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)

2015
Interim Report

CONTENTS

UNAUDITED KEY OPERATIONAL DATA

	For the six months ended 30 June		
Key operational indicators	**2015 (tonnes)**	2014 (tonnes)	Changes (%)
Volume of self-produced products sold	**295,780**	317,150	-6.7%
Volume of sourcing & distribution products sold	**1,620**	2,280	-28.9%
Total sales volume	**297,400**	319,430	-6.9%
Total production volume	**315,380**	340,790	-7.5%

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

The board of directors (the "**Board**") of Anhui Tianda Oil Pipe Company Limited (the "**Company**") is pleased to present unaudited interim results of the Company and its subsidiary (the "**Group**") for the six months ended 30 June 2015 together with comparative figures for 2014.

	Notes	For the six months ended 30 June 2015 (Unaudited) RMB'000	 2014 (Unaudited) RMB'000
REVENUE	2	**1,085,988**	1,393,987
Cost of sales		**(1,018,794)**	(1,284,741)
Gross profit		**67,194**	109,246
Other income and gains	3	**30,097**	625
Selling and distribution expenses		**(55,748)**	(55,893)
Administrative expenses		**(19,197)**	(20,105)
Other expenses		**(927)**	(871)
Finance costs		**(1,914)**	(4,273)
PROFIT BEFORE TAX	4	**19,505**	28,729
Income tax expense	5	**(4,876)**	(7,182)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**14,629**	21,547
Profit attributable to:			
Owners of the parent		**14,629**	21,547
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT		**14,629**	21,547
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted – earnings for the period (RMB cents)	7	**1.45**	2.14

Details of the proposed dividends for the period are disclosed in note 6 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**1,105,249**	1,156,880
Prepaid land lease payments		**25,032**	25,358
Deferred tax assets		**4,551**	5,094
Total non-current assets		**1,134,832**	1,187,332
CURRENT ASSETS			
Inventories		**597,325**	547,714
Trade and notes receivables	8	**328,765**	559,404
Prepayments, deposits and other receivables	9	**187,214**	170,113
Tax recoverable		**33,870**	–
Held-to-maturity investments	10	**64,000**	–
Cash and cash equivalents		**799,997**	474,910
Total current assets		**2,011,171**	1,752,141
CURRENT LIABILITIES			
Interest-bearing loans and borrowings		**161,705**	186,205
Trade and notes payables	12	**581,934**	306,809
Tax payable		**–**	13,866
Derivative financial instruments	11	**–**	2,177
Dividend payable	6	**161,220**	–
Other payables and accruals	13	**161,817**	204,498
Total current liabilities		**1,066,676**	713,555
NET CURRENT ASSETS		**944,495**	1,038,586
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,079,327**	2,225,918

	Notes	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**–**	–
Total non-current liabilities		**–**	–
NET ASSETS		**2,079,327**	2,225,918
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Issued capital		**503,813**	503,813
Reserves		**1,454,599**	1,560,885
Proposed dividend	6	**120,915**	161,220
TOTAL EQUITY		**2,079,327**	2,225,918

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For six months ended 30 June 2015

	Attributable to owners of the parent						
	Issued capital RMB'000	Share premium RMB'000	Available-for-sales investment revaluation reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Proposed Dividend RMB'000 (note 6)	Total RMB'000
1 January 2015	**503,813**	**1,002,166**	**–**	**114,996**	**443,723**	**161,220**	**2,225,918**
Total comprehensive income for the period	**–**	**–**	**–**	**–**	**14,629**	**–**	**14,629**
2015 interim dividend proposed (note 6)	**–**	**–**	**–**	**–**	**(120,915)**	**120,915**	**–**
2014 final dividend declared (note 6)	**–**	**–**	**–**	**–**	**–**	**(161,220)**	**(161,220)**
30 June 2015 (unaudited)	**503,813**	**1,002,166**	**–**	**114,996**	**337,437**	**120,915**	**2,079,327**
1 January 2014	503,813	1,002,166	–	109,218	552,942	161,220	2,329,359
Total comprehensive income for the period	–	–	–	–	21,547	–	21,547
2013 final dividend declared (note 6)	–	–	–	–	–	(161,220)	(161,220)
30 June 2014 (unaudited)	503,813	1,002,166	–	109,218	574,489	–	2,189,686

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Net cash flows from operating activities	**364,517**	190,886
Net cash flows used in investing activities	**(15,810)**	(233,510)
Net cash flows used in financing activities	**(23,620)**	(92,820)
Net increase/(decrease) in cash and cash equivalents	**325,087**	(135,444)
Cash and cash equivalents at beginning of period	**474,910**	481,103
Cash and cash equivalents at end of period	**799,997**	345,659

1. Basis of Preparation

These unaudited condensed consolidated financial statements for the six months ended 30 June 2015 have been prepared in accordance with International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

The unaudited interim condensed consolidated financial statements do not included all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2014.

Impact of new and revised International Financial Reporting Standards

The accounting policies adopted in preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2014, except for the adoption of the new and revised standards and interpretation as of 1 January 2015, noted below:

Amendments to IAS 19	*Defined Benefit Plans: Employee Contributions*
Annual Improvements 2010-2012 Cycle	Amendments to a number of IFRSs
Annual Improvements 2011-2013 Cycle	Amendments to a number of IFRSs

The adoption of these new and revised IFRSs has had no significant financial effect on these financial statements.

1. Basis of Preparation (continued)

The Group has not early adopted any other standards, interpretations or amendments that has been issued but is not yet effective,

Issued but not yet effective International Financial Reporting Standards

IFRS 9	*Financial Instruments*[3]
IFRS 14	*Regulatory Deferral Accounts*[4]
Amendments to IFRS 10 and IAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[1]
Amendments to IFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*[1]
IFRS 15	*Revenue from contracts with customers*[3]
Amendments to IAS 16 and IAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*[1]
Amendments to IAS 16 and IAS 41	*Agriculture: Bearer Plants*[1]
Amendments to IFRS 10 IFRS 12 and IAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*[1]
Amendments to IAS 1	*Disclosure Initiative*[1]
Amendments to IAS 27 (2011)	*Equity Method in Separate Financial Statements*[1]
Annual Improvements 2012-2014 Cycle	Amendments to a number of IFRSs[1]

1 Effective for annual periods beginning on or after 1 January 2016
2 Effective for annual periods beginning on or after 1 January 2017
3 Effective for annual periods beginning on or after 1 January 2018
4 Effective for an entity that first adopts IFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2. 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.

	For the six months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Sale of goods	**1,086,426**	1,394,905
Less: Government surcharges	**(438)**	(918)
Revenue	**1,085,988**	1,393,987

3. Other Revenue and Income

	For the six months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Investment income from bank financial products	**19,068**	10,346
Investment income from foreign exchange forward contracts not qualifying as hedges	**2,195**	(16,160)
Bank interest income	**1,646**	6,167
Foreign exchange gain, net	**2,716**	–
Refund of land use tax from government and others	**4,472**	272
	30,097	625

4. Profit Before Tax

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

	For six months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Cost of inventories sold	**1,018,794**	1,284,741
Depreciation	**73,215**	78,502
Amortisation of prepaid land lease payments	**326**	326
Write-down of inventories to net realisable value	**–**	–
Research costs	**–**	–
Auditors' remuneration	**–**	–
Staff costs (including directors', chief executive's and supervisors' remuneration):		
– Salaries and other staff costs	**46,184**	48,543
– Retirement benefit contributions	**7,499**	7,792

5. Income Tax

No provision for Hong Kong profits tax has been made as the Group had no assessable profits arising in Hong Kong for the six months ended 30 June 2015 (Six months ended 30 June 2014: Nil).

The Company is subject to income tax at the rate of 25% on its taxable income according to the PRC Enterprise Income Tax Law, effective from 1 January 2008.

5. Income Tax (continued)

The major components of income tax expense for the six months ended 30 June 2015 and 2014 are as follows:

	For the six months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Current		
Charge for the year	**4,332**	12,735
Deferred:		
Relating to origination and reversal of temporary differences	**544**	(5,553)
Total tax charge for the year	**4,876**	7,182

6. Dividends

The board of directors propose an interim special dividend of RMB120,915,000 (RMB0.12 per share) for the six months ended 30 June 2015 (Six months ended 30 June 2014: Nil) subject to the shareholders' approval at special general meeting.

Pursuant to the resolution passed in the annual general meeting held on 30 June 2015, the Group's shareholders approved the final dividend for the year ended 31 December 2014 amounting to RMB161,220,000 (RMB0.16 per share) payable to the then shareholders. Such dividends were paid on or before 30 July 2015 in accordance with the announcement.

7. Earnings Per Share

The calculation of basic earnings per share is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of shares (including Domestic Shares and H Shares) of 1,007,626,000 in issue during the six months ended 30 June 2015 (Six months ended 30 June 2014: 1,007,626,000).

8. Trade and Notes Receivables

	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Notes receivable from domestic third parties	**80,211**	149,983
Trade receivables from overseas customers	**108,124**	243,292
Trade receivables from domestic customers	**141,204**	167,104
Impairment	**(774)**	(975)
	328,765	559,404

The balances of notes receivable are unsecured, interest-free and mature within six months.

Customers are usually required to make payment in advance before the Group delivers goods to them. However, the Group's trading terms with its overseas customers and certain major domestic customers are on credit. The credit period is generally 1 to 45 days extending up to 270 days for certain strategic customers. The Group enters into sales with overseas customers through irrevocable letters of credit or telegraphic transfers. Each domestic customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are unsecured and interest-free.

Included in the Group's trade receivables were amounts due from VMOG China ("VOGC") and fellow subsidiaries of approximately RMB66,291,000 (31 December 2014: approximately RMB249,709,000),which were payable on a credit term of 45 days.

8. Trade and Notes Receivables (continued)

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Outstanding balances with ages:		
Within one year	**245,693**	407,299
Between one and two years	**3,635**	3,097
	249,328	410,396

As at 30 June 2015, the Group had pledged notes receivable of approximately RMB66,595,000 (31 December 2014: RMB76,807,000) for issuing the bank accepted bills of exchange.

As at 30 June 2015, the Group did not have any pledged trade receivables (31 December 2014: RMB186,205,000).

9. Prepayments, Deposits and Other Receivables

	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Prepayments	**84,220**	71,013
Deposits and other receivables	**98,241**	98,958
Bank interest receivables	**4,753**	142
	187,214	170,113

The Group did not write off irrecoverable prepayments and other receivables during the period ended 30 June 2015 (31 December 2014: Nil).

All balances of prepayments, deposits and other receivables are unsecured, interest-free and have no fixed terms of repayment, and are not overdue nor impaired.

Included in the Group's and the Company's deposits and other receivables were (i) time deposits of RMB88,576,000 pledged to the banks to secure the bank accepted drafts and letter of credit (31 December 2014: RMB31,671,000); and (ii) the net input value-added tax ("VAT") of RMB27,844,000 (31 December 2014: RMB65,525,000) arising from the purchase of items of property, plant and equipment and materials after deducting the output VAT for domestic sales.

10. Held-to-maturity Investments

	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Investment in bank financial products, at amortised cost	**64,000**	–

The above investment in bank financial products bore interest at a fixed interest rate of 5.2% and will be matured on 16 July 2015.

11. Derivative Financial Instruments

	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Foreign exchange forward contracts – assets – current	**–**	–
Foreign exchange forward contracts – liabilities – current	**–**	2,177

The above foreign exchange forward contracts did not qualify for hedge accounting, and the changes in the net fair value losses of RMB Nil were debited to profit or loss during the six months ended 30 June 2015 (31 December 2014: Changes in the net fair value losses of RMB2,177,000).

12. Trade and Notes Payables

	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Notes payable to third parties	**424,336**	184,030
Trade payables to third parties	**157,598**	122,779
	581,934	306,809

All note payable balances were interest-free and were payable in six months.

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

An aged analysis of the trade and notes payables as at the end of the reporting period, based on the invoice/issuance date, is as follows:

	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Outstanding balances with ages:		
Within one year	**560,866**	287,775
Between one and two years	**9,669**	11,472
Between two and three years	**5,751**	2,124
Over three years	**5,648**	5,438
	581,934	306,809

13. Other Payables and Accruals

	30 June 2015 (Unaudited) RMB'000	31 December 2014 (Audited) RMB'000
Advances from customers	**44,184**	50,000
Payroll payables	**34,467**	44,080
Other payables	**83,166**	110,418
	161,817	204,498

As at 30 June 2015, the service fee payable to VOGC amounted to RMB350,000 and the payable to VOGC in relation to the third parties' inspection fee paid by VOGC on behalf of the Group amounted to RMB667,000 (31 December 2014: no service fee and third parties' inspection fee were payable to VOGC).

All the balances of other payables and accruals were unsecured, interest-free and had no fixed terms of repayment as at the end of the reporting period.

14. Related Party Transactions

The Group had the following material transactions with related parties during the period:

	For the six months ended 30 June	
	2015 (Unaudited) RMB'000	2014 (Unaudited) RMB'000
Sales of oil pipes to VOGC and fellow subsidiaries (note i)	**209,213**	310,780
Purchases of services from VOGC (note ii)	**464**	625
Third parties' inspection fee paid by VOGC on behalf of the Company (note ii)	**667**	890
Purchases of water from Tianda Holding (note iv)	**236**	204
Purchases of materials from fellow subsidiaries (note iii)	**128**	–
Lease of a dormitory from Tianda Holding (note v)	**48**	48

14. Related Party Transactions (continued)

Notes:

(i) The sales were conducted based on mutually agreed terms with reference to market prices, after deducting the agreed commission fees.

(ii) The Group's payable to VOGC in relation to service fee and third party inspection fee paid by VOGC on behalf of the Group were determined based on the mutual agreement.

(iii) These transactions were carried out based on mutually agreed terms with reference to market prices, as agreed between the Group and the fellow subsidiaries which are controlled by Tianda Holding.

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

(v) Pursuant to the dormitory lease agreement entered into with Tianda Holding, the Group paid an annual rent of RMB96,200 for the years from 1 January 2012 to 31 December 2014.

The Group's trade receivables due from VOGC and fellow subsidiaries and the Group's trade payables due to VOGC, Tianda Holding and its subsidiaries as at 30 June 2015 had been disclosed in note 8 and 12, respectively.

Financial Review

The Group recorded a total revenue of approximately RMB1,085,988,000 for the six months ended 30 June 2015 (Six months ended 30 June 2014: approximately RMB1,393,987,000), representing a decrease of approximately RMB307,999,000 or approximately 22.1% when compared the revenue for the corresponding period of 2014. The decrease in revenue was mainly attributable to the decrease in average selling price of products by approximately 16.3% as compared to the corresponding period of 2014 as a result of decrease in average pricing of raw materials; and the imbalance of demand and supply in the industry and fiercer competition, which resulted in the decrease of the Group's sales volume by 6.9% compared with the corresponding period in 2014.

During the six months ended 30 June 2015, the Group recorded a gross profit of approximately RMB67,194,000, representing a decrease of approximately RMB42,052,000 or approximately 38.5% when compared to the gross profit of approximately RMB109,246,000 for the corresponding period of 2014, and a gross profit margin of approximately 6.2% when compared to the gross profit margin of approximately 7.8% for the corresponding period of 2014. The decrease in gross profit and gross profit margin was mainly due to the fact that under the circumstances where the macro-ecomomy is gloomy, the petroleum price was fluctuated at low level, the demand in the specialized pipe industry was weak and the competition is fierce, the Group actively adjusted the product mix structure and customer bases structure in order to cope with changes in market demand and get rid of operating risks.

For the six months ended 30 June 2015, the selling and distribution expenses of the Group was about RMB55,748,000, representing a decrease of approximately RMB145,000 or approximately 0.3% when compared to approximately RMB55,893,000 for the corresponding period of 2014. The decrease was mainly due to net effect of the increase in ocean freight expenses as a results of the increase in the Group's export sales volume and the decrease in the Group's total sale volume.

For the six month ended 30 June 2015, the Group's administrative expenses was approximately RMB19,197,000, representing a decrease of approximately RMB908,000 or approximately 4.5% when compared to approximately RMB20,105,000 for the corresponding period of 2014. The decrease was mainly due to the fact that the Group continuously adopted measures to strengthen the controls over each cost items.

The net finance cost of the Group for the six months ended 30 June 2015 amounted to approximately RMB1,914,000 (six months ended 30 June 2014: net finance costs of approximately RMB4,273,000), representing an decrease of approximately RMB2,359,000 or approximately 55.2% when compared to the corresponding period of 2014. The decrease was mainly due to less foreign exchange loss arising from the exchange rate fluctuation between US dollars and RMB during the period.

The Group's net profit attributable to owners of the parent company for the six months ended 30 June 2015 was approximately RMB14,629,000 (Six months ended 30 June 2014: approximately RMB21,547,000). When compared with the corresponding period of 2013, the net profit attributable to equity holders was decreased by approximately RMB6,918,000 or approximately 32.1%. The decrease was mainly due to the decrease in total gross profit when compared to the corresponding period of 2014.

The Group's inventories as at 30 June 2015 were approximately RMB597,325,000, representing an increase of approximately RMB49,611,000 as compared to the inventories as at 31 December 2014 of approximately RMB547,714,000. During the period under review, the raw materials accounted for approximately 45.8% of total inventories, the finished goods and semi-finished goods (including unprocessed pipes) accounted for approximately 52.8% and the remaining inventories items were accessories and work-in-progress. Compared to the inventories at beginning of the period under review, the increase in inventories was mainly due to (i) the increase in the raw materials as strategic reserve for better cost management; (ii) the increase in finished goods resulting from certain orders of products with relatively long production cycle or certain finished goods not yet delivered pending to customers' settlement prior to delivery. The Company seriously keeps the inventories level of raw materials and finished goods and the inventories mix within a reasonable level.

The Group's trade receivables and bills receivable as at 30 June 2015 were approximately RMB328,765,000 (31 December 2014: approximately RMB559,404,000). The average debtor turnover days for the six months ended 30 June 2015 was approximately 42 days. The Group's stringent internal management mechanism, appraisal policies and the supply chain management led to maintain the Group's financial risks at a healthy level.

The Group's net assets as at 30 June 2015 were approximately RMB2,079,327,000 (31 December 2014: approximately RMB2,225,918,000). The net assets per share as at 30 June 2015 were approximately RMB2.06 (31 December 2014: approximately RMB2.21).

Business Review

In the first half of 2015, the global economic recovery is still not stable, especially China's economic growth continues to face downside risks, the industry has over-capacity and expanded trade protection. In the unfavorable situation, the Group strengthened market development and risk control, adopted business strategy for development and promotion of new products, optimized products mix and customer base structure so as to solid foundation for development and to ensure the company sustained and healthy development.

The Group's products are mainly oil well pipes, as well as pipes of various classes and specifications for oil and gas transmission, boilers, vessels, automobile axles which are applicable to industries like energy, chemical, mechanical manufacturing etc. During the six months ended 30 June 2015, the Group's realized total production volume was about 315,380 tonnes, representing a decrease of approximately 7.5% as compared to the corresponding period last year. The decrease was mainly due to the fact that as the Group enhanced the adjustment on the product mix and customer bases structure, cost controls and risk management, it declined to accept certain purchase orders which risks probably existed.

During the period under review, in the domestic market, the Group continued to consolidate the relationships with the China's four major oil companies as well as the strategic partnerships with large-scaled boiler, shipbuilding factories. Meanwhile, the Group had successfully obtained the orders from China National Petroleum Corporation (CNPC) and China National Offshore Oil Corporation (CNOOC) with assistance of Vallourec and successfully developed the pipes specified for energy-saving, environmental-protected facilities. In addition, the Group continuously optimize the product mix and customer bases structure, and further consolidate and improve the Company's recognition and position in the industry.

During the year under review, in the overseas market, the Group has overcome the adverse factors including the persistent weak global economy, and enlarged trade barriers and continued to explore the emerging markets, especially in Brazil, Pakistan, United Arab Emirates, Oman and Kuwait where a large number of orders for construction projects were obtained. For the six months ended 30 June 2015, the Group's export sales volume accounted for 32.5% of the Group's total sales volume, representing an increase of 2.3 percentage point as compared to the corresponding period of 2014.

The Group is used to emphasise on new products' research and development and technological upgrade on production facilities. During the period under review, the Group's Technology Center is put into test-run. In order to meet the development needs of anti-corrosion oil well pipes, high-grade steel sulfur-corrosion resistance line pipes and other anti-corrosion products, the Group established a corrosion laboratory which can carry out batches of HIC, SSC corrosion tests. Meanwhile, the Technology Centre laboratory applied for National SNAS certification. The Group insists on its own research & development which co-operate with universities and research institutions, share resources and complement each other. The Group continued to carry out research and development of high-steel, anti-corrosive oil well pipes products applicable to exploration of shale gas or other non-conventional natural gas and applicable in various adverse geological environment through the studies on environment and technology of shale gas exploitation. Meanwhile, taking advantage of the mature production technology, the Group successfully developed a series of new products including X100 acidic use line pipes, X80QS high-grade steel corrosion resistance line pipes, X80QO marine line pipes, 09Cr2AlMoRE heat conversion pipes, WB36 ultra-critical boiler heat resistance pipes. As regards the technological transformation of the production and testing equipment, during the period under review, the Group continued to strengthen the technological transformation of product testing equipment with technical assistance of Vallourec, further upgrade GE ultrasonic flaw detection equipment, encourage employees to actively participate in technological transformation of equipment, successful obtained new patents for "tubing pipe couplings paint device" (《油管管接箍涂漆裝置》), "borax blowing device" (《硼砂噴吹裝置》), improve production efficiency and improve product quality.

Liquidity and Financial Resources

The Group's working capital normally financed by the cash flows internally generated by the Group and the bank borrowings.

As at 30 June 2015, the Group's cash and cash equivalents amounted to approximately RMB799,997,000 (31 December 2014: approximately RMB474,910,000) and the Group had investment in bank's financial products of approximately RMB64,000,000 (31 December 2014: approximately RMB Nil).

As at 30 June 2015, all of the Group's interest-bearing bank loans are denominated in US dollars, amounting to approximately RMB161,705,000 and the borrowing rates range from 2% to 2.4% per annum (31 December 2014: apart from a loan denominated in Euro, the remaining loans were denominated in US dollars, amounting to approximately RMB186,205,000. The borrowing rates ranged from 1.2% to 3.7% per annum). The decrease in bank loan was mainly due to repayment of matured loans.

As at 30 June 2015, the Group's debt to asset ratio was approximately 5.1% (31 December 2014: approximately 6.3%), which was interest-bearing loans and borrowings divided by total assets and presented in terms of percentage.

Charges on Assets

Save as those disclosed in notes 8 and 9, as at 30 June 2015, the Group did not have any other property, plant and equipment and bank deposits pledged for securing banking facilities.

Dividend Policy

The Board propose an interim special dividend of RMB120,915,000 (RMB0.12 per share) for the six months ended 30 June 2015 (Six months ended 30 June 2014: Nil) subject to the shareholders' approval at special general meeting. Details of the proposed interim special dividends will be published in due course.

Since listing in 2006, the Group is used to adopt policy of high dividend payout ratio, particular in 2013 and 2014 where the distribution of additional special dividend was made. Currently, in view of that the Group has excellent asset quality and sufficient cash level, it is the intention of the Board to inform investors that, without affecting the Group's daily operation, it proposes that the Group may probably increase the frequency of dividend distribution and maintain a policy of higher dividend payout ratio.

Despite the adverse market environment, management will look for measures to improve profitability and to increase the valuation of the Company, in view of the Group's excellent asset quality and its strategic partnership with Vallourec, for maintaining on-going and high return to shareholders.

Significant Investments

The Group did not approve significant investment projects during the six months ended 30 June 2015.

As at 22 March 2014, the Group's board of directors approved (1) the investment in construction of the provincial technology centre of RMB7,800,000 which is put into to test-run and expected for completion at end of 2015; (2) the investment in daily upgrade and technological transformation of production facilities of RMB11,000,000 which was completed by stages in 2014 and 2015; and (3) investment in Chuzhou staff dormitory project which is still in the surveying process.

Major Acquisition and Disposal

The Group did not make any major acquisition or disposal during the six months ended 30 June 2015.

Contingent Liabilities

As at 30 June 2015, the Group did not have any significant contingent liabilities.

Foreign Exchange Risk

Generally, when the Group sells its products to overseas customers, it is dealing in United States dollars or Euro. The Group's books are prepared in RMB whereas the receivables from overseas customers may be subject to foreign currency fluctuations. In general, the Group will sell the non-functional currencies to the banks upon receipts.

During the year under review, the Group applied forward currency contracts to hedge against exchange risk resulting from overseas sales transactions.

All cash and cash equivalents of the Group are denominated in RMB, Hong Kong dollar and United States dollar and bank deposits are placed with banks in the PRC and, to a smaller extent, with Chinese banks in Hong Kong to fund the Group's expenses in Hong Kong. Remittance of funds out of the PRC is subject to the exchange control restrictions imposed by the PRC government.

Product Information

1. **Self-produced specialized pipes**

   For the six months ended 30 June 2015, the sales volume of the Group's self-produced specialized pipes was approximately 295,780 tonnes (Six month ended 30 June 2014: approximately 317,150 tonnes), representing a decrease of approximately 6.7% when compared to the corresponding period of 2014.

2. **Sourcing and distribution of specialized pipes**

   Apart from the self production of specialized seamless pipes to cater for the demand from the Group's customers, the Group has also been providing one-stop services to its customers by assisting its customers to source and distribute other specialized seamless pipes of different specifications and kinds not yet manufactured by the Group, so as to speed up the customers' sourcing pace and reduce their costs of sourcing, thereby providing the customers with all-round services, and enabling the Group to timely capture market conditions and trends in customer needs.

For the six months ended 30 June 2015, the sales volume of the Group's sourcing and distribution of specialized pipes was approximately 1,620 tonnes (six months ended 30 June 2014: approximately 2,280 tonnes). When compared to the corresponding period of 2014, the sales volume of the sourcing and distribution of specialized pipes declined by approximately 28.9%. Despite the continuous changes in the industry and market, the Group continues to keep the business model for procurement and distribution of specialized pipes. However, the Group may commenced research and development over the products specification that the customers demand but the Group has not produced, when appropriate, for purposes of self-production.

Human Resources

The Board believes that the quality of its employees is one of the most important factors for its development and growth and the enhancement of its profitability. As at 30 June 2015, the Company had 1,681 employees (as at 31 December 2014: 1,762 employees). The average number of employees for six months ended 30 June 2015 was 1,707 (Six months ended 30 June 2014: average 1,795 employee).

The Group is committed to maintaining good corporate culture. We are people-oriented, and focus on enhancing team cohesion and motivating staff morale incentives through establishment of a remuneration mechanism with both external competitiveness and internal equity. Employees' remunerations links with the Group's results. In addition, the remuneration package for the Group's employees includes salaries, incentives (such as bonus based on work performance) and allowances. The Group also provides social security and benefits to its employees. Adequate provisions have been made in the accounts based on the provisions of the PRC government. The Group also participates in the mandatory pension fund plan for its employees in Hong Kong.

Events After Balance Sheet Date

From the balance sheet date 30 June 2015 to the date of this report, the Group did not have any significant events.

Future Prospect

In 2015, the Chinese government introduced a series of stabilized economic growth measures including consecutive decrease in interest rates and deposit reserve requirement, expanded fiscal spending and tax reductions and the effects started to work, China's economy is expected to appear moderate recovery trend. Along with the increased assessment efforts of pollution control and energy consumption, inefficient enterprises in the specialized pipe industry will be eliminated gradually. The increased production capacity prior to or after the international financial crisis needed more time to be digested gradually so that the supply and demand finally go to equilibrium stage. Management is confident on the specialized pipe industry and the Company's future prospect and development. In the second half of this year, the Group continued to enrich actively the product mix structure, actively adjust the market structure in respond to low international oil prices and fierce competition, and avoid risks in a downturn environment for striving to better development.

The Company believes that being a backbone enterprises of oil well pipe industry in China, the Group has advantages to get benefit from the China's economic growth and the reform and technological development of consumption structure in the oil and gas industry, and the Group has the ability to lead the China's OCTG industry's growth and integration. We are confident to attract more foreign capital investment in the Company. However, currently, the Company considers that its market value is seriously undervalued by the market and investors and the Company encourages investors to grow together. Looking forward, management is going to work harder, strengthen the strategic partnership with Vallourec and adopt high-efficient operation to improve profitability, and endeavor to increase the dividends payout for shareholders' return without having adverse effect on daily operation, so as to enhance the shareholders' confidence on the Company.

Directors' and Supervisors' Interests in a Competing Business

For the six months ended 30 June 2015, the directors are not aware of any business or interest of the directors, the supervisors and management shareholders of the Group and their respective associates (as defined under the Listing Rules) that compete or may compete (directly or indirectly) with the business of the Group and any other conflicts of interests which any such person has or may have with the Company.

Purchase, Sale or Redemption of Listed Securities of the Company

Nether the Company nor any of its subsidiaries purchased, sales or redeemed any of the Company' listed securities during the six months ended 30 June 2015.

Corporate Governance Report

During the period under review, the Group has complied with the relevant regulations in the Code on Corporate Governance Practices (the "**Code**") as set out in Appendix 14 of the of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), save for the deviation from the code provision A.1.8. of the Code. The Board and the senior management of the Group have earnestly appraised the requirements of the Code and reviewed the practices of the Group to ensure full compliance with the Code.

Under the code provision A.1.8, the Group should arrange appropriate insurance cover in respect of legal action against its directors. However, as the Group's business are relatively unitary, the Directors can easily comprehend these businesses. At the same time, the Directors are equipped with the adequate spirit and expertise in making corporate decisions. Furthermore, the Directors consider that the management has placed emphasis on control cover corporate risks from time to time, and has strictly complied with the Listing Rules and the relevant regulations. Therefore, it is not necessary to purchase insurance for the Directors and Chief Executive.

Code of Conduct Regarding Securities Transactions by Directors

The Group has adopted the rules set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 of the Listing Rules as the code for dealing in securities of the Group by the Directors (the "**Code**"). All directors have complied with the required standard as set out in the Code during the period under review.

Audit Committee

The audit committee of the Company (the "**Audit Committee**") has reviewed the accounting principles and practices adopted by the Company and discussed auditing, internal control and financial reporting matters including the unaudited financial statements for the six months ended 30 June 2015. The Audit Committee currently comprises two independent non-executive directors, Mr. Zhao Bin and Mr. Wang Jie and one non-executive director Mr. Liu Peng. Mr. Zhao Bin is the chairman of the Audit Committee.

By Order of the Board
安徽天大石油管材股份有限公司
Anhui Tianda Oil Pipe Company Limited
Ye Shi Qu
Chairman

Anhui China, 21 August 2015

As at the date of this report, the Board comprises Ye Shi Qu, Zhang Hu Ming and Fu Jun as executive directors; Liu Peng and Bruno Saintes as non-executive directors; and Wu Chang Qi, Zhao Bin, Wang Bo and Wang Jie as independent non-executive directors.