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 2011

CONTENT

CORPORATION INFORMATION

BOARD OF DIRECTORS

Executive Directors
YE Shi Qu (Chairman)
ZHANG Hu Ming
(Deputy Chairman and General Manager)
FU Jun (Chief Financial Officer)

Non-executive Directors
LIU Peng
Delhon-Bugard Herve

Independent Non-executive Directors
WU Chang Qi
ZHAO Bin
YAN Lan

SUPERVISORS

GENG Wei Long
Didier Maurice Francis Hornet
YANG Quan Fu

COMPLIANCE OFFICER

ZHANG Hu Ming

COMPANY SECRETARY

SHUM Shing Kei

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 406B,
4/F Mirror Tower
61 Mody Road, Tsim Sha Tsui
Kowloon, Hong Kong

AUDIT COMMITTEE

ZHAO Bin (Chairman)
WU Chang Qi
LIU Peng

REMUNERATION COMMITTEE

WU Chang Qi (Chairman)
ZHAO Bin
LIU Peng

NOMINATION COMMITTEE

WU Chang Qi (Chairman)
ZHAO Bin
LIU Peng

REGISTERED OFFICE

Zhenxing Road
Tongcheng Town
Tianchang City, Anhui Province
The PRC

AUDITORS

Ernst & Young
Certified Public Accountants
22/F, CITIC Tower
1 Tim Mei Avenue
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

	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
Profit and loss items					
Revenue	**4,530,391**	3,181,719	1,936,743	2,636,580	1,575,481
Gross Profit	**294,360**	261,549	269,067	516,694	298,843
Net profit	**63,832**	101,280	199,689	302,220	183,742
Balance sheet items					
Total non-current assets	**1,475,746**	1,485,682	1,276,523	773,110	483,051
Total current assets	**1,492,332**	1,696,369	2,142,110	980,630	883,685
Total assets	**2,968,078**	3,182,051	3,418,633	1,753,740	1,366,736
Total non-current liabilities	**875**	518,875	626,214	48,693	14,837
Total current liabilities	**659,743**	1,041,169	1,231,111	447,698	356,164
Total liabilities	**660,618**	1,560,044	1,857,325	496,391	371,001

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 2011 ("**2011**" or "**the Year**" or the "**Reporting Period**" or "**the Year under Review**") for the review of the shareholders of the Group.

ANNUAL RESULTS

2011 was a most difficult year for the global economically, and for the Specialized Pipes Industry, it was a year of perseverance. As the European debt crisis continue to escalate, the domestic economic growth remained sluggish last year; added to the effects of a worsening global economic environment, domestic macro-economical control and continued anti-dumping actions by the European and American, the specialized pipes market remained soft and lifeless. Furthermore, coupled with the inflation-led operational cost increase and intense competitiveness in the industry, the specialized pipe market was falling into economic decline and faced tremendous operation pressure.

Under a relatively sluggish market and macro-economical environment, the Group understands clearly the market situation, and continues to adopt a business direction towards sustainable and stable development, with an emphasis on the optimal adjustment of product structure and market structure; maintaining its strategy on product differentiation and service differentiation, with a view to steadily boosting its operational scale and market share. Affected by a competitive market and macro-economical factors, the Group saw a year-on-year setback in the profit targets in 2011, however the Group will continue to persevere, aiming for the previously set directive, enhance risk control, so to build up our strengths in production operation, new market expansions, strategic alliances as well as future plans in sustainable development.

The Group successfully introduced the world leading premium piping material supplier, Vallourec & Mannesmann Tubes ("Vallourec") as our strategic shareholder in 2011, 196,000,000 H Shares at a price of HK$3.96/share was issued to Vallourec to raise development capital. Moreover, strategic cooperation in terms of branding, technology and market resources will benefit both companies. After the Group's public listing on the Hong Kong Stock Exchange and high-grade oil pipeline project, the introduction of Vallourec as a strategic shareholder is also an important milestone on the Group's history.

The income of the Group for the year ended 31 December 2011 amounted to about RMB4,530,391,000 (2010: approximately RMB3,181,719,000), representing a year-on-year increase of 42.4%; Net profit attributable to equity holders for the corresponding period was approximately RMB63,832,000(2010: approximately RMB101,280,000), down about 37.0% on a year-on-year basis.

REVIEW OF OPERATIONS

The Group is constantly looking for ways to improve its production line technology, so to increase equipment efficiency, enhance tube technology and optimize product structure. With the gradual release of production capacity by the high-grade oil well pipe project, the Group also saw a rapid expansion in operation. During the Year under Review, the Group achieved a total production of about 806,100 tonnes (2010: about 628,300 tonnes), and total sales of about 819,400 tonnes (2010: about 623,400 tonnes), representing an increase of about 28.3% and about 31.4% when compared to the same period last year respectively.

For 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 621,000 tonnes (2010: about 425,000 tonnes), up about 46.1% on a year-on-year basis.

During the Year under Review, outside unstable economical factors has affected the export market of the industry to a certain extent, causing increased competitive pressures in new markets. Additionally, since the Group's partnership with Vallourec, due to changes in the American sales pattern; marketing, customer recognition impacts would take time to take effect. 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 (2010: 198,400 tonnes), which was of similar level as previous year.

The Group took part in the Seventh Shanghai International Steel Pipe Industry Exhibition held at the Shanghai World Expo Theme Pavilion in September 2011. 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, concentrating our research and development efforts on high steel grade, corrosion-resistant oil well pipe products suitable for exploitation under adverse geological environment, submarine line pipes, and pipe material, providing a enriched product line, and upgraded product quality. Furthermore, invention patents were applied for the "fire-resistant seamless steel pipe for building service and its processing methods" and "the manufacture process of a high-precision special thread casing coupling" to the State Intellectual Property Office. During the Year under Review, Vallourec has sent specialists to provide training to the Group on technology, quality control, and research and development, in preparation for the Group's expansion to the domestic high-grade special thread oil well pipe product market.

Looking back, the Group introduced a production line in order to improve product quality; while at the same time, continued to strengthen the technological transformation of the production lines, broadening the scale of production, so as to improve processes, reduce production losses and increase the use of equipment. Thus utilizing the full capacity of the existing production lines, as well as facilitating as soon as practicable, the release of full capacity of the high steel grade oil well pipe production lines.

STRATEGIC COOPERATION

On 1 April 2011, the Group had completed the procedures for the settlement of shares issued to Vallourec in a private placing by the issue of 196,000,000 new H shares to Vallourec at a price of HKD3.96 per share. The Group completed the related business registration procedures as contemplated from the private placing of shares s on 24 May 2011.

Pursuant to the subscription agreement entered into with Vallourec, the Board of the Group approved the appointment of financial manager and sales manager of OCTG designated by Vallourec on 10 April 2011. The appointment of three directors and one supervisor designated by Vallourec were approved at the annual general meeting of the Group on 1 June, and the Board had approved the appointments of deputy general manager and assistant to general manager who were nominated by the general manager on 15 June, bringing governance structure and further strengthing internal control of the Group. The completion of the Group's corporate governance structure brought its internal control to an enhanced level.

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 continued to intensify its 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 of up to 100 days is only granted to certain large 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, ENVIRONMENTAL CONSERVATION AND CORPORATE SOCIAL RESPONSIBILITY (CSR)

In 2011, the Group adopted a scientific development approach to reinforce its concept of sustainable development, making continual 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.

The Group is constantly integrating corporate social responsibility practices into its development process. So that during the process of business development, the Group would also continually improve staff working environment, improve work compensation and engage in charitable work, hence maximizing their social contribution.

OUTLOOK AND PROSPECT

Looking ahead, as global economic growth begins to slow down and external economic environment become complicated and changing. The updated "World Economic Outlook" released on 24 January 2012 by the International Monetary Fund (IMF) projected a sharp decline in the predicted global economic growth next year, and warned that the continual European debt crisis will pose serious obstacles to world economic recovery.

The "Chinese Enterprise Development Report 2012" published by the Development Research Center of the State Council stated that development of enterprises in China may be entering the "most difficult" period since the turn of the century. As the global and domestic economic situation remain stressed in 2012, various contradictions that was previously camouflaged by the rapid growth will gradually emerge. Chinese enterprises will be faced with various challenges such as increasing labour costs, climbing raw materials costs, land supply shortage and further environmental cost increase.

Despite of the adverse external economic environment and decline in global economic growth, the Chinese economy is experiencing a "soft landing". As China continue to implement proactive fiscal policies and prudent foreign monetary measures, its control and level of macro-economy will continue to improve, increasing the risk control and competitiveness of Chinese enterprises. Like many other industries, during the "12th Five Year Plan" period, although the Chinese Specialized Pipes Industry will be facing many risks and challenges, it is poised at a moment of great strategic and historical era.

Oil Well Pipe is a new field in the Specialized Pipes Industry. The oil well pipe is an essential equipment used in the oil exploration and development process, its market expansion is in direction proportion with the development of the natural gas industry. As Oil Well Pipes holds a very important role in the development of the Oil Industry, one of the pillars of the Chinese economy. The Chinese Government's stated explicitly its encouragement in investment in the oil industry in the 12th Five Year Plan. 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, increasing numbers and deeper oil wells, particularly those of harsh geological environment and complex composition. Demand for the quantity and quality of oil pipes will continue to grow, with research and development of oil well pipes focusing on the use of new materials, advance technology and special joints. Chinese enterprises with advanced technology and management philosophy experienced ferocious market competition amid the post-financial crisis and anti-dumping period, overall technological research and development capabilities, market service standards and risk resistance are constantly rising. They are will surely lead the industry into a rapid development and an era of leadership turnover with their edges in manufacturing costs.

In 2012, the external economic environment will bring more challenging problems, with numerous unstable and uncertain factors; although businesses will be facing many challenges, these challenges could be overcome or partially solved with hard work. "Once cannot learn to fly without practices." The challenged faced by the Specialized Pipes Industry is not over yet, because the industry's new and brighter future is being forged from the fire of adversity.

As the backbone of the oil pipe industry, through strategic partnership with oversea listed companies and world leaders in the industry, the Group is gaining rising reputation and image in the industry, gaining increasing brand influence, establishing 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. By cooperating with world leading companies, striving for technological advance, adopting a "specialty + service" corporate culture and constantly improving the Group's software; thus laying a solid foundation for steady and rapid development of the Group in the future.

In the complex and ever-changing external economic environment, based on the current characteristics of the times, the Group will follow to meet the market requirements to improve quality and innovation, moderate growth, adjusting the business philosophy. Given the current complex and ever-changing external economical environment, the Group will continue to meet market demand, by pursuing a mild growth strategy of continual improvement on product quality and innovation. Adjusting our management philosophy to emphasis on new market expansion and new product, new material and new technology 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 to exploit the potential of the high-grade steel oil well pipe production line project, building a globalised market network for the sustained development of the Group.

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, 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, 23 March 2012

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

2011 was a year that the Group advanced against the adversities and a year that the Group introduced strategic resources to consolidate its foundation and to enhance its competences as a whole. Faced with a multiple of challenges such as financial crisis, debt crisis, imposition of trade protection policies, increase in supply of production capacity and surge in costs, the Management of the Group capitalized on the favourable opportunities and actively pursued for the corporate development by tightly aligning to the strategic position and strategic objectives. As a result of the impacts brought by competition in the industry and the macro-economic factors, the performance indicators of the Group achieved in 2011 fell from the corresponding period last year. However, the Group will continue to develop towards the targets already set down. With an increase in the ability to mitigate risk, we are growing at a sound momentum in terms of production and operation, marketing development, strategic cooperation and sustainable development in future.

Comprehensive income

The Group recorded a total revenue of approximately RMB4,530,391,000 in 2011, representing an increase of approximately RMB1,348,672,000 or approximately 42.4% when compared to approximately RMB3,181,719,000 in 2010. The increase in revenue was attributable to the following reasons: (1) the Group's sales increased by about 196,000 tonnes to about 819,400 tonnes following the operation of the production line of the high-grade oil well pipe project in 2011; (2) the average price per tonne of product rose by approximately RMB425 to approximately RMB5,529 as a result of the rise in raw material prices and the change in product range structures.

During the period under review, the growth in sales amount at China remained strong. As to the overseas market, sales amount was approximately the same at the level of 2010, which was attributable to the impact on the external economic environment. The proportion of sales amount overseas to the total sales amount of the Group was approximately 27.2%, including the sales revenue from VMOG (China) Trading Co., Ltd, a subsidiary of Vallourec (2010: approximately 35.8%).

Gross profit

During the year, the Group reported a gross profit of approximately RMB294,360,000, which was an increase of approximately RMB32,811,000 or approximately 12.5% when compared to approximately RMB261,549,000 in 2010. The increase in gross profit was mainly due to the significant increase in the sales amount of the Group. The increase in gross profit was smaller than the increase in the sales amount as (1) the increase in product pricing lower than the increase in raw materials pricing arising from keen competition in the market; (2) the export sales of the Group's products were being affected to a certain extent upon the instability of global economic environment during the second half of the year.

Other income and gains

For the year ended 31 December 2011, the Group's other income and gains amounted to approximately RMB31,157,000 (2010: approximately RMB31,212,000), which was almost the same as last year and was mainly attributable to the increase in gain from forward foreign exchange contracts on export receipts that almost compensated the reduction in government incentives and benefits amid China's gradual economic recovery in 2011. Moreover, the reduction in interest income was in line with the decrease in seven days' demand deposits as a result of higher demand for liquidity following the commencement of operation of the new production line.

Selling and distribution costs

For the year ended 31 December 2011, the selling and distribution costs of the Group was about RMB139,158,000, representing an increase of approximately RMB44,709,000 or approximately 47.3% when compared to approximately RMB94,449,000 in 2010. The increase was mainly due to the substantial increase in the Group's sales volume, the inflation prevailing in China mainland, rise in increased sales and transportation rates.

Administrative expenses

For the year ended 31 December 2011, the Group's administrative expenses was approximately RMB63,684,000, which was an increase of approximately RMB27,006,000 or approximately 73.6% when compared to approximately RMB36,678,000 in 2010. The increase was mainly due to: (1) the Group increased the remuneration package for the middle and senior management, basic level officers and professional staff during the period, reflecting the Group's emphasis in the improvement of cohesiveness within the team and motivation of spirit; (2) the provision on the impairment of certain inventories and account receivables; (3) the increase in various taxation charges corresponding to the expansion of business scale according to the relevant laws and regulations.

Earnings before interests, taxes, depreciation and amortization ("EBITDA")

The Group's earnings before interests, taxes, depreciation and amortization ("EBITDA") for the year ended 31 December 2011 were approximately RMB254,171,000 (2010: approximately RMB271,417,000), which was decreased by approximately RMB17,246,000 or 6.4% when compared to the same period last year. The decrease in EBITDA was mainly due to: (1) the keen competition in the market and the surge in different cost items as well as a reduction in exports during the second half of the year resulting in the fall of the Group's gross profit as compared to the same period last year; (2) the expansion in the scale of the Group's operation resulting in an increase in the costs of sales and administrative expenses.

Finance costs

The finance costs of the Group for the year ended 31 December 2011 amounted to approximately RMB26,873,000 (2010: approximately RMB24,220,000), which increased by approximately RMB2,653,000 when compared with last year. The increase was mainly caused by the increase in exchange loss as a result of changes in exchange rates.

Income Tax

The income tax of the Group for the year was approximately RMB22,153,000 (2010: approximately RMB33,522,000), representing a decrease of approximately RMB11,369,000 when compared with last year. The decrease was mainly due to a fall in profit before tax when compared with last year.

Net profit

The Group's net profit attributable to owners of the parent company for the year was approximately RMB63,832,000 (2010: approximately RMB101,280,000). When compared with last year, net profit attributable to equity holders decreased by approximately RMB37,448,000 or approximately 37.0%. Apart from the fierce market competition and rising costs, net profit was also set off by the increase in depreciation. (The increase was caused by the depreciation provided in the last three quarters of 2010 following the completion of certain investment projects in the first quarter of 2010. These projects were all provided for depreciation in 2011.)

Inventories

The Group's inventories as at 31 December 2011 were approximately RMB634,109,000 (31 December 2010: approximately RMB615,156,000). The increase in inventories was mainly to the expansion in the Group's operation, as well as an increase in the stock for the sales of finished goods required in the operation. The average inventory turnover days for the year ended 31 December 2011 were 53 days (2010: an average of 61 days). Benefitted from the tighter control imposed by the Company over the level of inventory for raw materials and finished good in a reasonable manner with the production cycle, the Company recorded a fall in the average inventory turnover days.

Net assets

The Group's net assets as at 31 December 2011 were approximately RMB2,307,460,000 (31 December 2010: approximately RMB1,622,007,000). The net assets per share as at 31 December 2011 were approximately RMB2.29 (31 December 2010: approximately RMB2.00). The increase in net assets and net assets per share was mainly due to profits continued to be recorded by the Group and the private placing of 196,000,000 new H shares to Vallourec at a price of HK$3.96 per share in 2011.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the Group's cash and cash equivalents amounted to approximately RMB125,276,000 (31 December 2010: approximately RMB49,382,000), including bank deposits of approximately RMB116,865,000 and US$1,036,000 and denominated in Euro, HK dollars and etc. As at 31 December 2011, the Group's interest-bearing loans and borrowings amounted to approximately RMB245,881,000 (31 December 2010: approximately RMB661,759,000). Bank loans of the Group bore interest at rates ranging from 4.69% to 7.06% per annum in 2011 (2010: ranging from 4.21% to 5.76% per annum). As at 31 December 2011, the bank loans of the Group were not secured or guaranteed. Except for the bank loans of US$12,886,000 and the bank loan of EUR4,250,000, all bank loans of the Group are denominated in RMB.

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 total borrowings amounted to approximately RMB245,881,000 and its gearing ratio as at 31 December 2011 was approximately 8.3% (31 December 2010: approximately 20.8%), which was interest-bearing loans and borrowings divided by total assets and presented in terms of percentage.

CHARGES ON ASSETS

Save as those pledged time deposits of RMB10,071,000 for bank accepted drafts, letters of credit and foreign exchange forward contracts, as at 31 December 2011, none of the Group's property, plant and equipment and bank deposits were pledged for securing banking facilities.

SIGNIFICANT INVESTMENTS

On 15 June 2011, the Board had approved the motions of the construction of a new logistic workshop to the north of pipe processing workshop in Chuzhou city, investment for technical reform on the production line of high-grade oil well pipe and the project of building a new dormitory in Chuzhou city. The expected investment of above projects were amounting to RMB95,000,000, RMB120,000,000 and RMB50,000,000, respectively.

MAJOR ACQUISITION AND DISPOSAL

The Group did not make any major acquisition or disposal during the year ended 31 December 2011.

CONTINGENT LIABILITIES

As at 31 December 2011, the Group did not have any significant contingent liabilities.

FUTURE PROSPECT

With respect to the long-term development of the specialized pipe industry in the PRC, each of the participants in the industry are devoting their efforts to gradually improving profit margin from the prevailing low level, enhancing competitiveness of the industry, through which the sustainable development of the industry can be ensured. The elimination of obsolete production capacity, a control over the investment in new production lines, upgrade of technology research and development and consolidation of participants in the industry will be the measures critical to the healthy development of this industry.

In 2012, the economic position will be further complex. Given the keen competition subsisting in the market, the Group will maintain its competitiveness and growth through scale of economy, promotion of research and development as well as the abundant resources from Vallourec according to the strategies set out below, which will bring stable return to the shareholders.

As to the scale of operation, the Group will continue to upgrade the technology of its production lines and equipment. The potential at the production lines for high-end steel pipes will be tapped into through the improvement in craftsmanship. The Group will seek to double the actual production capacity of high-end steel pipes from its designed capacity and the target output of 2012 will be around 950,000 tonnes.

As to product research and development, the resources in product research and development will be integrated with those edges enjoyed by the strategic cooperation partner. On the other hand, we will also enter into cooperation with research institutes in the industry, so as to conduct research and development jointly in new products such as high-end steel pipe, specially threaded pipes, tubing and casing for pipes used in thermal wells, a number of products in the steel series for TD80H, TD90H andTD110H. We will implement thorough research in the mining equipment for high level natural gas and coal-bed gas so as to fulfill the special needs of our customers within and outside China. In terms of product composition, we will leverage on the matured craftsmanship and the precision in the rolling of high-end steel pipes at our production lines as well as our flexibility to research for high-end pipes used in nuclear energy, supercritical boilers and special pipes for heavy truck and cylinder pipes. In terms of processing, we will place more emphasis to increase the proportion of threading and heat treatment, which will enhance the added value of our products. To sum up, the proportion to be shared by high-end products will increase through research and development, which will enhance the profitability and competitiveness of the Group's products.

As to the sales strategies, we will continue to expand our channels and diversify our customer base in China in 2012. Apart from consolidating our existing customers in China, we will further explore new customers with potential. By capitalizing from the increase in output of specialized pipes and commercialization of new high-end products, the Group will devote more efforts to expand the market share in China. Expansion in the overseas market will be a focus for our marketing endeavours this year. The Group will take into account the trade policies of destination countries and the requirements of regional markets overseas to expand its market share of pipes in the international market through utilizing the resources of Vallourec beneficial to its purposes. We will optimize the composition of pipe customers overseas thereby consolidating and strengthening our brand equity. In addition, the Group will continue to increase its exports of other specialized pipes such as high end steel pipes and underwater pipes. This will increase the proportion of exports to total sales from 27% last year to around 40%, targeting to early achieve the goal of 50% in terms of marketing sooner than expected.

As we had mentioned in the 2011 Interim Report, it is the belief of the Group that in the next two or three years, self-transition in the industry, changes in competition pattern well as adjustment and development performed by the enterprises themselves are becoming more and more obvious. After being recovered from the existing difficulties and undergoing changes, the specialized pipe industry in the PRC will enter a more mature stage of development. Long-established edges and developing potential brought by strategic cooperation in the future will offer us with a better adaptability, even leading the long-term development of the specialized pipe industry in the PRC.

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 2011, the sales volume of the Group's self-produced specialized pipes was approximately 806,240 tonnes (2010: approximately 594,700 tonnes), representing a year-on-year increase of approximately 35.6% 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 2011, the sales volume of the Group's sourcing and distribution of specialized pipes was approximately 13,120 tonnes (2010: approximately 28,700 tonnes). When compared to last year, the sales volume of the sourcing and distribution of specialized pipes declined by approximately 54.3%.

   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 2011, the Company had 2,129 employees (as at 31 December 2010: 1,797 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.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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 2011, the Group has complied with the relevant regulations in the Code on Corporate Governance Practices (the "**Code**") as set out in Appendix 14 of the of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). 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.

BOARD OF DIRECTORS

Board Composition

The Board of the Company for the year comprises:

Executive Directors:
Mr. YE Shi Qu (Chairman)
Mr. ZHANG Hu Ming (Deputy Chairman and General Manager)
Mr. ZHANG Jian Huai*
Ms. FU Jun

Non-executive Directors:
Mr. XIE Yong Yang*
Mr. LIU Peng
Mr. Delhon-Bugard Hervé

Independent Non-executive Directors:
Mr. WU Chang Qi
Mr. ZHAO Bin
Mr. AU Kwok Yee Benjamin*
Ms. YAN Lan

* *In April 2011, Mr. Zhang Jian Huai, Mr. Xie Yong Yang, and Mr. Au Kwok Yee Benjamin had resigned as Directors due to the reorganization of the Group with Vallourec and the strategic cooperation arrangements. In June 2011, Ms. FU Jun, Mr. Delhon-Bugard Hervé and Ms. YAN Lan were appointed as an Executive Director, a Non-executive Director and an Independent Non-executive Director respectively.*

In full compliance with Rules 3.10(1) and (2) of the Listing Rules, during the year ended 31 December 2011, the Group has appointed three independent non-executive directors, at least one of whom has appropriate professional accounting qualifications. The Independent Non-executive Directors are persons of high calibre; with academic and professional qualifications in the fields of accounting, law and business management. With their experience gained from senior positions held in other companies/organisations, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. The Independent Non-executive Directors do not participate in the day-to-day management of the Company and do not involve themselves in business transactions or relationships with the Company, in order not to compromise their objectivity. All the Independent Non-executive Directors who served in 2011 have given annual confirmations of their independence to the Company, and the Company considers these Directors to be independent under Rule 3.13 of the Listing Rules. Each of the Independent Non-executive Directors has been appointed for a term of 3 years.

The Board formulates overall strategic plans and key policies of the Group, monitors its financial performance, maintains effective oversight over the management, risks assessment and controls over business operations. The Board members are fully committed to their roles and have acted in good faith to maximise the shareholders' value in the long run, and have aligned the Group's goals and directions with the prevailing economic and market conditions. Daily operations and administration are delegated to the management.

Board Proceedings

The schedule of Board meetings for a year is planned in the preceding year. All Board meetings' notices are given to all Directors in accordance with the requirements in the articles of association and they can include matters for discussion in the agenda if the need arises. The Secretary to the Board or the Company Secretary assists the Board in preparing the agenda for meetings and ensures that all relevant rules and regulations are followed. The agenda and the accompanying Board papers are sent to all Directors at least 3 days before the date of Board meeting so that the Directors have the time to review the documents.

The Board meetings are usually chaired by the Chairman, Mr. Ye Shi Qu, who has the responsibility of ensuring that each of the agenda items is adequately reviewed and thoroughly deliberated within a reasonable time frame.

Minutes of each Board meeting are circulated to all Directors for their perusal prior to confirmation of the minutes at the subsequent Board meeting. The Directors may request for clarification or raise comments before the minutes are signed and kept by the Company Secretary as a record of the meeting.

Every director of the Group is entitled to have access to Board papers and related materials and has unrestricted access to the advice and services of the Company Secretary to enable them to discharge their duties effectively, and has the liberty to seek external professional advice if so required. The cost of procuring these professional services will be borne by the Group. The directors also have direct access to the senior management and has unrestricted and immediate access to any information relating to the Company's business and affairs in the discharge of their duties. The Directors may request to be furnished with additional information or clarification, particularly in respect of complex and technical issues tabled to the Board. The Company Secretary continuously updates all Directors on the latest development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices.

For the year ended 31 December 2011, five Board meetings of the Group were held. The attendance of the directors at the Board meetings is set out as follows:

Name of director	Number of meetings attended	Attendance rate
Mr. YE Shi Qu	5/5	100%
Mr. ZHANG Hu Ming	5/5	100%
Mr. ZHANG Jian Huai	2/2	100%
Ms. FU Jun	2/2	100%
Mr. XIE Yong Yang	2/2	100%
Mr. LIU Peng	5/5	100%
Mr. Delhon-Bugard Hervé	2/2	100%
Mr. WU Chang Qi	5/5	100%
Mr. ZHAO Bin	5/5	100%
Mr. AU Kwok Yee Benjamin	2/2	100%
Ms. YAN Lan	2/2	100%

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

For the year ended 31 December 2011, 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.

Appointment and Re-election of Directors

The Group adopts a formal, considered and transparent procedure for the appointment of new Directors. The opinions of the existing Directors (including the Independent Non-executive Directors) are sought after every candidate for the position of a director is being reviewed by the Nomination Committee. Upon the adequate consideration by the Board as appropriate, the appointment will be submitted to the general meeting for approval. The existing directors are appointed with a term of three years, and the re-election or the appointment of new directors will be conducted according to the above procedures upon the expiration of the term. The Board shall from time to time review its composition with particular regard to ensuring that there is an appropriate number of Directors on the Board independent of management and having the necessary professional expertises and experiences.

Directors' Code of Ethics

The Directors observe a code of ethics that is formulated and adopted to enhance the standard of corporate governance and corporate behaviour. The principles on which such code of ethics relies are those that concern transparency, integrity, accountability and corporate social responsibility taking into account the relevant provisions/ requirements by the regulatory authorities.

Trading of Securities by Directors'

The Group has adopted the code of conduct regarding the trading of securities by Directors as set out in Appendix 10. Upon specific enquiries made by the Group to all the Directors, each of them has confirmed having fully complied with the required standards for the year ended 31 December 2011.

Indemnities of Directors and Chief Executives

As the Group's businesses are relatively unitary, the Directors can easily comprehend these businesses. At the same time, the Directors are equipped with the adequate spirit and expertise in making corporate decisions. Furthermore, the Directors consider that the Management has placed control over corporate risks from time to time, and has strictly complied with the Listing Rules and the relevant regulations. Therefore it is not necessary to purchase insurance for the Directors and Chief Executives.

Professional Committees under the Board

Audit Committee

The Audit Committee of the Group comprises Mr. Zhao Bin (Chairman), Mr. Wu Chang Qi and Mr. Liu Peng, the majority of whom are independent non-executive Directors of the Group.

The Audit Committee held two meetings during the year.

Members of the Audit Committee	Number of Meetings	Percentage of Attendence
Mr. Zhao Bin (Chairman)	2/2	100%
Mr. Wu Chang Qi	2/2	100%
Mr. Zhang Jian Huai*	1/1	100%
Mr. Liu Peng	1/1	100%

* *In April 2011, Mr. Zhang Jian Huai had resigned as a member of the committee due to the reorganization of the Group with Vallourec and the strategic cooperation arrangements. In June 2011, Mr. Liu Peng was appointed as a member of the Audit Committee.*

The primary duties of the Audit Committee shall be:

1. To be primarily responsible for the making of recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any issue of its resignation or dismissal;

2. To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

3. To develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee should report to the Board, identifying and make recommendations on any matters where action or improvement is needed;

4. To monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them;

5. To review the Company's financial controls, internal control and risk management systems;

6. To discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experiences, training programmes and budget of the Company's accounting and financial reporting functions;

7. To consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

8. To review the Group's financial and accounting policies and practices;

9. To review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response;

10. To ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

11. To report to the Board on matters as provided in the terms of references of the Committee.

The terms of references of the Audit Committee was published on the Group's website. 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 Committee

Since the listing of the Group, the Board has established the Remuneration and Nomination Committee under it, so that each of the committees under the Board can exercise their functions in a more professional manner. It was resolved by the Board on 23 March 2012 that the Remuneration and Nomination Committee would be divided into the Remuneration Committee and the Nomination Committee, and the terms of references for each committee were passed.

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

The Remuneration Committee (at the time holding the meeting was named Remuneration and Nomination Committee) held one meeting during the year.

Members of the Remuneration Committee	Number of Meetings	Percentage of Attendance
Mr. Wu Chang Qi (Chairman)	1/1	100%
Mr. Zhao Bin	1/1	100%
Mr. Xie Yong Yang*	1/1	100%
Mr. Liu Peng	0	–

* *In April 2011, Mr. Xie Yong Yang had resigned as a member of the Remuneration and Nomination Committee due to the reorganization of the Group with Vallourec and the strategic cooperation arrangements. In June 2011, Mr. Liu Peng was appointed as a member of the Remuneration and Nomination Committee.*

The primary duties of the Committee shall be:

1. To make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management of the Company and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

2. To have the delegated responsibility in determining the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors. The Remuneration Committee should consider factors such as salaries paid by comparable companies, time commitment and responsibilities of directors, employment conditions elsewhere in the Group and the adoption of performance-based remuneration;

3. To review and approve on performance-based remuneration with reference to corporate goals and objectives resolved by the Board from time to time;

4. To consider and approve the grant of share options and share appreciation rights to the eligible participants pursuant to the Share Option Scheme and the Share Appreciation Rights Scheme of the Company;

5. To prepare the annual plan for the grant of share appreciation rights pursuant to the Share Appreciation Rights Scheme of the Company, and to take up the daily administration of the Sharer Appreciation Rights Scheme;

6. To review and approve the compensation payable to any executive director and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

7. To consult the Chairman of the Board and/or the Chief Executive Officier of the Company regarding the recommendations for the remuneration of other executive directors;

8. To ensure the remuneration of the directors are appropriately disclosed according to the accounting principles and the Listing Rules in the annual report of the Company;

9. To resolve and handle other matters as delegated to the Remuneration Committee by the Board.

The terms of references of the Remuneration Committee was published on the Group's website.

Nomination Committee

Since the listing of the Group, the Board has established the Remuneration and Nomination Committee under it. In order to facilitate each of the committees under the Board exercising their functions in a more professional manner, it was resolved by the Board on 23 March 2012 that the Remuneration and Nomination Committee would be divided into the Remuneration Committee and the Nomination Committee, and the terms of references for each committee were passed.

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

The Nomination Committee (at the time holding the meeting was named Remuneration and Nomination Committee) held one meeting during the year.

Members of the Nomination Committee	Number of Meetings	Percentage of Attendance
Mr. Wu Chang Qi (Chairman)	1/1	100%
Mr. Zhao Bin	1/1	100%
Mr. Xie Yong Yang*	1/1	100%
Mr. Liu Peng	0	–

* *In April 2011, Mr. Xie Yong Yang had resigned as a member of the Remuneration and Nomination Committee due to the reorganization of the Group with Vallourec and the strategic cooperation arrangements. In June 2011, Mr. Liu Peng was appointed as a member of the Remuneration and Nomination Committee.*

The primary duties of the Committee shall be:

1. To review on regular basis the structure, size and composition (including the skills, knowledge and experience) of the Board, and to make recommendations to the Board about any proposed change;

2. To identify individuals suitably qualified to become a member of the Board, and to make recommendations to the Board for selecting or nominating candidate as a director;

3. To assess the independence of independent non-executive directors and any candidate intended to nominate as the independent non-executive director;

4. To make recommendations to the Board on relevant matters relating to the appointment or reappointment of directors and succession planning for directors, in particular of the Chairman of the Board and the Chief Executive Officer;

5. To resolve and handle other matters as delegated to the Nomination Committee by the Board.

The terms of references of the Remuneration Committee was published on the Group's website.

ACOUNTABILITY AND AUDIT

Financial Reporting

The Board is committed to providing a balanced, clear and comprehensible assessment of the financial performance and prospects of the Group in all the disclosures made to the stakeholders and the regulatory authorities.

Timely release of interim and annual results announcements reflects the Board's commitment to provide transparent and up-to-date disclosures of the performance of the Group.

The Board, assisted by the Audit Committee, oversees the financial reporting process and the quality of the financial reporting of the Group. The Audit Committee reviews and monitors the integrity of the Group's annual and interim financial statements. It also reviews the appropriateness of the Group's accounting policies and the changes to these policies as well as ensures these financial statements comply with accounting standards and regulatory requirements.

The responsibilities of the external auditors with respect to financial reporting are set out in the Independent Auditors' Report attached to the Company's 2011 Annual Report.

AUDITORS' REMUNERATION

During the Year under Review, the Group paid an aggregate of approximately RMB1,000,000 (2010: RMB950,000) to the external auditors for their services including audit and non-audit services.

COMPLIANCE OFFICER AND COMPANY SECRETARY

Compliance Officer: Mr. Zhang Hu Ming

Company Secretary: Mr. Shum Shing Kei (fellow member of the Hong Kong Institute of Certified Public Accountants and associate member of The Association of Chartered Certified Accountants)

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 Group. 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 to handle the related affairs pursuant 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 and as of the date hereof, the Board considered that the prevailing internal control system of the Group is steady and is adequate to protect the interests of the shareholders, customers and employees as well as the assets of the Group. The Group has engaged sufficient employees in the accounting and finance functions, who have the resources, qualifications and experiences as well as the necessary training and budget.

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 2011.

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 2011 are set out in the income statement and the accompanying Notes to the financial statements on page 36 to page 94 of this report.

The board has recommended the payment of a final dividend of RMB0.031 cents per share (inclusive of tax) in respect of the year ended 31 December 2011. 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 final dividends are expected to be paid on or around 30 June 2012 subject to the approval at the annual general meeting on 22 May 2012.

CLOSURE OF REGISTER OF MEMBERS

For the purpose of ascertaining shareholders' right to attend and vote at the annual general meeting of the Company to be held on 22 May 2012, the Register of Members of the Company will be closed from 22 April 2012 to 22 May 2012, both days inclusive, during which period no transfer of shares will be effected. In order for a shareholder to be eligible to attend and vote at the annual general meeting, all transfers accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited, the Company's transfer office and share registrar in Hong Kong, whose address is Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 20 April 2012.

For the purpose of ascertaining shareholders' entitlement to the proposed final dividend, the Register of Members of the Company will be closed from 28 May 2012 to 30 May 2012, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend (subject to shareholders' approval at the annual general meeting), all transfers accompanied by the relevant share certificates must be lodged with Computershare Hong Kong Investor Services Limited, the Company's transfer office and share registrar in Hong Kong, whose address is Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 25 May 2012.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year of 2011 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 28 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 2011, the Group's distributable reserve after such comparison and before deducting the proposed dividend for 2011 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 RMB700,701,000 (31 December 2010: accumulated profits prepared in accordance with PRC GAAP of approximately RMB674,488,000).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2011, sales to the five largest customers of the Group accounted for less than 23% of the Group's total turnover. For the year ended 31 December 2011, purchases from the Group's largest supplier, Tianjin Iron & Steel Co., Ltd., and five largest suppliers accounted for approximately 25% and 53% 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.

BIOGRAPHICAL DETAILS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Ye Shi Qu, aged 62. He is a deputy to the Eleventh National People's Congress and the chairman and an executive director of the Group. 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 43. He is the deputy chairman, an executive director, the general manager and a member of the Strategy and Risk Control Committee of the Board of the Group. 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).

Ms. Fu Jun, aged 43. She is an executive director, the deputy general manager and chief Financial officer of the Group. Fu Jun graduated from Shenzhen University in 1990, majoring in accounting, and received an EMBA degree from China Europe International Business School (CEIBS) in 2001. She has 15 years' experience as Finance Controller or CFO in listed companies and Sino-Joint Ventures and 6 years' extensive experience in providing auditing and financial consulting services. She had worked for Beijing Huahui Electronics Co., Ltd., Arthur Andersen LLP.,Schneider (Beijing) Medium Voltage Co., Alpharma AHD, Shanghai GE Breakers Co., Ltd., Lafarge (China)Bejing Chinefarge Cement CO. LTD. and EOOS (China) Consulting Co., Ltd. In April 2011, she was the deputy general manager and the chief financial officer of the Group and was appointed as an executive director in June 2011.

Non-executive Directors

Mr. Liu Peng, aged 35. He is a non-executive director and a member of the Remuneration Committee, the Nomination Committee and the Audit Committee of the Board of the Group. Liu Peng 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 of the Group on director re-election in April 2009. Liu Peng is the nephew of Ye Shi Qu, the Chairman.

Mr. Delhon-Bugard Hervé, aged 52. He is a non-executive director of the Group. Mr. Delhon-Bugard Hervé is the chief financial officer of the OCTG Division in the Vallourec Group. Mr. Delhon-Bugard Hervé graduated from HEC University in France in 1983. He joined Vallourec in 1997 and worked as CFO of Valtimet, a joint venture between Vallourec and Timet, a US leading company in titanium metal, and CFO of Special Steel Pipe Division of Vallourec and the general manager of Valtimet, with extensive experience in special steel pipe enterprises management. He was appointed as a non-executive director of the Group in June 2011.

Independent Non-executive Directors

Mr. Zhao Bin, aged 46. He is an independent non-executive director, a member of the Remuneration Committee and the Nomination Committee and the chairman of the Audit Committee and the Strategy and Risk Control Committee of the Board of the Group. 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 independentnon-executive director of the Group on director re-election in April 2009.

Mr. Wu Chang Qi, aged 76. He is an independent non-executive director and the chairman of the Remuneration Committee and the Nomination Committee and a member of the Audit Committee of the Board of the Group. Wu Chang Qi 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 of the Group on director re-election in April 2009.

Ms. Yan Lan, aged 55.She is an independent non-executive director and a member of the Strategy and Risk Control Committee of the Board of the Group. Yan Lan obtained a bachelor's degree in French Language and Literature from Beijing Foreign Languages Institute in 1981, a master's degree in International Law from Peking University in 1984 and a doctorate degree in International Law from the Graduate Institute of International Studies in Geneva in 1993. She was the chief representative in the Beijing office of Gide Loyrette et Nouel between 1998 and March 2011. She is now managing director and Head of Greater China Investment Banking of Lazard China. She is an arbitrator of the China International Trade Arbitration Committee. She also serves as the chairman of the International Advisory Committee of the Beijing Music Festival, the Chairman of the China Heritage Protection Fund (CHS), an international advisor of the Women's Forum for the Economy and Society and an independent non-executive director of China Merchants Bank Co., Ltd. She joined Gide Loyrette et Nouel in 1991 and was admitted by the Paris Bar Association in 1994. She became the first female foreign partner of Gide Loyrette et Nouel in 1997. She was elected as an advisor to France on foreign trade in 2006. In June 2011, she was appointed as an independent non-executive director of the Group.

Supervisors

Mr. Geng Wei Long, aged 46. He is the chairman of the Supervisory Committee of the Group. Geng Wei Long 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. He was appointed as the chairman of the Supervisory Committee of the Group in June 2011.

Mr. Didier Maurice Francis HORNET, aged 48. He is a supervisor of the Group. Mr. Didier Maurice Francis HORNET is Vallourec Group's managing director, OCTG Division. He obtained a MS Degree in Aeronautics Engineering from ENSMA Poitiers in 1987 and Master of Business Administration from IAE Paris-Sorbonne in Paris. He graduated from Harvard Executive AMP Program in 2009 (AMP 176). He joined Vallourec Group in 1993. He became a managing director of VMOG UK in Aberdeen in 2002 and leading the Vallourec Oil & Gas Business in the North Sea, managing director at OCTG Division for North America in 2004 and a managing director of the OCTG Division worldwide and member of the Executive Committee of the Vallourec Group (March 2010 – present). He was appointed as a supervisor of the Group in June 2011.

Mr. Yang Quan Fu, aged 37. He is a supervisor from staff representative of the Group. Yang Quan Fu 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. Zhang Hu Ming, aged 43. He is the general manager of the Group. Details please refer to the section of the Directors' Biography details.

Mr. Yong Jin Gui, aged 37. He is the standing general manager of the Group. Yong Jin Gui 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, and resigned as a supervisor as result of the reorganization of the Group in April 2011. He 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 the Chairman of Tianda Holding and a director of several subsidiaries of Tianda Holdings. He was appointed as the standing general manager of the Group in June 2011 and responsible for assisting the general Manager with daily operation management of the company.

Ms. Fu Jun, aged 43. She is the deputy general manager and the chief financial officer of the Group. Details please refer to the section of the Directors' biography detals.

Mr. Wang Yi, aged 40. He is the deputy general manager of the Group. Wang Yi graduated with a bachelor degree from Anhui Mechanical and Electrical Institute with a major in heat treatment in 1997. Wang Yi 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. Li Shun, aged 38. He is the deputy general manager of the Group and the chief sales director of OCTG. Li Shun graduated with a bachelor degree from Shanghai Jiaotong University with a major in electrical engineering in 1995 and obtained a master degree in international trade from University of International Business and Economics News in 1999. He joined Vallourec & Mannesmann Tubes (Beijing) Co., Ltd. as the sales director of Petroleum and natural gas Department in December 2009. Before joining Vallourec, Li Shun had worked for Tyco Electronics Corporation and National Oilwell Varco. He has over 10 years' sales experience with 7 years working in Petroleum and natural gas sector. He is the deputy general manager of the Group and chief sales director of OCTG, assisting sales activities of OCTG products of the Company.

Mr. Zhang Chun Xiang, aged 40. He is the chief engineer of the Group. Zhang Chun Xiang 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. Chen Dong, aged 32. He is the secretary of the Board of the Directors of the Group. Chen Dong graduated with a bachelor's degree in Law Studies from institution of higher education in 2000. He is an associated member of Hong Kong Institute of Chartered Secretaries. Chen Dong was appointed as the Secretary of the Board of the Group with the effect from 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 10 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, the general manager and a member of the Strategy and Risk Control Committee of the Board of the Group. Mr. Zhang's biographical information 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 2011, 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:

Domestic shares of RMB0.5 each of the Company

Name of Directors or Supervisors	Number of shares	Nature of Interest	notes	Percentage of total number of Shares in Issue (%)
Ye Shi Qu	510,000,000 (L)	Interest in controlled corporation	(1)	50.61%
Ye Shi Qu	510,000,000 (S)	Interest in controlled corporation	(1)	50.61%
Ye Shi Qu	1,632,000,000 (L)	Interest in controlled Corporation and Concert parties	(3)	161.97%
Zhang Hu Ming	1,632,000,000 (L)	Concert parties	(3)	161.97%

H shares of RMB0.5 each of the Company

Name of Directors or Supervisors	Number of shares	Nature of Interest	notes	Percentage of total number of Shares in Issue (%)
Ye Shi Qu	864,000,000 (L)	Interest in controlled Corporation and Concert parties	(2), (3)	85.75%
Ye Shi Qu	20,000,000 (S)	Interest in controlled corporation	(2)	1.99%
Zhang Hu Ming	864,000,000 (L)	Concert parties	(3)	85.75%

(L) refers to the long position
(S) refers to the short position

Beneficial interest

Name of Company	Name of Director or Supervisor	Beneficial Interest / Total amount of Capital Contribution	Nature of Interest	notes	Percentage holding of shares/interest in registered capital of the relevant associated corporation (%)
Tianda Holding	Ye Shi Qu	RMB198,985,900	Beneficial owner		85.14%
Tianda Investment	Ye Shi Qu	RMB50,000,000	Interest in controlled corporation	(1), (2)	100%
Tiancheng Changyun	Ye Shi Qu	HK$46,681,980	Interest in controlled corporation	(1), (2)	100%
Tianda Holding	Zhang Hu Ming	RMB9,166,700	Beneficial owner		3.92%
Tianda Holding	Geng Wei Long	RMB473,200	Beneficial owner		0.20%

Notes:

1. Ye Shi Qu holds 85.14% of the equity interest in Tianda Holding. Tianda Holding holds (i) 408,000,000 domestic shares of the Company with long position; (ii) 408,000,000 domestic shares of the Company with short position; and (iii) 100% of the equity interest in Tianda Investment. Tianda Investment holds (i) 102,000,000 domestic shares with long position; and (ii) 102,000,000 domestic shares with short position in the Company. Accordingly, Ye Shi Qu is deemed to be interested in all of (i) 510,000,000 domestic shares with long position; and (ii) 510,000,000 domestic shares with short position in the Company.

2. Ye Shi Qu holds 85.14% of the equity interest in Tianda Holding. Tianda Holding holds 95% of the equity interest in Anhui Tianda (Group) Co., Ltd, which in turn holds 100% of the equity interest in Tiancheng Changyun, which in turn holds (i) 216,000,000 H shares with long position; and (ii) 20,000,000 H shares with short position in the Company. Accordingly, Ye Shi Qu is deemed to be interested in (i) 216,000,000 H shares with long position; and (ii) 20,000,000 H shares with short position in the Company.

3. Vallourec & Mannesmann Tubes, Tianda Holding, Tianda Investment, Tiancheng Changyun, Ye Shi Qu and Zhang Hu Ming entered into Shareholders Agreement on 15 September 2010. Section 317 of the SFO shall apply to this agreement. Vallourec & Mannesmann Tubes, Tianda Holding, Tianda Investment, Tiancheng Changyun, Ye Shi Qu and Zhang Hu Ming are concert parties with each other in relation to (i) 1,632,000,000 domestic shares and (ii) 864,000,000 H shares jointly held by them.

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 2011.

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 2011, 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 33of 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

So far as the directors or chief executive of the Group are aware, as at 31 December 2011, 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:

Domestic shares of RMB0.5 each of the Company

Name of Substantial Shareholders	Number of shares	Nature of Interest	notes	Percentage of total number of issued domestic shares (%)	Percentage of total number of Shares in Issue (%)
Tianda Holding	408,000,000 (S)	Beneficial owner	(1)	80%	40.49%
	102,000,000 (S)	Interest in controlled corporation	(1)	20%	10.12%
	1,632,000,000 (L)	Concert parties	(4)	320%	161.97%
Tianda Investment	102,000,000 (S)	Beneficial owner		20%	10.12%
	1,632,000,000 (L)	Concert parties	(4)	320%	161.97%
Tiancheng Changyun	1,632,000,000 (L)	Concert parties	(4)	320%	161.97%
Vallourec S.A.	1,632,000,000 (L)	Concert parties	(4)	320%	161.97%
	510,000,000 (L)	Interest in controlled corporation	(2)	100%	50.61%
Vallourec & Mannesmann Tubes	1,632,000,000 (L)	Concert parties	(4)	320%	161.97%
	510,000,000 (L)	Beneficial owner		100%	50.61%

(L) refers to the long position
(S) refers to the short position

H shares of RMB0.5 each of the Company

Name of Substantial Shareholders	Number of Shares	Nature of interest	notes	Percentage of total number of issued H shares (%)	Percentage of total number of Shares in Issue (%)
Tianda Holding	864,000,000 (L)	Concert parties	(3), (4)	173.62%	85.75%
	20,000,000 (S)	Interest in controlled corporation	(3)	4.02%	1.99%
Tiancheng Changyun	864,000,000 (L)	Concert parties	(4)	173.62%	85.75%
	20,000,000 (S)	Beneficial owner	(3)	4.02%	1.99%
Tianda Investment	864,000,000 (L)	Concert parties	(4)	173.62%	85.75%
Vallourec S.A.	864,000,000 (L)	Concert parties	(4)	173.62%	85.75%
	196,000,000 (S)	Interest in controlled corporation	(2)	39.39%	19.45%
Vallourec & Mannesmann Tubes	864,000,000 (L)	Concert parties	(2), (4)	173.62%	85.75%
	196,000,000 (S)	Interest in controlled corporation	(2)	39.39%	19.45%
Hillhouse Capital Management, Ltd.	40,061,000 (L)	Investment Manager	(5)	8.05%	3.98%
Templeton Asset Management, Ltd.	6,432,841 (L)	Investment Manager		13.01%	6.42%
JPMorgan Chase & Co.	29,000 (L)	Beneficial owner		6.20%	3.06%
	30,834,841 (L)	Custodian corporation/ approval lending agent			
	30,863,841 (L)				
Citigroup Inc.	19,728,500 (L)	Having a security interest in shares		6.44%	3.18%
	12,361,012 (L)	Custodian corporation/ approval lending agent			
	32,089,512 (L)				

(L) refers to the long position
(S) refers to the short position

Notes:

1. Tianda Holding holds (i) 408,000,000 domestic shares in the Company with short position; and (ii) 100% of the equity interest in Tianda Investment. Tianda Investment holds 102,000,000 domestic shares in the Company with short position. Accordingly, Tianda Holding is deemed to be aggregately interested in 510,000,000 domestic shares in the Company with short position.

2. Vallourec S.A. holds 100% of the equity interest in Vallourec & Mannesmann Tubes, which in turn holds (i) 510,000,000 domestic shares with long position; (ii) 864,000,000 H shares with long position; and (iii)196,000,000 H shares with short position in the Company. Accordingly, Vallourec S.A. is deemed to be interested in (i) 510,000,000 domestic shares with long position; (ii) 864,000,000 H shares with long position; and (iii) 196,000,000 H shares with short position in the Company.

3. Tianda Holding holds 95% of the equity interest in Anhui Tianda (Group) Co., Ltd, which in turn holds 100% of the equity interest in Tiancheng Changyun, which in turn holds (i) 216,000,000 H shares with long position; and (ii) 20,000,000 H shares with short position in the Company. Accordingly, Tianda Holding is deemed to be interested in (i) 216,000,000 H shares with long position; and (ii) 20,000,000 H shares with short position in the Company.

4. Vallourec & Mannesmann Tubes, Tianda Holding, Tianda Investment, Tiancheng Changyun, Ye Shi Qu and Zhang Hu Ming entered into Shareholders Agreement on 15 September 2010. Section 317 of the SFO shall apply to this agreement. Vallourec & Mannesmann Tubes, Tianda Holding, Tianda Investment, Tiancheng Changyun, Ye Shi Qu and Zhang Hu Ming are concert parties with each other in respect of (i) 1,632,000,000 domestic shares and (ii) 864,000,000 H shares jointly held by them.

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

Save as disclosed above, as at 31 December 2011, 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 2011 in the register required to be kept by the Group under section 336 of the SFO.

CONTINUING CONNECTED TRANSACTION

On 18 November 2010, the Company entered into a sales agreement (the "Sales Agreement") with Vallourec Mannesmann Oil & Gas France and its subsidiaries, VMOG (China) Trading Co., Ltd and Seamless Tubes Asia Pacific Pte. Ltd., (together referred to as the "Distributor(s)"), pursuant to which, the Company appoints the Distributors as its exclusive distributor for the promotion and sale of seamless casing and tubing and/or plain end or green pipe for seamless casing and tubing and/or drill pipe applications, manufactured by the Company ("Products"), worldwide except in the PRC (the "Territory"). The Company shall sell the Products only to the Distributors for resale in the Territory, and the Company shall not sell the Products to users in the Territory.

The Sales Agreement shall be effective for 3 years and expiring on 31 December 2013 and the Annual Caps for the three financial years ended 31 December 2011 and ending 31 December 2012 and 2013 are RMB1,050,000,000, RMB1,312,500,000 and RMB1,600,000,000, respectively.

The Company's independent auditors have reviewed the continuing connected transaction set out above and have confirmed that the continuing connected transaction (i) have received the approval of the Board; (ii) are in accordance with the pricing policies of the Company; (iii) have been entered into in accordance with the relevant agreement governing the transactions; and (iv) have not exceeded the cap disclosed in the previous announcements.

The independent non-executive Directors have reviewed the continuing connected transactions set out above and in note 33 to the financial statements and have confirmed that the continuing connected transaction have been entered into (i) in the ordinary and usual course of business of the Company; (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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 2011, 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 annual general meeting, H Shares class meeting and Domestic Shares class meeting held on 1June 2011, amendment to the Article 4 of the Articles of Association of the Group were considered and approved as: the legal representative of the Company shall be any one executive director or the general manager of the Company.

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 BALANCE SHEET DATE

Details of the events occurred after the Balance Sheet Date are set out in 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 2011.

AUDITORS

The financial statements for the year ended 31 December 2011 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 to act as the auditor of the Group for the year 2012.

By Order of the Board
Ye Shi Qu
Chairman

Anhui, the PRC, 23 March 2012

REPORT OF THE SUPERVISORS

In 2011, 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 2011. On behalf of the Supervisory Committee, I hereby present our report for 2011:

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 2011, 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 2011 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 2011were 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

23 March 2012

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 36 to 94, which comprise the consolidated and company statements of financial position as at 31 December 2011, 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 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 2011, 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
22/F, CITIC Tower
1 Tim Mei Avenue
Central
Hong Kong

23 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Notes	**2011 RMB'000**	2010 RMB'000 (restated)
REVENUE	5	**4,530,391**	3,181,719
Cost of sales		**(4,236,031)**	(2,920,170)
Gross profit		**294,360**	261,549
Other income and gains	6	**31,157**	31,212
Selling and distribution costs		**(139,158)**	(94,449)
Administrative expenses		**(63,684)**	(36,678)
Other expenses	6	**(9,817)**	(2,612)
Finance costs	7	**(26,873)**	(24,220)
PROFIT BEFORE TAX	8	**85,985**	134,802
Income tax expense	11	**(22,153)**	(33,522)
PROFIT FOR THE YEAR		**63,832**	101,280
OTHER COMPREHENSIVE INCOME			
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**–**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**63,832**	101,280
Profit attributable to:			
Owners of the parent		**63,832**	101,280
Total comprehensive income attributable to:			
Owners of the parent		**63,832**	101,280
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	14	**RMB0.07**	RMB0.12

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 2011

	Notes	**2011** **RMB'000**	2010 RMB'000 (restated)
NON-CURRENT ASSETS			
Property, plant and equipment	16	**1,445,277**	1,457,468
Prepaid land lease payments	17	**27,317**	27,970
Deferred tax assets	11	**3,152**	244
Total non-current assets		**1,475,746**	1,485,682
CURRENT ASSETS			
Inventories	19	**634,109**	615,156
Trade and notes receivables	20	**419,777**	328,937
Prepayments, deposits and other receivables	21	**294,670**	697,394
Derivative financial instruments	22	**3,500**	5,500
Held-to-maturity investments	23	**15,000**	–
Cash and cash equivalents	24	**125,276**	49,382
Total current assets		**1,492,332**	1,696,369
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	25	**245,881**	144,259
Trade and notes payables	26	**112,220**	558,411
Tax payable	11	**13,207**	23,960
Derivative financial instruments	22	**4,000**	–
Other payables and accruals	27	**284,435**	314,539
Total current liabilities		**659,743**	1,041,169
NET CURRENT ASSETS		**832,589**	655,200
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,308,335**	2,140,882

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000 (restated)
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	25	**–**	517,500
Deferred tax liabilities	11	**875**	1,375
Total non-current liabilities		**875**	518,875
NET ASSETS		**2,307,460**	1,622,007
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Issued capital	28	**503,813**	405,813
Reserves	29	**1,772,411**	1,191,034
Proposed final dividend	12	**31,236**	25,160
TOTAL EQUITY		**2,307,460**	1,622,007

Ye Shi Qu
Director

Zhang Hu Ming
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to owners of the parent					
	Issued capital RMB'000 (Note 28)	Share premium account RMB'000 (Note 28)	Statutory surplus reserve RMB'000 (restated) (Note 29)	Retained profits RMB'000 (restated) (Note 29)	Proposed final dividend RMB'000 (Note 12)	Total RMB'000 (restated)
At 1 January 2010	405,813	447,309	84,269	583,336	40,581	1,561,308
Total comprehensive income for the year (restated)	–	–	–	101,280	–	101,280
Appropriation of statutory surplus reserve (restated)	–	–	10,128	(10,128)	–	–
Final 2009 dividends declared	–	–	–	–	(40,581)	(40,581)
Proposed final 2010 dividend	–	–	–	(25,160)	25,160	–
At 31 December 2010 (restated)	405,813	447,309	94,397	649,328	25,160	1,622,007
At 1 January 2011 (as previously reported)	405,813	447,309	95,721	661,240	25,160	1,635,243
Correction of a fundamental error	–	–	(1,324)	(11,912)	–	(13,236)
At 1 January 2011 (restated)	405,813	447,309	94,397	649,328	25,160	1,622,007
Total comprehensive income for the year	–	–	–	63,832	–	63,832
Appropriation of statutory surplus reserve	–	–	6,383	(6,383)	–	–
Issue of shares	98,000	554,857	–	–	–	652,857
Final 2010 dividends declared	–	–	–	(6,076)	(25,160)	(31,236)
Proposed final 2011 dividend	–	–	–	(31,236)	31,236	–
At 31 December 2011	503,813	1,002,166	100,780	669,465	31,236	2,307,460

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**85,985**	134,802
Adjustments for:			
Depreciation of property, plant and equipment	8	**143,979**	109,849
Amortisation of prepaid land lease payments	8	**653**	653
Impairment of trade receivables	8	**1,832**	–
Write-off of prepayments and other Receivables	8	**127**	–
Write-down/(reversal) of inventories to net realisable value	8	**5,800**	(1,900)
Finance costs		**21,485**	25,062
Interest income	6	**(4,415)**	(14,535)
Fair value losses/(gains), net	6	**6,000**	(5,500)
		261,446	248,431
Increase in inventories		**(24,753)**	(244,595)
Increase in trade and notes receivables		**(92,672)**	(140,991)
Decrease in prepayments, deposits and other receivables		**387,020**	314,488
Decrease in trade and notes payables		**(431,500)**	(318,741)
Increase in other payables and accruals		**5,708**	115,795
Cash generated from operations		**105,249**	(25,613)
Income tax paid	11	**(36,314)**	(42,995)
Net cash flows from/(used in) operating activities		**68,935**	(68,608)

	Notes	2011 RMB'000	2010 RMB'000
Net cash flows from/(used in) operating activities		**68,935**	(68,608)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**5,301**	16,503
Purchases of property, plant and equipment		**(167,524)**	(241,185)
Purchase of investments on bank financial products		**(524,550)**	–
Cash collected from investments on bank financial products		**509,550**	–
Investment on deposits with original maturity of over three months		**–**	(20,000)
Cash collected from matured deposits with original maturity of over three months		**–**	22,300
Net cash flows used in investing activities		**(177,223)**	(222,382)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**653,814**	–
Share issue expenses		**(957)**	–
Proceeds from interest-bearing loans and borrowings		**364,987**	246,341
Repayment of interest-bearing loans and borrowings		**(777,775)**	(222,460)
Interest paid		**(23,630)**	(23,869)
Dividends paid		**(31,236)**	(40,581)
Net cash flows from/(used in) financing activities		**185,203**	(40,569)
Net increase/(decrease) in cash and cash equivalents		**76,915**	(331,559)
Cash and cash equivalents at beginning of year		**49,382**	381,917
Effect of foreign exchange rate changes, net		**(1,021)**	(976)
Cash and cash equivalents at end of year		**125,276**	49,382
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**125,276**	49,382
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows		**125,276**	49,382

STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

	Notes	2011 RMB'000	2010 RMB'000 (restated)
NON-CURRENT ASSETS			
Property, plant and equipment	16	**1,445,277**	1,457,468
Prepaid land lease payments	17	**27,317**	27,970
Deferred tax assets	11	**3,152**	244
Investments in subsidiaries	18	**3,551**	3,551
Total non-current assets		**1,479,297**	1,489,233
CURRENT ASSETS			
Inventories	19	**634,109**	615,156
Trade and notes receivables	20	**419,777**	328,937
Prepayments, deposits and other receivables	21	**294,670**	697,472
Derivative financial instruments	22	**3,500**	5,500
Held-to-maturity investment	23	**15,000**	–
Cash and cash equivalents	24	**121,945**	45,868
Total current assets		**1,489,001**	1,692,933
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	25	**245,881**	144,259
Trade and notes payables	26	**112,220**	558,411
Tax payable	11	**13,207**	23,960
Derivative financial instruments	22	**4,000**	–
Other payables and accruals	27	**284,435**	314,539
Total current liabilities		**659,743**	1,041,169
NET CURRENT ASSETS		**829,258**	651,764
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,308,555**	2,140,997
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	25	**–**	517,500
Deferred tax liabilities	11	**875**	1,375
Total non-current liabilities		**875**	518,875
NET ASSETS		**2,307,680**	1,622,122
EQUITY			
Issued capital	28	**503,813**	405,813
Reserves	29	**1,772,631**	1,191,149
Proposed final dividend	12	**31,236**	25,160
TOTAL EQUITY		**2,307,680**	1,622,122

Ye Shi Qu
Director

Zhang Hu Ming
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2011

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.

On 1 April 2011, the Company issued 196,000,000 new H shares at a price of HK$3.96 per share to Vallourec & Mannesmann Tubes ("Vallourec"). The net proceeds from the above share issuance, after deducting the related issuing expenses were approximately RMB652,857,000.

In the opinion of the directors, the holding company of the Company is Tianda Holding. Mr. Ye Shi Qu (葉世渠) held an 85.14% equity interest in Tianda Holding as at 31 December 2011, 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 located at 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 Accounting Standards ("IASs") 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.

2.1 BASIS OF PREPARATION (CONTINUED)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2011. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of 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 Amendment	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*
IAS 24 (Revised)	*Related Party Disclosures*
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*
IFRIC Interpretation 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*
IFRIC Interpretation 19	*Extinguishing Financial Liabilities with Equity Instruments*
Improvements to IFRSs 2010	Amendments to a number of IFRSs issued in May 2010

Other than as further explained below regarding the impact of IAS 24 (Revised), and amendments to IAS 1 included in *Improvements to IFRSs 2010*, the adoption of these new and revised IFRSs has had no significant financial effect on these financial statements.

The principal effects of adopting these IFRSs are as follows:

(a) IAS 24 (Revised) Related Party Disclosures

IAS 24 (Revised) clarifies and simplifies the definitions of related parties. The new definitions emphasise a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. The revised standard also introduces an exemption from the general related party disclosure requirements for transactions with a government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The accounting policy for related parties has been revised to reflect the changes in the definitions of related parties under the revised standard. The adoption of the revised standard did not have any impact on the financial position or performance of the Group. Details of the related party transactions, including the related comparative information, are included in note 33 to the consolidated financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (CONTINUED)

(b) *Improvements to IFRSs 2010* issued in May 2010 sets out amendments to a number of IFRSs. 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 has had a significant financial impact on the financial position or performance of the Group. The amendment that has a significant impact on the Group's policies is as follows:

IAS 1 *Presentation of Financial Statements:* The amendment clarifies that an analysis of each component of other comprehensive income can be presented either in the statement of changes in equity or in the notes to the financial statements. The Group elects to present the analysis of each component of other comprehensive income in the statement of changes in equity.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters*[1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*[1]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities*[4]
IFRS 9	*Financial Instruments*[6]
IFRS 10	*Consolidated Financial Statements*[4]
IFRS 11	*Joint Arrangements*[4]
IFRS 12	*Disclosure of Interests in Other Entities*[4]
IFRS 13	*Fair Value Measurement*[4]
IAS 1 Amendments	*Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[3]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*[2]
IAS 19 (2011)	*Employee Benefits*[4]
IAS 27 (2011)	*Separate Financial Statements*[4]
IAS 28 (2011)	*Investments in Associates and Joint Ventures*[4]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[5]
IFRIC Interpretation 20	*Stripping Costs in the Production Phase of a Surface Mine*[4]

1 Effective for annual periods beginning on or after 1 July 2011
2 Effective for annual periods beginning on or after 1 January 2012
3 Effective for annual periods beginning on or after 1 July 2012
4 Effective for annual periods beginning on or after 1 January 2013
5 Effective for annual periods beginning on or after 1 January 2014
6 Effective for annual periods beginning on or after 1 January 2015

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

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

IFRS 9 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. In October 2010, IASB added the requirements for classification and measurement of financial liabilities to IFRS 9. Most of the requirements were carried forward unchanged from IAS 39, and if unquoted equity instruments (and derivative assets linked to those investments) were not reliably measurable, IFRS 9 requires those derivatives to be measured at fair value rather than cost under IAS 39.

IFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs.

Amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items which will never be reclassified.

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 subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with IFRS 5 are stated at cost less any impairment losses.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (continued)

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 is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); and

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 depreciates them accordingly.

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 other 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 are stated at cost less any impairment losses, and are not depreciated. Cost comprises the 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to 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.

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 transaction costs, except in the case of financial assets recorded at fair value through profit or loss.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

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. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by IAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in profit or loss. These net fair value changes do not include any interest earned on these financial assets.

Financial assets designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria under IAS 39 are satisfied.

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, in rare circumstances, 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. 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 as these instruments cannot be reclassified after initial recognition.

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.

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 profit or loss in finance costs for loans and in other expenses for receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held them 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 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 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 profit or loss in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt 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. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

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 revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other expenses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income.

When the fair value of unlisted equity investments 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 investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, 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. 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 Group has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and 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 maturity amount 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it 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 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.

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 yet 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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 and all collateral has been realised or has been transferred to the Group.

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 other expenses in 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 plus, 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 subsequent 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 include 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.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of IAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate 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 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 a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 a 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.

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 stated 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 based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated 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 cash equivalents 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 a future 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 when 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, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except when 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 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. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on 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 arising on settlement or translation of monetary items 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.

The functional currencies of the overseas subsidiaries are currencies other than the 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 subsidiaries 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.

2.5 CORRECTION OF AN ACCOUNTING ERROR

The Company failed to fulfil the requirement of the Certification Standard for High and New Technology Enterprises ("HNTE") in the PRC and paid the 2010 income tax expense at a tax rate of 25% rather than the preferential HNTE tax rate of 15% in June 2011. Income tax expense was accrued at the preferential HNTE tax rate of 15% by the Company in its 2010 IFRS financial statements, and therefore the income tax expense for the year 2010 was underprovided by approximately RMB13,236,000 because of such change in the tax rate. Further details are contained in note 11 to the financial statements.

The financial statements of 2010 have been restated to correct the above error. The effect of the restatement on those financial statements is summarised below.

	2010 RMB'000
Statement of comprehensive income of the Group for the year ended 31 December	
Increase in income tax expense	13,236
Statements of financial position of the Group and the Company for the year ended 31 December	
Increase in deferred tax assets	98
Increased in deferred tax liabilities	550
Increase in tax payable	12,784
Decrease in statutory surplus reserve	(1,324)
Decrease in retained profits	(11,912)

Due to the retrospective correction of the above accounting errors, which has resulted in the restatement of items in the statements of financial position of the Group and the Company and the consolidated statement of comprehensive income and the consolidated statement of changes in equity of the Group, the related notes affected by the correction have been presented accordingly.

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 described 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 estimates. 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.

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 utilised. Significant management judgement 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 2011 was RMB3,152,000 (2010: RMB244,000). Further details are contained in note 11 to the financial statements.

4. OPERATING SEGMENT INFORMATION

Geographical information

(a) Revenue from external customers

	2011 RMB'000	2010 RMB'000
Mainland China	**3,355,757**	2,042,416
Other countries	**1,174,634**	1,139,303
	4,530,391	3,181,719

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

Included in the revenue from Mainland China in 2011 were there sales of US$9,673,000 (equivalent to approximately RMB58,109,000) derived from VMOG (China) Trading Co., Ltd. ("VMOG China"), a subsidiary of the Company's one major investor Vallourec. Vallourec has had significant influence over the Group since 1 April 2011.

(b) Non-current assets

	2011 RMB'000	2010 RMB'000
Mainland China	**1,472,594**	1,485,438
Other countries	**–**	–
	1,472,594	1,485,438

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

Information about major customers

No revenue from sales to a single customer or a group of customers under common control amounted to 10% or more of the Group's revenue in 2011.

Revenue of approximately RMB328,226,000 and RMB318,995,000 was derived from sales to customers A and B, respectively, in 2010 including sales to a group of entities which are known to be under common control with those customers.

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.

	2011 RMB'000	2010 RMB'000
Sale of goods	**4,538,586**	3,189,048
Less: Government surcharges	**(8,195)**	(7,329)
Revenue	**4,530,391**	3,181,719

6. OTHER INCOME AND GAINS AND OTHER EXPENSES

	2011 RMB'000	2010 RMB'000
Other income and gains		
Investment income from derivative instrument transactions not qualifying as hedges	**21,681**	2,920
Bank interest income	**4,415**	14,535
Government grants	**4,069**	7,234
Fair value gains, net	**–**	5,500
Others	**992**	1,023
	31,157	31,212

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.

	2011 RMB'000	2010 RMB'000
Other expenses		
Fair value losses, net	**6,000**	–
Bank charges	**2,385**	2,238
Others	**1,432**	374
	9,817	2,612

7. FINANCE COSTS

	2011 RMB'000	2010 RMB'000
Bank loan interest	**23,698**	36,085
Less: interest capitalised	**144**	9,972
	23,554	26,113
Foreign exchange losses/(gains)	**3,319**	(9,724)
Less: Foreign exchange gains capitalised	**–**	(7,831)
	3,319	(1,893)
	26,873	24,220

8. PROFIT BEFORE TAX

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

	Notes	**2011 RMB'000**	2010 RMB'000
Cost of inventories sold		**4,236,031**	2,920,170
Depreciation	16	**143,979**	109,849
Amortisation of prepaid land lease payments	17	**653**	653
Impairment of trade receivables	20	**1,832**	–
Write-off of prepayments and other receivables	21	**127**	–
Write-down/(reversal) of inventories to net realisable value		**5,800**	(1,900)
Research costs		**897**	3,843
Auditors' remuneration		**1,000**	950
Staff costs (including directors' and supervisors' remuneration as set out in note 9):			
– Salaries and other staff costs		**91,763**	64,065
– Retirement benefit contributions		**11,498**	8,702

9. DIRECTORS' AND SUPERVISORS' REMUNERATION

Details of the remuneration of directors and supervisors during the years ended 31 December 2011 and 2010, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	2011 RMB'000	2010 RMB'000
Fees	**67**	156
Other emoluments:		
– Salaries, allowances and benefits in kind	**505**	472
– Performance related bonuses	**1,166**	691
– Retirement benefit contributions	**35**	23
	1,706	1,186
	1,773	1,342

9. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

(a) Independent non-executive directors

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

	2011 RMB'000	2010 RMB'000
Wu Chang Qi	–	–
Zhao Bin	50	50
Au Kwok Yee Benjamin	17	106
Yan Lan	–	–
	67	156

There were no other emoluments payable to the independent non-executive directors during the year (2010: Nil). Mr. Au Kwok Yee Benjamin resigned as the director of the Company in April 2011.

(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
2011				
Directors:				
Ye Shi Qu	180	335	7	522
Zhang Hu Ming	150	357	7	514
Xie Yong Yang	70	62	7	139
Zhang Jian Huai	–	–	–	–
Liu Peng	–	–	–	–
Fu Jun Iris	–	–	–	–
Delhon-Bugard Herve	–	–	–	–
	400	754	21	1,175
Supervisors:				
Yang Quan Fu	45	8	7	60
Yong Jin Gui	–	330	–	330
Liu Jun Chang	–	–	–	–
Geng Wei Long	60	74	7	141
Didier Maurice Francis Hornet	–	–	–	–
	105	412	14	531

9. DIRECTORS' AND SUPERVISORS' REMUNERATION (CONTINUED)

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

Mr. Xie Yong Yang and Mr. Zhang Jian Huai resigned as the directors of the Company in April 2011. Mr. Liu Jun Chang resigned as the supervisor of the Company in April 2011. Mr. Yong Jin Gui resigned as the supervisor of the Company in April 2011 and acted as the Standing Vice General Manager of the Company from June 2011.

	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

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year ended 31 December 2011 (2010: Nil).

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2010: two) directors and supervisors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2010: three) non-director or non-supervisor, highest paid employees for the year are as follows:

	2011 RMB'000	2010 RMB'000
Salaries, allowances and benefits in kind	**172**	141
Performance related bonuses	**1,128**	980
Retirement benefit contributions	**20**	13
	1,320	1,134

10. FIVE HIGHEST PAID EMPLOYEES (CONTINUED)

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

	Number of employees	
	2011	2010
Nil to HK$1,000,000	**3**	3

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 2011 (2010: 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 of 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.

Through the self-assessment which was confirmed by a Chinese tax accounting firm, the directors of the Company considered that the Company could fulfil the requirements of Certification Standard for High and New Technology Enterprise at the end of 2010. Therefore, 2010 income tax expense was accrued at a preferential HNTE tax rate of 15% in its 2010 financial statements that were approved and authorised for issue by the board of directors on 24 March 2011. During the process of settling enterprise income tax for year 2010, another Chinese tax accounting firm was engaged by the Company and conducted an audit for qualifying as a HNTE for the year 2010. They considered that the staff structure of the Company at the end of year 2010 did not meet the requirement of the Certification Standard for High and New Technology Enterprise. Therefore, the Company actually paid the 2010 income tax expense at a tax rate of 25% in June 2011. Such difference of RMB13,236,000 due to the change of tax rate has been restated in financial statements of 2010. Being prudent, the income tax expense for the year 2011 was provided at a rate of 25%.

11. INCOME TAX (CONTINUED)

The major components of income tax expense for the years ended 31 December 2011 and 2010 are as follows:

	Group	
	2011 **RMB'000**	2010 RMB'000 (restated)
Current – Mainland China		
Charge for the year	**25,561**	31,960
Current – Elsewhere	**–**	–
Deferred:		
Relating to origination and reversal of temporary differences	**(3,408)**	1,562
Total tax charge for the year	**22,153**	33,522

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	
	2011 **RMB'000**	2010 RMB'000 (restated)
Profit before income tax	**85,985**	134,802
Tax at the applicable tax rate of 25%	**21,496**	33,701
Difference in deferred tax assets arising from the tax rate change in 2010	**–**	(289)
Expenses not deductible for tax	**657**	110
Tax charge at the Group's effective rate	**22,153**	33,522
Effective tax rate	**25.76%**	24.87%

11. INCOME TAX (CONTINUED)

The movements in income tax payable during the years ended 31 December 2011 and 2010 are as follows:

	Group and Company	
	2011	2010
	RMB'000	RMB'000
		(restated)
At beginning of year	**23,960**	34,995
Provision for the year	**25,561**	31,960
Payment during the year	**(36,314)**	(42,995)
At end of year	**13,207**	23,960

The movements in deferred tax assets arising from deductible temporary differences between the tax bases of trade receivables, inventories and their carrying amounts and the revaluation of forward currency contracts to fair value for financial reporting purposes during the years ended 31 December 2011 and 2010 are as follows:

	Group and Company	
	2011	2010
	RMB'000	RMB'000
		(restated)
At beginning of year	**244**	431
Deferred tax charged to profit or loss during the year	**2,908**	(187)
At end of year	**3,152**	244

The movements in deferred tax liabilities arising from the revaluation of forward currency contracts to fair value during the years ended 31 December 2011 and 2010 are as follows:

	Group and Company	
	2011	2010
	RMB'000	RMB'000
		(restated)
At beginning of year	**1,375**	–
Deferred tax charged to profit or loss during the year	**(500)**	1,375
At end of year	**875**	1,375

12. DIVIDENDS

	2011 RMB'000	2010 RMB'000
Proposed final dividend – RMB3.1 cents (2010: RMB3.1 cents) per ordinary share	**31,236**	25,160

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 2011 includes a profit of RMB63,741,000 (2010: RMB101,375,000) 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 958,626,000 in issue during the year (2010: 811,626,000).

The Group had no potentially dilutive ordinary shares in issue during the two years of 2011 and 2010.

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	Plant and machinery	Motor vehicles	Office equipment and other equipment	Construction in progress	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Cost:						
As at 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 and 1 January 2011	293,145	1,306,096	1,808	30,295	91,351	1,722,695
Additions	416	11,806	–	1,410	118,156	131,788
Transferred from construction in progress	31,026	129,258	–	–	(160,284)	–
As at 31 December 2011	324,587	1,447,160	1,808	31,705	49,223	1,854,483
Accumulated depreciation:						
As at 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 and 1 January 2011	22,115	230,724	607	11,781	–	265,227
Charge for the year	8,528	132,377	172	2,902	–	143,979
As at 31 December 2011	30,643	363,101	779	14,683	–	409,206
Net book value:						
As at 31 December 2011	293,944	1,084,059	1,029	17,022	49,223	1,445,277
As at 31 December 2010	271,030	1,075,372	1,201	18,514	91,351	1,457,468

All buildings of the Group are located in Mainland China.

17. PREPAID LAND LEASE PAYMENTS

	Group and Company	
	2011	2010
	RMB'000	RMB'000
Cost:		
At beginning and end of year	**31,573**	31,573
Accumulated amortisation:		
At beginning of year	**3,603**	2,950
Charge for the year	**653**	653
At end of year	**4,256**	3,603
Net book value at end of year	**27,317**	27,970

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

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2011	2010
	RMB'000	RMB'000
Unlisted shares, at cost	**3,551**	3,551

Particulars of the subsidiaries are as follows:

Company Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company 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

As at 31 December 2011, there was no amount due from the subsidiaries. As at 31 December 2010, the amount due from the subsidiaries included in the Company's current assets of RMB78,000 was unsecured, interest-free and repayable on demand.

19. INVENTORIES

	Group and Company	
	2011	2010
	RMB'000	RMB'000
Raw materials	**220,892**	222,145
Work in progress, at cost	**19,704**	21,584
Finished goods and merchandises	**393,513**	371,427
	634,109	615,156

Included in inventories as at 31 December 2011 were certain raw materials and finished goods carried at a net realisable value of RMB50,811,000 (31 December 2010: RMB22,127,000).

20. TRADE AND NOTES RECEIVABLES

	Group and Company	
	2011	2010
	RMB'000	RMB'000
Notes receivable from domestic third parties	**166,622**	139,279
Trade receivables from overseas customers	**72,894**	75,502
Trade receivables from domestic customers	**182,093**	114,515
	254,987	190,017
Impairment	**(1,832)**	(359)
	419,777	328,937

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

Customers are usually required to make payment in advance before the Group delivers goods to them. However, the Group's trading terms with its overseas customers and certain major domestic customers are on credit. The credit period is generally 1 to 45 days extending up to 100 days for certain strategic customers. The Group enters into sales with overseas customers through irrevocable letters of credit or telegraphic transfers. Each domestic customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are unsecured and interest-free.

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	
	2011	2010
	RMB'000	RMB'000
Outstanding balances with ages:		
Within one year	**254,987**	189,658
Between one and two years	**–**	13
Between two and three years	**–**	8
Over three years	**–**	338
	254,987	190,017

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

	Group and Company	
	2011	2010
	RMB'000	RMB'000
At beginning of year	**359**	359
Impairment losses recognised	**1,832**	–
Amount written off as uncollectible	**(359)**	–
At end of year	**1,832**	359

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB1,832,000 (31 December 2010: RMB359,000) with a carrying amount before provision of RMB3,664,000 (31 December 2010: RMB359,000). The individually impaired trade receivables relate to customers that were in default in principal payments and only a portion of the receivables is expected to be recovered.

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

	Group and Company	
	2011	2010
	RMB'000	RMB'000
Neither past due nor impaired	**251,323**	189,658

20. TRADE AND NOTES RECEIVABLES (CONTINUED)

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

Included in the Group's trade receivables is an amount due from VMOG China of US$9,018,000 (equivalent to approximately RMB56,819,000) which is payable on a credit term of 45 days (31 December 2010: Nil).

As at 31 December 2011, the Group had no pledged trade receivables (31 December 2010: Nil).

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group	
	2011	2010
	RMB'000	RMB'000
Prepayments	**147,475**	367,576
Deposits and other receivables	**147,100**	328,837
Bank interest receivables	**95**	981
	294,670	697,394

	Company	
	2011	2010
	RMB'000	RMB'000
Prepayments	**147,475**	367,576
Deposits and other receivables	**147,100**	328,837
Bank interest receivables	**95**	981
Amounts due from subsidiaries	**–**	78
	294,670	697,472

The Group wrote off certain prepayments and other receivables of RMB127,000 for the year ended 31 December 2011 (2010: 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) time deposits of RMB10,071,000 pledged to the banks to secure the bank accepted drafts and the letters of credit with pledged amounts of RMB8,271,000 and RMB1,800,000 respectively (31 December 2010: 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 amounts of RMB139,539,000, RMB2,800,000 and RMB28,015,000, respectively); and (ii) the net input value-added tax ("VAT") of RMB125,934,000 (31 December 2010: RMB141,263,000) arising from the purchase of property, plant and equipment after deducting the output VAT for domestic sales.

22. DERIVATIVE FINANCIAL INSTRUMENTS

	Group and Company 2011	
	Assets RMB'000	**Liabilities RMB'000**
Foreign exchange forward contracts	**3,500**	**(4,000)**
Portion classified as non-current	**–**	**–**
Current portion	**3,500**	**(4,000)**

	Group and Company 2010	
	Assets RMB'000	Liabilities 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 net fair value losses of RMB500,000 were charged to profit or loss during the year ended 31 December 2011 (2010: Fair value gains of RMB5,500,000).

23. HELD-TO-MATURITY INVESTMENT

	Group and Company	
	2011 RMB'000	2010 RMB'000
Investment on bank financial products, at amortised cost	**150,000**	–

The above investment bore interest at a fixed interest rate of 5.3% and matured on 6 January 2012 (31 December 2010: Nil).

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Note	Group 2011 RMB'000	Group 2010 RMB'000
Cash and bank balances		**64,276**	49,382
Short-term deposits with maturity of three months or less		**61,000**	–
Short-term deposits with maturity of over three months		**10,071**	170,354
		135,347	219,736
Less: pledged time deposits for bank accepted drafts, letters of credit and foreign exchange forward contracts	21	**(10,071)**	(170,354)
Cash and cash equivalents		**125,276**	49,382

	Note	Company 2011 RMB'000	Company 2010 RMB'000
Cash and bank balances		**60,945**	45,868
Short-term deposits with maturity of three months or less		**61,000**	–
Short-term deposits with maturity of over three months		**10,071**	170,354
		132,016	216,222
Less: pledged time deposits for bank accepted drafts, letters of credit and foreign exchange forward contracts	21	**(10,071)**	(170,354)
Cash and cash equivalents		**121,945**	45,868

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB116,865,000 (2010: RMB15,621,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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 one year, 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.

25. INTEREST-BEARING LOANS AND BORROWINGS

Group and Company

	2011			2010		
	Contractual interest rate (%)	**Maturity**	**RMB'000**	Contractual interest rate (%)	Maturity	RMB'000
Current:						
Bank loans	**4.69–7.06**	**2012**	**245,881**	4.21–5.76	2011	144,259
Non-current:						
Bank loans			**–**	3.55–7.74	2012–2014	517,500
			245,881			661,759

	Group and Company	
	2011	2010
	RMB'000	RMB'000
Analysed into:		
Bank loans:		
Within one year	**245,881**	144,259
In the second year	**–**	195,000
In the third to fifth years, inclusive	**–**	322,500
	245,881	661,759

Except for the bank loans of RMB100,000,000 which bore interest at a variable interest rate, all the bank loans as at 31 December 2011 bore interest at a fixed rate. As at 31 December 2010, 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 interest at a fixed interest rate from 3.55% to 4.21%, all the bank loans bore interest at a variable rate.

The Group's loans were unsecured as at 31 December 2011. 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. In addition, the substantial shareholder, Mr. Ye Shi Qu (葉世渠) has guaranteed certain of the Group's and the Company's unsecured bank loans of RMB150,000,000 at the end of year 2010.

Except for the bank loan of US$12,886,000 and the bank loan of EUR4,250,000, all the bank loans were in RMB as at 31 December 2011. As at 31 December 2010, except for the bank loan of Japanese Yen ("JPY") 170,000,000 and the bank loan of EUR13,280,000, all the bank loans were in RMB.

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

26. TRADE AND NOTES PAYABLES

	Group and Company	
	2011	2010
	RMB'000	RMB'000
Notes payable to third parties	**31,471**	500,874
Trade payables to third parties	**80,749**	57,537
	112,220	558,411

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

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

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

	Group and Company	
	2011	2010
	RMB'000	RMB'000
Outstanding balances with ages:		
Within one year	**106,583**	553,632
Between one and two years	**2,074**	1,294
Between two and three years	**801**	2,063
Over three years	**2,762**	1,422
	112,220	558,411

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 RMB8,271,000 as at 31 December 2011 (31 December 2010: RMB139,539,000).

27. OTHER PAYABLES AND ACCRUALS

	Group and Company	
	2011	2010
	RMB'000	RMB'000
Advances from customers	**115,146**	123,808
Payroll payables	**39,005**	28,851
Other payables	**130,284**	161,880
	284,435	314,539

Included in other payables and accruals is other payable of RMB525,000 due to VMOG China (31 December 2010: Nil). Except for miscellaneous tax payable of RMB11,233,000 (31 December 2010: RMB9,630,000) included in other payables, all the balances of other payables and accruals were unsecured, interest-free and had no fixed terms of repayment as at the end of the reporting period.

28. ISSUED CAPITAL

	2011	2010
	RMB'000	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	**248,813**	150,813
	503,813	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 of the shareholders, whose names were recorded on the Company's register of members on 28 April 2008. Each of these shareholders was offered five new shares for every ten shares held as a bonus issue.

28. ISSUED CAPITAL (CONTINUED)

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, were approximately RMB172,792,000.

On 1 April 2011, the Company issued 196,000,000 new H shares at a price of HK$3.96 per share to Vallourec. The net proceeds from the above share issuance, after deducting the related issuing expenses were approximately RMB652,857,000.

A summary of the transactions during the years ended 31 December 2011 and 2010 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 2010 and at 31 December 2010	811,626	405,813	447,309	853,122
Issue of shares	196,000	98,000	554,857	652,857
At 31 December 2011	1,007,626	503,813	1,002,166	1,505,979

29. 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 that 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.

30. CONTINGENT LIABILITIES

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

31. PLEDGED ASSETS

Details of the Group's and the Company's 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, 24 and 26, respectively, to the financial statements.

32. COMMITMENTS

Operating lease commitments

Future minimum rentals payable to Tianda Holding under non-cancellable operating leases as at 31 December 2011 and 2010 are as follows:

	Group and Company	
	2011	2010
	RMB'000	RMB'000
Within one year	**–**	96
After one year but not more than five years	**–**	–
	–	96

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	
	2011	2010
	RMB'000	RMB'000
Contracted, but not provided for	**44,016**	52,425

33. 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	
	2011 **RMB'000**	2010 RMB'000
Sales of oil pipes to VMOG China (note i)	**58,109**	–
Purchase of service from VMOG China (note ii)	**898**	–
Sales of seamless pipes to fellow subsidiaries (note iii)	**591**	–
Purchases of water from Tianda Holding (note iv)	**582**	439
Purchase of materials from fellow subsidiaries (note iii)	**344**	534
Lease of a dormitory from Tianda Holding (note v)	**96**	96

Notes:

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

(ii) These transactions were carried out based on the agreement between the Group and VMOG China.

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

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

(v) Pursuant to the dormitory lease agreement entered into with Tianda Holding, the Group paid an annual rent of RMB96,200 for the years from 1 January 2009 to 31 December 2011.

(b) Outstanding balances with related parties

Details of the Group's trade receivables and other payable balance with VMOG China at the end of the reporting period are disclosed in notes 20 and 27 to the financial statements.

33. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Group	
	2011	2010
	RMB'000	RMB'000
Short-term employee benefits	**3,448**	2,901
Retirement benefit contributions	**68**	46
	3,516	2,947

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

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

34. 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	
	2011	2010
	RMB'000	RMB'000
Financial assets		
Cash and cash equivalents	**125,276**	49,382
Bank interest receivables	**95**	981
Trade and notes receivables	**419,777**	328,937
Pledged deposits	**10,071**	170,354
Other financial assets included in prepayments, deposits and other receivables	**10,398**	16,718
Held-to-maturity investments	**15,000**	–
Derivative financial instruments	**3,500**	5,500
	584,117	571,872
Financial liabilities		
Trade and notes payables	**112,220**	558,411
Interest-bearing loans and borrowings:		
– Floating rate borrowings	**100,000**	544,814
– Fixed rate borrowings	**145,881**	116,945
Other financial liabilities included in other payables and accruals	**103,833**	128,451
Derivative financial instruments	**4,000**	–
	465,934	1,348,621

34. 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	
	2011	2010
	RMB'000	RMB'000
Financial assets		
Cash and cash equivalents	**121,945**	45,868
Bank interest receivables	**95**	981
Trade and notes receivables	**419,777**	328,937
Pledged deposits	**10,071**	170,354
Other financial assets included in prepayments, deposits and other receivables	**10,398**	16,796
Held-to-maturity investments	**15,000**	–
Derivative financial instruments	**3,500**	5,500
	580,786	568,436
Financial liabilities		
Trade and notes payables	**112,220**	558,411
Interest-bearing loans and borrowings:		
– Floating rate borrowings	**100,000**	544,814
– Fixed rate borrowings	**145,881**	116,945
Other financial liabilities included in other payables and accruals	**103,833**	128,451
Derivative financial instruments	**4,000**	–
	465,934	1,348,621

35. 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	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Cash and cash equivalents	**125,276**	49,382	**125,276**	49,382
Bank interest receivables	**95**	981	**95**	981
Trade and notes receivables	**419,777**	328,937	**414,141**	326,442
Pledged deposits	**10,071**	170,354	**10,071**	170,354
Other financial assets included in prepayments, deposits and other receivables	**10,398**	16,718	**10,398**	16,718
Held-to-maturity investments	**15,000**	–	**15,000**	–
Derivative financial instruments	**3,500**	5,500	**3,500**	5,500
	584,117	571,872	**578,481**	569,377
Financial liabilities				
Trade and notes payables	**112,220**	558,411	**111,325**	553,620
Interest-bearing loans and borrowings				
– Floating rate borrowings	**100,000**	544,814	**100,000**	544,814
– Fixed rate borrowings	**145,881**	116,945	**145,837**	115,164
Other financial liabilities included in other payables and accruals	**103,833**	128,451	**103,833**	128,451
Derivative financial instruments	**4,000**	–	**4,000**	–
	465,934	1,348,621	**464,995**	1,342,049

35. FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

	Company			
	Carrying amount		Fair value	
	2011	2010	**2011**	2010
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Cash and cash equivalents	**121,945**	45,868	**121,945**	45,868
Bank interest receivables	**95**	981	**95**	981
Trade and notes receivables	**419,777**	328,937	**414,141**	326,442
Pledged deposits	**10,071**	170,354	**10,071**	170,354
Other financial assets included in prepayments, deposits and other receivables	**10,398**	16,796	**10,398**	16,796
Held-to-maturity investments	**15,000**	–	**15,000**	–
Derivative financial instruments	**3,500**	5,500	**3,500**	5,500
	580,786	568,436	**575,150**	565,941
Financial liabilities				
Trade and notes payables	**112,220**	558,411	**111,325**	553,620
Interest-bearing loans and borrowings				
– Floating rate borrowings	**100,000**	544,814	**100,000**	544,814
– Fixed rate borrowings	**145,881**	116,945	**145,837**	115,164
Other financial liabilities included in other payables and accruals	**103,833**	128,451	**103,833**	128,451
Derivative financial instruments	**4,000**	–	**4,000**	–
	465,934	1,348,621	**464,995**	1,342,049

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:

The fair values of cash and cash equivalents, bank interest receivables, pledged deposits, trade receivables, trade payables, other financial assets included in prepayments, deposits and other receivables, other 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 values of fixed borrowings, notes receivable, notes payable 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 rates of the floating rate borrowings will change every month according to the market interest rate, and the carrying values of the borrowings approximate to their fair values.

35. FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

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 model incorporates 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.

Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair values 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 2011

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

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

During the year, there were no transfers between level 1 and level 2 and no transfers into or out of level 3 (2010: Nil).

35. FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

Liabilities measured at fair value:

As at 31 December 2011

	Group and Company			
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000
Derivative financial instruments	–	4,000	–	4,000

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

36. 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.

It is, and has been throughout the year under review, the Group's policy that no trading in financial instruments shall be undertaken.

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.

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).

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Interest rate risk (continued)

Group and Company

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** RMB'000
2011		
RMB	**+50**	**(650)**
RMB	**-50**	**650**
US$	**+50**	**(406)**
US$	**-50**	**406**
EUR	**+50**	**(173)**
EUR	**-50**	**173**
JPY	**+50**	**–**
JPY	**-50**	**–**
2010		
RMB	+50	(2,655)
RMB	-50	2,655
US$	+50	–
US$	-50	–
EUR	+50	(585)
EUR	-50	585
JPY	+50	(69)
JPY	-50	69

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk

Currently, the PRC government imposes control over foreign currencies. The 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 27% of the Group's sales for the year ended 31 December 2011 (2010: 36%) 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.

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (continued)

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).

	Group	
	Increase/ (decrease) in rate %	**Increase/ (decrease) in profit before tax** RMB'000
US$		
2011	**+5%**	**2,372**
	-5%	**(2,372)**
2010	+5%	5,999
	-5%	(5,999)
EUR		
2011	**+5%**	**(1,647)**
	-5%	**1,647**
2010	+5%	(5,544)
	-5%	5,544
HK$		
2011	**+5%**	**4**
	-5%	**(4)**
2010	+5%	1
	-5%	(1)
JPY		
2011	**+5%**	**–**
	-5%	**–**
2010	+5%	(601)
	-5%	601
SGD		
2011	**+5%**	**2**
	-5%	**(2)**
2010	+5%	3
	-5%	(3)

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (continued)

	Company	
	Increase/ (decrease) in rate %	Increase/ (decrease) in profit before tax RMB'000
US$		
2011	**+5%**	**2,208**
	-5%	**(2,208)**
2010	+5%	5,826
	-5%	(5,826)
EUR		
2011	**+5%**	**(1,647)**
	-5%	**1,647**
2010	+5%	(5,544)
	-5%	5,544
HK$		
2011	**+5%**	**4**
	-5%	**(4)**
2010	+5%	1
	-5%	(1)
JPY		
2011	**+5%**	**–**
	-5%	**–**
2010	+5%	(601)
	-5%	601

36. 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 make payment in advance 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 the 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 as the customer bases of the Group's trade receivables are widely dispersed in different sectors and industries.

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.

36. 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

	2011					
	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	**–**	**182,984**	**64,862**	**–**	**–**	**247,846**
Trade and notes payables	**80,749**	**460**	**31,011**	**–**	**–**	**112,220**
Other financial liabilities included in other payables and accruals	**103,833**	**–**	**–**	**–**	**–**	**103,833**
	184,582	**183,444**	**95,873**	**–**	**–**	**463,899**

	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
Other financial liabilities included in other payables and accruals	128,451	–	–	–	–	128,451
	185,988	419,984	258,811	557,511	–	1,422,294

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 2011 and 2010.

36. 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 periods were as follows:

	Group	
	2011	2010
	RMB'000	RMB'000 (restated)
Interest-bearing loans and borrowings	**245,881**	661,759
Trade and notes payables	**112,220**	558,411
Other payables and accruals	**284,435**	314,539
Less: Cash and cash equivalents	**(125,276)**	(49,382)
Net debt	**517,260**	1,485,327
Equity	**2,307,460**	1,622,007
Capital and net debt	**2,824,720**	3,107,334
Gearing ratio	**18%**	48%

37. COMPARATIVE AMOUNTS

Certain comparative figures have been restated for the correction of an accounting error as stated in note 2.5.

38. EVENTS AFTER THE REPORTING PERIOD

Pursuant to a resolution of the board of directors on 23 March 2012, the directors recommend the payment of a final cash dividend of RMB3.1 cents per share (inclusive of tax).

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 23 March 2012.