	3,150,000 (1.3477%)	31. 呂思玉 Lv Si Yu	119,700 (0.0512%)
10. 黃堯琪 Huang Yao Qi	2,348,400 (1.0048%)	32. 睦群仔 Sui Qun Zai	36,750 (0.0157%)
11. 郭風祥 Guo Feng Xiang	464,100 (0.1986%)	33. 張春祥 Zhang Chun Xiang	186,400 (0.0798%)
12. 周永軍 Zhou Yong Jun	994,700 (0.4256%)	34. 方傅俊 Fang Chuan Jun	175,000 (0.0749%)
13. 呂宏祥 Lu Hong Xiang	766,500 (0.3279%)	35. 王本健 Wang Ben Jian	3,547,250 (1.5177%)
14. 王奎 Wang Kui	431,900 (0.1848%)	36. 汪義 Wang Yi	157,500 (0.0674%)
15. 陳東 Chen Dong	399,700 (0.1710%)	37. 王勇 Wang Yong	140,000 (0.0599%)
16. 謝治連 Xie Zhi Lian	382,200 (0.1635%)	38. 沈保輝 Shen Bao Hui	119,700 (0.0512%)
17. 周唐華 Zhou Tang Hua	280,000 (0.1198%)	39. 王維武 Wang Wei Wu	102,200 (0.0437%)
18. 徐公朝 Xu Gong Chao	350,000 (0.1497%)	40. 薛長春 Xue Chang Chun	102,200 (0.0437%)
19. 申小平 Shen Xiao Ping	315,000 (0.1348%)	41. 張成明 Zhang Cheng Ming	102,200 (0.0437%)
20. 胡才華 Hu Cai Hua	312,200 (0.1336%)	42. 趙慶和 Zhao Qing He	70,000 (0.0299%)
21. 薛建軍 Xue Jian Jun	183,750 (0.0786%)	43. 李定勇 Li Ding Yong	49,000 (0.0210%)
22. 方久林 Fang Jiu Lin	270,200 (0.1156%)	44. 張建懷 Zhang Jian Huai	35,000 (0.0150%)
		45. 秦朗 Qin Lang	31,500 (0.0135%)
		Total:	<u>50,546,000 (21.6262%)</u>

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 in the above note is a director, supervisor or senior management member of 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 sub-division 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 was credited as fully paid up and held as follows:

Name	Amount of equity contribution <i>RMB</i>	Approximate percentage of equity holding %
Tianda Holding	36,000,000	90.0
Tianda Trade Union	4,000,000	10.0
	<u>40,000,000</u>	<u>100.0</u>

- (b) On 31 January 2005, the registered capital of Tianda Special Steel Pipe Company was increased to RMB140,000,000, all of which was credited as fully paid up and held as follows:

Name	Amount of equity contribution <i>RMB</i>	Approximate percentage of equity holding %
Tianda Holding	136,000,000	97.1
Tianda Trade Union	4,000,000	2.9
	<u>140,000,000</u>	<u>100.0</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 was credited as fully paid up and held as follows:

<b>Name</b>	<b>Amount of equity contribution <i>RMB</i></b>	<b>Approximate percentage of equity holding %</b>
Tianda Holding	136,000,000	80.0
Tianda Trade Union	4,000,000	2.3
Tianjin Dajin	30,000,000	17.7
	<u>170,000,000</u>	<u>100.0</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:

<b>Name</b>	<b>Amount of equity contribution <i>RMB</i></b>	<b>Percentage of equity holding %</b>
Tianda Holding	136,000,000	80.0
Tianda Investment	34,000,000	20.0
	<u>170,000,000</u>	<u>100.0</u>



- (e) In preparation for the GEM 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:

<b>Name</b>	<b>Number of Domestic Shares of RMB1.00 each held</b>	<b>Percentage of registered capital %</b>
Tianda Holding	136,000,000	80.0
Tianda Investment	34,000,000	20.0
	<u>170,000,000</u>	<u>100.0</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:

<b>Name</b>	<b>Number of Domestic Shares of RMB0.50 each held</b>	<b>Percentage of registered capital %</b>
Tianda Holding	272,000,000	80.0
Tianda Investment	68,000,000	20.0
	<u>340,000,000</u>	<u>100.0</u>

- (g) Immediately after completion of the International Placing, the registered capital of the Company was RMB242,857,000 and was 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	56.0
Tianda Investment	Domestic Shares	68,000,000	14.0
Public Shareholders	H Shares	145,714,000	30.0
		<u>485,714,000</u>	<u>100.0</u>

- (h) Immediately after completion of the International Placing and the exercise of the Over-allotment Option, the registered capital of the Company was RMB253,785,000 and was 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	167,570,000	33.0
		<u>507,570,000</u>	<u>100.0</u>

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. Share prices**

The monthly highest and lowest prices at which the H Shares had been traded on GEM since the GEM Listing before up to and including the Latest Practicable Date were as follows:

	Share price	
	Highest <i>HK\$</i>	Lowest <i>HK\$</i>
<b>2006</b>		
December	4.38	3.20
<b>2007</b>		
January	6.19	3.70
February	6.10	4.97
March	5.60	4.10
April	6.39	5.13
May	7.85	5.60
June	8.15	6.89
July	8.00	6.95
August up to and including the Latest Practicable Date	7.80	4.60

**II. SUBSIDIARY**

As at the Latest Practicable Date, the Company had no subsidiary.

**III. GENERAL MANDATE TO ISSUE NEW SHARES**

At the Company's extraordinary general meeting held on 18 June 2007, the Directors were granted general unconditional mandate to issue, allot and deal with additional Shares with an aggregate nominal amount not exceeding 20% of the aggregate amount of Domestic Shares in issue and 20% of the aggregate nominal amount of H Shares in issue as at the date of passing of the relevant resolution on 18 June 2007.

This general mandate will expire upon the earlier of:

- (1) the conclusion of the next annual general meeting of the Company following the passing of the relevant resolution on 18 June 2007, unless, by special resolution passed at that meeting, the mandate is renewed, either unconditionally or subject to conditions;
- (2) the expiry of the period within which the next annual general meeting is required by the Articles of Association or any applicable law to be held; or
- (3) the passing of a special resolution of the Company in a general meeting revoking or varying the authority set out in the relevant resolution on 18 June 2007.

Please refer to the paragraph headed "Issuing mandate" under in the section headed "Share capital" in this document for further details.

#### IV. FURTHER INFORMATION ABOUT DIRECTORS, SUPERVISORS, MANAGEMENT, STAFF AND SUBSTANTIAL SHAREHOLDER

##### 1. 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:

- (a) each service contract is for an initial term of 3 years commencing from 1 December 2006 (save for Li Chi Chung, whose term of appointment is 3 years commencing from the date of obtaining the shareholders' approval pursuant to the extraordinary general meeting to be held on or about 15 October 2007);
- (b) 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:

	<b>Annual salary and/or allowance</b>
<b>Executive Directors</b>	
Ye Shi Qu	RMB320,000
Zhang Hu Ming	RMB320,000
Xie Yong Yang	RMB200,000
<b>Non-executive Directors</b>	
Zhang Jian Huai	Nil
Liu Peng	Nil
<b>Independent non-executive Directors</b>	
Wu Chang Qi	RMB50,000
Wang Xiu Zhi	RMB50,000
Zhao Bin	RMB50,000
Li Chi Chung	HK\$144,000
<b>Supervisors</b>	
Liu Jun Chang	RMB40,000
Yang Quan Fu	RMB30,000
Yong Jin Gui	RMB30,000

- (c) the remuneration of each of the Directors and Supervisors may be changed by way of a Board resolution passed upon delegation of power by the shareholders at shareholders' meeting of the Company; and
- (d) 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 RMB840,000, nil, RMB289,680 and RMB100,000, respectively, for a 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. The aggregate remuneration payable to the Directors (including the non-executive Directors and the independent non-executive Directors) and Supervisors for the year ended 31 December 2006 was RMB287,000 and RMB64,000 respectively.

## **2. Disclosure of the Directors' and Supervisors' interests or short positions in the share capital of the Company**

As at the Latest Practicable Date, 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 and as if it were applicable to the Supervisors) which were 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 were required, pursuant to section 352 of the SFO, to be entered in the register referred to in section 352 of the SFO to be recorded in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transaction by the Directors (or would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers in the Main Board Listing Rules as if the H Shares were listed on the Main Board), were 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 associated corporation	Approximate percentage of the total issued share capital of the Company
			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	—	67.0%
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	100.0%	—
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	3.2%	—

*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.

### 3. Substantial Shareholders

So far as the Directors or chief executive of the Company are aware, as at the Latest Practicable Date, the following persons (other than a Director or the chief executive of the Company) had 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 is required, pursuant to section 336 of the SFO, to be entered in the register referred to therein or any option in respect of such capital:

Name	Capacity	Class of Shares	Number of Shares (Note 1)	% of total number of the relevant class of Shares	% of total number of issued Shares
Tianda Holding	Beneficial owner Interests in controlled corporation (Note 2)	Domestic Shares	272,000,000 (L)	80.0%	53.6%
		Domestic Shares	68,000,000 (L)	20.0%	13.4%
Tianda Investment	Beneficial owner	Domestic Shares	68,000,000 (L)	20.0%	13.4%
Hillhouse Capital Management, Ltd.	Interests in controlled corporation	H Shares	25,180,000 (L)	15.0%	5.0%
Baring Asset Management Limited	Investment manager	H Shares	19,908,000 (L)	11.9%	3.9%
Northern Trust Fiduciary Services (Ireland) Limited	Trustee	H Shares	19,686,000 (L)	11.7%	3.9%
GLHH Fund II. L.P.	Beneficial owner	H Shares	16,825,000 (L)	10.0%	3.3%
Credit Agricole Asset Management	Interests in controlled corporation	H Shares	10,212,000 (L)	6.1%	2.0%
Gaoling Fund, L.P.	Beneficial owner	H Shares	8,787,000 (L)	5.2%	1.7%
Credit Agricole Asset Management Hong Kong Limited	Investment manager	H Shares	8,434,000 (L)	5.0%	1.7%

*Notes:*

1. "L" refers to the long position in the shares in the Company held by such person/entity.
2. 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. Related party transactions

The Company had entered into certain related party transactions during the Track Record Period, details of which are set out in note 26 in the accountants' report in Appendix I to this document.

#### 5. Disclaimers

Save as disclosed herein, as at the Latest Practicable Date:

- (a) none of the Directors, chief executive or Supervisors had 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 would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transaction by the Directors (or would be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in the Main Board Listing Rules as if the H Shares were listed on the Main Board);
- (b) so far as it is known to the Directors or chief executive of the Company, there is no person (not being a Director, a Supervisor or chief executive of the Company) had 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, who were, 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 the Company and any option in respect of such capital;
- (c) 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);

- (d) 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 document, or which are proposed to be acquired or disposed of by or leased to the Company;
- (e) 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 document which is significant in relation to the business of the Company;
- (f) 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.

## **V. 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 document and are or may be material:

- (a) 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;
- (b) a non-competition agreement dated 18 November 2006 and executed by the Initial Management Shareholders in favour of the Company;
- (c) 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;


- (d) a placing underwriting agreement dated 28 November 2006 and entered into between, amongst others, the Company, Cazenove and the placing underwriters named therein relating to the International Placing; and
- (e) a non-competition agreement dated 24 August 2007 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 “Substantial and controlling Shareholders” in this document.

## 2. Intellectual property rights

### (a) Trademark (and service trademark)


#### (A) PRC

As at the Latest Practicable Date, the Company has registered the following trademark in the PRC:

Mark	Trademark registration 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 has registered the following trademark in Hong Kong:

Mark	Trademark no.	Registered owner	Effective period	Class
	300747072	Anhui Tianda Oil Pipe Company Limited	25 October 2006 to 24 October 2016	6

*(b) Domain name*

As at the Latest Practicable Date, the Company has registered the following domain name:

<b>Domain name</b>	<b>Registrant</b>	<b>Registration Date</b>
www.td-gg.com	Anhui Tianda Oil Pipe Company Limited	29 May 2006

*Note:* The contents contained in the websites at www.tianda-group.com and www.td-gg.com do not form part of this document.

*(c) Patent*

As at the Latest Practicable Date, the Company has registered the following patent:

<b>Patent</b>	<b>Certificate no.</b>	<b>Registered owner</b>	<b>Term</b>
Specialized seamless pipes for use in heat exchange	ZL 03277615.2	Anhui Tianda Oil Pipe Company Limited	11 August 2003 to 10 August 2013

**VI. 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 the date on which dealings in the H Shares first commenced in GEM (the “Effective Date”), including but not limited to:

- (a) the amount of any and all taxation falling on the Company on or before the Effective Date;
- (b) any non-compliance with any laws and/or regulations by the Company on or before the Effective Date;
- (c) 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;
- (d) 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;
- (e) any losses suffered by the Company as a result of Tianda Holding's use of the trademark which attracts adverse publicity;
- (f) any penalties or losses suffered by the Company as a result of historical provision of loans to Tianda Holding; and/or
- (g) 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:

- (a) 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);
- (b) 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 of the Deed of Indemnity;
- (c) 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;

- (d) 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 of the Deed of Indemnity;
- (e) 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 in this document 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. Preliminary expenses**

The preliminary expenses of the Company are approximately RMB2,000 and paid by the Company. The estimated amount of the expenses of the application for the Main Board Migration is approximately RMB12.7 million and such expenses are borne by the Company.

## **4. Promoters**

The Promoters 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 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 Yong Jin Gui. Save as disclosed in the document and the Prospectus, within the two years immediately preceding the date of this document, no cash, securities or other benefit has been paid, allotted or given to or is proposed to be paid, allotted or given to the Promoters.

**5. No material adverse change and interruption of business**

To the best of knowledge of the Directors, the Directors confirm that there has been no material adverse change in the financial or trading position of the Company since 30 June 2007 (being the end of the period reported in the accountants' report in Appendix I to this document).

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 12 months preceding the date of this document.

**6. Taxation of holders of the H Shares**

Dealings in the H Shares are subject to Hong Kong stamp duty.

**7. Qualifications of the experts**

<b>Expert</b>	<b>Qualification</b>
Commerce & Finance Law Offices	Qualified PRC lawyers
Ernst & Young	Certified public accountants
DTZ Debenham Tie Leung Limited	Chartered surveyors and valuers

**8. Consents of experts**

Each of Commerce & Finance Law Offices, Ernst & Young and DTZ Debenham Tie Leung Limited has given and has not withdrawn its written consent to the issue of this document with the inclusion of its report and/or letter and/or opinion and/or valuation certificate and/or the references to its name in the form and context in which they are respectively included or appear.

**9. Share option scheme**

The Company has not adopted any share option scheme in respect of the H Shares.

**10. Miscellaneous**

Save for the International Placing and as disclosed in this document:

- (a) within the two years preceding the date of this document, 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;
- (b) no share or loan capital of the Company is under any option or is agreed conditionally or unconditionally to be put under option;
- (c) within the two years preceding the date of this document, 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;
- (d) the Company has no founders or management or deferred shares;
- (e) none of the equity and debt securities of the Company is listed or dealt in any other stock exchange (other than GEM) nor is any listing or permission to deal being or proposed to be sought;
- (f) the Company does not have any outstanding convertible debt securities;
- (g) within the two years preceding the date of this document, no commission has been paid or payable for subscription or agreeing to subscribe, procure subscription or agreeing to procure subscription of any share in the Company; and
- (h) 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.



**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 Wednesday, 12 September 2007:

- (a) the Articles of Association;
- (b) the accountants' report prepared by Ernst & Young, the text of which is set out in Appendix I to this document, and the related statement of adjustments;
- (c) the Company's annual report for the year ended 31 December 2006, its quarterly report for the three months ended 31 March 2007 and its interim report for the six months ended 30 June 2007;
- (d) the audited financial statements of the Company for each of the three years ended 31 December 2006 prepared in accordance with PRC GAAP;
- (e) 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 II to this document;
- (f) the PRC legal opinions issued by Commerce and Finance Law Offices, the Company's PRC legal advisers;
- (g) copies of material contracts referred to in the paragraph headed "Summary of material contracts" in Appendix VI to this document;
- (h) the written consents referred to in the paragraph headed "Consents of experts" in Appendix VI to this document;
- (i) the service contracts referred to in the paragraph headed "Particulars of service contracts" in Appendix VI to this document;
- (j) the Company Law together with an unofficial English translation thereof;
- (k) the Special Regulations together with an unofficial English translation thereof; and
- (l) the Mandatory Provisions together with an unofficial English translation thereof.