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 2012

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CORPORATION INFORMATION

BOARD OF DIRECTORS

Executive Directors
YE Shi Qu (Chairman)
ZHANG Hu Ming (Deputy Chairman)
FU Jun

Non-executive Directors
LIU Peng
Bruno Saintes

Independent Non-executive Directors
WU Chang Qi
ZHAO Bin
Wang Bo

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

	2012 **RMB'000**	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
Profit and loss items					
Revenue	**3,960,548**	4,530,391	3,181,719	1,936,743	2,636,580
Gross Profit	**237,844**	294,360	261,549	269,067	516,694
Net profit	**35,086**	63,832	101,280	199,689	302,220
Balance sheet items					
Total non-current assets	**1,424,623**	1,475,746	1,485,682	1,276,523	773,110
Total current assets	**1,264,216**	1,492,332	1,696,369	2,142,110	980,630
Total assets	**2,688,839**	2,968,078	3,182,051	3,418,633	1,753,740
Total non-current liabilities	**–**	875	518,875	626,214	48,693
Total current liabilities	**377,019**	659,743	1,041,169	1,231,111	447,698
Total liabilities	**377,019**	660,618	1,560,044	1,857,325	496,391

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 2012 ("**2012**" or "**the Year**" or the "**Reporting Period**" or "**the Year under Review**") for the review of the shareholders of the Group.

ANNUAL RESULTS

In 2012, the global economy was complicated and ever-changing. Under the sluggish market and competitive industry environment, the Group focused on implementing cost and risk control as basic management measures and enhanced the R&D of new products and expansion of new markets. It realized the optimization of products and customers composition, laying foundation for its future development.

The income of the Group for the year ended 31 December 2012 amounted to about RMB3,960,548,000 (2011: approximately RMB4,530,391,000), representing a year-on-year decrease of 12.6%; Net profit attributable to equity holders for the corresponding period was approximately RMB35,086,000 (2011: approximately RMB63,832,000), down about 45.0% on a year-on-year basis.

REVIEW OF OPERATIONS

During the Year under Review, the Group enhanced risk management, controlled production progress and paid attention to development of product quality. The Group achieved a total production of approximately 764,390 tonnes (2011: approximately 806,090 tonnes) and a total sales of approximately 793,970 tones (2011: approximately 819,400 tones), representing an decrease of about 5.2% and about 3.1% as compared to the same period last year respectively. Technological modification project of production line of the high-grade oil well pipe, which focused on product range compositions, started off during the Year under Review.

For the domestic market, during the Year under Review, the Group reinforced its cooperation with the four major oil companies in China while actively exploring other specialized pipe markets. The Group participated in the centralized tender of pipes casing by China National Offshore Oil Corporation ("CNOOC Limited") in May 2012. It won the bid for 5,730 tonnes, of which 5,474.39 tonnes was for exploiting coal-bed gas. Bulk orders, for the first time, flowed from CNOOC Limited to the Group through the tender, proving a new high of the product quality of the Group.

For the overseas market, benefited from preliminary results arising from overseas sales measures, the Group recorded overseas sales of approximately 215,500 tones, of which the export sales including the sales transactions denominated in foreign currency with VMOG (China) Trading Co., Ltd. ("VMOG China") (2011: approximately 198,270 tonnes), up about 8.7% on a year-on-year basis. The Group started the application of qualification assessment of access to market of TOTAL Company from October 2012 and passed the assessment in February 2013. It marks the success of products of the Company meeting the requirement of pipes for mining exploiting oil gas of TOTAL Company and lays foundation for provision of services in future.

During the Year, in order to strengthen promotion of its products in markets, the Group took part in the 8th Shanghai International Steel Pipe Industry Exhibition held in June 2012 and 5th China International Exhibition on Pipes held in September 2012, on which newly developed products of the Group were exhibited. The products of the Group receive overwhelming support from customers because of their quality and price. The influence of the brand of the Group was further increased through extensive contact with customers and promotion of the Company.

During the Year, the Group continued to provide its customers with one-stop services, to strengthen customer base and raise its awareness about the market. It will also timely switch products of some varieties and specifications among the one-stop services from external procurement to self-production.

During the Year, the Group continued to reinforce its research and development. It developed new products, such as boiler tube (09CrCuSb, ND steel) of dew point anti-corrosion of sulfuric acid, alloy pipe (15Mo3) for boiler, anti-corrosion of H_2S oil well pipe (TD80S), anti-corrosion of H_2S line pipe (L245NCS) and alternating pipes for heat exchanger. It also obtained an invention patent of fire-resistant seamless steel pipe for building service and its processing methods.

RISK CONTROL

The Group placed emphasis on strengthening internal governance in order to more effectively control the Group's operating and financial risks. During the Year under Review, the Group continued to intensify its assessment efforts on hard targets of accounts receivable and inventory. The reserves amount decreased significantly as compared to last year. The Group adhered to business model linking production with sales. Overseas sales were settled by way of sight letter of credit or telegraphic transfer, while domestic sales were in principle by delivery of 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. The Group enhanced the supervision and control of key areas and uplifted the Group's risk control level through the implementation of ERP projects.

ENERGY SAVING, ENVIRONMENTAL CONSERVATION AND CORPORATE SOCIAL RESPONSIBILITY (CSR)

In 2012, the Group adopted a scientific development approach to reinforce its concept of sustainable development, making continual efforts on strengthening the technological innovation of equipment, as well as environmental protection and energy conservation, thus striving for organic integration between the expansion of our business scale and its 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 outdated production capacity will be eliminated through competition, 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 continuously improve staff working environment, improve work compensation and engage in charitable work, hence maximizing their social contribution.

OUTLOOK AND PROSPECT

Looking ahead, the world economy will show signs of recovery from recession. IMF published updates on "World Economic Outlook" on 23 January 2013. The outlook states that factors suppressing global economic activities will diminish in 2013, so that the world will grow faster. The average annual growth rate will reach 3.5%, higher than 3.2% in 2012. Assuming the economy of euro-zone would recover, it is anticipated the world economic growth will reach 4.1% in 2014.

As a developing country, China's economic growth is faster than the world's on average, despite its economic slowdown. The strong demand of pipes for energy and chemical industry, machinery equipment and infrastructure is driven by the economic growth and urbanization of China. Nevertheless, the operation of pipe industry would face difficulties in the future as it is continuously affected by over production capacity and policy of anti-dumping and anti-subsidy.

As the backbone of the oil pipe industry, the Group's products are widely used in exploiting of petroleum, natural gas (including unconventional natural gas, such as coal-bed gas and shale gas) and pipe transportation. China has the greatest potential in exploiting shale gas for the world. "Development Plan for Shale Gas" of the shale gas industry of China implemented smoothly, strengthening the development of oil well pipe industry of China. The oil well pipe industry is now at its critical stage of opportunities in meeting its full potential in economy.

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 and capable of promptly responding to market demand and providing total service solutions. In 2013, the Group will focus on developing product quality and development strategy on enhancing management efficiency. We will realize the sustainable development of the Group by upgrading products, internationalizing markets, improving environmental protection of production and digitalizing management process.

Upgrading products: we have to increase our sensitivity to the demand of market and users, increasing proportion of production and sales of high value-added products and developing, producing and selling high quality products which are used for unconventional natural gas, such as shale gas, and specially threaded pipes and oil well pipes products which are used for exploiting oil and gas field at adverse geographical environment. We also provide high quality services. Internationalizing markets: we have to make full use of resources of overseas sales network of Vallourec & Mannesmann Tubes and expand the customer base and brand influence of the Group. Improving environmental protection of production: We have to reinforce the technological modification to save energy and reduce emission in different levels of production. We aim at reducing consumption, with production process capable of fulfilling the requirements of civilized construction. Digitalizing management process: we need to strengthen its management system, realizedigitalization, networking and computerization of the operation management of the corporate to achieve integration of finance, business and management of production and sales.

Looking ahead, we will work with strategic partners to know each other, leap towards long-term growth with unswerving confidence. We will contribute to the development of pipe industry of China and greatest benefits for its shareholders, customers, employees and society.

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 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, 22 March 2013

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

Under the complicated economic environment in 2012, China's economy experiences hard challenges. The growth of gross domestic product slowed to 7.8%, a record low in the past 13 years. The consistent expansion of production capacity of specialized pipe of China gave rise to increasing pressure of supply and demand of the industry and resulting in a more competitive market. Continuously influenced by economic slowdown, increasing production capacity and policy of anti-dumping, specialized pipe industry of China was adjusting to the sluggish environment in 2012.

REVIEW OF OPERATIONS

In 2012, the Group responded to market risks. It paid attention to the development of quality products, continued to optimize product portfolio and customer composition to expand markets and paying great efforts to implement basic management, and actively pursue long-term development of the corporate. The Group achieved a production of approximately 764,390 tonnes (2011: 806,090 tonnes) for different types of specialized pipes, sales of approximately 793,970 tonnes (2011: 819,400 tonnes), of which sales volume including foreign currency sales of VMOG China in oversea market was 215,500 tonnes (2011: 198,270 tonnes).

During the Year, in order to enhance market promotion, the Group took part in the 8th Shanghai International Steel Pipe Industry Exhibition held in June 2012 and 5th China International Exhibition on Pipes held in September 2012. Meanwhile, the Group continued to reinforce its cooperation with oil companies and made a breakthrough. Firstly, the Group participated in the centralized tender of casing for pipes by China National Offshore Oil Corporation ("CNOOC Limited") in May 2012. It won the bid for 5,730 tonnes, of which 5,474.39 tonnes was for exploiting coal-bed gas. Bulk orders flowed from CNOOC Limited to the Group for the first time, marking a new high of the product quality of the Group. Secondly, the Group passed qualification assessment of access to market of TOTAL Company in February 2013, symbolizing the success of products of the Group meeting the standard and requirement of the procurement of casing for pipes for TOTAL Company and laying foundation for provision of high-end products and services in future.

During the Year, the Group continued to reinforce its research and development. It developed new products, such as boiler tube (09CrCuSb, ND steel) of dew point anti-corrosion of sulfuric acid, alloy pipe (15Mo3) for boiler, anti-corrosion of H2S oil well pipe (TD80S), anti-corrosion of H2S line pipe (L245NCS) and alternating pipes for heat exchanger. It also obtained an invention patent of fire-resistant seamless steel pipe for building service and its processing methods.

FINANCIAL REVIEW

Comprehensive income

The Group recorded a total revenue of approximately RMB3,960,548,000 in 2012, representing a decrease of approximately RMB569,843,000 or approximately 12.6% as compared to approximately RMB4,530,391,000 in 2011. The decrease in revenue was attributable to an average price drop of products of 9.8% from approximately RMB5,529 to RMB4,988 and sales drop as compared to 2011 due to decrease in price of billet steel and more competitive markets.

During the Year, the Company continued to adjust the composition of customers. The contribution of overseas sales including foreign currency sales of VMOG China to the total sales of the Group increased from approximately 27.2% in 2011 to 30.7%.

Gross profit

During the year, the Group reported a gross profit of approximately RMB237,844,000, which was a decrease of approximately RMB56,516,000 or approximately 19.2% as compared to approximately RMB294,360,000 in 2011. The decrease in gross profit was mainly due to decrease in average selling price larger than that in raw material price and decrease in product sales triggered by the intense market competition.

Other income and gains

For the year ended 31 December 2012, the Group's other income and gains amounted to approximately RMB17,891,000, which was a decrease of approximately RMB13,266,000 or 42.6% as compared to RMB31,157,000 last year. The decrease in other income and gains was primarily due to decrease in gain from forward foreign exchange contracts on export receipts.

Selling and distribution costs

For the year ended 31 December 2012, the selling and distribution costs of the Group was about RMB160,972,000, representing an increase of approximately RMB21,814,000 or approximately15.7% when compared to approximately RMB139,158,000 in 2011. The increase was mainly due to the increase in overseas market sales in which transportation rates accounted for higher proportion of product sales proceeds and increase in transportation rates per unit in domestic market.

Administrative expenses

For the year ended 31 December 2012, the Group's administrative expenses was approximately RMB40,990,000, which was a decrease of approximately RMB22,694,000 or approximately 35.6% as compared to approximately RMB63,684,000 in 2011. The increase was mainly due to: (1) the Group's efforts of seeking ways to minimize expenses; (2) the Group's implementation of fine management to reduce inventory of finished goods and hence lower the provision for impairment recorded in the income statement for that year; and (3) the reversal of the provision for bad debt utilized arising from the reversal of receivables for the current year.

Finance costs

The finance costs of the Group for the year ended 31 December 2012 amounted to approximately RMB3,758,000 (2011: approximately RMB26,873,000), which decreased by approximately RMB23,115,000 or 86.0% as compared with 2011. The decrease was mainly caused by the reinforcement of management of the Group's inventory and trade receivables, resulting in optimization of cash flows and reduction of bank loans.

Net profit

The Group's net profit attributable to owners of the parent company for the year was approximately RMB35,086,000 (2011: approximately RMB63,832,000). When compared with last year, net profit attributable to equity holders decreased by approximately RMB28,746,000 or approximately 45.0%. Apart from factors such as the fierce market competition and rising costs, net profit was also setoff by the increase in depreciation (The new warehouse of north of pipe processing workshop in Chuzhou city completed construction on schedule and its depreciation has been provided for since October 2012).

Inventories

The Group's inventories as at 31 December 2012 were approximately RMB502,559,000 (31 December 2011: approximately RMB634,109,000), representing a decrease of approximately RMB131,550,000 or approximately 20.7% over 2011. The decrease in inventories was primarily attributable to a reinforcement of management over inventories.

Net assets

The Group's net assets as at 31 December 2012 were approximately RMB2,311,820,000 (31 December 2011: approximately RMB2,307,460,000). The net assets per share as at 31 December 2012 were approximately RMB2.29 (31 December 2011: RMB2.29).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2012, the Group's cash and bank deposits amounted to approximately RMB42,572,000 (31 December 2011: approximately RMB125,276,000). As at 31 December 2012, the Group's interest-bearing loans and borrowings amounted to approximately RMB7,486,000 (31 December 2011: approximately RMB245,881,000). Bank loans of the Group bore interest at rate of 6.43% per annum as at end of 2012 (2011: bank loans of the Group bore interest at rates ranging from 4.69% to 7.06% per annum). As at 31 December 2012, the bank loans of the Group were not secured or guaranteed. Generally, all bank loans of the Group are denominated in RMB and other foreign currencies.

The Group strived to maintain strong financial position amid fierce competition and slack demand, with an aim to minimize banking credits and reduce finance cost. In the meantime, the Group has always been committed to building a long-term relationship of mutual trust with major banks, providing sound support to the long-term financial position of the Group. As at 31 December 2012, the Group's total borrowings amounted to approximately EUR900,000 (equivalent to approximately RMB7,486,000) and its debt to asset ratio was approximately 0.3% (31 December 2011: approximately 8.3%), 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 RMB2,637,000 for bank accepted drafts as at 31 December 2012, 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 the above projects amounted to RMB95,000,000, RMB120,000,000 and RMB50,000,000, respectively. The construction of a new logistic workshop to the north of pipe processing workshop in Chuzhou city was completed for operation in 2012. The technical reform on the production line of high-grade oil well pipe is expected to commence production in the first half of 2013 while the project of building a new dormitory in Chuzhou city is still in the surveying progress.

MAJOR ACQUISITION AND DISPOSAL

The Group did not make any major acquisition or disposal during the year ended 31 December 2012.

CONTINGENT LIABILITIES

As at 31 December 2012, the Group did not have any significant contingent liabilities.

FUTURE PROSPECT

The year 2013 marks the beginning of a new administration of the Chinese Government. The Chinese economy manages to make progress while maintaining stability. Following a gradual increase in capacity of the specialized pipe industry amid the competitive environment over the last few years, the growth has been significantly slowing down. Merger and acquisition and reorganization between enterprises enhanced consolidation of participants in the industry, thus avoiding vicious competition between different enterprises. On the other hand, the growth of the Chinese economy and the progress of urbanization will drive the demand for specialized pipes. In particular, the increasing demand for energy in China results in the legislation and active investments in the exploration of unconventional natural gas such as shale gas by the government. It brings rare opportunities for the development of the pipe industry which renders equipment and facility services. The Group's long-term strength and the development potential arising from strategic cooperation will facilitate us to seize opportunity and speed up development.

In view of the foregoing, the Company will continue to stick to its business direction. We will strive to expand product portfolio and optimize quality by strengthening technical reform on the equipment of production lines and improving production techniques. Through the consolidation and enhancement of our strategic relationship with other oil companies, we will be able to raise the supply of finished products of pipes. We will endeavor to obtain the qualification for entering into the high-end special products market by providing well-known domestic and international oil companies with oil pipes, in particular unconventional natural gas, thus laying a solid foundation for mass supply of high-end products in the future.

In respect of the strategic cooperation with Vallourec, we capitalize on the resources of its overseas sales network in order to focus on the exploring of overseas pipe market, thus ensuring a continuous growth in the overseas sales as well as consolidating and strengthening the influence of the Group's brand name. In the meantime, we cooperate with Vallourec on the research in the exploration equipment for high-grade natural gas and coal-bed gas so as to cater the special needs of domestic and international customers towards our products.

On 21 January 2013, twelve ministries and commissions including the Ministry of Industry and Information Technology jointly issued "Guidelines to Accelerate the Merger and Acquisition and Reorganization of Major Industries" (《關於加快推進重點行業兼併重組的指導意見》). They encourage foreign investments in the restructuring, merger and reorganization by way of share acquisition and merger and acquisition, support technical reforms through merger and reorganization, implement innovative management, foster international competitiveness and accelerate transformation and upgrading. These will be beneficial for the Company to expand and enhance strategic cooperation with Vallourec and further introduce resources in relation to technology, brand name and customer relationship. Thus, the development of the Company would be improved and sped up.

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 with banks after attaining confirmed orders from customers.

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

PRODUCT INFORMATION

1. **Self-produced specialized pipes**

   For the year ended 31 December 2012, the sales volume of the Group's self-produced specialized pipes was approximately 785,070 tonnes (2011: approximately 806,240 tonnes), representing a decrease of approximately 2.6% when compared with 2011.

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 2012, the sales volume of the Group's sourcing and distribution of specialized pipes was approximately 8,900 tonnes (2011: approximately 13,120 tonnes). When compared with the corresponding period of 2011, the sales volume of the sourcing and distribution of specialized pipes declined by approximately 32.2%.

   By reacting to customer's needs and keeping abreast of the Group's actual business needs, the Group converted some products from external procurement to self production in a timely manner. 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 continuous development and growth and the enhancement of its profitability. As at 31 December 2012, the Company had 1,990 employees (31 December 2011: 2,129 employees). The remuneration package for the Group's employees includes salaries, incentives (such as performance-linked bonus) 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 the 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 to the Group's stable and effective operation and is in the interests of the Group and its shareholders in long term. Throughout the year ended 31 December 2012, 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), save for the deviation from the code provision A.1.8 of the Code. The Board and the senior management of the Group have earnestly appraised the requirements of the Code and reviewed the practices of the Group to ensure full compliance with the Code.

BOARD OF DIRECTORS

Board Composition

The Board of the Group for the year comprises of:

Executive Directors:
Mr. YE Shi Qu (Chairman)[2]
Mr. ZHANG Hu Ming (Deputy Chairman and General Manager)[2]
Ms. FU Jun

Non-executive Directors:
Mr. LIU Peng[2]
Mr. Delhon-Bugard Hervé[1]
Mr. Bruno Saintes[2]

Independent Non-executive Directors:
Mr. WU Chang Qi[2]
Mr. ZHAO Bin[2]
Ms. Yan Lan[1]
Mr. Wang Bo[3]

Note 1: On 30 March 2012, Mr. Delhon-Bugard Hervé and Ms. Yan Lan resigned as non-executive directors, independent non-executive directors and member of Risk Control Committee due to personal reason.

Note 2: On 22 May 2012, Mr. Ye Shi Qu and Mr. Zhang Hu Ming were re-elected and appointed as executive directors; Mr. Liu Peng re-elected as non-executive director; Mr. Wu Chang Qi and Mr. Zhao Bin re-elected as independent non-executive directors; Mr. Bruno Saintes re-elected as non-executive director.

Note 3: On 27 July 2012, Mr. Wang Bo was elected and appointed as independent non-executive director.

In full compliance with Rules 3.10(1) and (2) of the Listing Rules, during the year ended 31 December 2012, the Group has appointed three independent non-executive directors, at least one of whom has appropriate professional accounting qualifications. The Independent Non-executive Directors of the Group 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, do not have any financial, business, family or other material relationships with other directors and do not involve themselves in business transactions or relationships with the Company, in order not to compromise their objectivity. All of the Independent Non-executive Directors who served in 2012 have given confirmations of their independence to the Company under Rule 3.13 of the Listing Rules, and the Group considers these Directors to be independent. 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 with 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, in order that directors can attend the meetings. All Board meetings' notices are given to all Directors in accordance with the requirements in the articles of association in advance 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.

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 access to the advice and services of the Company Secretary or Secretary of the Board 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 2012, four 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	4/4	100%
Mr. ZHANG Hu Ming	4/4	100%
Ms. FU Jun	4/4	100%
Mr. LIU Peng	4/4	100%
Mr. Delhon-Bugard Hervé	2/2	100%
Mr. Bruno Saintes	2/2	100%
Mr. WU Chang Qi	4/4	100%
Mr. ZHAO Bin	4/4	100%
Ms. YAN Lan	2/2	100%
Mr. Wang Bo	2/2	100%

Chairman and Chief Executive Officer

For the year ended 31 December 2012, 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 Group. He is responsible for and devotes all his time to the daily management and operations of the Group and serves as 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 Group), 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 expertise and experience.

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 of the Listing Rules. 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 2012.

Indemnities of Directors and Chief Executives

Under the code provision A.1.8, the Group should arrange appropriate insurance cover in respect of legal action against its directors. However, as the Group's 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 emphasis on 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.

Directors' training and professional development

During the year, the Directors are provided with monthly updates on the Group's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties. In addition, all Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company updates Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time, to ensure compliance and enhance their awareness of good corporate governance practices.

All Directors have participated in appropriate continuous professional development activities either by attending training courses or by reading materials relevant to the Company's business or to the Directors' duties and responsibilities.

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 Attendance
Mr. Zhao Bin (Chairman)	2/2	100%
Mr. Wu Chang Qi	2/2	100%
Mr. Liu Peng	2/2	100%

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 making 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 judgments 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 explanatory letter on audit to management, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response to such queries;

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

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 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. Liu Peng	1/1	100%

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 Officer 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 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. Liu Peng	1/1	100%

The primary duties of the Committee shall be:

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

2. To identify individuals suitably qualified to become members of the Board, and to make recommendations to the Board for selecting or nominating candidates as directors;

3. To assess the independence of independent non-executive directors and any candidate intended to be nominated 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 of the Company;

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

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

Corporate Governance Functions

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

1. To develop and review the Group's policies and practices on corporate governance and make recommendations;

2. To review and monitor the training and continuous professional development of directors and senior management;

3. To review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements;

4. To develop, review and monitor the code of conduct and compliance manual (if any) applicable to the employees and directors of the Group; and

5. To review the Group's compliance with the Code and disclosure requirements in the Corporate Governance Report.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility to prepare financial statements for each financial year, which give a true and fair view of the state of affairs of the Group and in presenting the interim and annual financial statements, and announcements to shareholders in a timely manner. The Directors are responsible for ensuring that the Group maintains accounting records which disclose with reasonable accuracy the financial position of the Group and which enable the preparation of financial statements in accordance with the disclosure requirements of the Hong Kong Companies Ordinance ("Companies Ordinance"), the International Financial Reporting Standards ("IFRSs") and all applicable disclosure provisions of the Listing Rules. In preparing the financial statements for the year ended 31 December 2012, the Directors have selected suitable accounting policies and have applied them consistently, adopted appropriate IFRSs which are pertinent to its operations and relevant to the financial statements, made judgements and estimates that are prudent and reasonable. The Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern, the Board therefore continues to adopt the going concern approach in preparing the financial statements.

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 results 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 2012 Annual Report.

AUDITORS' REMUNERATION

During the Year under Review, the Group paid an aggregate of approximately RMB935,000 (2011: RMB1,000,000) 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). During the year ended 31 December 2012, Mr. Shum has taken no less than 15 hours of relevant professional trainings to update his skills and knowledge.

INTERNAL CONTROLS

The Board has overall responsibility for the internal control system of the Group. 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.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual Directors, for shareholders' consideration and voting. Besides, pursuant to the Articles of Association, shareholder(s) holding 5% or more of the total voting shares of the Company shall have the right to propose new motions to be included in the agenda of the Company's annual general meeting. The Company shall place such proposed motions on the agenda for such annual general meeting if they are matters falling within the functions and powers of the general meetings. In addition, shareholder(s) individually or collectively holding 10% or more of the Company's issued and outstanding voting shares may request(s) in writing for the convening of an extraordinary general meeting. All resolutions put forward at shareholders' meetings will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.td-gg.com) immediately after the relevant general meetings.

There have been no significant changes in the Company's constitutional documents during the Year.

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 Group:

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

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 Company'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 Group, 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. They may also call us directly by phone.

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 2012.

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 2012 are set out in the income statement and the accompanying Notes to the financial statements on page 35 to page 92 of this report.

The board has recommended the payment of a final dividend of RMB0.031 per share (inclusive of tax) in respect of the year ended 31 December 2012. 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 2013 subject to the approval at the annual general meeting on 22 May 2013.

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 2013, the Register of Members of the Company will be closed from 22 April 2013 to 22 May 2013, 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 19 April 2013.

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 2013 to 30 May 2013, 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 27 May 2013.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year of 2012 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 29 of the Notes to the financial statements.

DISTRIBUTABLE RESERVE

Following the listing of H Shares of the Group, 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 2012, the Group's distributable reserve after such comparison and before deducting the proposed dividend for 2012 represents its accumulated profits prepared in accordance with the Accounting Standards for Business Enterprises, the Accounting System for Business Enterprises and other relevant regulations issued by the Ministry of Finance of the PRC (the "PRC GAAP") of approximately RMB701,042,000 (31 December 2011: accumulated profits prepared in accordance with PRC GAAP of approximately RMB700,701,000).

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012, sales to the five largest customers of the Group accounted for less than 30% of the Group's total turnover. For the year ended 31 December 2012, purchases from the Group's largest supplier, Chengde JianLong Special Steel Co., Ltd., and five largest suppliers accounted for approximately 29% and 78% 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 63. He is a deputy to the Eleventh and Twelfth 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 and May 2012, and 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 44. 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 about two decades 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, Eleventh and Twelfth 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 2006 and reappointed as a director in April 2009 and May 2012 respectively and 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 44. 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 16 years' experience as Finance Controller or CFO in listed companies and Sino-Joint Ventures and 7 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 36. 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 reappointed as a non-executive director of the Group on director re-election in April 2009 and May 2012 respectively. Liu Peng is the nephew of Ye Shi Qu, the Chairman.

Mr. Bruno Saintes, aged 52. He is a non-executive director of the Group. Mr. Bruno Saintes joined Vallourec Group since January 2008 and acted as CEO of VALTI Company in charge of producing and selling tubes for the bearing industry. Since November 2011, he acts as Managing Director of VMOG (China) Trading Co., Ltd. Mr. Bruno Saintes was graduated from University of Nantes of France in 1984 and obtained the Master degree in Business Administration in 1993. He joined the Advanced Research Center of Clermont-Ferrand of Michelin Company in 1986 and worked in Rhodia Company as Worldwide Supply Chain Director of pharmaceutical business unit, CAPEX Financial Controller and others during the period from 1990 to 2000. In September 2000, Mr. Bruno Saintes acted as Worldwide Purchasing Director for Transport and Logistics of Renault Company engaging in manufacture of motor vehicles. From 2003 to 2007, Mr. Bruno Saintes acted as Business Director of French Railway Company. Bruno Saintes was appointed as a non-executive director of the Group in May 2012.

Independent Non-executive Directors

Mr. Zhao Bin, aged 47. He is an independent non-executive director, a member of the Remuneration Committee and 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 independent nonexecutive director of the Group on director re-election in April 2009 and May 2012 respectively.

Mr. Wu Chang Qi, aged 77. He is an independent non-executive director and the chairman of the Remuneration Committee and a member of the Nomination Committee and 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 and May 2012 respectively.

Mr. Wang, aged 47. He is an independent non-executive director of the Group and a member of the Risk Control Committee of the Board of the Group. He is now Partner of CEL Partners. Prior to joining CEL Partners, Wang Bo was a founding Partner of the China Private Equity Fund of LCF Rothschild, Vice-President of Carrefour China, CFO of Promodes China and also spent more than 10 years in international banking sector. Bo holds a TRIUM Global MBA Degree from HEC, NYU Stern and the LSE. He also graduated from ENA in France and Beijing Foreign Studies University in China. Wang Bo was appointed as an independent non-executive director of the Group in July 2012.

Supervisors

Mr. Geng Wei Long, aged 47. 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 49. 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 38. 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 and May 2012 respectively.

Senior Management

Mr. Zhang Hu Ming, aged 44. He is the general manager of the Group. Details please refer to the section of the Directors' Biography details.

Mr. Yong Jin Gui, aged 38. 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 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 44. She is the deputy general manager and the chief financial officer of the Group. Details please refer to the section of the Directors' biography details.

Mr. Wang Yi, aged 41. 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 39. 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 since April 2011, assisting sales activities of OCTG products of the Company.

Mr. Zhang Chun Xiang, aged 41. 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 33. 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. 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.

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 is 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 2012, 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%
	6,909,000(L)	Interest in controlled corporation	(4)	0.69%
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.

4. Apart from paragraph (2) above, Tianda Holding holds additional 6,909,000 H Shares with long position through an interest in controlled corporation. Accordingly, Ye Shi Qu is deemed to be interested in these additional 6,909,000 H Shares with long position in the Company.

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 2012.

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 Group, as at 31 December 2012, none of the directors, supervisors or chief executives of the Group nor any of their spouses and children under 18 years of age had any interests 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 34 of the Notes to the Financial Statements, no contract of significance in relation to the Group's business, to which the Group was a party and in which a director or a supervisor had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

So far as the directors or chief executive of the Group are aware, as at 31 December 2012, 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%
	6,909,000 (L)	Interest in controlled corporation	(5)	1.39%	0.69%
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%
	6,909,000 (L)	Interest in controlled corporation	(5)	1.39%	0.69%
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.	34,742,000 (L)	Investment Manager	(6)	6.98%	3.45%
Templeton Asset Management, Ltd.	74,662,493 (L)	Investment Manager		15.00%	7.41%
JPMorgan Chase & Co.	29,000 (L)	Beneficial owner		6.20%	3.06%
	30,834,841 (L)	Custodian corporation/ approval lending agent			
	30,863,841 (P)				

(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. Apart from paragraph (3) above, Tianda Holding holds additional 6,909,000 H Shares with long position through an interest in controlled corporation. Accordingly, Tianda Holding is deemed to be interest in those additional 6,909,000 H Shares with long position in the Company.

6. Based on the records of the Company, Hillhouse Capital Management, Ltd. is interested in 14,875,500 H Shares and 19,866,500 H Shares of Gaoling Fund, L.P. and YHG Investment, L.P. respectively.

Save as disclosed above, as at 31 December 2012, the directors were not aware of any persons or entities (other than the directors, supervisors and chief executive of the Group) who had an interest or short position in the shares or underlying shares of the Group as recorded on 31 December 2012 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 Oil & Gas France and its subsidiaries, VMOG (China) Trading Co., Ltd and Seamless Tubes Asia Pacific Pte. Ltd., 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 (the "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 years ended 31 December 2011, 2012 and 2013 are RMB1,050,000,000, RMB1,312,500,000 and RMB1,600,000,000, respectively.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* and with reference to Practice Note 740 *Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules* issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed by the Group in accordance with Rule 14A.38 of the Listing Rules. The auditors' letter confirmed that nothing has come to their attention that cause them to believe that the aforesaid continuing connected transactions (1) have not been approved by the board of directors of the Company; (2) are not, in all material respects, in accordance with the pricing policies of the Group; (3) have not been entered into, in all material respects, in accordance with the terms of the relevant agreements governing the transactions; and (4) have exceeded the maximum aggregate annual value disclosed in the previous announcements made by the Company.

The independent non-executive Directors have reviewed the continuing connected transactions set out above and in note 34 to the financial statements and have confirmed that the continuing connected transactions have been entered into (1) in the ordinary and usual course of business of the Company; (2) 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 (3) 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 2012, 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 Group. 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.

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 2012.

AUDITORS

The financial statements for the year ended 31 December 2012 prepared under the IFRS have been audited by Ernst & Young. The Group's 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 2013.

By Order of the Board
Ye Shi Qu
Chairman

Anhui, the PRC, 22 March 2013

REPORT OF THE SUPERVISORS

In 2012, in accordance with the relevant provisions of the Company Law of the People's Republic of China (the "**Company Law**") and Articles of Association of the Group, 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 2012. On behalf of the Supervisory Committee, I hereby present our report for 2012:

1. OVERVIEW OF THE WORK OF THE SUPERVISORY COMMITTEE

The Supervisory Committee conducted on-site inspections of the operations and financial position of the Group, and reviewed the financial statements of the Group. In 2012, the Supervisory Committee held 2 meetings and the holding of such meetings were in compliance with the relevant provisions of the Company Law and the Articles of Association of the Group.

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 Group, 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 Company 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 Group. When examining the financial position of the Group and monitoring the performance of Directors and senior management of the Group, 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 2012 issued by the auditors of the Group.

The Supervisory Committee considers that the audited financial statements truly and sufficiently reflect the operating results and asset positions of the Group. 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 Group. The Supervisory Committee attended the meetings of the Board of Directors (the "**Board**") and considers that the members of the Board and other senior management of the Group have strictly complied with the principle of honesty and trustworthiness, worked diligently and acted sincerely in the best interests of the Group. As at the date of this report, the Supervisory Committee was not aware of any of the directors and the senior management 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 2012 were conducted on the principles of fairness and equality at reasonable prices. No act detrimental to shareholders' interests as a whole was found.

Liu Junchang
Chairman of the Supervisory Committee
Anhui, the PRC

22 March 2013

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 35 to 92, which comprise the consolidated and company statements of financial position as at 31 December 2012, 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 2012, 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

22 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
REVENUE	5	**3,960,548**	4,530,391
Cost of sales		**(3,722,704)**	(4,236,031)
Gross profit		**237,844**	294,360
Other income and gains	6	**17,891**	31,157
Selling and distribution expenses		**(160,972)**	(139,158)
Administrative expenses		**(40,990)**	(63,684)
Other expenses	6	**(2,278)**	(9,817)
Finance costs	7	**(3,758)**	(26,873)
PROFIT BEFORE TAX	8	**47,737**	85,985
Income tax expense	11	**(12,651)**	(22,153)
PROFIT FOR THE YEAR		**35,086**	63,832
OTHER COMPREHENSIVE INCOME			
Available-for-sale investments:			
Changes in fair value		**680**	–
Income tax effect		**(170)**	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**510**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**35,596**	63,832
Profit attributable to:			
Owners of the parent		**35,086**	63,832
Total comprehensive income attributable to:			
Owners of the parent		**35,596**	63,832
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted	14	**RMB0.03**	RMB0.07

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 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**1,396,253**	1,445,277
Prepaid land lease payments	17	**26,664**	27,317
Deferred tax assets	11	**1,706**	3,152
Total non-current assets		**1,424,623**	1,475,746
CURRENT ASSETS			
Inventories	19	**502,559**	634,109
Trade and notes receivables	20	**521,905**	419,777
Prepayments, deposits and other receivables	21	**180,460**	294,670
Tax recoverable	11	**5,419**	–
Derivative financial instruments	22	**2,621**	3,500
Held-to-maturity investments	23	**–**	15,000
Available-for-sale investments	24	**8,680**	–
Cash and cash equivalents	25	**42,572**	125,276
Total current assets		**1,264,216**	1,492,332
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	26	**7,486**	245,881
Trade and notes payables	27	**103,609**	112,220
Tax payable	11	**–**	13,207
Derivative financial instruments	22	**–**	4,000
Other payables and accruals	28	**265,924**	284,435
Total current liabilities		**377,019**	659,743
NET CURRENT ASSETS		**887,197**	832,589
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,311,820**	2,308,335

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	11	**–**	875
Total Non-current liabilities		**–**	875
NET ASSETS		**2,311,820**	2,307,460
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Issued capital	29	**503,813**	503,813
Reserves	30	**1,776,771**	1,772,411
Proposed final dividend	12	**31,236**	31,236
TOTAL EQUITY		**2,311,820**	2,307,460

Ye Shi Qu
Director

Zhang Hu Ming
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

	Attributable to owners of the parent						
	Issued capital RMB'000 (Note 29)	Share premium account RMB'000 (Note 29)	Available-for-sale investments revaluation reserve RMB'000	Statutory surplus reserve RMB'000 (Note 30)	Retained profits RMB'000 (Note 30)	Proposed final dividend RMB'000 (Note 12)	Total RMB'000
At 1 January 2011	405,813	447,309	–	94,397	649,328	25,160	1,622,007
Profit for the year	–	–	–	–	63,832	–	63,832
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 dividend declared	–	–	–	–	(6,076)	(25,160)	(31,236)
Proposed final 2011 dividend	–	–	–	–	(31,236)	31,236	–
At 31 December 2011 and 1 January 2012	503,813	1,002,166	–	100,780	669,465	31,236	2,307,460
Profit for the year	–	–	–	–	35,086	–	35,086
Other comprehensive income for the year:							
Changes in fair value of available-for-sale investments, net of tax	–	–	510	–	–	–	510
Total comprehensive income for the year	–	–	510	–	35,086	–	35,596
Appropriation of statutory surplus reserve	–	–	–	3,509	(3,509)	–	–
Final 2011 dividend declared	–	–	–	–	–	(31,236)	(31,236)
Proposed final 2012 dividend	–	–	–	–	(31,236)	31,236	–
At 31 December 2012	503,813	1,002,166	510	104,289	669,806	31,236	2,311,820

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**47,737**	85,985
Adjustments for:			
Depreciation of property, plant and equipment	8	**150,142**	143,979
Amortisation of prepaid land lease payments	8	**653**	653
Impairment/(reversal) of trade receivables	8	**(998)**	1,832
Impairment of prepayments and other receivables	8	**19**	–
Write-off of prepayments and other receivables	8	**–**	127
Write-down of inventories to net realisable value	8	**3,200**	5,800
Finance costs		**2,046**	21,485
Interest income	6	**(2,701)**	(4,415)
Investment income from available-for-sale investments	6	**(340)**	–
Fair value losses/(gains), net	6	**(3,121)**	6,000
		196,637	261,446
Decrease/(increase) in inventories		**128,350**	(24,753)
Increase in trade and notes receivables		**(101,130)**	(92,672)
Decrease in prepayments, deposits and other receivables		**114,118**	387,020
Decrease in trade and notes payables		**(8,611)**	(431,500)
Increase/(decrease) in other payables and accruals		**(16,587)**	5,708
Cash generated from operations		**312,777**	105,249
Income tax paid	11	**(30,876)**	(36,314)
Net cash flows from operating activities		**281,901**	68,935

	Note	2012 RMB'000	2011 RMB'000
Net cash flows from operating activities		**281,901**	68,935
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**3,114**	5,301
Purchases of property, plant and equipment		**(102,293)**	(167,524)
Purchase of investments on bank financial products		**(146,233)**	(524,550)
Purchase of investment on entrusted loans		**(8,000)**	–
Cash collected from investments on bank financial products		**161,233**	509,550
Net cash flows used in investing activities		**(92,179)**	(177,223)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		**–**	653,814
Share issue expenses		**–**	(957)
Proceeds from interest-bearing loans and borrowings		**87,350**	364,987
Repayment of interest-bearing loans and borrowings		**(324,617)**	(777,775)
Interest paid		**(4,507)**	(23,630)
Dividends paid		**(31,236)**	(31,236)
Net cash flows from/(used in) financing activities		**(273,010)**	185,203
Net increase/(decrease) in cash and cash equivalents		**(83,288)**	76,915
Cash and cash equivalents at beginning of year		**125,276**	49,382
Effect of foreign exchange rate changes, net		**584**	(1,021)
Cash and cash equivalents at end of year		**42,572**	125,276
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	**42,572**	125,276
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows		**42,572**	125,276

STATEMENT OF FINANCIAL POSITION

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**1,396,253**	1,445,277
Prepaid land lease payments	17	**26,664**	27,317
Deferred tax assets	11	**1,706**	3,152
Investments in subsidiaries	18	**3,551**	3,551
Total non-current assets		**1,428,174**	1,479,297
CURRENT ASSETS			
Inventories	19	**502,559**	634,109
Trade and notes receivables	20	**521,905**	419,777
Prepayments, deposits and other receivables	21	**180,460**	294,670
Tax recoverable	11	**5,419**	–
Derivative financial instruments	22	**2,621**	3,500
Held-to-maturity investments	23	**–**	15,000
Available-for-sale investments	24	**8,680**	–
Cash and cash equivalents	25	**39,248**	121,945
Total current assets		**1,260,892**	1,489,001
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	26	**7,486**	245,881
Trade and notes payables	27	**103,609**	112,220
Tax payable	11	**–**	13,207
Derivative financial instruments	22	**–**	4,000
Other payables and accruals	28	**265,924**	284,435
Total current liabilities		**377,019**	659,743
NET CURRENT ASSETS		**883,873**	829,258
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,312,047**	2,308,555

STATEMENT OF FINANCIAL POSITION (CONTINUED)

As at 31 December 2012

	Notes	2012 RMB'000	2011 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	11	–	875
Total non-current liabilities		–	875
NET ASSETS		**2,312,047**	2,307,680
EQUITY			
Issued capital	29	**503,813**	503,813
Reserves	30	**1,776,998**	1,772,631
Proposed final dividend	12	**31,236**	31,236
TOTAL EQUITY		**2,312,047**	2,307,680

Ye Shi Qu
Director

Zhang Hu Ming
Director

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 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 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 2012, 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 and available-for-sale investments, 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 Standing Interpretations Committee 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 2012. 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 revised IFRSs for the first time for the current year's 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*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets*
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

Other than as further explained below regarding the impact of amendments to IFRS 7, the adoption of the revised IFRSs has had no significant financial effect on these financial statements.

The IFRS 7 Amendments require additional disclosures about financial assets that have been transferred but not derecognised to enable users of the Group's financial statements to understand the relationship of those assets that have not been derecognised with their associated liabilities. In addition, the amendments require disclosures about the entity's continuing involvement in derecognised assets to enable users to evaluate the nature of, and risks associated with, such involvement. Detailed disclosures are included in note 36 to the financial statements.

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 – Government Loans*[2]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*[2]
IFRS 9	*Financial Instruments*[4]
IFRS 10	*Consolidated Financial Statements*[2]
IFRS 11	*Joint Arrangements*[2]
IFRS 12	*Disclosure of Interests in Other Entities*[2]
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 *– Transition Guidance*[2]
IFRS 10, IFRS 12 and IAS 27 (Revised) Amendments	Amendments to IFRS 10, IFRS 12 and IAS 27 (Revised) *– Investment Entities*[3]
IFRS 13	*Fair Value Measurement*[2]
IAS 1 Amendments	Amendments to IAS 1 *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*[1]
IAS 19 Amendments	Amendments to IAS 19 *Employee Benefits*[2]
IAS 27 (Revised)	*Separate Financial Statements*[2]
IAS 28 (Revised)	*Investments in Associates and Joint Ventures*[2]
IAS 32 Amendments	Amendments to IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*[3]
IFRIC Interpretation 20	*Stripping Costs in the Production Phase of a Surface Mine*[2]
Annual Improvements 2009–2011 Cycle	Amendments to a number of IFRSs issued in May 2012[2]

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

Further information about those IFRSs that are expected to be applicable to the Group is as follows:

The IFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 *Financial Instruments: Presentation*. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32.

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

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in December 2011, moved the mandatory effective date to 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities or structured entities. It includes a new definition of control which is used to determine which entities are consolidated. The changes introduced by IFRS 10 require management of the Group to exercise significant judgement to determine which entities are controlled, compared with the requirements in IAS 27 and SIC-Int 12 *Consolidation – Special Purpose Entities*. IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for consolidated financial statements. It also addresses the issues raised in SIC-Int 12.

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.

The IAS 1 Amendments 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, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance.

The IAS 32 Amendments clarify the meaning of "currently has a legally enforceable right to set off" for offsetting financial assets and financial liabilities. The amendments also clarify the application of the offsetting criteria in IAS 32 to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous.

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

The *Annual Improvements to IFRSs 2009-2011 Cycle* issued in May 2012 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 are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) IAS 1 *Presentation of Financial Statements:* Clarifies the difference between voluntary additional comparative information and the minimum required comparative information. Generally, the minimum required comparative period is the previous period. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the previous period. The additional comparative information does not need to contain a complete set of financial statements.

In addition, the amendment clarifies that the opening statement of financial position as at the beginning of the preceding period must be presented when an entity changes its accounting policies; makes retrospective restatements or makes reclassifications, and that change has a material effect on the statement of financial position. However, the related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

(b) IAS 32 *Financial Instruments: Presentation:* Clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 *Income Taxes*. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders.

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 an 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 including 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as other expenses 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 them. 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 other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in administrative expenses for receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortised cost 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 other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in other expenses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and other financial assets (continued)

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 investments 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 investments 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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (continued)

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 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.

The carrying amount of the asset is reduced through the use of an allowance account and 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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 write-off is later recovered, the recovery is credited to administrative 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.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss. Future interest income continues to be accrued based on the reduced carrying amount of the asset and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. Impairment losses on debt instruments are reversed through profit or loss if the increase in fair value of the instruments can be objectively related to an event occurring after the impairment loss was recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities

Initial recognition and measurement

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

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

The Group's financial liabilities include trade and notes payables, other payables, derivative financial instruments 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 in 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 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 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.

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 at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

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 relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge.

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 over 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 prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in 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 prevailing 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 subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

Retirement benefits

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's financial statements requires the directors of the Company to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. 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-down 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-down requires directors' judgement and estimates. Where the expectation is different from the original estimate, such difference will impact the carrying values of inventories and write-down of inventories in the period in which such estimates have been changed.

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

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognised for all temporary undeductible provisions to the extent that it is probable that taxable profit will be available against which the temporary undeductible provision can be 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 2012 was RMB1,706,000 (2011: RMB3,152,000). Further details are contained in note 11 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating activities are attributable to a single operating segment. Therefore, no analysis by operating segment is presented.

Geographical information

(a) Revenue from external customers

	2012 **RMB'000**	2011 RMB'000
Mainland China	**3,159,030**	3,355,757
Other countries	**801,518**	1,174,634
	3,960,548	4,530,391

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

Included in the revenue from Mainland China in 2012 were sales of approximately RMB427,254,000 derived from VMOG (China) Trading Co., Ltd. ("VMOG China"), a subsidiary of the Company's one shareholder Vallourec (Year 2011: RMB58,109,000). Vallourec has had significant influence over the Group since 1 April 2011.

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information (continued)

(b) Non-current assets

	2012 RMB'000	2011 RMB'000
Mainland China	**1,422,917**	1,472,594
Other countries	**–**	–
	1,422,917	1,472,594

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

Information about major customers

Revenue of approximately RMB566,436,000 was derived from sales to customer A in 2012, including sales to a group of entities which are known to be under common control with those 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.

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.

	2012 RMB'000	2011 RMB'000
Sale of goods	**3,965,697**	4,538,586
Less: Government surcharges	**(5,149)**	(8,195)
Revenue	**3,960,548**	4,530,391

6. OTHER INCOME AND GAINS AND OTHER EXPENSES

	2012 RMB'000	2011 RMB'000
Other income and gains		
Government grants	**8,023**	4,069
Fair value gains, net	**3,121**	–
Bank interest income	**2,701**	4,415
Foreign exchange gain	**2,511**	–
Investment income from derivative instrument transactions not qualifying as hedges	**238**	21,681
Investment income from available-for-sale investments	**340**	–
Others	**957**	992
	17,891	31,157

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.

	2012 RMB'000	2011 RMB'000
Other expenses		
Bank charges	**1,475**	2,385
Others	**803**	1,432
Fair value losses, net	**–**	6,000
	2,278	9,817

7. FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Bank loan interest	**3,758**	23,698
Less: interest capitalised	**–**	144
	3,758	23,554
Foreign exchange losses	**–**	3,319
	3,758	26,873

8. PROFIT BEFORE TAX

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

	Notes	2012 RMB'000	2011 RMB'000
Cost of inventories sold		**3,722,704**	4,236,031
Depreciation	16	**150,142**	143,979
Amortisation of prepaid land lease payments	17	**653**	653
Impairment/(reversal) of trade receivables	20	**(998)**	1,832
Impairment of prepayments and other receivables	21	**19**	–
Write-off of prepayments and other receivables	21	**–**	127
Write-down of inventories to net realisable value		**3,200**	5,800
Research costs		**51**	897
Auditors' remuneration		**935**	1,000
Staff costs (including directors', chief executive's and supervisors' remuneration as set out in note 9):			
– Salaries and other staff costs		**96,475**	91,763
– Retirement benefit contributions		**13,623**	11,498
Foreign exchange difference, net		**(2,511)**	3,319

9. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION

The Company doesn't have the position of chief executive. Details of the remuneration of directors and supervisors during the years ended 31 December 2012 and 2011, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	2012 RMB'000	2011 RMB'000
Fees	**67**	67
Other emoluments:		
– Salaries, allowances and benefits in kind	**430**	505
– Performance related bonuses	**783**	1,166
– Retirement benefit contributions	**29**	35
	1,242	1,706
	1,309	1,773

9. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION (CONTINUED)

(a) Independent non-executive directors

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

	2012 RMB'000	2011 RMB'000
Wu Chang Qi	–	–
Zhao Bin	50	50
Au Kwok Yee Benjamin	–	17
Yan Lan	–	–
Wang Bo	17	–
	67	67

There were no other emoluments payable to the independent non-executive directors during the year (2011: Nil). Mr. Au Kwok Yee Benjamin and Ms. Yan Lan resigned as the directors of the Company in April 2011 and March 2012, respectively.

(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
2012				
Directors:				
Ye Shi Qu	180	340	2	522
Zhang Hu Ming	150	361	9	520
Liu Peng	–	–	–	–
Fu Jun Iris	–	–	–	–
Delhon-Bugard Herve	–	–	–	–
Bruno Saintes	–	–	–	–
	330	701	11	1,042
Supervisors:				
Yang Quan Fu	42	8	9	59
Geng Wei Long	58	74	9	141
Didier Maurice Francis Hornet	–	–	–	–
	100	82	18	200

Mr. Delhom-Bugard Hervé resigned as the director of the Company in March 2012.

9. DIRECTORS', CHIEF EXECUTIVE'S AND SUPERVISORS' REMUNERATION (CONTINUED)

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

	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 Hervé	–	–	–	–
	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

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.

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year ended 31 December 2012 (2011: Nil).

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2011: two) directors and supervisors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2011: three) non-director or non-supervisor, highest paid employees for the year are as follows:

	2012 RMB'000	2011 RMB'000
Salaries, allowances and benefits in kind	99	172
Performance related bonuses	1,060	1,128
Retirement benefit contributions	17	20
	1,176	1,320

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

	Number of employees	
	2012	2011
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 2012 (2011: 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 major components of income tax expense for the years ended 31 December 2012 and 2011 are as follows:

	Group	
	2012 RMB'000	2011 RMB'000
Current – Mainland China		
Charge for the year	12,250	25,561
Current – Other area	–	–
Deferred:		
Relating to origination and reversal of temporary differences	401	(3,408)
Total tax charge for the year	12,651	22,153

11. INCOME TAX (CONTINUED)

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, is as follows:

	Group	
	2012	2011
	RMB'000	RMB'000
Profit before income tax	**47,737**	85,985
Tax at the applicable tax rate of 25%	**11,934**	21,496
Expenses not deductible for tax	**717**	657
Tax charge at the Group's effective rate	**12,651**	22,153
Effective tax rate	**26.50%**	25.76%

The movements in income tax payable/(recoverable) during the years ended 31 December 2012 and 2011 are as follows:

	Group and Company	
	2012	2011
	RMB'000	RMB'000
At beginning of year	**13,207**	23,960
Provision for the year	**12,250**	25,561
Payment during the year	**(30,876)**	(36,314)
At end of year	**(5,419)**	13,207

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 2012 and 2011 are as follows:

	Group and Company	
	2012	2011
	RMB'000	RMB'000
At beginning of year	**3,152**	244
Deferred tax credited/(charged) to profit or loss during the year	**(621)**	2,908
Gross deferred tax assets at end of year	**2,531**	3,152

11. INCOME TAX (CONTINUED)

The movements in deferred tax liabilities arising from the revaluation of forward currency contracts and available-for-sale investments to fair value during the years ended 31 December 2012 and 2011 are as follows:

	Group and Company	
	2012	2011
	RMB'000	RMB'000
At beginning of year	**875**	1,375
Deferred tax credited to profit or loss during the year	**(220)**	(500)
Deferred tax charged to equity during the year	**170**	–
Gross deferred tax liabilities at end of year	**825**	875

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group and the Company for financial reporting purposes:

	RMB'000
Deferred tax assets	2,531
Deferred tax liabilities	(825)
Deferred tax assets, net	1,706

12. DIVIDENDS

	2012	2011
	RMB'000	RMB'000
Proposed final dividend – RMB3.1 cents (2011: RMB3.1 cents) per ordinary share	**31,236**	31,236

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 2012 includes a profit of RMB35,112,000 (2011: RMB63,741,000) 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 1,007,626,000 in issue during the year (2011: 958,626,000).

The Group had no potentially dilutive ordinary shares in issue during the two years of 2012 and 2011.

15. RETIREMENT BENEFIT CONTRIBUTIONS

As stipulated by the PRC regulations, the Company participates in a defined contribution retirement scheme. All formal employees are entitled to an annual pension equal to a fixed proportion of the average basic salary amount of their last employment at their retirement date. The Group is required to make contributions to the local social insurance bureau at a rate of 20% of the average basic salaries for the employees of the Group in Mainland China. The Company has no obligations for the payment of pension benefits beyond the annual contributions to the local social insurance bureau as set out above.

16. PROPERTY, PLANT AND EQUIPMENT

Group and Company

	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Office equipment and other equipment RMB'000	Construction in progress RMB'000	Total RMB'000
Cost:						
As at 1 January 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 and 1 January 2012	324,587	1,447,160	1,808	31,705	49,223	1,854,483
Additions	929	7,601	–	10,710	81,878	101,118
Transferred from construction in progress	74,430	9,499	–	–	(83,929)	–
As at 31 December 2012	399,946	1,464,260	1,808	42,415	47,172	1,955,601
Accumulated depreciation:						
As at 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 and 1 January 2012	30,643	363,101	779	14,683	–	409,206
Charge for the year	9,328	137,398	172	3,244	–	150,142
As at 31 December 2012	39,971	500,499	951	17,927	–	559,348
Net book value:						
As at 31 December 2012	359,975	963,761	857	24,488	47,172	1,396,253
As at 31 December 2011	293,944	1,084,059	1,029	17,022	49,223	1,445,277

All buildings of the Group are located in Mainland China.

17. PREPAID LAND LEASE PAYMENTS

	Group and Company	
	2012	2011
	RMB'000	RMB'000
Cost:		
At beginning and end of year	**31,573**	31,573
Accumulated amortisation:		
At beginning of year	**4,256**	3,603
Charge for the year	**653**	653
At end of year	**4,909**	4,256
Net book value at end of year	**26,664**	27,317

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

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2012	2011
	RMB'000	RMB'000
Unlisted shares, at cost	**3,551**	3,551

Particulars of the subsidiaries are as follows:

Company Name	Place of incorporation 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 2012, there was no amount due from/to the subsidiaries (31 December 2011: Nil).

19. INVENTORIES

	Group and Company	
	2012	2011
	RMB'000	RMB'000
Raw materials	**234,598**	220,892
Work in progress	**15,750**	19,704
Finished goods and merchandises	**252,211**	393,513
	502,559	634,109

Included in inventories as at 31 December 2012 were costs of certain inventories of RMB57,073,000 (31 December 2011: RMB50,811,000), which were carried at a net realisable value.

20. TRADE AND NOTES RECEIVABLES

	Group and Company	
	2012	2011
	RMB'000	RMB'000
Notes receivable from domestic third parties	**211,201**	166,622
Trade receivables from overseas customers	**64,585**	72,894
Trade receivables from domestic customers	**246,250**	182,093
	310,835	254,987
Impairment	**(131)**	(1,832)
	521,905	419,777

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	
	2012	2011
	RMB'000	RMB'000
Outstanding balances with ages:		
Within one year	**310,704**	254,987
Between one and two years	**131**	–
	310,835	254,987

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

	Group and Company	
	2012	2011
	RMB'000	RMB'000
At beginning of year	**1,832**	359
Impairment losses recognised	**131**	1,832
Amount written off as uncollectible	**(703)**	(359)
Impairment losses reversed	**(1,129)**	–
At end of year	**131**	1,832

Included in the above provision for impairment of trade receivables is a provision for an individually impaired trade receivable of RMB131,000 (31 December 2011: RMB1,832,000) with a carrying amount before provision of RMB131,000 (31 December 2011: RMB3,664,000). The individually impaired trade receivable as at 31 December 2012 relates to a customer that was in default in principal payment and not any receivable 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	
	2012	2011
	RMB'000	RMB'000
Neither past due nor impaired	**310,704**	251,323

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 approximately RMB66,250,000 which was payable on a credit term of 45 days (31 December 2011: approximately RMB56,819,000).

As at 31 December 2012, the Group had no pledged trade receivables (31 December 2011: Nil).

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group and Company	
	2012	2011
	RMB'000	RMB'000
Prepayments	**103,160**	147,475
Deposits and other receivables	**77,297**	147,100
Bank interest receivables	**22**	95
	180,479	294,670
Impairment	**(19)**	–
	180,460	294,670

As at 31 December 2012, there were no prepayments and other receivables written off (31 December 2011: RMB127,000).

All balances are unsecured, interest-free and have no fixed terms of repayment.

Included in the Group's and the Company's deposits and other receivables were (i) time deposits of RMB2,637,000 pledged to the banks to secure the bank accepted drafts (31 December 2011: 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); and (ii) the net input value-added tax ("VAT") of RMB72,157,000 (31 December 2011: RMB125,934,000) arising from the purchase of property, plant and equipment after deducting the output VAT for domestic sales.

22. DERIVATIVE FINANCIAL INSTRUMENTS

	Group and Company 2012	
	Assets	**Liabilities**
	RMB'000	**RMB'000**
Foreign exchange forward contracts	**2,621**	**–**
Portion classified as non-current	**–**	**–**
Current portion	**2,621**	**–**

22. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

	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)

The above foreign exchange forward contracts did not qualify for hedge accounting, and the changes in the net fair value gains of RMB2,621,000 were charged to profit or loss during the year ended 31 December 2012 (2011: Net fair value losses of RMB500,000).

23. HELD-TO-MATURITY INVESTMENTS

	Group and Company	
	2012 RMB'000	2011 RMB'000
Investment on bank financial products, at amortised cost	**–**	15,000

The above investment bore interest at a fixed interest rate of 5.3% and matured on 6 January 2012.

24. AVAILABLE-FOR-SALE INVESTMENTS

	Group and Company	
	2012 RMB'000	2011 RMB'000
Investment on entrusted fund, at fair value	**8,680**	–

During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB680,000 (2011: Nil).

The above investment consists of an investment on an entrusted fund which was designated as available-for-sale investment and matures on 13 June 2013 with an estimated interest rate of 8.5% (2011: Nil).

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group	
	Note	**2012 RMB'000**	2011 RMB'000
Cash and bank balances		**42,572**	64,276
Short-term deposits with maturity of three months or less		**–**	61,000
Short-term deposits with maturity of over three months		**2,637**	10,071
		45,209	135,347
Less: pledged time deposits for bank accepted drafts and letters of credit	21	**(2,637)**	(10,071)
Cash and cash equivalents		**42,572**	125,276

		Company	
	Note	**2012 RMB'000**	2011 RMB'000
Cash and bank balances		**39,248**	60,945
Short-term deposits with maturity of three months or less		**–**	61,000
Short-term deposits with maturity of over three months		**2,637**	10,071
		41,885	132,016
Less: pledged time deposits for bank accepted drafts and letters of credit	21	**(2,637)**	(10,071)
Cash and cash equivalents		**39,248**	121,945

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB4,462,000 (2011: RMB116,865,000). 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.

26. INTEREST-BEARING LOANS AND BORROWINGS

Group and Company

	2012			2011		
	Contractual interest rate (%)	**Maturity**	**RMB'000**	Contractual interest rate (%)	Maturity	RMB'000
Current:						
Bank loans	**6.43**	**2013**	**7,486**	4.69–7.06	2012	245,881

	Group and Company	
	2012 RMB'000	2011 RMB'000
Analysed into:		
Bank loans:		
Within one year	**7,486**	245,881

The bank loan as at 31 December 2012 bore interest at a fixed rate. As at 31 December 2011, 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.

The Group's loans were unsecured as at 31 December 2012 and 31 December 2011.

The bank loan was in EUR as at 31 December 2012. As at 31 December 2011, 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.

27. TRADE AND NOTES PAYABLES

	Group and Company	
	2012 RMB'000	2011 RMB'000
Notes payable to third parties	**2,637**	31,471
Trade payables to third parties	**100,972**	80,749
	103,609	112,220

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.

27. TRADE AND NOTES PAYABLES (CONTINUED)

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	
	2012	2011
	RMB'000	RMB'000
Outstanding balances with ages:		
Within one year	**94,379**	106,583
Between one and two years	**5,477**	2,074
Between two and three years	**1,163**	801
Over three years	**2,590**	2,762
	103,609	112,220

The 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 RMB2,637,000 as at 31 December 2012 (31 December 2011: RMB8,271,000).

28. OTHER PAYABLES AND ACCRUALS

	Group and Company	
	2012	2011
	RMB'000	RMB'000
Advances from customers	**59,933**	115,146
Payroll payables	**51,523**	39,005
Other payables	**154,468**	130,284
	265,924	284,435

As at 31 December 2012, there was no amount due to VMOG China (31 December 2011: RMB525,000).

Except for a miscellaneous tax payable of RMB8,261,000 (31 December 2011: RMB11,233,000) 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.

29. ISSUED CAPITAL

	2012 RMB'000	2011 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**	248,813
	503,813	503,813

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.

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 2012 and 2011 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 31 December 2011 and at 31 December 2012	1,007,626	503,813	1,002,166	1,505,979

30. 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 prior to such conversion.

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.

31. CONTINGENT LIABILITIES

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

32. PLEDGED ASSETS

Details of the Group's and the Company's notes payable 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, 25 and 27, to the financial statements.

33. COMMITMENTS

Operating lease commitments

Future minimum rentals payable to Tianda Holding under non-cancellable operating leases as at 31 December 2012 and 2011 are as follows:

	Group and Company	
	2012	2011
	RMB'000	RMB'000
Within one year	**96**	–
After one year but not more than five years	**96**	–
	192	–

33. COMMITMENTS (CONTINUED)

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	
	2012 RMB'000	2011 RMB'000
Contracted, but not provided		
Plant and machinery	**27,939**	44,016

34. RELATED PARTY TRANSACTIONS

(a) The Group had the following material transactions with related parties during the year:

	Group	
	2012 RMB'000	2011 RMB'000
Sales of oil pipes to the subsidiaries of Vallourec (note i)	**566,436**	58,109
Purchase of service from subsidiaries of Vallourec (note ii)	**1,647**	898
Sales of seamless pipes to fellow subsidiaries (note iii)	**–**	591
Purchases of water from Tianda Holding (note iv)	**455**	582
Purchase of materials from fellow subsidiaries (note iii)	**435**	344
Lease of a dormitory from Tianda Holding (note v)	**96**	96

Notes:

(i) Including in the sales are approximately RMB427,254,000, RMB134,673,000, and RMB4,509,000 derived from VMOG China, Vallourec Mannesmann Oil & Gas France and Vallourec Mannesmann Middle East FZE, respectively. 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 the subsidiaries of Vallourec.

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

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

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

(b) Outstanding balances with related parties:

Details of the Group's trade receivable and other payable balances with VMOG China at the end of the reporting period are disclosed in notes 20 and 28 to the financial statements.

34. RELATED PARTY TRANSACTIONS (CONTINUED)

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

	Group	
	2012 **RMB'000**	2011 RMB'000
Short-term employee benefits	**3,221**	3,448
Retirement benefit contributions	**63**	68
	3,284	3,516

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.

35. 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	
	2012 **RMB'000**	2011 RMB'000
Financial assets		
Loans and receivables		
Cash and cash equivalents	**42,572**	125,276
Bank interest receivables	**22**	95
Trade and notes receivables	**521,905**	419,777
Pledged deposits	**2,637**	10,071
Other financial assets included in prepayments, deposits and other receivables	**1,316**	10,398
Financial assets at fair value through profit or loss		
Derivative financial instruments	**2,621**	3,500
Available-for-sale investments	**8,680**	–
Held-to-maturity investments	**–**	15,000
	579,753	584,117
Financial liabilities		
Financial liabilities at amortised cost		
Trade and notes payables	**103,609**	112,220
Interest-bearing loans and borrowings:		
– Floating rate borrowings	**–**	100,000
– Fixed rate borrowings	**7,486**	145,881
Other financial liabilities included in other payables and accruals	**146,207**	119,051
Financial liabilities at fair value through profit or loss		
Derivative financial instruments	**–**	4,000
	257,302	481,152

35. 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	
	2012	2011
	RMB'000	RMB'000
Financial assets		
Loans and receivables		
Cash and cash equivalents	**39,248**	121,945
Bank interest receivables	**22**	95
Trade and notes receivables	**521,905**	419,777
Pledged deposits	**2,637**	10,071
Other financial assets included in prepayments, deposits and other receivables	**1,316**	10,398
Financial assets at fair value through profit or loss		
Derivative financial instruments	**2,621**	3,500
Available-for-sale investments	**8,680**	–
Held-to-maturity investments	**–**	15,000
	576,429	580,786
Financial liabilities		
Financial liabilities at amortised cost		
Trade and notes payables	**103,609**	112,220
Interest-bearing loans and borrowings:		
– Floating rate borrowings	**–**	100,000
– Fixed rate borrowings	**7,486**	145,881
Other financial liabilities included in other payables and accruals	**146,207**	119,051
Financial liabilities at fair value through profit or loss		
Derivative financial instruments	**–**	4,000
	257,302	481,152

36. TRANSFERS OF FINANCIAL ASSETS

Financial assets that are derecognised in their entirety

At 31 December 2012, the Group endorsed certain bills (notes) receivable accepted by banks in the PRC (the "Derecognised Bills"), to certain of its suppliers in order to settle the trade payables due to such suppliers with a carrying amount in aggregate of RMB607,138,000 ("the Endorsement"). The Derecognised Bills have a maturity from one to six months at the end of the reporting period. In accordance with the Law of Negotiable Instruments in the PRC, the holders of the Derecognised Bills have a right of recourse against the Group if the PRC banks default (the "Continuing Involvement"). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Derecognised Bills. Accordingly, it has derecognised the full carrying amounts of the Derecognised Bills and the associated trade payables. The maximum exposure to loss from the Group's Continuing Involvement in the Derecognised Bills and the undiscounted cash flows to repurchase these Derecognised Bills equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's Continuing Involvement in the Derecognised Bills are not significant.

36. TRANSFERS OF FINANCIAL ASSETS (CONTINUED)

Financial assets that are derecognised in their entirety (continued)

During the year, the Group has not recognised any gain or loss on the date of transfer of the Derecognised Bills. No gains or losses were recognised from the Continuing Involvement, both during the year or cumulatively. The Endorsement has been made evenly throughout the year.

37. 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	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Cash and cash equivalents	**42,572**	125,276	**42,572**	125,276
Bank interest receivables	**22**	95	**22**	95
Trade and notes receivables	**521,905**	419,777	**517,034**	414,141
Pledged deposits	**2,637**	10,071	**2,637**	10,071
Other financial assets included in prepayments, deposits and other receivables	**1,316**	10,398	**1,316**	10,398
Derivative financial instruments	**2,621**	3,500	**2,621**	3,500
Available-for-sale investments	**8,680**	–	**8,680**	–
Held-to-maturity investments	**–**	15,000	**–**	15,000
	579,753	584,117	**574,882**	578,481
Financial liabilities				
Trade and notes payables	**103,609**	112,220	**103,563**	111,325
Interest-bearing loans and borrowings:				
– Floating rate borrowings	**–**	100,000	**–**	100,000
– Fixed rate borrowings	**7,486**	145,881	**7,484**	145,837
Other financial liabilities included in other payables and accruals	**146,207**	119,051	**146,207**	119,051
Derivative financial instruments	**–**	4,000	**–**	4,000
	257,302	481,152	**257,254**	480,213

37. FAIR VALUE AND FAIR VALUE HIERARCHY (CONTINUED)

	Company			
	Carrying amount		Fair value	
	2012	2011	**2012**	2011
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Cash and cash equivalents	**39,248**	121,945	**39,248**	121,945
Bank interest receivables	**22**	95	**22**	95
Trade and notes receivables	**521,905**	419,777	**517,034**	414,141
Pledged deposits	**2,637**	10,071	**2,637**	10,071
Other financial assets included in prepayments, deposits and other receivables	**1,316**	10,398	**1,316**	10,398
Derivative financial instruments	**2,621**	3,500	**2,621**	3,500
Available-for-sale investments	**8,680**	–	**8,680**	–
Held-to-maturity investments	**–**	15,000	**–**	15,000
	576,429	580,786	**571,558**	575,150
Financial liabilities				
Trade and notes payables	**103,609**	112,220	**103,563**	111,325
Interest-bearing loans and borrowings:				
– Floating rate borrowings	**–**	100,000	**–**	100,000
– Fixed rate borrowings	**7,486**	145,881	**7,484**	145,837
Other financial liabilities included in other payables and accruals	**146,207**	119,051	**146,207**	119,051
Derivative financial instruments	**–**	4,000	**–**	4,000
	257,302	481,152	**257,254**	480,213

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.

37. 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 the 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 2012

		Group and Company		
	Level 1	**Level 2**	**Level 3**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Derivative financial instruments	**–**	**2,621**	**–**	**2,621**

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

During the year, there were no transfers between level 1 and level 2 and no transfers into or out of level 3 (2011: Nil).

37. 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 2012.

38. 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 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).

38. 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
2012		
RMB	**+50**	–
RMB	**-50**	–
2011		
RMB	+50	(650)
RMB	-50	650

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 31% of the Group's sales for the year ended 31 December 2012 (2011: 27%) were denominated in currencies other than the functional currency of the Group. Upon receipt of currencies other than the functional currency, the Group sells them to the banks immediately.

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

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (continued)

Group and Company

	Group	
	Increase/ (decrease) in rate %	**Increase/ (decrease) in profit before tax** RMB'000
US$		
2012	**+5%**	**6,418**
	-5%	**(6,418)**
2011	+5%	2,372
	-5%	(2,372)
EUR		
2012	**+5%**	**1,228**
	-5%	**(1,228)**
2011	+5%	(1,647)
	-5%	1,647
HK$		
2012	**+5%**	**4**
	-5%	**(4)**
2011	+5%	4
	-5%	(4)
SGD		
2012	**+5%**	**2**
	-5%	**(2)**
2011	+5%	2
	-5%	(2)

	Company	
	Increase/ (decrease) in rate %	**Increase/ (decrease) in profit before tax** RMB'000
US$		
2012	**+5%**	**6,255**
	-5%	**(6,255)**
2011	+5%	2,208
	-5%	(2,208)
EUR		
2012	**+5%**	**1,228**
	-5%	**(1,228)**
2011	+5%	(1,647)
	-5%	1,647
HK$		
2012	**+5%**	**4**
	-5%	**(4)**
2011	+5%	4
	-5%	(4)

38. 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.

38. 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

	2012					
	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	**–**	**7,574**	**–**	**–**	**–**	**7,574**
Trade and notes payables	**100,972**	**1,808**	**829**	**–**	**–**	**103,609**
Other financial liabilities included in other payables and accruals	**146,207**	**–**	**–**	**–**	**–**	**146,207**
	247,179	**9,382**	**829**	**–**	**–**	**257,390**

	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	119,051	–	–	–	–	119,051
	199,800	183,444	95,873	–	–	479,117

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 2012 and 2011.

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	
	2012 **RMB'000**	2011 RMB'000
Interest-bearing loans and borrowings	**7,486**	245,881
Trade and notes payables	**103,609**	112,220
Other payables and accruals	**265,924**	284,435
Less: Cash and cash equivalents	**(42,572)**	(125,276)
Net debt	**334,447**	517,260
Equity	**2,311,820**	2,307,460
Capital and net debt	**2,646,267**	2,824,720
Gearing ratio	**13%**	18%

39. EVENT AFTER THE REPORTING PERIOD

Pursuant to a resolution of the board of directors on 22 March 2013, the directors recommend the payment of a final cash dividend of RMB3.1 cents per share (inclusive of tax).

40. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors of the Company on 22 March 2013.