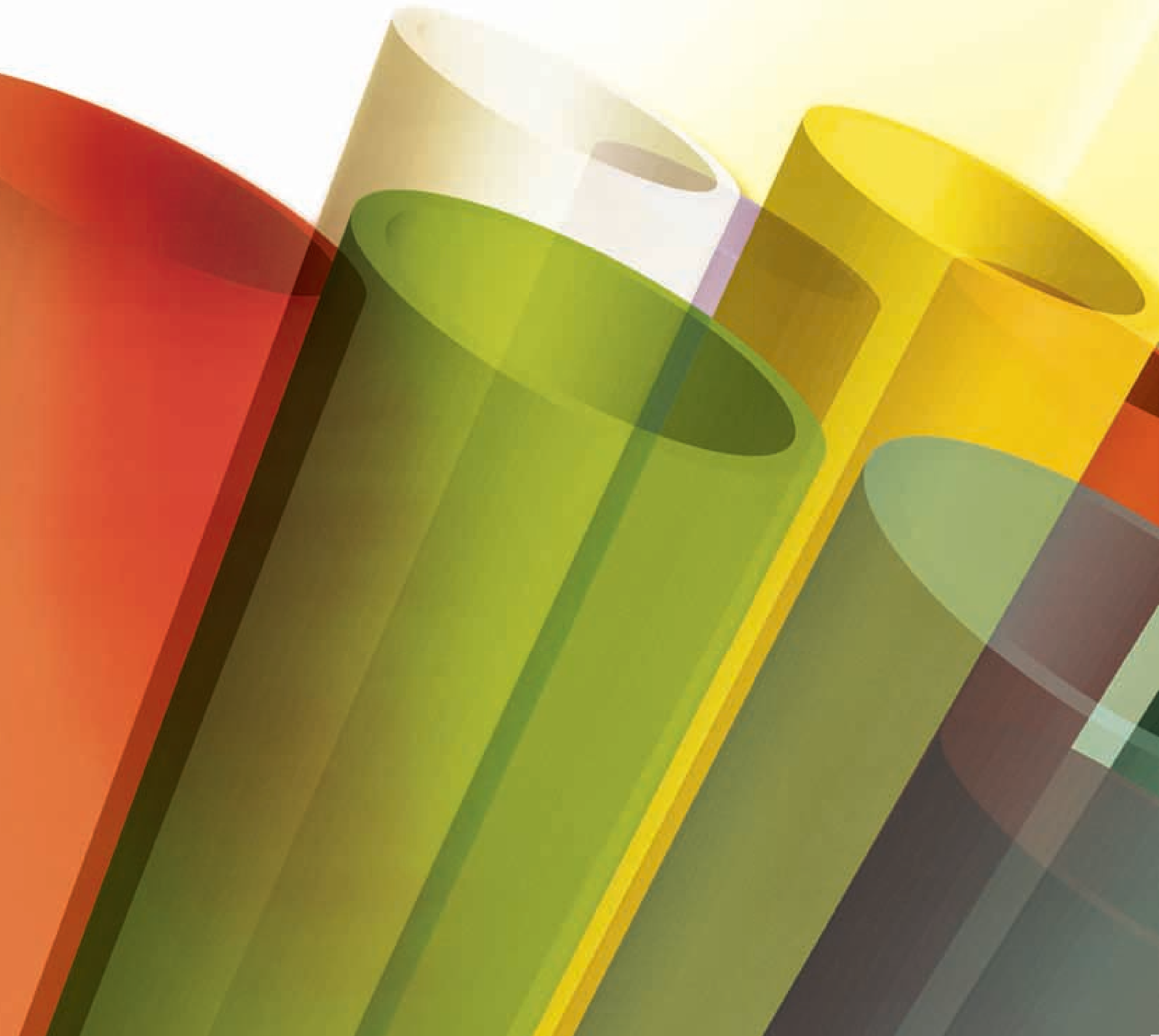
Anhui Tianda Oil Pipe Company Limited
安徽天大石油管材股份有限公司

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

Annual Report 2010



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CORPORATION INFORMATION

BOARD OF DIRECTORS

Executive Directors

YE Shi Qu (Chairman)
ZHANG Hu Ming
(Deputy Chairman and General Manager)
ZHANG Jian Huai

Non-executive Directors

XIE Yong Yang
LIU Peng

Independent Non-executive Directors

WU Chang Qi
ZHAO Bin
AU Kwok Yee Benjamin

Supervisors

LIU Jun Chang (Chairman)
YONG Jin Gui
YANG Quan Fu

COMPLIANCE OFFICER

ZHANG Hu Ming

COMPANY SECRETARY

WAN Man Wah

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1407, 14th Floor, Hang Shing Building
363 Nathan Road
Kowloon
Hong Kong

AUDIT COMMITTEE

ZHAO Bin (Chairman)
WU Chang Qi
ZHANG Jian Huai

REMUNERATION AND NOMINATION COMMITTEE

WU Chang Qi (Chairman)
ZHAO Bin
XIE Yong Yang

REGISTERED OFFICE

Zhenxing Road
Tongcheng Town
Tianchang City, Anhui Province
The PRC

AUDITORS

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

PRINCIPAL BANKERS

Agricultural Bank of China
Bank of China Limited
China Construction Bank Corporation
Industrial and Commercial Bank of China Limited
Huishang Bank

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

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

RECEIVING AGENT

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

OFFICIAL WEBSITE

http://www.td-gg.com

INVESTOR RELATIONS OFFICE

Zhenxing Road
Tongcheng Town
Tianchang City, Anhui Province
The PRC
Hotline: (86 550 7518500)
(852 6381 0079)

FINANCIAL SUMMARY

	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
Profit and loss items					
Revenue	**3,181,719**	1,936,743	2,636,580	1,575,481	1,265,314
Gross Profit	**261,549**	269,067	516,694	298,843	251,775
Net profit	**114,516**	199,689	302,220	183,742	118,491
Balance sheet items					
Total non-current assets	**1,485,584**	1,276,523	773,110	483,051	370,210
Total current assets	**1,696,369**	2,142,110	980,630	883,685	788,361
Total assets	**3,181,953**	3,418,633	1,753,740	1,366,736	1,158,571
Total non-current liabilities	**518,325**	626,214	48,693	14,837	35,000
Total current liabilities	**1,028,385**	1,231,111	447,698	356,164	286,199
Total liabilities	**1,546,710**	1,857,325	496,391	371,001	321,199

CHAIRMAN'S STATEMENT

To all Shareholders,

On behalf of the board of Directors (the "**Board**") of Anhui Tianda Oil Pipe Company Limited (the "**Group**"), I am pleased to present the report and audited financial statements for the financial year ended 31 December 2010 ("**2010**" or "**the Year**" or the "**Reporting Period**" or "**the Year under Review**") for the review of the shareholders of the Group.

ANNUAL RESULTS

In 2010, due to the further increase in the production capacity of the domestic specialized pipes industry, coupled with the lagged impact of the financial crisis on the real economy and the European and American anti-dumping actions, the competition in the industry became increasingly fierce. The rising raw material prices caused cost pressures, and the regional power rationing affected the operating rate of the production equipment in the second half of the year. All these backdrops exerted negative impacts on the Group's earnings.

Under relatively sluggish market environment, the Group adopts a business direction towards sustainable and stable development, with an emphasis on the optimal adjustment of product structure and market structure. The Group took a move towards product differentiation and service differentiation, with a view to steadily boosting its operational scale and market share. Although there was a year-on-year setback in the profit targets realized by the Group in 2010, the Group maintained good progress in the horizons including production and operation, marketing, strategic cooperation and future plans sustainable development.

The Group believes that capitalizing on the Group's expansion of production capacity, the continuous optimization of resources and structures, the acceleration of the pace of market consolidation and the favourable turnaround in the market environment, the Group will be well-poised to capture business opportunities. The Group will take full advantage of the Group's long-established strengths and future development potential brought by strategic cooperation in recent years, the Group can expect earnings and returns in the future.

The income of the Group for the year ended 31 December 2010 amounted to about RMB3,181,719,000 (2009: approximately RMB1,936,743,000), representing a year-on-year increase of 64.3%; Net profit attributable to equity holders for the corresponding period was approximately RMB114,516,000 (2009: approximately RMB199,689,000), down about 42.7% on a year-on-year basis.

REVIEW OF OPERATIONS

The production lines of the 300,000-tonnes high-grade oil well pipe project was put into pilot production and operation in March 2010. With the gradual release of the production capacity, the operations of the Group has been expanded rapidly, thereby improving tube technology, optimizing product structure, and strengthening market competitiveness. During the Year under Review, the Group achieved a total production of about 628,300 tonnes (2009: about 350,000 tonnes), and total sales of about 623,400 tonnes (2009: about 400,000 tonnes), representing an increase of about 79.5% and about 55.9% when compared to the same period last year respectively.

In relation to the domestic market, during the Year under Review, the Group reinforced its cooperation between the four major oil companies in China on one hand, while actively exploring other specialized pipe markets on the other hand. Benefited from the Group's image and credibility in the industry over the years, along with a wide customer base and obvious edges in product cost and quality, amid the harsh market environment in the Year under Review, the Group managed to achieve domestic sales of about 425,000 tonnes (2009: about 294,000 tonnes), up about 44.6% on a year-on-year basis.

During the Year under Review, there were increased competitive pressures in overseas markets. Driven by the gradual economic recovery, the operating rate of the specialized pipe enterprises was improved on an overall basis. However, due to the impact of the European and American anti-dumping activities, the increase in production capacity was concentrated and digested in overseas emerging markets. During the Year under Review, the Group put into place a series of effective measures to continue to tap into the emerging markets including the Southeast Asia, the Middle East, Africa, and South America. We achieved overseas sales of about 198,400 tonnes (2009: 106,000 tonnes), which was a year-on-year increase of about 87.2%.

The Group took part in the 2010 Germany Tube Wire Exhibition organized at the International Exhibition Center in Dusseldorf, Germany in April 2010, the Sixth Shanghai International Steel Pipe Industry Exhibition hosted at the Shanghai International Exhibition Center in May 2010, and the Fourth China International Pipe Industry Trade Fair held at the Shanghai New International Expo Centre in September 2010. At the exhibitions, the new products developed by the Group were displayed. The quality and cost-effectiveness of the Group's products were well received by customers. Through extensive contacts with customers and the marketing of the Company, the Group further enhanced its brand influence.

During the Year, the Group continued to offer one-stop services for customers to consolidate customer base, thereby enabling the Group to keep abreast of the market conditions. The Group will also timely convert part of varieties and specifications among the one-stop services from external procurement to self-production.

During the Year under Review, the Group made market-centered research and development efforts. While continuing to extend research and development efforts on high steel grade, corrosion-resistant oil well pipe products suitable for exploitation under adverse geological environment, the Group stepped into the research and development of X46, X60 and X65 high-grade steel line pipes, 450 submarine line pipes, as well as an ultra-fine grain axle pipe material. Our product offerings were thus enriched, and product quality was enhanced. An invention patent was applied for the "an ultra-fine grain axle pipe material and its processing methods" to the State Intellectual Property Office. At the same time, through the application of the mature oil well pipe production technology, we conducted the research and development of value-added products in the category of specialized pipe products, such as nuclear power specialized tubes, ultra-critical boiler tubes and so on.

During the Year under Review, the Group continued to strengthen the technological transformation of the production lines, so as to improve processes, reduce production losses and increase the use of equipment. The Group also enhanced the capacity of the existing production lines to their full scale, and released the capacity of high steel grade oil well pipe production lines as soon as practicable.

STRATEGIC COOPERATION

As a backbone manufacturer of oil well pipes in China with competitive strengths, the Group actively developed its collaboration with global leading companies by leveraging on its own unique advantages. On 15 September 2010, the Group entered into a series of transaction agreements with Vallourec & Mannesmann Tubes ("VALLOUREC"), one of the most globally-renowned leaders in the industry, with a view to introducing VALLOUREC as a strategic shareholder and cooperating in the aspects including technology, research and development, sales and corporate management and control between both parties. For further details, please refer to the circulars of the Group dated 8 October 2010 and 23 December, 2010.

To comply with the need for strategic cooperation, the Company changed its nature to a foreign investment company with limited liability in December 2010 under the approval by the Anhui Provincial Department of Commerce. Business registration procedures were completed. The Company has obtained a new business license.

Based on considerations of the development and maintenance of overseas oil well pipe markets, the Group's wholly-owned subsidiary in Singapore, NEW TIANCHENG INTERNATIONAL COMPANY PTE.LTD, transferred all the shares held by it in TIANDA INTERNATIONAL PTE.LTD to an independent third party in November 2010.

RISK CONTROL

The Group placed indispensable values on strengthening internal governance in order to more effectively control the Group's operating and financial risks. The Group is fully aware that the growth in the Group's size will drive higher requirements for strategic management, corporate control and risk prevention. During the Year under Review, the Group revised its strategic development plan. To stay ahead of the competition, the Group perfected the design and building of its management and control model, so that the Group's organizational structure became more reasonable. The Group proactively improved the authorization management system, while intensifying assessment efforts on hard targets of accounts receivable and inventory. The Group continued to business model linking production with sales. Overseas sales were settled by way of sight letter of credit, while domestic sales were in principle shipments upon full settlement of amounts. The credit period is generally 1 to 45 days extending up to 100 days for certain strategic customers. Significant amounts of receivable accounts were audited regularly by senior management; We made strategic procurement of raw materials that will not be more than the amount of actual usage for 3 months. To the extent of the control of the limited risk, we will grasp opportunities of market fluctuations in raw materials. The Group will gradually improve the business processes including supply, production, marketing and business management through the promotion of ERP projects, thereby raising the supervision and control of key areas, and uplifting the Group's risk control level.

ENERGY SAVING AND CONVERSATION

In the 12th Five-Year Plan which will be started by the country in 2011, there will be even stricter requirements for environmental protection and energy saving. The Group made continued efforts on strengthening the technological innovation of production processes and equipment, as well as environmental protection and energy conservation, thus striving for the expansion of our business scale and the organic integration of corporate social environmental responsibility. We constantly reduced energy consumption per unit of product. Our subsidiary in Chuzhou made use of natural gas as an energy source, thereby creating a clean environment without emissions of pollutants. The Group reaped notable success in environmental protection, as testified by many prestigious awards by provincial and municipal governments. With increasingly stringent environmental requirements and policies, the domestic production capacity that fell behind the competition will be eliminated, thus fostering a favorable environment for competition.

OUTLOOK AND PROSPECT

Looking ahead, for the macroeconomic environment, the global economy has shown recovery at a double speed, yet is faced with a double-dip risk. According to the "World Economic Outlook and Policy Challenges" released by the International Monetary Fund (IMF) on 23 February 2011, it was reported that the global economy will continue to show recovery, which was obviously better than expected. The global economy is expected to grow at a speed of 4.4% and 4.5% this year and next year. In particular, developed economies will grow at a rate of 2.5% and 2.4%, while emerging economies will grow at a rate of 7.4% and 7.3%. At the same time, the global economy will be faced with double-pronged risks. On the one hand, the resurgence in developed economies at a moderate growth rate will be insufficient for driving a significant reduction in the high unemployment rate. The economy will be exposed to increased downturn risks. On the other hand, the rise in food and commodity prices, and the inflow of massive capital have led to growing inflation pressures in emerging economies including Brazil and China. There are even signs of economic overheating in some countries. The lack of effective control over the inflationary pressures in emerging economies is expected to be turned out as a deep-rooted inflation, which will in turn threaten the stability of macroeconomic policies.

According to the annual report presented by Research Center for Prediction Sciences, China Academy of Sciences (CAS) in the "Economic Forecast and Prospect of China in 2011", it is indicated that six sectors in China including automobile, home appliances, non-ferrous metals, iron and steel, coal and oil industry will turn into boom cycle in 2011. Based on the development in the recent decade, China's oil well pipes industry, which is related to petroleum as well as iron and steel sectors, has grown into an important industry with considerable scale and vivid vitality. In light of global economic growth, increasing demand for oil energy, and high crude oil prices, oil and gas upstream enterprises are expected to deliver increasing efforts to make capital investment in exploration and extraction of oil and gas. This scenario will promote more efforts on the extraction of oil and gas wells with deep depth, harsh geological environment and complex composition. The market will be in hotter demand for drilling equipment in terms of greater quantity and higher product quality, thus bringing new challenges and opportunities to the oil and well pipe manufacturers. The oil and well pipe enterprises have increased their research and development efforts on providing more quality products and services. In view of an expanding volume of the global market, and given that China's oil and well pipe enterprises had experienced ferocious market competition amid the post-financial crisis and anti-dumping period, the advantageous enterprises are set to continuously underpin their capabilities in the overall technological research and development, market competition and risk resistance, They are well-positioned to lead the industry into a rapid development and an era of leadership turnover with their edges in manufacturing costs.

Pivoting on the development in the recent five years after its listing, the Group has blossomed into a specialized pipe enterprise with a sizeable production scale and competitive strengths. Over the years of development, the Group has built up a well-nourished corporate culture, and has reserved a pool of excellent human resources. The Group has a unique business model with world-class technology and equipment, and one-stop services, thus establishing a mature product technology and processes as well as a global market network. The Group is capable of promptly responding to market demand and providing total service solutions. The Group cooperated with the world's leading companies. It has clear a corporate strategic direction and goal, and clearly defined measures; With the Group's increasing reputation and image in the industry, its brand influence is growing, thus laying a solid foundation for steady and rapid development of the Group in the future.

We also recognize that, the external environment in which the Group operates is still full of unstable and uncertain factors in 2011. The global market is highly competitive. Bulk raw and auxiliary materials and labour costs have been tending upwards. The operating landscape remains tough for the specialized pipe manufactures. Although there are certain barriers and challenges ahead, yet we can overcome or partly solve these barriers and challenges through hard work. From a general perspective, after undergoing the cyclical trough of the industry, the Group will enter into a phrase of prominent development. The Group will build on its strengths in efficient business execution and sophisticated technology and equipment. It will take advantage of the strategic cooperation with VALLOUREC. It will also extend the potential of the 300,000-tonne high-grade steel oil well pipe production line project. We will endeavour to enhance the level of production processes and technology and product research and development capabilities, thereby increasing added values of products and optimizing the product structure; We will take great leaps in strengthening Tianda brand, and actively exploring into the domestic market. The Group will optimize the structure of customer base, and enlarge its scale of operation; We will enhance cost management and sense of crisis. We will also reinforce cost control, so as to reduce the pressures of rising cots of raw and auxiliary materials and to raise cost efficiency.

Looking ahead, we will work with strategic partners to leap towards long-term growth with unswerving confidence. We will make unwavering commitment to actively implement the Group's established development strategy, in order to achieve stable and sustainable growth of the Group, and constantly create new values for shareholders.

ACKNOWLEDGEMENT

Finally, on behalf of the Board of Directors, I would like to take this opportunity to express heartfelt gratitude to all customers, business partners and shareholders for their cast of confidence and support for the Group. In addition, I would also like to take this opportunity to thank the management team and staff for their tireless efforts and contributions in the past year.

Ye Shi Qu
Chairman

Anhui, the PRC, 24 March 2011

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis relating to the Group's financial and operating conditions should be read in conjunction with the Group's consolidated financial statements and related notes for reference.

OVERVIEW

The unprecedented stimulus packages invigorated the global economy to a speedy recovery, followed by a slow, unstable, and unbalanced recovery period in 2010. The operating landscape in 2010 was a bit difficult and challenging for China's specialized pipe industry. Market demand was weighed down by the rampage of the financial crisis and the exercise of trade protection policies by the European and American countries. The focused release of the capacity in the industry (built up before the crisis) has resulted in intensified market competition. Product prices remained at low levels. In the second half of the year, the regional electricity rationing and rising raw material costs had also exposed the Group's operation and profitability to adverse impacts. Against the backdrop of market downturn in a complex and competitive environment, the Group heralded the entry of its business to an era of growth. We marched towards a substantial increase in production and sales, rich product mix, broad customer base, and strong financial position. Moreover, the restructuring cooperative project with the world leader in premium tabular solutions, VALLOUREC was under smooth progress.

Comprehensive income

The Group recorded a total revenue of approximately RMB3,181,719,000 in 2010, representing an increase of approximately RMB1,244,976,000 or approximately 64.3% when compared to approximately RMB1,936,743,000 in 2009. The increase in revenue was attributable to the following reasons: (1) the Group's sales increased by about 223,400 tonnes to about 623,400 tonnes following the operation of the production line of the 300,000 tonnes high-grade oil well pipe project in 2010; (2) the average price per tonne of product rose by approximately RMB248 to approximately RMB5,104 as a result of the rise in raw material prices and the change in product range structures.

During the year under review, the respective sales from the domestic and overseas markets each reached a new height. The sales growth from the overseas markets was particularly prominent. The proportion of overseas sales to the Group's total sales was about 35.8% (2009: approximately 33.1%).

Gross profit

During the year, the Group reported a gross profit of approximately RMB261,549,000, which was a decrease of approximately RMB7,518,000 or approximately 2.8% when compared to approximately RMB269,067,000 in 2009. The decrease in gross profit was mainly due to the fact that: (1) there was ferocious market competition, and the increase in product price was less than the rise in raw material prices; (2) following the recent trial operation of the production line of the 300,000 tonnes high-grade oil well pipe project in early 2010, the depreciation per unit of product was higher, investment in research and development and raw material consumption increased during the trial production, and the production volume in the first year of operation was relatively low. In other words, in 2010, the commission and operation of the production line of the 300,000 tonnes high-grade oil well pipe project contributed insignificant profitability to the Group; (3) the product gross margin was affected as the utilization rate of the Group's production facilities was below normal operation level as a result of the regional electricity rationing in the second half of the year.

Other income and gains

For the year ended 31 December 2010, the Group's other income and gains amounted to approximately RMB31,212,000, representing a decrease of approximately RMB28,953,000 or approximately 48.1% when compared to approximately RMB60,165,000 in 2009. The decrease was mainly due to: (1) the reduction in government incentives and benefits by approximately RMB17,199,000 amid China's gradual economic recovery in 2010; (2) The reduction in interest income in line with the decrease in bank deposits as a result of higher demand for liquidity following the commencement of operation of the new production line; and (3) lower earnings from the financial instruments hedging foreign currency investments following the completion of the procurement of imported equipment for the high-grade oil well pipe production line project.

Selling and distribution costs

For the year ended 31 December 2010, the selling and distribution costs of the Group was about RMB94,449,000, representing an increase of approximately RMB27,018,000 or approximately 40.1% when compared to approximately RMB67,431,000 in 2009. The increase was mainly due to the rise in unit transportation costs due to the increased sales and transportation rates, and the soar in salaries for sales personnel in line with the expanded sales volume.

Administrative expenses

For the year ended 31 December 2010, the Group's administrative expenses was approximately RMB36,678,000, which was an increase of approximately RMB13,834,000 or approximately 60.6% when compared to approximately RMB22,844,000 in 2009. The increase was mainly due to the increase in salary levels of senior managers, junior managers as well as professional and technical staff during the period due to the Group's focus on enhancing team cohesion and motivating staff morale.

Finance costs

The finance costs of the Group for the year ended 31 December 2010 amounted to approximately RMB24,220,000 (2009: approximately RMB1,391,000), which increased by approximately RMB22,829,000 when compared with last year. The increase was mainly caused by the fact that the bank loans for fixed assets projects were not yet due for repayment while the fixed assets investment projects have been completed, and the interest expenses incurred were no longer capitalized.

Income Tax

The income tax of the Group for the year was approximately RMB20,286,000 (2009: approximately RMB35,905,000), representing a decrease of approximately RMB15,619,000 when compared with last year. The decrease was mainly due to a fall in profit before tax when compared with last year. In accordance with the "Management Methods for Identification as a New and High-tech Enterprise" (《高新技術企業認定管理辦法》), the Group's statutory corporate income tax rate of 2010 was 15%.

Net profit

The Group's net profit attributable to owners of the parent company for the year was approximately RMB114,516,000 (2009: approximately RMB199,689,000). When compared with last year, net profit attributable to equity holders decreased by approximately RMB85,173,000 or approximately 42.7%. The decrease was mainly due to (1) a year-on-year decrease in the gross margin achieved by the Group due to factors including fierce market competition, rising costs, higher depreciation of new production lines, and regional electricity rationing; (2) the increase in selling and distribution costs and administrative expenses as a result of the expansion of the operation scale of the Group, and the increase in financial expenses due to non-capitalization of the interests of the loans for fixed assets projects; (3) the reduction in various government incentives and subsidies amid macro-economic recovery.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the Group's cash and cash equivalents amounted to approximately RMB49,382,000 (31 December 2009: approximately RMB384,217,000). As at 31 December 2010, the Group's interest-bearing loans and borrowings amounted to approximately RMB661,759,000 (31 December 2009: approximately RMB647,736,000). Bank loans of the Group bore interest at rates ranging from 3.55% to 7.47% per annum in 2010. As at 31 December 2010, except for bank loans in the amount of RMB331,131,000, the remaining loans were guaranteed. Bank loans of the Group are denominated in RMB or other foreign currencies.

It is essential for the Group to strike a balance between capacity expansion and strong financial position. The Group has always been committed to building long-term relationship of mutual trust with major banks. This has provided sound support to the long-term financial position of the Group. We adhered to prudent financial management and maintained good working relationship with banks. For the expansion of production capacity, the Group secured an optimal loan portfolio, which was well-balanced with our business realities and pace of development in a number of aspects including different currencies and repayment period. Thanks to the expansion of the operations of the Group during the year under review, the Group's credit limits with various banks were increased, thus spreading the financing risk. The Group's net debts amounted to approximately RMB1,485,327,000, and its gearing ratio as at 31 December 2010 was approximately 48% (31 December 2009: approximately 48%), which was net debt divided by total capital plus net debt.

CHARGES ON ASSETS

As at 31 December 2010, part of the Group's time deposits of RMB170,354,000 were pledged to secure the bank accepted drafts, the letters of credit and foreign exchange forward contracts (31 December 2009: the time deposits of RMB622,276,000 pledged to secure the bank accepted drafts, the letters of credit and bank loans). As at 31 December 2010, none of the Group's property, plant and equipment was pledged (31 December 2009: Nil).

SIGNIFICANT INVESTMENTS HELD

During the year ended 31 December 2010, the Group did not have any significant investment.

MAJOR ACQUISITION AND DISPOSAL

The Group did not make any major acquisition or disposal during the year ended 31 December 2010.

CONTINGENT LIABILITIES

As at 31 December 2010, the Group did not have any significant contingent liabilities.

FUTURE PROSPECT

The global economy remains uncertain in 2011. To stay ahead of the competitive market environment, the Group will capitalize on its scale of economies, R&D promotion and synergies from comprehensive business cooperation with VALLOUREC, and maintain its competitiveness and business growth through the implementation of the following strategies. We expect to generate stable returns for our shareholders.

Stepping up efforts in research and development, improving equipment utilisation and enhancing added values of products

The Group will continue to reinforce the technological transformation of the production lines and equipment, while upgrading production processes and tapping into the potential of the high-grade oil well pipe production line, so as to endeavour to expand the actual production capacity of the production line of the high-grade oil well pipes to the double of the design capacity by 2012. To achieve this capacity goal, the Group's technological transformation required a capital expenditure of about RMB50 million each year. In 2011, the capacity target of the Group will be about 850,000 tonnes.

In relation to the research and development of products, by riding on the advantages of strategic partners in product development resources, and collaborating with research institutions in the industry, new products in the category of high-grade steel and specialized threaded oil well pipes were developed jointly. In the product structure, through the use of mature technology of oil well pipes as well as the employment of high precision and flexibility features of the rolling production line of the high-grade steel oil well pipes, we developed and produced high-grade nuclear power pipes, supercritical boiler pipes and specialized tubes for heavy-duty trucks and so on. In the processing segments, the focus was placed on improving the proportion of advanced processing such as product threading and heat treatment, so as to constantly improve the added values of products.

Vigorously exploring and optimizing the domestic and international markets, enhancing market control ability and brand influence

The surge in oil prices boosted oil exploration and exploitation to another boom cycle, driving the demand for drilling equipment. At the same time, with the development of the oil industry, oil drilling has become more sophisticated, and there are increasing concerns about drilling depth. This led to increased consumption of oil well pipes and stronger demand for high-end oil well pipes.

Domestic market demand was basically saturated, while global market demand grew steadily. Advantages are gradually concentrated on a small number of enterprises. Pivoting on proven record in the industry, eminent technical capabilities and stable financial base, coupled with a wide variety of differentiated services, channel expansion and a diversified customer base, the Group was well-positioned to continue to enlarge its share in the domestic market.

Following the cooperation with VALLOUREC, VALLOUREC will be responsible for the overseas sales of the oil well pipe products produced by the Group. VALLOUREC has a customer base which is mostly large international oil companies. This move will optimize the structure of the Group's customer base, thereby consolidating and strengthening the Group's brand influence. In addition, the Group will continue to step up its efforts on the export of other specialized pipes including high-grade steel pipelines and seabed pipelines, so as to raise the proportion of export sales to the Group's total sales to about 50%.

Finally, to cope with the Group's future needs of long-term growth, the Group will make greater efforts to select and train talented people, so as to grow us into an enterprise with evergreen vitality.

FOREIGN EXCHANGE RISK

Generally, when the Group sells its products to overseas customers, it is dealing in United States dollars. The Group's books are prepared in RMB whereas the receivables from overseas customers may be subject to foreign currency fluctuations.

During the year under review, the Group applied forward currency contracts to hedge against exchange risk resulting from overseas sales transactions. Forward currency contracts should be denominated in the same currency with the transactions to be hedged. It is the Group's policy to enter into forward currency contracts after attaining confirmed orders from customers.

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.

SEGMENTAL INFORMATION

1. Self-produced specialized pipes

   For the year ended 31 December 2010, the sales volume of the Group's self-produced specialized pipes was approximately 594,700 tonnes (2009: approximately 350,000 tonnes), representing a year-on-year increase of approximately 69.9% when compared to the previous year.

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 year ended 31 December 2010, the sales volume of the Group's sourcing and distribution of specialized pipes was approximately 28,700 tonnes (2009: approximately 50,000 tonnes). When compared to last year, the sales volume of the sourcing and distribution of specialized pipes declined by approximately 42.6%.

   By reacting to customer needs and keeping abreast of the Group's actual business needs, the Group timely converted some products from external procurement to self production. Although there was a decline in the sales volume of the sourcing and distribution of specialized pipes during the period under review, the Group's business strategy for the sourcing and distribution of specialized pipes remained unchanged.

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 31 December 2010, the Company had 1,797 employees (as at 31 December 2009: 1,658 employees). 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 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.

USE OF PROCEEDS FROM INTERNATIONAL PLACING IN DECEMBER 2009

In December 2009, the Group raised net proceeds of approximately HK$196,000,000 through an international placing. As at 31 December 2010, the use of proceeds by the Group was in line with the details set out in the announcement of the Group dated 4 December 2009. The proceeds were fully utilized.

CORPORATE GOVERNANCE REPORT

It is our longstanding belief that a high standard of corporate governance is the key for the Group's stable and effective operation and is in the long-term interests of shareholders. Throughout the year ended 31 December 2010, 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 Listing Rules (the "**Listing Rules**") of the Stock Exchange. 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.

BUSINESS OBJECTIVES

During the period from the listing of the Group to 31 December 2010, the Group commenced its business operations in accordance with the business plan and business objectives as stated in the Prospectus, and has smoothly achieved the business objectives as set out in the Prospectus as scheduled.

INTERNAL CONTROLS

The Board has overall responsibility for the internal control system of the Company. The Board has developed its systems of internal controls and risk management and is also responsible for reviewing and maintaining an adequate internal control system to safeguard the interests of the shareholders and the assets of the Company. The executive directors and senior management of the Group have been granted corresponding authorizations to manage and monitor all operating systems of the entity and handle related affairs according to the principles of trust and impartiality. The Audit Committee supervises the internal control system of the Group and reviews the internal audit report presented by the senior management, as well as reports any major issues and makes recommendations to the Board.

During the Year under Review, the Group has adopted a number of policies of internal controls to manage and minimize financial and other risks, to ensure accurate preparation and reporting of financial information, as well as to supervise compliance with laws by the senior management in performance of their duties.

DIRECTORS' SECURITIES TRANSACTIONS

The Group adopts standards of conduct regarding director's dealing in securities as set out in the Appendix 10 of the Listing Rules. In addition, the Group has made specific enquiries of all directors and each director had confirmed that during the year ended 31 December 2010, they have fully complied with the required standards.

OPERATIONS OF THE BOARD

The Group planned in advance board meetings in order to make sure that all Directors could plan in advance their availability to attend the scheduled board meetings. Board minutes are kept and every board member is entitled to have access to board papers and related materials and to the advice and services of the Group Secretary, and to seek professional advice if required.

For the year ended 31 December 2010, there were in total 8 Board meetings held and the attendance record of each director is set out below:

Members of the Board	Number of meetings Held	Attendance	Attended percentage
EXECUTIVE DIRECTORS			
Mr. Ye Shi Qu	8	8	100%
Mr. Zhang Hu Ming	8	8	100%
Mr. Zhang Jian Huai	8	8	100%
NON-EXECUTIVE DIRECTORS			
Mr. Xie Yong Yang	8	8	100%
Mr. Liu Peng	8	8	100%
INDEPENDENT NON-EXECUTIVE DIRECTORS			
Mr. Wu Chang Qi	8	8	100%
Mr. Zhao Bin	8	8	100%
Mr. Au Kwok Yee Benjamin	8	8	100%

INDEPENDENT NON-EXECUTIVE DIRECTORS

In full compliance with Rules 3.10(1) and (2) of the Listing Rules, during the year ended 31 December 2010, the Group has appointed three independent non-executive directors, at least one of whom has appropriate professional accounting qualifications. The Group has received from each independent non-executive director an annual confirmation of his independence, and the Group considers such directors to be independent in accordance with each and every guideline set out under the Listing Rules.

None of Mr. Zhao Bin, Mr. Wu Chang Qi, and Mr. Au Kwok Yee Benjamin has any financial, business, family or other material relationship between each other and the members of the Board.

Each of the independent non-executive directors has been appointed for a term of 3 years.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

For the year ended 31 December 2010, Mr. Ye Shi Qu serves as the Chairman of the Group and is responsible for formulating the Group's overall strategies and business directions. Mr. Zhang Hu Ming serves as the Deputy Chairman and General Manager of the Company. He is responsible for and devotes all his time to the daily management and operations of the Group and assumes the role of a chief executive officer. Save for Mr. Ye Shi Qu who is the uncle of Mr. Liu Peng (a non-executive director of the Company), there are no family, financial, business or other relationships between the members of the Board.

THE AUDIT COMMITTEE

The Audit Committee comprises Mr. Zhao Bin (Chairman), Mr. Wu Chang Qi and Mr. Zhang Jian Huai, the majority of whom are independent non-executive Directors of the Company.

The committee held two meetings during the year.

Members of the Audit Committee	Number of meetings Held	Attendance	Attended percentage
Mr. Zhao Bin (Chairman)	2	2	100%
Mr. Wu Chang Qi	2	2	100%
Mr. Zhang Jian Huai	2	2	100%

The primary duties of the audit committee include:

(i) to review and supervise the financial reporting process and internal control system of the Company;

(ii) to provide advice and comments to the Board;

(iii) to appoint auditor, determine its remuneration and any advice relating to the removal of the auditor;

(iv) to review the effectiveness of the Group's internal control measures, including the regular review on the internal control procedures for the Group'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 Group and effectiveness on implementation of corporate objectives and strategies; and

(v) to review the internal audit plan of the Group and to submit report and recommendations to the Board on a regular basis.

The Group's audited financial statements as set out in this annual report have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

REMUNERATION AND NOMINATION COMMITTEE

The Remuneration and Nomination Committee of the Group comprises three directors, namely Mr. Wu Chang Qi (Chairman), Mr. Zhao Bin and Mr. Xie Yong Yang. Most of them are the independent non-executive directors of the Group.

The Remuneration and Nomination Committee held one meeting during the year to review the policy for the remuneration of executive directors, assessing performance of executive directors and their respective service contracts.

Members of the Remuneration and Nomination Committee	Number of meetings Held	Attendance	Attended percentage
Mr. Wu Chang Qi (Chairman)	1	1	100%
Mr. Zhao Bin	1	1	100%
Mr. Xie Yong Yang	1	1	100%

The main responsibilities of the committee include:

(i) to review and consider the remuneration policies and structure for the Group's directors and senior management and make proposals to the Board;

(ii) to review and approve the performance-linked emoluments with reference to the objectives of the Group as adopted from time to time by the Board; and

(iii) to regularly review the structure, size and composition of the Board of Directors, and to make recommendations to the Board of Directors in relation to the nomination and appointment of directors and succession planning.

COMPLIANCE OFFICER AND COMPANY SECRETARY

Compliance Officer: Mr. Zhang Hu Ming

Company Secretary: Mr. Wan Man Wah (fellow member of The Association of Chartered Certified Accountants and associate member of the Hong Kong Institute of Certified Public Accountants)

AUDITORS' REMUNERATION

The Audit Committee of the Group is responsible for considering the appointment of the external auditors and reviewing any non-audit functions performed by the external auditors, including whether such non audit functions could lead to any potential material adverse effect on the Company. During the Year under Review, the Group paid an aggregate of approximately RMB950,000 to the external auditors for their services including audit and non-audit services.

INVESTORS RELATIONS

The Board and senior management recognize their responsibility to represent the interests of all shareholders and to maximize shareholder's value and have made the following commitments to the Company:

- continuing effort to maintain long-term stability and growth in shareholder value and return on investment;
- responsible planning, establishment and operating of the Group's core businesses;
- responsible management of the Group's investment and business risks; and
- true, fair and in detail disclosure of the financial position and operating performance of the Company.

The Group believes that shareholders' rights should be well respected and protected. The Group endeavors to maintain good communications with shareholders on its performance through interim reports, annual reports, general meetings and public disclosure on the Group's website, so that they may make an informed assessment of their investments and exercise their rights as shareholders. The Group also encourages shareholders' participation through general meetings or other means.

For the purpose of promoting the mutual communication between the Company, its shareholders and potential investors on a regular basis, the Group has set up an investor relations office to respond to the questions and enquiries from shareholders and the general public. For any enquiries, investors may write directly to the Group at its place of business in the PRC (No.4, Zhenxing Road, Tongcheng Town, Tianchang City, Anhui Province, the PRC) or e-mail to chendong@td-gg.com.

REPORT OF THE DIRECTORS

The Board is pleased to present their report and the audited financial statements of the Group for the year ended 31 December 2010.

PRINCIPAL ACTIVITIES

The Group is engaged in the research and development, production and sales of specialized seamless pipes.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2010 are set out in the income statement and the accompanying Notes to the financial statements on page 32 to page 84 of this report.

The Board has recommended the payment of a final dividend of RMB3.1 cents per share (inclusive of tax) in respect of the year ended 31 December 2010. Dividends payable to holders of domestic shares will be paid in RMB, while dividends payable to holders of H shares will be paid in Hong Kong dollars. The date of closure of the registered of members of the Company regarding the entitlement of final dividend will be published in due course. The proposed final dividend will paid in or before July 2011 following the approval at the forthcoming annual general meeting.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year of 2010 are set out in note 16 of the Notes to the financial statements.

SHARE CAPITAL

Details of the issued share capital of the Group are set out in note 27 of the Notes to the financial statements.

DISTRIBUTABLE RESERVE

Following the listing of H Shares of the Company, the Group's reserves available for distribution to shareholders is the lower of its accumulated profits after tax as stated in the statutory financial statements in the People's Republic of China (the "**PRC**") and the financial statements prepared under International Financial Reporting Standards (the "**IFRS**"). As at 31 December 2010, the Group's distributable reserve after such comparison and before deducting the proposed dividend for 2010 represents its accumulated profits prepared in accordance with the Accounting Standard for Business Enterprises, Accounting Policies for Business Enterprises and other relevant provisions issued by the Ministry of Finance of the PRC (the "**PRC GAAP**") of approximately RMB686,401,000 (31 December 2009: accumulated profits prepared in accordance with PRC GAAP of approximately RMB623,917,000).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2010, sales to the five largest customers of the Group accounted for less than 30.6% of the Group's total turnover. For the year ended 31 December 2010, purchases from the Group's largest supplier, Tianjin Iron & Steel Co., Ltd., and five largest suppliers accounted for approximately 30.6% and 78.8% respectively of the Group's total purchases.

None of the directors, the supervisors (the "**Supervisors**") of the Group and their associates or any Shareholders (which to the knowledge of the directors owned more than 5% of the Group's Shares) have an interest in any of the Group's five largest customers or suppliers.

DIRECTORS AND SUPERVISORS

Directors and Supervisors during the year and up to the date of this report included:

Executive Directors:

Mr. Ye Shi Qu (Chairman)
Mr. Zhang Hu Ming (Deputy Chairman and General Manager)
Mr. Zhang Jian Huai

Non-executive Directors:

Mr. Xie Yong Yang
Mr. Liu Peng

Independent Non-executive Directors:

Mr. Wu Chang Qi
Mr. Zhao Bin
Mr. Au Kwok Yee Benjamin

Supervisors:

Mr. Liu Jun Chang
Mr. Yong Jin Gui
Mr. Yang Quan Fu

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Ye Shi Qu, aged 61. He is a deputy to the Eleventh National People's Congress and the chairman and an executive director of the Company. Ye Shi Qu is responsible for formulating the overall strategies and business directions of the Company. Ye Shi Qu is the founder of Anhui Tianda Enterprise (Group) Company Limited ("**Tianda Holding**") and has been its actual controlling party since then. Ye Shi Qu had been awarded the Model of National Agricultural Labour, National Excellent County Entrepreneur, Third China Best Entrepreneur of Privately owned Enterprises, Nationwide Outstanding Huizhou Merchant and Top Ten Entrepreneur in Anhui Province. Ye Shi Qu is also the Deputy Chairman of the China Individual Labourers' Association, Enterprises Association and Entrepreneur Association of Anhui Province, Association of Industry and Commerce of Anhui Province and the Deputy Chairman of the Federation of Industrial Economics of Anhui Province. Ye Shi Qu was appointed as a director in April 2006 and was re-elected as a director on director reelection in April 2009, but has been involved in the Group's business since 1993 (when it was then operated by one of the Group's predecessors). Ye Shi Qu is the uncle of Liu Peng, a non-executive Director.

Mr. Zhang Hu Ming, aged 42. He is the Deputy Chairman, an executive director and the General Manager of the Company. Zhang Hu Ming is responsible for the daily management and operations of the Company. Zhang Hu Ming has extensive experience in the specialized seamless pipe industry and its management with over 17 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 Specialized 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 a deputy of the Tenth and Eleventh Session of the Anhui Province People's Congress. 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 Nanjing University in July 2002. Zhang Hu Ming was appointed as a director in April 2007 and has been involved in the Group's business since 1993 (when it was then operated by one of the Group's predecessors). Zhang Hu Ming was appointed as a director in April 2006, and was re-appointed as a director on director re-election in April 2009, but has been involved in the Group's business since 1993 (when it was then operated by one of the Group's predecessors).

Mr. Zhang Jian Huai, aged 41. He is currently an executive director of the Company. He was a non-executive director of the Group during the period from April 2006 to August 2008 and was the qualified accountant of the Group during the period from September 2008 to August 2009. Engaging in finance and accounting for a number of years, Zhang Jian Huai has over 15 years of experience in financial practices and operations. Zhang Jian Huai graduated with a bachelor degree from the Institute of Chinese Communist Party in economics management. Zhang Jian Huai was re-appointed as a director on director re-election in April 2009, but has been involved in the Group's business since October 2005 (when it was then operated by one of the Group's predecessors).

Non-executive Directors

Mr. Xie Yong Yang, aged 52. He is a non-executive director of the Company. Xie Yong Yang was an executive director of the Group during the period from April 2006 to April 2009. 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 a number of technology upgrade projects. Xie Yong Yang graduated from Hefei Industrial University with post-secondary qualification in economics management. Xie Yong Yang was appointed as an executive director in April 2006 and was re-designated as a non-executive director on director re-election in April 2009, but has been involved in the Group's business since April 2000 (when it was then operated by one of the Group's predecessors). Xie Yong Yang is the brother-in-law of Ms. Huang Yao Qi, the financial controller of the Company.

Mr. Liu Peng, aged 34. He is a non-executive director of the Company. He graduated from the Department of Finance in Nankai University in 1997. He was awarded a degree of 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 in 2003. Liu Peng has over 10 years of experience in corporate capital operation and corporate management. Liu Peng was appointed as a non-executive director in April 2006 and was re-appointed as a non-executive director on director re-election in April 2009. Liu Peng is the nephew of Ye Shi Qu, the chairman.

Independent Non-executive Directors

Mr. Zhao Bin, aged 45. 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 partner of Beijing Branch Office of Daxin Certified Public Accountants. Between 1996 and 2008, Zhao Bin was engaged by the auditing and valuation department at Anhui Huapo Accounting Firm (Jinhai Branch Office), Beijing Zhongxing Xinshizi Accounting Firm and Shulun Pan Certified Public Accountants (Beijing Branch Office). Zhao Bin was also engaged in the teaching and academic research of accounting, auditing, financial management and securities investment at Anhui Polytechnic University. In 1991 and 2007, Zhao Bin was awarded a master's degree by Anhui Polytechnic University (formerly known as Huainan Mining College) and a doctoral degree by China Mining University in Beijing, respectively. He was appointed as an independent non-executive director in April 2006 and was reappointed as an independent nonexecutive director on director re-election in April 2009.

Mr. Wu Chang Qi, aged 75. He is the chairman of the Enterprises Association and Entrepreneur Association 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 of the Sixth, Eighth and Ninth Provincial People's Congress and a member of the Twelfth Communist Party's National Congress. He graduated from Hangzhou Civil Engineering College. He was appointed as an independent non-executive director in April 2006 and was reappointed as an independent non-executive director on director re-election in April 2009.

Mr. Au Kwok Yee Benjamin, aged 43. He was awarded with a bachelor's degree in laws from the University of Hong Kong in 1991 and obtained a postgraduate certificate in laws in 1992. He is currently the Principal solicitor of Messrs. Benjamin Au & Co Solicitors. He is also an independent non-executive director of Bestway International Holdings Limited (百威國際控股有限公司) (stock code: 718, a listed company on the main board of the Stock Exchange). He has over 10 years of experience in commercial and corporate matters, civil and criminal litigations, intellectual property, business documents drafting and consultation as well as labor affairs and disputes. He has been appointed as an independent non-executive director since 15 April 2009.

Supervisors

Mr. Liu Jun Chang, aged 45. He was named Model Labour of Anhui Province in September 2002 in recognition of his contribution to the development of Tianda Holding. He graduated with a college degree from Hefei Industrial University with a major in economics management in June 2002. He has 19 years of experience in corporate management. He is the chairman of the supervisory committee of Tianda Holding. He was appointed as the chairman of the supervisory committee of the Group in April 2006 and was reappointed as the chairman of the supervisory committee on supervisor reelection in April 2009. He supervises, among other things, the performance of the Directors' and senior management's duties. Liu Jun Chang has been involved in the Group's business since August 2004 (when it was then operated by one of the Group's predecessors).

Mr. Yong Jin Gui, aged 36. He graduated with a bachelor degree from Anhui Agricultural University with a major in agricultural machinery. He joined the Tianda Holdings after graduation and he has approximately 10 years of experience in corporate management. He was appointed as a director of Tianda Holding in July 2004. He was appointed as a Supervisor of the Group in April 2006 and was reappointed as a Supervisor on supervisor re-election in April 2009, but has been involved in the Group's business since August 2004 (when it was then operated by one of the Group's predecessors). Yong Jin Gui is also a director of several subsidiaries of Tianda Holdings.

Mr. Yang Quan Fu, aged 37. He graduated with a college degree from Hefei Industrial University with a major in economies management in June 2002. Yang Quan Fu has been engaged in the production and management related activities of the Group since he first joined the predecessor of the Group in December 1994. He was appointed as a Supervisor from staff representative of the Group in April 2006 and was reappointed as a Supervisor from staff representative on supervisor re-election in April 2009.

Senior Management

Mr. Wang Yi, aged 39. He graduated with a bachelor degree from Anhui Mechanical and Electrical Institute with a major in heat treatment in 1997. Mr. Wang joined the Group after graduation and has been involved in the business of the Group (it was then operated by one of the Group's predecessors) since July 1997. In October 2005, he was appointed as the deputy general manager of one of the Group's predecessors. In May 2006, he was appointed as the deputy general manager of the Group and is in charge of Chuzhou City production plant.

Mr. Zhang Chun Xiang, aged 40. He graduated with a bachelor degree from Anhui Mechanical and Electrical Institute with a major in heat treatment in 1993. He joined the Group after graduation and has been involved in the Group's business since July 1993 (when it was then operated by one of the Group's predecessors). He has been engaged in quality control and technology management for over 10 years. He was the head of quality inspection division and technology division. During these years, Zhang Chun Xiang has been committed to the research and development division. New products researched and developed by him were awarded numerous incentives by the government. In October 2005, he was appointed as the chief engineer of Tianda Specialized Steel Pipe Company. In May 2006, he was appointed as the chief engineer of the Group and in charge of the research and refining of new products, research and development of products and research of techniques.

Mr. Geng Wei Long, aged 46. He graduated with a college degree from Hefei Industrial University in June 1998 with a major in business administration. He joined the Group in May 1993. He was the 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 division for over 10 years. He has been involved in the Group's business since 1993 (when it was then operated by one of the Group's predecessors) and in October 2005, he was appointed as the deputy general manager of Tianda Specialized Steel Pipe Company. In 2006, he was appointed as the deputy general manager of the Group and is in charge of the research and development as well as production management at the factories of Tianchang City headquarters.

Ms. Huang Yao Qi, aged 47. She graduated with a college degree 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 those areas. She joined the Group in August 2004. She has been involved in the Group's business since 2004 (when it was then operated by one of the Group's predecessors) and in November 2005, she was appointed as the financial controller of Tianda Specialized 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 Yang, an executive Director.

Mr. Chen Dong, aged 31. He graduated from the Anhui Radio Broadcasting and Television University in computer and application profession in 2000. In July 2010, he obtained a diploma in legal profession jointly issued by the China University of Politics and the Central Radio and Television University, and a bachelor degree. Chen Dong was appointed as the Secretary of the Board of the Group with the effect from 13 April 2006. Prior to joining the Group, he was the head for the corporate office of Tianda Holding and the Secretary to the Board. He has over 9 years of experience in corporate internal control management, monitoring and compliance. Chen Dongwas re-appointed as the Secretary to the Board in April 2009.

COMPLIANCE OFFICER

Mr. Zhang Hu Ming, is the deputy chairman, an executive director and general manager of the Company. Mr. Zhang's biographical data are set out in the paragraph headed "Executive Directors" in this section. Mr. Zhang advises on and assists the Board in implementing procedures to ensure that the Group complies with the Listing Rules and other relevant laws and regulations applicable to the Group and is responsible for responding efficiently to all enquiries directed to the Group by the Stock Exchange.

DIRECTORS' AND SUPERVISORS' SERVICE CONTRACTS

Each of the executive and non-executive directors has entered into a service contract with the Group for a term of 3 years. These contracts are determinable by the Group upon occurrence of certain conditions as set out in these contracts or upon expiry of these contracts.

Other than as disclosed above, none of the directors of the Group has a service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2010, the interest of the directors, Supervisors and chief executive of the Group in the shares, underlying shares or debentures of the Group and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) which will be required to be notified to the Group and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, were as follows:

			Nature of interest and number of shares/amount of capital contribution (RMB)				
Name of Company	Name of Director or Supervisor	Capacity	Beneficial Interests	Corporate Interests	Total number of shares/ Total amount of capital contribution	Percentage holding of shares/ interest in registered capital of the relevant associated corporation	Approximate percentage of the total issued share capital of the Company
The Company	Ye Shi Qu	Interest in controlled corporation (Note 1)	–	510,000,000 Domestic Shares (L)	510,000,000	–	62.84%
The Company	Ye Shi Qu	Interest in controlled corporation (Note 1)	–	216,000,000 H Shares (L)	216,000,000 H Shares	–	26.61%
The Company	Ye Shi Qu	Interest in controlled corporation (Note 1)	–	510,000,000 Domestic Shares (S)	510,000,000	–	62.84%
The Company	Ye Shi Qu	Interest in controlled corporation (Note 1)	–	216,000,000 H Shares (S)	20,000,000 H Shares	–	2.46%
Tianda Holding	Ye Shi Qu	Beneficial owner	RMB198,985,900	–	RMB198,985,900	85.14%	–
Tianda Investment	Ye Shi Qu	Interest in controlled corporation (Note 2)	RMB50,000,000	–	RMB50,000,000	100%	–
Tiancheng Changyun	Ye Shi Qu	Interest in controlled corporation (Note 2)	HK$46,681,980	–	HK$46,681,980	100%	–
Tianda Holding	Zhang Hu Ming	Beneficial owner	RMB9,166,700	–	RMB9,166,700	3.92%	–
Tianda Holding	Zhang Jian Huai	Beneficial owner	RMB157,500	–	RMB157,500	0.07%	–
Tianda Holding	Xie Yong Yang	Beneficial owner	RMB2,363,200	–	RMB2,363,200	1.01%	–
Tianda Holding	Liu Jun Chang	Beneficial owner	RMB1,750,000	–	RMB1,750,000	0.75%	–
Tianda Holding	Yong Jin Gui	Beneficial owner	RMB2,577,800	–	RMB2,577,800	1.10%	–

Notes:

1. Pursuant to the SFO, as Ye Shiqu holds 85.14% of the equity interest in Tianda Holding and as Tianda Investment and Tiancheng Changyun are directly or indirectly wholly-owned subsidiaries of Tianda Holding, Ye Shiqu is deemed to be interested in all of the 408,000,000 Domestic shares held by Tianda Holding, 102,000,000 Domestic shares held by Tianda Investment and 20,000,000 H shares held by Tiancheng Changyun. Further and pursuant to the terms of the Shareholders Agreement, Ye Shiqu (through the aforesaid controlled corporations) has a long position over the 196,000,000 H Shares (which Vallourec is interested in pursuant to the application of the SFO) by virtue of the pre-emptive right provisions pursuant to the Shareholders Agreement. As a result of such mutual pre-emptive rights, Mr. Ye Shiqu also have short positions over the 510,000,000 Domestic Shares and the 20,000,000 H Shares in which he is beneficially interested in through his controlled corporations.

2. Pursuant to the SFO, as Ye Shiqu holds 85.14% of the equity interest in Tianda Holding and as Tianda Investment and Tiancheng Changyun are directly or indirectly wholly-owned subsidiaries of Tianda Holding, Ye Shiqu is deemed to be interested in 100% of the registered capital of Tianda Holding, Tianda Investment and Tiancheng Changyun.

3. "L" refers to the long position in the shares in the Company held by such person/entity. "S" refers to the short position in the shares in the Company held by such person/entity.

Other than as disclosed above, none of the directors, the Supervisors and chief executives of the Group nor their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Group and any of its associated corporation (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Group under section 352 of the SFO as at 31 December 2010.

DIRECTORS', SUPERVISORS' AND CHIEF EXECUTIVES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

So far as is known to the directors, Supervisors and chief executives of the Company, as at 31 December 2010, none of the directors, Supervisors or chief executives of the Group or any of their spouses and children under 18 years of age had any interest in, or has been granted, or exercised, any rights to subscribe for shares (or warrants or debentures, if applicable) of the Group or to acquire H Shares.

DIRECTORS' AND SUPERVISORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the paragraph headed "CONNECTED AND RELATED PARTY DISCLOSURE" stated in note 32 of the Notes to the Financial Statements, no contract of significance in relation to the Group's business, to which the Group was a party and in which a director or a Supervisor had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE GROUP

(A) Substantial Shareholders

So far as the directors or chief executive of the Group are aware, as at 31 December 2010, the following persons had an interest or short position in the shares and underlying shares of the Group which were recorded pursuant to section 336 of the SFO in the register referred to therein:

Name	Capacity	Class of shares	Number of Shares	% of total number of the relevant class of shares	% of total number of issued shares
Tianda Holding	Beneficial owner	Domestic shares	408,000,000(L) 408,000,000(S)	80% 80%	50.27% 50.27%
	Interests in controlled corporation (Note 2)	Domestic shares	102,000,000(L) 102,000,000(S)	20% 20%	12.57% 12.57%
	Interests in controlled corporation (Note 2)	H shares	20,000,000(L) 20,000,000(S)	6.63% 6.63%	2.46% 2.46%
Tianda Investment	Beneficial owner	Domestic shares	102,000,000(L) 102,000,000(S)	20% 20%	12.57% 12.57%
Vallourec S.A.	Interests in controlled corporation (Note 3)	Domestic shares	510,000,000(L)	100%	62.84%
Vallourec S.A.	Interests in controlled corporation (Note 3)	H Shares	216,000,000(L) 196,000,000(S)	71.61% 64.98%	26.61% 24.15%
Templeton Asset Management Ltd.	Investment Manager	H shares	65,364,295(L)	21.01%	7.44%
Hillhouse Capital Management, Ltd.	Investment Manager (Note 4)	H shares	40,061,000(L)	13.28%	4.94%
Deutsche Bank Aktiengesellschaft	Person having security interest in shares	H shares	20,508,863(L)	6.80%	2.53%
	Beneficial owner	H shares	20,000(S)	0.01%	0.00%

Notes:

1. "L" refers to the long position in the shares in the Company held by such person/entity. "s" refers to the short position in the shares in the Company held by such person/entity.

2. Pursuant to the SFO, as Tianda Holding holds 95% of the equity interest in Anhui Tianda (Group) Company Limited and which in turn holds 100% equity interest in Tiancheng Changyun, Tianda Holding is deemed to be interested in all of the 408,000,000 Domestic shares held by Tianda Holding, 102,000,000 Domestic shares held by Tianda Investment and 20,000,000 H shares held by Tiancheng Changyun. Further and pursuant to the terms of the Shareholders Agreement, Tianda Holding (through the aforesaid controlled corporations) has a long position over the 196,000,000 H Shares (which Vallourec is interested in pursuant to the application of the SFO) by virtue of the pre-emptive right provisions pursuant to the Shareholders Agreement. As a result of such mutual pre-emptive rights, Tianda Holding also have short positions over the 510,000,000 Domestic Shares and the 20,000,000 H Shares in which it is beneficially interested in through its controlled corporations.

3. Pursuant to the SFO, as Vallourec S.A. holds 100% of the shareholding interest in Vallourec, Vallourec S.A. is deemed to be interested in all of the 216,000,000 H Shares (long position), 196,000,000 H Shares (short position) and 510,000,000 Domestic Shares (long position) which Vallourec is interested in as a result of the pre-emption rights under the Shareholders Agreement.

4. Based on the records of the Company, Hillhouse Capital Management, Ltd. is interested in the 14,875,500 H Shares and 25,185,500 H Shares of Gaoling Fund, L.P. and Gaoling Yali Fund, L.P. respectively.

(B) Other persons who are required to disclose their interests pursuant to Division 2 and 3 of Part XV of the SFO

As at 31 December 2010, save for the person or entities disclosed in sub-section (A) above, no other persons or entities (other than a directors, Supervisor or chief executive of the Company) had an interest or short position in the shares and underlying shares of the Group as recorded in the register required to be kept by the Group under section 336 of the SFO.

Save as disclosed above, as at 31 December 2010, the directors were not aware of any persons or entities (other than the directors, Supervisors and chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Group as recorded on 31 December 2010 in the register required to be kept by the Group under section 336 of the SFO.

CONNECTED AND RELATED PARTY TRANSACTIONS

Details of the continuing connected transactions during the year are included in note 32 to the financial statements.

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 since the listing of the Company.

DIRECTORS' AND SUPERVISORS' INTERESTS IN A COMPETING BUSINESS

For the year ended 31 December 2010, 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. All directors have confirmed that they have complied with the non-competition provisions under their respective service contracts with the Group since the listing of the Company.

AMENDMENTS TO THE ARTICLES OF ASSOCIATION

At the Group's extraordinary general meeting, H Shares class meeting and Domestic Shares class meeting held on 23 November 2010, the relevant amendments to the Articles of Association of the Group as a result of the change in the Group's nature to a foreign investment company with limited liability and additional issue of shares to VALLOUREC were considered and approved.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Articles of Association of the Group or the laws of the PRC, which would oblige the Group to offer new Shares on a pro-rata basis to existing Shareholders.

EVENTS AFTER THE REPORTING PERIOD

Pursuant to the approval document CSRC <2011> No. 261 issued by China Securities Regulatory Commission, the Company was authorised to issue 196,000,000 new H shares at a price of HK$3.96 each which will be subscribed by VALLOUREC (the "**Subscription**"). The Subscription has not been completed as at 24 March 2011. Details of the Subscription has been set out on the relevant announcement of the Company dated 16 September 2010.

Details of the events after the Reporting Period are set out in note 36 of the Notes to the Financial Statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

The Group has not purchased or redeemed any of its listed securities during the year ended 31 December 2010.

PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the Directors, the Company has maintained the amount of sufficient public float as required under the Listing Rules during the year.

AUDITORS

The financial statements for the year ended 31 December 2010 prepared under the IFRS have been audited by Ernst & Young. The Audit Committee has recommended and acquired the approval of the directors to propose at the forthcoming annual general meeting a resolution to reappoint Ernst & Young Hua Ming and Ernst & Young to act as the domestic and international auditors, respectively, of the Group for the year 2010.

By Order of the Board
Ye Shi Qu
Chairman

Anhui, the PRC, 24 March 2011

REPORT OF THE SUPERVISORS

In 2010, in accordance with the relevant provisions of the Group Law of the People's Republic of China (the "**Company Law**") and Articles of Association of the Company, and in compliance with the principle of integrity, all members of the supervisory committee of the Group (the "**Supervisory Committee**") performed their duties of supervision on the Board's decision making with a view to protecting shareholders' interests in line with the Board's accountability to all shareholders. The Supervisory Committee monitored the operations and financial position as well as the performance of senior management of the Group for the year 2010. On behalf of the Supervisory Committee, I hereby present our report for 2010:

1. OVERVIEW OF THE WORK OF THE SUPERVISORY COMMITTEE

The Supervisory Committee conducted on-site inspections of the operations and financial position of the Company, and reviewed the financial statements of the Company. In 2010, the Supervisory Committee held 2 meetings and the holding of such meetings were in compliance with the relevant provisions of the Group Law and the Articles of Association of the Company.

The Supervisory Committee has duly supervised and examined the procedures for convening board meetings, resolutions, execution of resolutions of shareholders' general meetings by the Board, performance of duties by senior management of the Company, as well as the healthy establishment and consistent implementation of the Group's internal management system.

The Supervisory Committee is of the view that the Board and senior management of the Group operated in accordance with the Group Law, Securities Law of the PRC, the Articles of Association of the Group as well as other relevant rules and regulations of Hong Kong, and all operating activities were in compliance with laws and regulations. Through the adoption of various systems, the Group further improved its corporate governance structure and internal management policies which have formed the basic internal control system of the Company. When examining the financial position of the Group and monitoring the performance of Directors and senior management of the Company, the Supervisory Committee was not aware of any act detrimental to the interests of the Group and shareholders as a whole, nor was there any act in breach of laws, regulations, the articles of association or rules and policies of the PRC and Hong Kong.

2. EXAMINATION OF FINANCIAL POSITION OF THE GROUP

The Supervisory Committee earnestly examined the financial statements and the annual report of the Group for 2010 issued by the auditors of the Company.

The Supervisory Committee considers that the audited financial statements truly and sufficiently reflect the operating results and asset positions of the Company. The Supervisory Committee also reviewed the Director's report and the profit distribution proposal. The Group considers that the above report and proposal meets the requirements of the relevant regulations and the Articles of Association of the Company. The Supervisory Committee attended the meetings of the board of directors (the "**Board**") and considers that the members of the Board and other officers of the Group have strictly complied with the principle of honesty and trustworthiness, worked diligently and acted sincerely in the best interests of the Company. As at the date of this report, the Supervisory Committee was not aware of any of the Directors and the officers of the Group having abused their powers, caused damage to the interests of the Group or infringed upon the interests of the Group and its staff, nor have they violated any laws, regulations or the Group's Articles of Association.

3. CONNECTED TRANSACTIONS

The Supervisory Committee is of the view that the connected transactions of the Group for 2010 were conducted on the principles of fairness and equality at reasonable prices. No act detrimental to shareholders' interests as a whole was found.

Liu Junchang
Chairman of the Supervisory Committee
Anhui, the PRC

24 March 2011

INDEPENDENT AUDITORS' REPORT

To the shareholders of Anhui Tianda Oil Pipe Company Limited
(A joint stock company established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Anhui Tianda Oil Pipe Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 32 to 84, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of these consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong

24 March 2011

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	5	**3,181,719**	1,936,743
Cost of sales		**(2,920,170)**	(1,667,676)
Gross profit		**261,549**	269,067
Other income and gains	6	**31,212**	60,165
Selling and distribution costs		**(94,449)**	(67,431)
Administrative expenses		**(36,678)**	(22,844)
Other expenses	6	**(2,612)**	(1,972)
Finance costs	7	**(24,220)**	(1,391)
PROFIT BEFORE TAX	8	**134,802**	235,594
Income tax expense	11	**(20,286)**	(35,905)
PROFIT FOR THE YEAR		**114,516**	199,689
OTHER COMPREHENSIVE INCOME			
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**–**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**114,516**	199,689
Profit attributable to:			
Owners of the parent		**114,516**	199,689
Total comprehensive income attributable to:			
Owners of the parent		**114,516**	199,689
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic	14	**RMB0.14**	RMB0.26

Details of the dividends payable and proposed for the year are disclosed in note 12 to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**1,457,468**	1,247,469
Prepaid land lease payments	17	**27,970**	28,623
Deferred tax assets	11	**146**	431
Total non-current assets		**1,485,584**	1,276,523
CURRENT ASSETS			
Inventories	19	**615,156**	368,661
Trade and notes receivables	20	**328,937**	187,946
Prepayments, deposits and other receivables	21	**697,394**	1,201,286
Derivative financial instruments	22	**5,500**	–
Cash and cash equivalents	23	**49,382**	384,217
Total current assets		**1,696,369**	2,142,110
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	24	**144,259**	21,522
Trade and notes payables	25	**558,411**	1,064,588
Tax payable	11	**11,176**	34,995
Other payables and accruals	26	**314,539**	110,006
Total current liabilities		**1,028,385**	1,231,111
NET CURRENT ASSETS		**667,984**	910,999
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,153,568**	2,187,522
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	24	**517,500**	626,214
Deferred tax liabilities	11	**825**	–
Total non-current liabilities		**518,325**	626,214
NET ASSETS		**1,635,243**	1,561,308
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Issued capital	27	**405,813**	405,813
Reserves	28	**1,204,270**	1,114,914
Proposed final dividend	12	**25,160**	40,581
TOTAL EQUITY		**1,635,243**	1,561,308

Ye Shi Qu
Director

Zhang Hu Ming
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Attributable to owners of the parent					
	Issued capital RMB'000 (Note 27)	Share premium account RMB'000 (Note 27)	Statutory surplus reserve RMB'000 (Note 28)	Retained profits RMB'000 (Note 28)	Proposed final dividend RMB'000 (Note 12)	Total RMB'000
At 1 January 2009	380,678	299,652	64,300	444,197	68,522	1,257,349
Total comprehensive income for the year	–	–	–	199,689	–	199,689
Issue of shares	25,135	147,657	–	–	–	172,792
Appropriation of statutory surplus reserve	–	–	19,969	(19,969)	–	–
Final 2008 dividends declared	–	–	–	–	(68,522)	(68,522)
Proposed final 2009 dividend	–	–	–	(40,581)	40,581	–
At 31 December 2009 and 1 January 2010	405,813	447,309	84,269	583,336	40,581	1,561,308
Total comprehensive income for the year	–	–	–	114,516	–	114,516
Appropriation of statutory surplus reserve	–	–	11,452	(11,452)	–	–
Final 2009 dividends declared	–	–	–	–	(40,581)	(40,581)
Proposed final 2010 dividend	–	–	–	(25,160)	25,160	–
At 31 December 2010	405,813	447,309	95,721	661,240	25,160	1,635,243

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**134,802**	235,594
Adjustments for:			
Depreciation of property, plant and equipment	8	**109,849**	43,126
Amortisation of prepaid land lease payments	8	**653**	653
Reversal of inventories to net realisable value	8	**(1,900)**	(2,490)
Finance costs	7	**25,062**	1,482
Interest income	6	**(14,535)**	(16,722)
Fair value gains, net	6	**(5,500)**	–
		248,431	261,643
Increase in inventories		**(244,595)**	(79,047)
Increase in trade and notes receivables		**(140,991)**	(79,046)
Decrease/ (increase) in prepayments, deposits and other receivables		**314,488**	(658,717)
Increase/ (decrease) in trade and notes payables		**(318,741)**	685,657
Increase/ (decrease) in other payables and accruals		**115,795**	(57,411)
Cash generated from operations		**(25,613)**	73,079
Income tax paid	11	**(42,995)**	(72,347)
Net cash flows from/(used in) operating activities		**(68,608)**	732

	Notes	2010 RMB'000	2009 RMB'000
Net cash flows from/(used in) operating activities		**(68,608)**	732
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**16,503**	13,773
Purchases of property, plant and equipment		**(241,185)**	(559,191)
Investment on deposits with original maturity of over three months		**(20,000)**	(219,812)
Cash collected from matured deposits with original maturity of over three months		**22,300**	217,512
Net cash flows used in investing activities		**(222,382)**	(547,718)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**–**	172,792
Proceeds from interest-bearing loans and borrowings		**246,341**	764,135
Repayment of interest-bearing loans and borrowings		**(222,460)**	(185,092)
Interest paid		**(23,869)**	(1,524)
Dividends paid	12	**(40,581)**	(68,522)
Net cash flows from/(used in) financing activities		**(40,569)**	681,789
Net increase in cash and cash equivalents		**(331,559)**	134,803
Cash and cash equivalents at beginning of year		**381,917**	247,114
Effect of foreign exchange rate changes, net		**(976)**	–
Cash and cash equivalents at end of year		**49,382**	381,917
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	23	**49,382**	384,217
Cash and cash equivalents as stated in the statement of financial position		**49,382**	384,217
Time deposits with original maturity of over three months when acquired	23	**–**	(2,300)
Cash and cash equivalents as stated in the statement of cash flows		**49,382**	381,917

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**1,457,468**	1,247,469
Prepaid land lease payments	17	**27,970**	28,623
Deferred tax assets	11	**146**	431
Investment in subsidiaries	18	**3,551**	3,551
Total non-current assets		**1,489,135**	1,280,074
CURRENT ASSETS			
Inventories	19	**615,156**	368,661
Trade and notes receivables	20	**328,937**	187,946
Prepayments, deposits and other receivables	21	**697,472**	1,201,360
Derivative financial instruments	22	**5,500**	–
Cash and cash equivalents	23	**45,868**	380,612
Total current assets		**1,692,933**	2,138,579
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	24	**144,259**	21,522
Trade and notes payables	25	**558,411**	1,064,588
Tax payable	11	**11,176**	34,995
Other payables and accruals	26	**314,539**	110,006
Total current liabilities		**1,028,385**	1,231,111
NET CURRENT ASSETS		**664,548**	907,468
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,153,683**	2,187,542
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	24	**517,500**	626,214
Deferred tax liabilities	11	**825**	–
Total non-current liabilities		**518,325**	626,214
NET ASSETS		**1,635,358**	1,561,328
EQUITY			
Issued capital	27	**405,813**	405,813
Reserves	28	**1,204,385**	1,114,934
Proposed final dividend	12	**25,160**	40,581
TOTAL EQUITY		**1,635,358**	1,561,328

Ye Shi Qu
Director

Zhang Hu Ming
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2010

1. CORPORATE INFORMATION

Anhui Tianda Oil Pipe Company Limited (the "Company"), was established as a limited liability company by Anhui Tianda Enterprise (Group) Company Limited ("Tianda Holding") on 23 June 2004 in the People's Republic of China (the "PRC"). On 13 April 2006, the Company was re-registered as a joint stock company with limited liability.

On 1 December 2006, the Company issued new H shares by a way of international placing and such H shares were listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "HKEx").

The Company withdrew its listing from the GEM of the HKEx so as to arrange its H shares to be listed on the Main Board of the HKEx on 24 December 2007 by a way of introduction.

In the opinion of the directors, the holding company of the Company is Tianda Holding. Mr. Ye Shi Qu (叶世渠) held an 85.14% equity interest in Tianda Holding as at 31 December 2010, and therefore is the substantive shareholder of the Company.

The Company and its subsidiaries (the "Group") is principally engaged in the design, manufacture 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 PRC.

2.1 BASIS OF PREPARATION

These financial statements have been prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand (RMB'000) except when otherwise indicated.

Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRSs") , which comprise standards and interpretations approved by the International Accounting Standards Board (the "IASB"), and International Financial Reporting Interpretations Committee ("IFRIC") interpretations approved by the International Accounting Standards Committee that remain in effect, and the disclosure requirements of the Hong Kong Companies Ordinance.

The Company maintains its books and prepares its statutory financial statements in accordance with the relevant accounting principles and financial regulations promulgated by the Ministry of Finance of the PRC. The accounting policies and bases adopted in the preparation of the statutory financial statements differ in certain respects from IFRSs. The differences arising from restating the results of operations and financial position to comply with IFRSs have been adjusted in these financial statements, but will not be taken up in the accounting records of the Company.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of the subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
IFRS 3 (Revised)	*Business Combinations*
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
IFRIC 17	*Distributions of Non-cash Assets to Owners*
IFRS 5 Amendments included in *improvement to IFRSs issued in May 2008*	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the interest in a subsidiary*
Improvement to IFRSs 2009	Amendments to a number of IFRSs issued in April 2009

Other than as further explained below regarding the impact of amendments to IAS 7 and IAS 17 included in *Improvements to IFRSs 2009*, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these new and revised IFRSs are as follows:

Improvements to IFRSs 2009 issued in April 2009 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

IAS 7 Statement of Cash Flows: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

IAS 17 Leases: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in IAS 17.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IFRS 1 Amendment	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* [2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [4]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [4]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [5]
IFRS 9	*Financial Instruments* [6]
IAS 24 (Revised)	*Related Party Disclosures* [3]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement* [3]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, the IASB has issued *Improvements to IFRSs 2010* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 February 2010
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 July 2011
[5] Effective for annual periods beginning on or after 1 January 2012
[6] Effective for annual periods beginning on or after 1 January 2013

Further information about those changes that are expected to significantly affect the Group is as follows:

IFRS 9 issued in November 2009 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSS (Continued)

In November 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2013.

IAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt IAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures as the Group currently does not have any significant transactions with government-related entities.

Improvements to IFRSs 2010 issued in May 2010 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2011. There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of a subsidiary are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investment in a subsidiary that is not classified as held for sales in accordance with IFRSs is stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

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

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

(b) the party is a member of the key management personnel of the Group or its parent;

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

(d) 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 (b) or (c).

Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses.

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 items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment (Continued)

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 to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	2.7%
Plant and machinery	9.5%
Motor vehicles	9.5%
Office equipment and other equipment	9.5% to 19%

Residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents property, plant and equipment under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group 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 project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date: 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.

Group as a lessee

Operating lease payments are recognised as an expense in profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, trade and notes receivables, other receivables and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in finance income or finance costs in profit or loss.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in “finance income” in profit or loss. The loss arising from impairment is recognised in “other expenses” in profit or loss.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in “finance income” in profit or loss. The loss arising from impairment is recognised in “other expenses” in profit or loss.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised , at which time the cumulative gain or loss is recognised in “other income” in profit or loss, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in “other expenses” in profit or loss and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for “Revenue recognition” below.

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management’s intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. Reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (Continued)

Available-for-sale financial investments (Continued)

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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 Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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 Group could be required to repay.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (Continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or "prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and notes payables, other payables and interest-bearing loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in "finance costs" in profit or loss.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and other valuation models.

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge foreign currency risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss.

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is determined on a weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is the estimated selling price less estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, 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 statement of financial position, cash and bank balances comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

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

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "finance costs" in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except where the deferred 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 tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except where the deferred 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 tax assets is reviewed at the end of each reporting period 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 tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

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, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the related asset by equal annual instalments.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned at the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, 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 currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to profit or loss. 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. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of the overseas subsidiary is a currency other than RMB. As at the end of the reporting period, the assets and liabilities of the entity are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and its profit or loss are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated included in the exchange fluctuation reserve. On disposal of a foreign operation entity, the component of other comprehensive income equity relating to that particular foreign operation is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

For the purpose of the consolidated statement of cash flows, the cash flows of the overseas subsidiary are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of the overseas subsidiary which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

Retirement benefits

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's financial statements requires the directors of the Company to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amounts of the assets or liabilities affected in future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, 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 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 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 Group records impairment of receivables based on an assessment of the recoverability of trade receivables and prepayments, deposits and other receivables. The identification of impairment of receivables requires the directors' estimates. Where the expectation is different from the original estimate, such difference will impact the carrying values of the trade receivables and prepayments, deposits and other receivables and impairment expenses in the period in which such estimates have been changed.

Estimated write-downs of inventories to net realisable value

The Group 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, such difference will impact the carrying values of inventories and write-downs of inventories in the period in which such estimates have been changed.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

Estimation uncertainty (Continued)

Deferred tax assets

Deferred tax assets are recognised for all temporary undeductible provisions to the extent that it is probable that taxable profit will be available against which the temporary undeductible provision can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to temporary undeductible provisions at 31 December 2010 was RMB146,000 (2009: RMB431, 000). Further details are contained in note 11 to the financial statements.

4. OPERATING SEGMENT INFORMATION

Geographical information

(a) Revenue from external customers

	2010	2009
	RMB'000	RMB'000
Mainland China	**2,042,416**	1,295,428
United States of America	**163,847**	65,248
Other countries	**975,456**	576,067
	3,181,719	1,936,743

The revenue information above is based on the location of the customers.

(b) Non-current assets

	2010	2009
	RMB'000	RMB'000
Mainland China	**1,485,438**	1,276,092
Other countries	**–**	–
	1,485,438	1,276,092

The non-current asset information above is based on the location of the assets and excludes deferred tax assets.

4. OPERATING SEGMENT INFORMATION (Continued)

Information about major customers

Revenue of approximately RMB328,226,000 (2009: RMB131,028,000) were derived from sales to a single customer A, including sales to a group of entities which are known to be under common control with that customer.

Revenue of approximately RMB318,995,000 (2009: RMB231,868,000) were derived from sales to a single customer B, including sales to a group of entities which are known to be under common control with that customer.

5. REVENUE

Revenue, which is also the Group's turnover, 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 during the year.

	2010 **RMB'000**	2009 RMB'000
Sale of goods	**3,189,048**	1,942,555
Less: Government surcharges	**(7,329)**	(5,812)
Revenue	**3,181,719**	1,936,743

6. OTHER INCOME AND GAINS AND EXPENSES

	2010 **RMB'000**	2009 RMB'000
Other income and gains		
Bank interest income	**14,535**	16,722
Government grants	**7,234**	24,433
Investment income from derivative instrument transactions not qualifying as hedges	**2,920**	11,198
Fair value gains, net	**5,500**	–
Flood insurance indemnity	**–**	7,733
Others	**1,023**	79
	31,212	60,165

6. OTHER INCOME AND GAINS AND EXPENSES (Continued)

Government grants have been received from the local government authorities as incentives and subsidies to the Group. There are no unfulfilled conditions or contingencies attaching to these grants.

	2010 RMB'000	2009 RMB'000
Other expenses		
Bank charges	**2,238**	1,932
Others	**374**	40
	2,612	1,972

7. FINANCE COSTS

	2010 RMB'000	2009 RMB'000
Bank loan interest	**36,085**	22,020
Less: interest capitalised	**9,972**	20,538
	26,113	1,482
Foreign exchange losses/(gains)	**(9,724)**	5,205
Less: Foreign exchange losses/(gains) capitalised	**(7,831)**	5,296
	(1,893)	(91)
	24,220	1,391

8. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Notes	2010 RMB'000	2009 RMB'000
Cost of inventories sold		**2,920,170**	1,667,676
Depreciation	16	**109,849**	43,126
Amortisation of prepaid land lease payments	17	**653**	653
Reversal of inventories to net realisable value		**(1,900)**	(2,490)
Research costs		**3,843**	6,638
Auditors' remuneration		**950**	650
Staff costs (including directors' and supervisors' remuneration as set out in note 9):			
– Salaries and other staff costs		**64,065**	33,279
– Retirement benefit contributions		**8,702**	6,285

9. DIRECTORS' AND SUPERVISORS' REMUNERATION

Details of the remuneration of directors and supervisors during the years ended 31 December 2010 and 2009, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	2010 **RMB'000**	2009 RMB'000
Fees	**156**	181
Other emoluments:		
– Salaries, allowances and other benefits	**472**	543
– Performance related bonuses	**691**	–
– Retirement benefit contributions	**23**	16
	1,186	559
	1,342	740

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2010 **RMB'000**	2009 RMB'000
Wu Chang Qi	**–**	50
Zhao Bin	**50**	50
Li Chi Chung	**–**	16
Au Kwok Yee Benjamin	**106**	65
	156	181

There were no other emoluments payable to the independent non-executive directors during the year (2009: Nil). Mr. Li Chi Chung resigned as the director of the Company in January 2009.

9. DIRECTORS' AND SUPERVISORS' REMUNERATION (Continued)

(b) Executive directors, non-executive directors and supervisors

	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Retirement benefit contributions RMB'000	Total remuneration RMB'000
2010				
Directors:				
Ye Shi Qu	**180**	**330**	**5**	**515**
Zhang Hu Ming	**150**	**356**	**5**	**511**
Xie Yong Yang	**101**	**–**	**5**	**106**
Zhang Jian Huai	**–**	**–**	**–**	**–**
Liu Peng	**–**	**–**	**–**	**–**
	431	**686**	**15**	**1,132**
Supervisors:				
Yang Quan Fu	**41**	**5**	**8**	**54**
Yong Jin Gui	**–**	**–**	**–**	**–**
Liu Jun Chang	**–**	**–**	**–**	**–**
	41	**5**	**8**	**54**

	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Retirement benefit contributions RMB'000	Total remuneration RMB'000
2009				
Directors:				
Ye Shi Qu	176	–	4	180
Zhang Hu Ming	146	–	4	150
Xie Yong Yang	116	–	4	120
Zhang Jian Huai	–	–	–	–
Liu Peng	–	–	–	–
	438	–	12	450
Supervisors:				
Yang Quan Fu	35	–	4	39
Yong Jin Gui	30	–	–	30
Liu Jun Chang	40	–	–	40
	105	–	4	109

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year ended 31 December 2010 (2009: Nil).

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2009: four) directors and supervisors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2009: one) non-director or non-supervisor highest paid employees for the year are as follows:

	2010 **RMB'000**	2009 RMB'000
Salaries, allowances and benefits in kind	**141**	380
Performance related bonuses	**980**	–
Retirement benefit contributions	**13**	–
	1,134	380

The number of non-director or non-supervisor highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2010	2009
Nil to HK$1,000,000	**3**	1

11. 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 year ended 31 December 2010 (2009: 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.

The Company was named as one of the Anhui Province New and High Technical Enterprises by the Science & Technology Department of Anhui Province, Finance Department of Anhui Province, Anhui Provincial Office, State Administration of Taxation and Anhui Local Taxation Bureau in November 2009. Pursuant to the approval from the Tianchang City Local Taxation Bureau, the Company can be entitled to a concessionary tax rate of 15% for the three years starting from 1 January 2009.

11. INCOME TAX (Continued)

The major components of income tax expense for the years ended 31 December 2010 and 2009 are as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Current – Mainland China		
Charge for the year	**19,176**	34,995
Current – Elsewhere	**–**	–
Deferred:		
Relating to the revaluation of foreign exchange forward contracts to fair value	**825**	–
Relating to reversal of temporary differences	**285**	910
Total tax charge for the year	**20,286**	35,905

A reconciliation of the tax expense applicable to profit before tax at the statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Profit before income tax	**134,802**	235,594
Tax at the applicable tax rate of 15%	**20,220**	35,339
Expenses not deductible for tax	**66**	566
Tax charge at the Group's effective rate	**20,286**	35,905
Effective tax rate	**15.05%**	15.24%

11. INCOME TAX (Continued)

The movements in income tax payable during the years ended 31 December 2010 and 2009 are as follows:

	Group and Company	
	2010	2009
	RMB'000	RMB'000
At beginning of year	**34,995**	72,347
Provision for the year	**19,176**	34,995
Payment during the year	**(42,995)**	(72,347)
At end of year	**11,176**	34,995

The movements in deferred tax assets arising from deductible temporary differences between the tax bases of inventories and their carrying amounts for financial reporting purposes during the years ended 31 December 2010 and 2009 are as follows:

	Group and Company	
	2010	2009
	RMB'000	RMB'000
At beginning of year	**431**	1,341
Deferred tax charged to profit or loss during the year	**(285)**	(910)
At end of year	**146**	431

The movements in deferred tax liabilities arising from the revaluation of forward currency contracts to fair value during the years ended 31 December 2010 and 2009 are as follows:

	Group and Company	
	2010	2009
	RMB'000	RMB'000
At beginning of year	**–**	–
Deferred tax charged to profit or loss during the year	**825**	–
At end of year	**825**	–

12. DIVIDENDS

	2010 RMB'000	2009 RMB'000
Proposed final dividend – RMB3.1 cents (2009: RMB5 cents) per ordinary share	**25,160**	40,581

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to the owners of the parent for the year ended 31 December 2010 includes a profit of RMB114,611,000 (2009: RMB199,748,000) which has been dealt with in the financial statements of the Company.

14. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

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 811,626,000 in issue during the year (2009: 764,247,000).

The Group had no potentially dilutive ordinary shares in issue during the two years.

15. RETIREMENT BENEFIT CONTRIBUTIONS

As stipulated by the 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 Group is required to make contributions to the local social insurance bureau at a rate of 20% of the average basic salaries for the employees of the Group in Mainland China. The Company has no obligations for the payment of pension benefits beyond the annual contributions to the local social insurance bureau as set out above.

16. PROPERTY, PLANT AND EQUIPMENT

Group and Company

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
As at 1 January 2009	129,796	376,226	1,808	28,371	318,544	854,745
Additions	1,536	12,485	–	827	533,254	548,102
Transferred from construction in progress	10,473	3,787	–	59	(14,319)	–
As at 31 December 2009 and 1 January 2010	141,805	392,498	1,808	29,257	837,479	1,402,847
Additions	2,173	15,630	–	1,016	301,029	319,848
Transferred from construction in progress	149,167	897,968	–	22	(1,047,157)	–
As at 31 December 2010	293,145	1,306,096	1,808	30,295	91,351	1,722,695
Accumulated depreciation:						
As at 1 January 2009	11,581	94,597	263	5,811	–	112,252
Charge for the year	3,613	36,290	172	3,051	–	43,126
As at 31 December 2009 and 1 January 2010	15,194	130,887	435	8,862	–	155,378
Charge for the year	6,921	99,837	172	2,919	–	109,849
As at 31 December 2010	22,115	230,724	607	11,781	–	265,227
Net book value:						
As at 31 December 2010	271,030	1,075,372	1,201	18,514	91,351	1,457,468
As at 31 December 2009	126,611	261,611	1,373	20,395	837,479	1,247,469

All buildings of the Group are located in Mainland China.

17. PREPAID LAND LEASE PAYMENTS

	Group and Company 2010 RMB'000	2009 RMB'000
Cost:		
At beginning and end of year	**31,573**	31,573
Accumulated amortisation:		
At beginning of year	**2,950**	2,297
Charge for the year	**653**	653
At end of year	**3,603**	2,950
Net book value at end of year	**27,970**	28,623

The leasehold land is situated in Mainland China and held under long term leases.

18. INVESTMENT IN SUBSIDIARIES

	Company 2010 RMB'000	2009 RMB'000
Unlisted shares, at cost	**3,551**	3,551

Particulars of the subsidiaries are as follows:

Company Name	Place of incorporation/ registration and operation	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activity
New Tiancheng International Company Pte. Ltd. (新天成國際有限公司)	Singapore	US$520,000	100	–	Investment holding
Hongkong Tianda Oil Pipe Company limited (香港天大石油管材股份有限公司)	Hong Kong	–	100	–	Investment holding

The amount due from the subsidiaries included in the Company's current assets of RMB78,000 (31 December 2009: RMB74,000) is unsecured, interest-free and repayable on demand.

19. INVENTORIES

	Group and Company	
	2010	2009
	RMB'000	RMB'000
Raw materials	**222,145**	141,796
Work in progress, at cost	**21,584**	15,568
Finished goods and merchandises	**371,427**	211,297
	615,156	368,661

Included in inventories as at 31 December 2010 were certain raw materials and finished goods carried at a net realisable value of RMB22,127,000 (31 December 2009: RMB20,035,000).

20. TRADE AND NOTES RECEIVABLES

	Group and Company	
	2010	2009
	RMB'000	RMB'000
Notes receivable from domestic third parties	**139,279**	32,183
Trade receivables from overseas third parties	**75,502**	43,471
Trade receivables from domestic third parties	**114,515**	112,651
	190,017	156,122
Impairment	**(359)**	(359)
	328,937	187,946

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

The 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 100 days for certain strategic customers. The Group enters into sales with overseas customers through irrevocable letters of credit. 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. Trade receivables are unsecured and interest-free.

20. 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:

	Group and Company	
	2010	2009
	RMB'000	RMB'000
Outstanding balances with ages:		
Within one year	**189,658**	155,772
Between one and two years	**13**	8
Between two and three years	**8**	6
Over three years	**338**	336
	190,017	156,122

The movements of provision for impairment of trade receivables are as follows:

	Group and Company	
	2010	2009
	RMB'000	RMB'000
At beginning of year	**359**	359
Amount written off as uncollectible	**–**	–
At end of year	**359**	359

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB359,000 (31 December 2009: RMB359,000) with a carrying amount before provision of RMB359,000 (31 December 2009: RMB359,000). The individually impaired trade receivables relate to customers that were in default for a long time. The Group does not hold any collateral or other credit enhancements over these balances.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	Group and Company	
	2010	2009
	RMB'000	RMB'000
Neither past due nor impaired	**189,658**	155,763

Receivables that were neither past due nor impaired relate to many diversified customers from whom there was no recent history of default.

As at 31 December 2010, the Group had no pledged trade receivables (31 December 2009: Nil).

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2010	2009
	RMB'000	RMB'000
Prepayments	**367,576**	494,682
Deposits and other receivables	**328,837**	703,655
Bank interest receivables	**981**	2,949
	697,394	1,201,286

	Company	
	2010	2009
	RMB'000	RMB'000
Prepayments	**367,576**	494,682
Deposits and other receivables	**328,837**	703,655
Bank interest receivables	**981**	2,949
Amount due from the subsidiaries	**78**	74
	697,472	1,201,360

The Group did not write off any prepayments and other receivables for the year ended 31 December 2010 (2009: Nil).

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

Included in the Group's and the Company's deposits and other receivables were (i) the time deposits of RMB170,354,000 pledged to the banks to secure the bank accepted drafts, the letters of credit and foreign exchange forward contracts with pledged amount of RMB139,539,000, RMB2,800,000 and RMB28,015,000 respectively (31 December 2009: the time deposits of RMB622,276,000 pledged to the banks to secure the bank accepted drafts, the letters of credit and bank loans with the pledged amount of RMB592,966,000, RMB7,818,000 and RMB21,492,000 respectively); and (ii) the net input value-added tax ("VAT") of RMB141,263,000 (31 December 2009: RMB70,014,000) arising from the purchase of property, plant and equipment after deducting the output VAT for domestic sales.

22. DERIVATIVE FINANCIAL INSTRUMENTS

	Group and Company	
	2010	
	Assets	**Liabilities**
	RMB'000	**RMB'000**
Foreign exchange forward contracts	**5,500**	–
Portion classified as non-current	**–**	–
Current portion	**5,500**	–

The above foreign exchange forward contracts did not qualify for hedge accounting, and the changes in the fair values of RMB5,500,000 were charged to profit or loss during the year ended 31 December 2010 (2009: Nil).

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group	
		2010	2009
	Notes	**RMB'000**	RMB'000
Cash and bank balances		**76**	73,955
Short-term deposits with maturity of three months or less		**49,306**	307,962
Short-term deposits with maturity of over three months		**170,354**	624,576
		219,736	1,006,493
Less: pledged time deposits for bank accepted drafts, letters of credit, foreign exchange forward contracts and bank loans	21	**(170,354)**	(622,276)
Cash and cash equivalents		**49,382**	384,217

		Company	
		2010	2009
	Notes	**RMB'000**	RMB'000
Cash and bank balances		**76**	70,350
Short-term deposits with maturity of three months or less		**45,792**	307,962
Short-term deposits with maturity of over three months		**170,354**	624,576
		216,222	1,002,888
Less: pledged time deposits for bank accepted drafts, letters of credit, foreign exchange forward contracts and bank loans	21	**(170,354)**	(622,276)
Cash and cash equivalents		**45,868**	380,612

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 Group, and earn interest at the respective short-term deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default.

24. INTEREST-BEARING LOANS AND BORROWINGS

Group and Company

	2010			2009		
	Contractual interest rate(%)	**Maturity**	**RMB'000**	Contractual interest rate(%)	Maturity	RMB'000
Current:						
Bank loans	**4.21-5.76**	**2011**	**144,259**	1.39	2010	21,522
Non-current:						
Bank loans	**3.55-7.47**	**2012-2014**	**517,500**	3.55-7.74	2011-2014	626,214
			661,759			647,736

	Group and Company	
	2010	2009
	RMB'000	RMB'000
Analysed into:		
Bank loans:		
Within one year	**144,259**	21,522
In the second year	**195,000**	146,214
In the third to fifth years, inclusive	**322,500**	480,000
	661,759	647,736

Except for the bank loans of EUR805,000 (equivalent to approximately RMB7,537,000), bank loans of EUR1,530,000 (equivalent to approximately RMB13,024,000) and a bank loan of EUR10,945,000 (equivalent to approximately RMB96,384,000) which bore fixed interests rate from 3.55% to 4.21%, all the bank loans as at 31 December 2010 bore a variable rate.

As at 31 December 2010, Tianda Holding provided a guarantee for certain of the Group's and the Company's unsecured bank loans of approximately RMB330,628,000 (31 December 2009: approximately RMB296,214,000). In addition, the substantive shareholder, Mr. Ye Shi Qu (叶世渠) has guaranteed certain of the Group's and the Company's unsecured bank loans of RMB150,000,000 (31 December 2009: RMB150,000,000).

As at 31 December 2009, certain of the Group's and the Company's bank loans of US$3,153,000 (equivalent to approximately RMB21,522,000) were secured by the pledge of certain of the Group's and the Company's time deposits of RMB21,492,000 (31 December 2010: Nil).

Except for the bank loan of Japanese Yen ("JPY") 170,000,000 and the bank loan of EUR13,280,000, all the bank loans are in RMB.

The carrying amounts of the Group's and the Company's bank loans approximate to their fair values.

25. TRADE AND NOTES PAYABLES

	Group and Company	
	2010	2009
	RMB'000	RMB'000
Notes payable to third parties	**500,874**	1,006,566
Trade payables to third parties	**57,537**	58,022
	558,411	1,064,588

All notes 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:

	Group and Company	
	2010	2009
	RMB'000	RMB'000
Outstanding balances with ages:		
Within one year	**553,632**	1,060,703
Between one and two years	**1,294**	2,282
Between two and three years	**2,063**	571
Over three years	**1,422**	1,032
	558,411	1,064,588

Notes payable to third parties represent the issued bank accepted drafts, secured by the pledge of certain of the Group's and the Company's time deposits of RMB139,539,000 as at 31 December 2010 (31 December 2009: RMB592,966,000).

26. OTHER PAYABLES AND ACCRUALS

	Group and Company	
	2010	2009
	RMB'000	RMB'000
Advances from customers	**123,808**	31,683
Payroll payables	**28,851**	17,611
Other payables	**161,880**	60,712
	314,539	110,006

Except for the net output VAT and other miscellaneous tax payable of RMB9,630,000 (31 December 2009: RMB6,219,000) included in other payables of the Group and the Company, all the remaining 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.

27. ISSUED CAPITAL

	2010 RMB'000	2009 RMB'000
Shares		
Registered, issued and fully paid:		
Domestic shares of RMB0.50 each, currently not listed	**255,000**	255,000
H shares of RMB0.50 each	**150,813**	150,813
	405,813	405,813

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

On 7 September 2006, the China Securities Regulatory Commission (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 issued by 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 offering at a price of HK$3.00 (equivalent to approximately RMB3.02145) per share. On 7 December 2006, 21,856,000 H shares under an 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.

On 23 May 2008, the Company issued and allotted bonus shares to each shareholder, whose names were recorded on the Company's register of members on 28 April 2008. Each of these shareholders were offered five new shares for every ten shares held as a bonus issue.

On 11 December 2009, a total of 50,271,000 new H Shares were placed at a price of HK$4.00 (equivalent to approximately RMB3.5236) per share. The net proceeds from the above share offer, after deducting the related underwriting and other expenses, was approximately RMB172,792,000.

A summary of the transactions during the years ended 31 December 2010 and 2009 with reference to the above movements in the Company's issued capital is as follows:

	Number of shares in issue '000	**Issued capital** RMB'000	**Share premium account** RMB'000	**Total** RMB'000
At 1 January 2009	761,355	380,678	299,652	680,330
Issue of shares	50,271	25,135	147,657	172,792
At 31 December 2009 and 31 December 2010	811,626	405,813	447,309	853,122

28. 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 issued by the Ministry of Finance of the People's Republic of China in 2006 ("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 the paid-up capital of the Company, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

Distributable reserves

Regarding dividends, the amount the Company can legally distribute is based on the lesser amount of the retained profits 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, as set out above.

29. CONTINGENT LIABILITIES

At the end of the reporting period, the Group and the Company did not have any significant contingent liabilities.

30. PLEDGED ASSETS

Details of the Group's and the Company's bank loans, notes payable, foreign exchange forward contracts and irrevocable letters of credit which are secured by the pledge of the Group's and the Company's time deposits, are included in notes 21, 23, 24 and 25 respectively, to the financial statements.

31. COMMITMENTS

Operating lease commitments

Future minimum rentals payable to Tianda Holding under non-cancellable operating leases as at 31 December 2010 and 2009 are as follows:

	Group and Company	
	2010	2009
	RMB'000	RMB'000
Within one year	**96**	96
After one year but not more than five years	**–**	96
	96	192

In addition to the above operating lease commitments, the Group and the Company had the following capital commitments at the end of the reporting period:

Capital commitments

	Group and Company	
	2010	2009
	RMB'000	RMB'000
Contracted, but not provided for	**52,425**	290,779

32. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year:

		Group	
		2010	2009
		RMB'000	RMB'000
(i)	Purchase of materials from fellow subsidiaries (note i)	**534**	–
(ii)	Purchases of water from Tianda Holding (note ii)	**439**	439
(iii)	Lease of a dormitory from Tianda Holding (note iii)	**96**	96

Notes:

(i) These transactions were carried out based on costs incurred, as agreed between the Group and the fellow subsidiaries which are controlled by Tianda Holding.

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

(iii) 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 2009 to 31 December 2011.

(b) Compensation of key management personnel of the Group:

	Group	
	2010	2009
	RMB'000	RMB'000
Short-term employee benefits	**2,901**	434
Retirement benefit contributions	**46**	26
	2,947	460

Further details of directors' emoluments are included in note 9 to the financial statements.

All the above related party transactions also constituted connected transactions as defined in chapter 14A of the Listing Rules.

33. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments of the Group as at the end of the reporting period are as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Financial assets		
Cash and cash equivalents	**49,382**	384,217
Bank interest receivables	**981**	2,949
Trade and notes receivables	**328,937**	187,946
Pledged deposits	**170,354**	622,276
Financial assets included in prepayments, deposits and other receivables	**16,718**	11,364
Derivative financial instruments	**5,500**	–
	571,872	1,208,752
Financial liabilities		
Trade and notes payables	**558,411**	1,064,588
Interest-bearing loans and borrowings:		
– Floating rate borrowings	**544,814**	507,232
– Fixed rate borrowings	**116,945**	140,504
Financial liabilities included in other payables and accruals	**128,451**	37,922
	1,348,621	1,750,246

33. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

The carrying amounts of each of the categories of financial instruments of the Company as at the end of the reporting period are as follows:

	Company	
	2010	2009
	RMB'000	RMB'000
Financial assets		
Cash and cash equivalents	**45,868**	380,612
Bank interest receivables	**981**	2,949
Trade and notes receivables	**328,937**	187,946
Pledged deposits	**170,354**	622,276
Other financial assets included in prepayments, deposits and other receivables	**16,796**	11,438
Derivative financial instruments	**5,500**	–
	568,436	1,205,221
Financial liabilities		
Trade and notes payables	**558,411**	1,064,588
Interest-bearing loans and borrowings:		
– Floating rate borrowings	**544,814**	507,232
– Fixed rate borrowings	**116,945**	140,504
Financial liabilities included in other payables and accruals	**128,451**	37,922
	1,348,621	1,750,246

34. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

	Group			
	Carrying amount		Fair value	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Cash and cash equivalents	**49,382**	384,217	**49,382**	384,217
Bank interest receivables	**981**	2,949	**981**	2,949
Trade and notes receivables	**328,937**	187,946	**326,442**	187,520
Pledged deposits	**170,354**	622,276	**170,354**	622,276
Financial assets included in prepayments, deposits and other receivables	**16,718**	11,364	**16,718**	11,364
Derivative financial instruments	**5,500**	–	**5,500**	–
	571,872	1,208,752	**569,377**	1,208,326
Financial liabilities				
Trade and notes payables	**558,411**	1,064,588	**553,620**	1,049,040
Interest-bearing loans and borrowings				
– Floating rate borrowings	**544,814**	626,214	**544,814**	626,214
– Fixed rate borrowings	**116,945**	21,522	**115,164**	21,088
Financial liabilities included in other payables and accruals	**128,451**	37,922	**128,451**	37,922
	1,348,621	1,750,246	**1,342,049**	1,734,264

34. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

	Company			
	Carrying amount		Fair value	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Cash and cash equivalents	**45,868**	380,612	**45,868**	380,612
Bank interest receivables	**981**	2,949	**981**	2,949
Trade and notes receivables	**328,937**	187,946	**326,442**	187,520
Pledged deposits	**170,354**	622,276	**170,354**	622,276
Financial assets included in prepayments, deposits and other receivables	**16,796**	11,438	**16,796**	11,438
Derivative financial instruments	**5,500**	–	**5,500**	–
	568,436	1,205,221	**565,941**	1,204,795
Financial liabilities				
Trade and notes payables	**558,411**	1,064,588	**553,620**	1,049,040
Interest-bearing loans and borrowings				
– Floating rate borrowings	**544,814**	626,214	**544,814**	626,214
– Fixed rate borrowings	**116,945**	21,522	**115,164**	21,088
Financial liabilities included in other payables and accruals	**128,451**	37,922	**128,451**	37,922
	1,348,621	1,750,246	**1,342,049**	1,734,264

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Cash and cash equivalents, bank interest receivables, pledged deposits, trade and notes receivables, trade and notes payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The fair value of fixed borrowings and other financial assets have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities. The rate of the floating rate borrowings will change every three months according to the market interest rate, whose carrying value approximates to their fair value.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with AAA credit ratings. Derivative financial instruments, primarily foreign exchange forward contracts, are measured using valuation techniques similar to forward pricing model, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates. The carrying amounts of forward currency contracts are the same as their fair values.

34. FAIR VALUE AND FAIR VALUE HIERARCHY (Continued)

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments:

Level 1: fair values measured based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: fair values measured based on valuation techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: fair values measured based on valuation techniques for which any inputs which have a significant effect on the recorded fair value are not based on observable market data (unobservable inputs)

Assets measured at fair value:

As at 31 December 2010

	Group and Company			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Derivative financial instruments	–	5,500	–	5,500

The Group and the Company did not have any financial assets measured at fair value as at 31 December 2009.

Liabilities measured at fair value:

The Group and the Company did not have any financial liabilities measured at fair value as at 31 December 2010 and 31 December 2009.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing loans and borrowings, as well as cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and notes receivables as well as trade and notes payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally foreign exchange forward contracts. The purpose is to manage the foreign currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks which are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with a floating interest rate. The Group does not use derivative financial instruments to hedge its interest rate risk.

The following table demonstrates the sensitivity as at the end of the reporting period to a reasonably possible change in interest rates, with all other variables held constant, of the Group's and the Company's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's and the Company's equity.

	Group and Company	
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
2010		
RMB	**+50**	**(2,655)**
RMB	**-50**	**2,655**
EUR	**+50**	**(585)**
EUR	**-50**	**585**
JPY	**+50**	**(69)**
JPY	**-50**	**69**
US$	**+50**	**–**
US$	**-50**	**–**
2009		
RMB	+50	(2,455)
RMB	-50	2,455
EUR	+50	(595)
EUR	-50	595
JPY	+50	(81)
JPY	-50	81
US$	+50	(108)
US$	-50	108

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk

Currently, the PRC government imposes control over foreign currencies. RMB, the official currency in Mainland China, is not freely convertible. Enterprises operating in Mainland China 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 Mainland China 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 Mainland China 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 Group does not have any significant investment out of Mainland China. However, the Group has transaction currency exposures. Such exposures arise from sales in currencies other than the Group's functional currency. Approximately 36% of the Group's sales for the year ended 31 December 2010 (2009: 33%) were denominated in currencies other than the functional currency of the Group. Upon receipt of currencies other than the functional currency, the Group sells them to the banks immediately.

The following table demonstrates the sensitivity as at the end of the reporting period to a reasonably possible change in foreign currency exchange rates, with all other variables held constant, of the Group's and the Company's profit before tax (due to changes in the fair value of monetary assets and liabilities).

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

	Group Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
US$		
2010	**+5%**	**5,999**
	-5%	**(5,999)**
2009	+5%	3,145
	-5%	(3,145)
EUR		
2010	**+5%**	**(5,544)**
	-5%	**5,544**
2009	+5%	(7,280)
	-5%	7,280
HK$		
2010	**+5%**	**1**
	-5%	**(1)**
2009	+5%	1
	-5%	(1)
JPY		
2010	**+5%**	**(601)**
	-5%	**601**
2009	+5%	(731)
	-5%	731
SGD		
2010	**+5%**	**3**
	-5%	**(3)**
2009	+5%	2
	-5%	(2)

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Foreign currency risk (Continued)

	Company	
	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000
US$		
2010	**+5%**	**5,826**
	-5%	**(5,826)**
2009	+5%	2,965
	-5%	(2,965)
EUR		
2010	**+5%**	**(5,544)**
	-5%	**5,544**
2009	+5%	(7,280)
	-5%	7,280
HK$		
2010	**+5%**	**1**
	-5%	**(1)**
2009	+5%	1
	-5%	(1)
JPY		
2010	**+5%**	**(601)**
	-5%	**601**
2009	+5%	(731)
	-5%	731
SGD		
2010	**+5%**	**–**
	-5%	**–**
2009	+5%	2
	-5%	(2)

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that customers are required to pay advances before the Company delivers goods to them, except for overseas customers and certain domestic major customers, to whom credit terms of 1 to 45 days extending up to 100 days for certain strategic customers are granted 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 Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer. There is no significant concentration of credit risk with the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 20 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

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

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Liquidity risk (Continued)

The maturity profile of the Group's and the Company's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

Group and Company

	2010					
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	More than 5 years RMB'000	Total RMB'000
Interest-bearing loans and borrowings	–	16,248	161,673	557,511	–	735,432
Trade and notes payables	57,537	403,736	97,138	–	–	558,411
Financial liabilities included in other payables and accruals	128,451	–	–	–	–	128,451
	185,988	419,984	258,811	557,511	–	1,422,294

	2009					
	On demand RMB'000	Less than 3 months RMB'000	3 to 12 months RMB'000	1 to 5 years RMB'000	More than 5 years RMB'000	Total RMB'000
Interest-bearing loans and borrowings	–	8,015	45,870	691,720	–	745,605
Trade and notes payables	58,022	339,848	666,718	–	–	1,064,588
Financial liabilities included in other payables and accruals	37,922	–	–	–	–	37,922
	95,944	347,863	712,588	691,720	–	1,848,115

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2010 and 2009.

35. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

Capital management (Continued)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. The net debt includes interest-bearing loans and borrowings, trade and notes payables, other payables and accruals, less cash and cash equivalents. Capital includes equity attributable to owners of the parent. The gearing ratios as at the end of the reporting period were as follows:

	Group	
	2010	2009
	RMB'000	RMB'000
Interest-bearing loans and borrowings	**661,759**	647,736
Trade and notes payables	**558,411**	1,064,588
Other payables and accruals	**314,539**	110,006
Less: Cash and cash equivalents	**(49,382)**	(384,217)
Net debt	**1,485,327**	1,438,113
Equity	**1,635,243**	1,561,308
Capital and net debt	**3,120,570**	2,999,421
Gearing ratio	**48%**	48%

36. EVENTS AFTER THE REPORTING PERIOD

(1) Pursuant to the approval document issued by CSRC <2011> No. 261, the Company was authorised to issue 196,000,000 new H shares at a price of HK$3.96 each which will be subscribed by Vallourec & Mannesmann Tubes. The subscription of shares has not been completed as at 24 March 2011.

(2) Pursuant to a resolution of the board of directors on 24 March 2011, the directors recommend the payment of a final cash dividend of RMB3.1 cents per share (inclusive of tax).

37. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 24 March 2011.