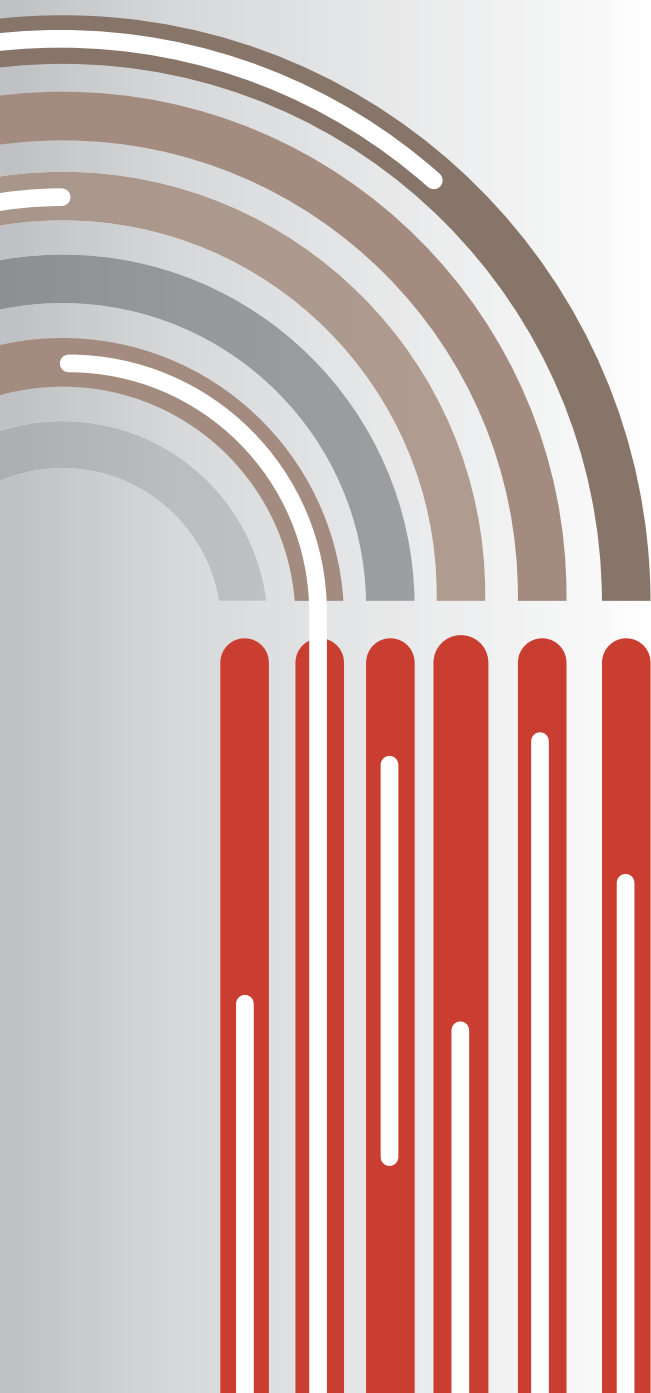




Anhui Tianda Oil Pipe Company Limited
安徽天大石油管材股份有限公司

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




ANNUAL REPORT 2013



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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.tiandapipe.com>

INVESTOR RELATIONS OFFICE

Zhenxing Road

Tongcheng Town

Tianchang City, Anhui Province

The PRC

Hotline: (86 550 7518500)

(852 6381 0079)

FINANCIAL SUMMARY

	2013 RMB'000	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000
Profit and loss items					
Revenue	3,309,690	3,960,548	4,530,391	3,181,719	1,936,743
Gross Profit	229,340	237,844	294,360	261,549	269,067
Net profit	49,285	35,086	63,832	101,280	199,689
Balance sheet items					
Total non-current assets	1,319,288	1,424,623	1,475,746	1,485,682	1,276,523
Total current assets	1,867,102	1,264,216	1,492,332	1,696,369	2,142,110
Total assets	3,186,390	2,688,839	2,968,078	3,182,051	3,418,633
Total non-current liabilities	260	—	875	518,875	626,214
Total current liabilities	856,771	377,019	659,743	1,041,169	1,231,111
Total liabilities	857,031	377,019	660,618	1,560,044	1,857,325

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 2013 (“**2013**” or “**the Year**” or the “**Reporting Period**” or “**the Year under Review**”) for the review of the shareholders of the Group.

ANNUAL RESULTS

In 2013, in response to the unfavourable situation including unstable external economic environment, industry over-capacity, prevailing trade protectionism, the Group was committed to technological transformation, optimization of product mix and customer base structure and control of operational risks; and the Group maintained business co-operation with world-class enterprises, consolidated the foundation for development, and strengthened the abilities for development upon seizure of the opportunities.

The revenue of the Group for the year ended 31 December 2013 amounted to about RMB3,309,690,000 (2012: approximately RMB3,960,548,000), representing a year-on-year decrease of 16.43%; Net profit attributable to equity holders was approximately RMB49,285,000 (2012: approximately RMB35,086,000), increase about 40.47% on a year-on-year basis.

Despite the decrease in the Group's revenue for the Year compared to last year, the average gross profit margin of the products was increased stably and the Group's profitability was increased as a result of the Group's development of new products, and the adjustment to optimize the products mix and customers mix structure. Meanwhile, the Group strengthened the cost control and financial risk management which led to improving the overall operating efficiency.

REVIEW OF OPERATIONS

During the Year under Review, the Group enhanced risk management, controlled the production progress and paid attention to development of quality control. The Group achieved a total production volume of approximately 732,140 tonnes (2012: approximately 764,390 tonnes) and a total sale volume of approximately 739,610 tonnes (2012: 793,970 tonnes), representing an decrease of approximately 4.22% and 6.85% as compared to the corresponding period last year, respectively. During the Year under Review, the Group concentrated on technological on oil well pipe production lines, and hence enlarge products' maximum specification from $\varnothing 273\text{mm}$ to $\varnothing 340\text{mm}$ by updating certain production equipment and improving production technology. The transformation projects not only increase the production capacity of oil well pipe production line, but also improve the product mix structure.

During the Year under Review, in the domestic market, the Group continued to consolidate the relationships with the China's four major oil companies as well as the strategic partnerships with large-scaled boiler, shipbuilding factories, by obtaining the factory inspection certification recognized by China National Petroleum Corporation (“CNPC”) in relation to non-API products and fluid seamless steel pipe products. In addition, the Group actively participated in the tendering activities organized by oil companies and successfully obtained the orders of more than 140,000 tons of API pipes from CNPC and, through Vallourec, obtained 32,000 tons of finished pipes from China National Offshore Oil Corporation (“CNOOC”) (including 4,000 tons VAM ® premium connection products). The Group becomes the largest supplier of oil well pipes of CNOOC with the great support of Vallourec.

During the year under review, in the overseas market, the Group has overcome the adverse factors including regional anti-dumping policies implemented by certain countries, and continued to develop and consolidate the emerging markets of Africa, South America, Southeast Asia, and the Middle East. The Group had successfully passed the market-entry qualification of Total Company in France, Thai National Oil Company, Kuwait National Petroleum Company, Egyptian General Petroleum Corporation, and became the qualified supplier of Singapore's Keppel Corporation (the world's largest offshore & marine Group). With the customer recognition and qualifications achieved, it symbols the Group's product quality being recognized and progressed to higher level.

CHAIRMAN'S STATEMENT (CONTINUED)

During the Year under Review, the Company paid extra attention to non-conventional oil and gas project and related customers. In March and June 2013, the Company and Vallourec organized two forums in relation to shale gas in Changzhou and Chengdu and invited the related experts from Vallourec in USA to deliver seminars in respect of oil well pipes specialized for exploitation of shale gas. Customers attended in those two forums included Sinopec, CNOOC, Yanchang Petroleum, China Research Institute of Petroleum Pipes, and Huadian Group, Chongqing Energy. In those two forums, the Company's brand was promoted with increased recognition from customers. In addition, China Research Institute of Petroleum Pipes and Vallourec reached a co-operation memo in relation to setting up pipe materials standards for the Chinese shale gas. During the Year under Review, under the instruction of Vallourec's experts, the Group provided the high-graded oil well pipes used specifically for premium connection products to the domestic market approximately 7,000 tonnes.

During the Year under Review, the Group continued to provide its customers with one-stop services, to strengthen customer base and raise the 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.

As regards the development of products, the Group closely monitors changes in customer demand, and constantly develops new products to meet market demand. During the year under review, the Group's had detailed studies for the environment and technology for the exploitation of shale gas, and continued to carry out research and development of high-steel, anti-corrosive oil well pipes products applicable to exploration of shale gas or other non-conventional natural gas and applicable in various adverse geological environment. Meanwhile, the Group, taking advantage of sophisticated OCTG production technology, successfully develops numerous new products including corrosion-resistant, low temperature, high alloy boilers pressure pipes like P1, 09MnNiD, P91, engineering machinery pipes like 40Cr, 4130, 4140, 35CrMoA, 14MnNb acidic thread pipes, and drain pipes, and accomplished renewal of manufacturing licences of special equipment and renewal of FPC licences, which initiates the API certification at Tongcheng's headquarters. In addition, the Group obtained a patent for the manufacturing method of couplings for high-precision special spiral casing pipes.

RISK CONTROL

The Group placed emphasis on strengthening internal governance in order to more effectively control the Group's operating and financial risks. Since listing, the Group adhered to business model linking production and sales, continued to intensify the assessment efforts over auxiliary materials, work-in-progress and finished goods. Overseas sales were settled by way of sight letter of credit 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 receivables 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 the ERP system.

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

In 2013, the Group adopted a scientific development approach to reinforce its concept of sustainable development, focusing on safety production, strengthening the safety awareness of the overall staff, and making continual efforts on safety production responsibility and safety management system.

In 2013, the Group made continual effort 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 emission of pollutants. With increasingly stringent environmental requirements and policies, the domestic outdated production capacity will be eliminated through competition, thus fostering a favourable 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.

CHAIRMAN'S STATEMENT (CONTINUED)

OUTLOOK AND PROSPECT

Looking ahead, the world economy shows signs of recovery. In January 2014, IMF published updates on "World Economic Outlook". The outlook states that the economic prospect of developed countries and mature economic entities will be recovered and may grow at 1.7% in 2014 (2013: 1%) while the growth rate of emerging market or the developing economic entities will slow down at tiny degree. The growth rate will be down to 4.6%, 0.1% less than 2013 which was 4.7%.

In 2014, although the downward pressure on the Chinese economy is still larger, we still see that the China's development is still at the stage of important period full of strategic opportunities, industrialization and urbanization continue to promote and it brings persistent demand of specialised pipes for energy, chemical industry, machinery and equipment, infrastructure etc. which induces the industry getting better gradually. However, the specialised pipe industry in China is still suffering from the impact of over-capacity and anti-dumping and anti-subsiding measures and it has to face difficulties when operating in the foreseeable future.

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. With support of Vallourec, the Group will remain selling products to CNOOC as well as making use of Total's market access certification, promoting product to new customers, such as Shell Oil's shale gas projects in Sichuan, Roc Oil's Bohai Sea and South China Sea offshore oil projects and so on.

With brand, reputation and product quality, the Group gain market reputation and has solid management for steady development. The anti-corruption storm against CNPC since 2013 will not have any adverse impact on the Company's operations. In other words, after the baptism by industry, it is more conducive to the healthy development of the oil and gas industry, and fair competition among the well-equipped enterprises, resulting in better sharing of industry growth.

Through overseas listing and strategic partnership with Vallourec, 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 2014, 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.

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, 21 March 2014

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.

BUSINESS REVIEW

In 2013, in response to the unfavourable situation including unstable external economic environment, industry over-capacity, prevailing trade protectionism, the Group was committed to technological transformation, optimization of product mix and customer base structure and control of operational risks; and the Group maintained business co-operation with world-class enterprises, consolidated the foundation for development, and strengthened the abilities for development upon seizure of the opportunities.

The Group's products are mainly oil well pipes, as well as pipes of various classes and specifications for oil and gas transmission, boilers, vessels, automobile axles which are applicable to industries like energy, chemical, mechanical manufacturing etc. During the year under review, the Group's realized total production volume was about 732,140 tonnes, representing a decrease of approximately 4.2% as compared to the corresponding period last year. The decrease was mainly due to the temporary cessation of production as a result of technological transformation of the Group's high-graded oil well pipe production lines and the Group's strengthening adjustment of the product mix structure and marketing structure in order to eliminate against market risks.

During the year under review, the Group concentrated on technological transformation on oil well pipe production lines, and hence enlarge products' maximum specification from $\Phi 273\text{mm}$ to $\Phi 340\text{mm}$ by updating certain production equipment and improving production technology. The transformation projects not only increase the production capacity of oil well pipe production line, but also improve the product mix structure.

During the year under review, in the domestic market, the Group continued to consolidate the relationships with the China's four major oil companies as well as the strategic partnerships with large-scaled boiler, shipbuilding factories, by obtaining the factory inspection certification recognized by China National Petroleum Corporation ("CNPC") in relation to non-API products and fluid seamless steel pipe products. In addition, the Group actively participated in the tendering activities organized by oil companies and successfully obtained the orders of more than 140,000 tons of API pipes from CNPC and 32,000 tons of finished pipes from China National Offshore Oil Corporation ("CNOOC") (including 4,000 tons VAM ® premium connection products). The Group becomes the largest supplier of oil well pipes of CNOOC.

During the year under review, in the overseas market, the Group has overcome the adverse factors including regional anti-dumping policies implemented by certain countries, and continued to develop and consolidate the emerging markets of Africa, South America, Southeast Asia, and the Middle East. The Group had successfully passed the market-entry qualification of Total Company in France, Thai National Oil Company, Kuwait National Petroleum Company, Egyptian General Petroleum Corporation, and became the qualified supplier of Singapore's Keppel Corporation (the world's largest offshore & marine Group). With the customer recognition and qualifications achieved, it symbols the Group's product quality being recognized and progressed to higher level.

The Group closely monitors changes in customer demand, and constantly develops new products to meet market demand. During the year under review, the Group's had detailed studies for the environment and technology for the exploitation of shale gas, and continued to carry out research and development of high-steel, anti-corrosive oil well pipes products applicable to exploration of shale gas or other non-conventional natural gas and applicable in various adverse geological environment. As regards offshore oil exploration, the Group focused on the development of OCTG 3Cr materials which can be used for production of TD80-3Cr, TD90-3Cr, TD110-3Cr series of anti-CO₂ + H₂S products, and successful supplied for CNOOC's deepwater oil wells projects. Meanwhile, the Group, taking advantage of sophisticated OCTG production technology, successfully develops numerous new products including

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

corrosion-resistant, low temperature, high alloy boilers pressure pipes like P1, 09MnNiD, P91, engineering machinery pipes like 40Cr, 4130, 4140, 35CrMoA, 14MnNb acidic thread pipes, and drain pipes, and accomplished renewal of manufacturing licences of special equipment and renewal of FPC licences, which initiates the API certification at Tongcheng's headquarters. In addition, the Group obtained a patent for the manufacturing method of couplings for high-precision special spiral casing pipes.

FINANCIAL REVIEW

Comprehensive income

The Group recorded a total revenue of approximately RMB3,309,690,000 in 2013, representing a decrease of approximately RMB650,858,000 or approximately 16.4% when compared to approximately RMB3,960,548,000 in 2012. The decrease in revenue was mainly attributable to the factors including the fierce market competition and the decrease in average selling price per tonne of product from approximately RMB4,990 in 2012 to approximately RMB4,475 in 2013, representing a decrease of approximately 10.3%, as a result of decrease in average pricing of raw material steel, as well as the decrease in sales volumes from 793,970 tonnes in 2012 to 739,620 tonnes in 2013, representing a decrease of approximately 6.8%.

Gross profit

During the year, the Group reported a gross profit of approximately RMB229,340,000, representing a decrease of approximately RMB8,504,000 or approximately 3.6% when compared to approximately RMB237,844,000 in 2012. The decrease in gross profit was mainly due to the decrease in sales volume of products as a result of the Company's active adjustment of product mix and customer bases structure in view of the fierce market competition.

Despite the adverse market environment, the Company continues moving steadily, constantly committed to improving product quality, together with increasing efforts to tap the potential for further improving the management of raw material procurement and production efficiency and increasing cost control efforts, so as to reduce the unit cost of product to a greater extent than the decline in selling price and improve profitability of the products. The Group recorded a gross profit margin for the year of approximately 6.9%, representing an improvement of 0.9 percentage points as compared with 6% in 2012.

Other income and gains

For the year ended 31 December 2013, the Group's other income and gains amounted to approximately RMB26,410,000, representing an increase of approximately RMB8,519,000 or 47.6% as compared to RMB17,891,000 for 2012. The increase in other income and gains was mainly attributable to the increase in gain from forward foreign exchange contracts on export receipts.

Selling and distribution expenses

For the year ended 31 December 2013, the selling and distribution expenses of the Group was about RMB138,791,000, representing a decrease of approximately RMB22,181,000 or approximately 13.8% when compared to approximately RMB160,972,000 in 2012. The decrease was mainly due to the decrease in the Group's sales volume of distribution products and the decrease in transportation expenses resulted from the policy of the change of business tax to value-added tax of small-sized tax payers.

Administrative expenses

For the year ended 31 December 2013, the Group's administrative expenses was approximately RMB37,376,000, representing a decrease of approximately RMB3,614,000 or approximately 8.8% when compared to approximately RMB40,990,000 in 2012. The decrease was mainly due to the fact that: (1) the Group continued to strengthen the cost management and to explore the potential to reduce various expenses; (2) the Group reduced the related variable expenses as a result of decrease in sales volume.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

Finance costs

The finance costs of the Group for the year ended 31 December 2013 amounted to approximately RMB12,077,000 (2012: approximately RMB3,758,000), representing an increase of approximately RMB8,319,000 or approximately 221.4% when compared with 2012. The increase was mainly due to the foreign exchange losses as a result of exchange rate fluctuation.

Net profit

The Group's net profit attributable to owners of the parent company for the year was approximately RMB49,285,000 (2012: approximately RMB35,086,000). When compared with 2012, net profit attributable to equity holders increased by approximately RMB14,199,000 or approximately 40.5%. The increase was mainly due to the fact that the average profitability of products was increased as a result of the research and development of new products and the optimizing adjustment of product mix and client bases structure; and the Group strengthens the cost control and financial risk management which improve the overall operating efficiency.

Inventories

The Group's inventories as at 31 December 2013 were approximately RMB568,945,000 (31 December 2012: approximately RMB502,559,000), representing an increase of approximately RMB66,386,000 or 13.2% as compared with 2012. The increase in inventories was mainly the strategic increase in the Group's raw materials reserved at comparative low market costs in response to the changing market condition of raw materials.

Net assets

The Group's net assets as at 31 December 2013 were approximately RMB2,329,359,000 (31 December 2012: approximately RMB2,311,820,000). The net assets per share as at 31 December 2013 were approximately RMB2.31 (31 December 2012: approximately RMB2.29).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2013, the Group's cash and cash equivalents amounted to approximately RMB481,103,000 (31 December 2012: approximately RMB42,572,000). As at 31 December 2013, the Group's interest-bearing loans and borrowings amounted to approximately RMB147,213,000 (31 December 2012: approximately RMB7,486,000). Bank loans of the Group bore interest at rates ranging from 2.15% to 6.44% per annum in 2013 (2012: ranging from 3.58% to 6.9% per annum). As at 31 December 2013, the bank loans of the Group were not secured or guaranteed. Generally, the Group's bank loans are mainly low-cost short-term trade finance loans denominated in US\$.

The Group's focus on sound financial management and, in the period when the industry competition was fierce and the demand was weak, reduced the bank loans and borrowing as much as possible, reduced the financial costs and implemented timely management over forward foreign exchange contracts against US\$ denominated receipts. Meanwhile, the Group continued to improve the usage efficiency of cash and has always been committed to building long-term relationship of mutual trust with major banks. This has provided sound support to the long-term financial position of the Group. The Group's total borrowings as at 31 December 2013 amounted to US\$24,124,000 (equivalent to approximately RMB147,213,000) and its debt to asset ratio was approximately 4.6% (31 December 2012: approximately 0.3%), 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 RMB112,409,000 for bank accepted drafts, letter of credit, forward foreign exchange contracts and bank loans as at 31 December 2013, none of the Group's property, plant and equipment and bank deposits were pledged for securing banking facilities.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

SIGNIFICANT INVESTMENTS

The Group's high-graded oil well pipe production line technological transformation project was put into operation in April 2013. Chuzhou staff dormitory project is still in the surveying process. On 22 March 2013, the Group's Board of Directors approved the resolution in relation to investment of approximately US\$3,000,000 prior to September 2014 for purchase of new testing equipments; and such investment was in studying stage in 2013.

To streamline the organization and save expenses, on 22 March 2013, the Group's Board of Directors approved the resolution in respect of de-registration of New Tiancheng International Limited, a wholly-owned subsidiary of the Company incorporated in Singapore. The de-registration procedures were completed during the year under review.

Save as above, the Group did not have other significant investments during the year under review.

MAJOR ACQUISITION AND DISPOSAL

The Group did not make any major acquisition or disposal during the year ended 31 December 2013.

CONTINGENT LIABILITIES

As at 31 December 2013, the Group did not have any significant contingent liabilities.

FUTURE PROSPECT

In 2014, the economies in developed countries have significant recovery while the economies in developing countries grow slowly and some countries still have the rapid slowdown in their economies. However, the economy in China has a steady growth and the people are confident in sustainable, healthy and stable economic development proposed by the new government.

Following the gradual release of production capacity in specialized pipe industry in the competitive environment during the past few years, it is obvious that the growth in production capacity slowed down, and the merger and reorganization of enterprises enhanced industry concentration, which is also beneficial to improving the adverse environment and competition among enterprises. On the other hand, the China's economic growth, development of urbanization will boost demand for specialized pipe, especially the demand growth of energy in China give rise to the legislation and active involvement of the government in shale gas and other unconventional gas development, which provides valuable development opportunities for OCTG industry serving equipment and support services.

In 2014, the Group will seize the opportunity to continue the Company's established operating principles to meet the market demand. The Group will carry out the ongoing technological transformation of production and testing equipment, explore the potential of high-steel oil well pipe production line, focus on the research and development of a series of new products, and strive to achieve the proportion of sales revenue of new products to total sales revenue as 10%. As regards oil casing, the Group plans to develop TD140 high strength casing, anti-H₂S + CO₂ corrosion specialized pipes like 2Cr-P110 and economical model 2Cr-L80. As regards the boiler pressure pipes, the Group plans to develop interior spiral cold-drawing pipes (cold-drawing machines reformed). As regards the engineering and mechanical pipes, the Group plans to develop high-steel seamless pipes for jib crane and thick-walled mechanical pipes. As regards the threaded pipes, the Group plans to develop X60 grade or above H₂S corrosion resistant, high strength marine pipes and marine threaded pipes.

In order to enhance the Group's overall research and technical level, in 2014, we will initiate the construction of provincial enterprise technology center. Through the establishment of such technology centers, the Group enhances market responsiveness, improves customer service levels so that it guide the Company to develop the advanced production technology and the applied advanced technology for the Group's sustainable and stable development of the specialized pipe business.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

In 2014, the Group will continue to actively develop and maintain domestic and international markets, expand product applications, consolidate and strengthen the strategic partnership with the oil companies to increase the supply of refined oil well pipes, and to obtain market-entry qualification from additional well-known international oil companies in relation to oil well pipes applicable to unconventional gas exploration, and focus on proceeding the qualification examination of Shell, once approved, the Group and Vallourec will become a qualified supplier of Shell Oil in Sichuan shale gas projects. This project offers the Group opportunities to supply a large number of high-end specialized products, enhance the company's financial performance and brand awareness and reputation.

With the strategic cooperation with VALLOUREC, the Group, making use of its overseas sales network resources, explore overseas oil well pipe market to ensure continued growth in sales of overseas markets, to consolidate and strengthen the Group's brand influence. Meanwhile, the Group is actively studying the high end equipments for exploitation of natural gas, coal bed methane mining to meet the special needs of customers towards the Group's products in the domestic and abroad markets. Meanwhile, the Group is actively studying the new models and ideas for future operational development with strategic co-operative partnerships which enables the Group to develop in a stable and healthy manner.

FOREIGN EXCHANGE RISK

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

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

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

PRODUCT INFORMATION

1. Self-produced specialized pipes

For the year ended 31 December 2013, the sales volume of the Group's self-produced specialized pipes was approximately 732,140 tonnes (2012: approximately 785,070 tonnes), representing a year-on-year decrease of approximately 6.7% when compared to 2012.

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.

MANAGEMENT DISCUSSION AND ANALYSIS (CONTINUED)

For the year ended 31 December 2013, the sales volume of the Group's sourcing and distribution of specialized pipes was approximately 7,480 tonnes (2012: approximately 8,900 tonnes). When compared to 2012, the sales volume of the sourcing and distribution of specialized pipes declined by approximately 16.0%.

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

HUMAN RESOURCES

The Board believes that the quality of its employees is one of the most important factors for its development and growth and the enhancement of its profitability. As at 31 December 2013, the Company had 1,810 employees (as at 31 December 2012: 1,990 employees). The remuneration package for the Group's employees includes salaries, incentives (such as bonus based on work performance) and allowances. The Group also provides social security and benefits to its employees. Adequate provisions have been made in the accounts based on the provisions of the PRC government.

The Group is committed to maintaining good corporate culture. We are people-oriented, and focus on enhancing team cohesion and motivating staff morale incentives through establishment of a remuneration mechanism with both external competitiveness and internal equity.



CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

It is our longstanding belief that a high standard of corporate governance is the key 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 2013, 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)

Mr. ZHANG Hu Ming (Deputy Chairman and General Manager)

Ms. FU Jun

Non-executive Directors:

Mr. LIU Peng

Mr. Bruno Saintes

Independent Non-executive Directors:

Mr. WU Chang Qi

Mr. ZHAO Bin

Mr. Wang Bo

In full compliance with Rules 3.10(1) and (2) of the Listing Rules, during the year ended 31 December 2013, 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 2013 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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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 2013, 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. Bruno Saintes	4/4	100%
Mr. WU Chang Qi	4/4	100%
Mr. ZHAO Bin	4/4	100%
Mr. Wang Bo	4/4	100%

CORPORATE GOVERNANCE REPORT (CONTINUED)

Chairman and Chief Executive Officer

For the year ended 31 December 2013, 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 2013.

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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Remuneration Committee

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 Share 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.

CORPORATE GOVERNANCE REPORT (CONTINUED)

Nomination Committee

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;

CORPORATE GOVERNANCE REPORT (CONTINUED)

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 2013, 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 2013 Annual Report.

AUDITORS' REMUNERATION

During the Year under Review, the Group paid an aggregate of approximately RMB950,000 (2012: RMB935,000) 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 2013, Mr. Shum has taken no less than 15 hours of relevant professional trainings to update his skills and knowledge.

CORPORATE GOVERNANCE REPORT (CONTINUED)

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.tiandapipe.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 2013.

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 2013 are set out in the income statement and the accompanying Notes to the financial statements on page 36 to page 92 of this report.

The board has recommended the payment of a final dividend of RMB0.04 per share (inclusive of tax) and a special dividend of RMB0.12 per share (inclusive of tax) in respect of the year ended 31 December 2013. 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 and special dividends are expected to be paid on or around 30 June 2014 subject to the approval at the annual general meeting on 23 May 2014.

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 23 May 2014, the Register of Members of the Company will be closed from 23 April 2014 to 23 May 2014, 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 22 April 2014.

For the purpose of ascertaining shareholders' entitlement to the proposed final and special dividend, the Register of Members of the Company will be closed from 29 May 2014 to 3 June 2014, 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 28 May 2014.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the year of 2013 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 2013, the Group's distributable reserve after such comparison and before deducting the proposed dividend for 2013 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 RMB714,162,000 (31 December 2012: accumulated profits prepared in accordance with PRC GAAP of approximately RMB701,042,000).

REPORT OF THE DIRECTORS (CONTINUED)

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2013, 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 2013, purchases from the Group's largest supplier, Chengde Jian Long Special Steel Co., Ltd. and five largest suppliers accounted for approximately 24.33% and 50.90% 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 64. 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 45. 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 45. 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., Alparma AHD, Shanghai GE Breakers Co., Ltd., Lafarge (China) Beijing 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.

REPORT OF THE DIRECTORS (CONTINUED)

Non-executive Directors

Mr. Liu Peng, aged 37. 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 53. 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. and since August 2013 as managing delegate of Vallourec China, Ltd. Mr. Bruno Saintes obtained a MS Degree in automatic and controlling from ENSM (ecole Centrale de Nantes) in 1984 and Master of Business Administration from IAE 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 Freight 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 48. 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 78. 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.

REPORT OF THE DIRECTORS (CONTINUED)

Mr. Wang, aged 48. 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 48. 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 Horner, aged 50. 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 39. 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 economics 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 45. He is the general manager of the Group. Details please refer to the section of the Directors' Biography details.

Mr. Yong Jin Gui, aged 39. 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 45. 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.

REPORT OF THE DIRECTORS (CONTINUED)

Mr. Wang Yi, aged 42. 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 40. 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 42. 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 34. 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.

REPORT OF THE DIRECTORS (CONTINUED)

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

As at 31 December 2013, 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%
	29,293,000(L)	Interest in controlled corporation	(4)	2.91%
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

REPORT OF THE DIRECTORS (CONTINUED)

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%
Tianfa International	Ye Shi Qu	US\$6,000,000	Interest in controlled corporation	(4)	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:

- 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.
- 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.
- Vallourec 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 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.
- Ye Shi Qu holds 85.14% of equity interest in Tianda Holding which holds 100% equity interest in Tianda Investment. Tianda Investment holds 87% equity interest in 安徽天大企業(集團)塑料複合製品有限公司 which further holds equity interest in Tianfa International. Tianfa International holds 29,293,000 H Shares. Accordingly, Ye Shi Qu is deemed to be interested in these additional 29,293,000 H Shares 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 2013.

REPORT OF THE DIRECTORS (CONTINUED)

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 2013, 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 2013, 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 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

REPORT OF THE DIRECTORS (CONTINUED)

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%
	29,293,000 (L)	Interest in controlled corporation	(5)	5.89%	2.91%
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%
	29,293,000 (L)	Interest in controlled corporation	(5)	5.89%	2.91%
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 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%
Templeton Asset Management, Ltd.	74,662,493 (L)	Investment Manager		15.00%	7.41%
JPMorgan Chase & Co.	4,455,000 (L)	Beneficial owner		7.09%	3.50%
	30,834,841 (L)	Custodian			
	<u>35,289,841 (L)</u>	corporation/ approval lending agent			

(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 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.

REPORT OF THE DIRECTORS (CONTINUED)

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 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 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. Ye Shi Qu holds 85.14% of equity interest in Tianda Holding which holds 100% equity interest in Tianda Investment. Tianda Investment holds 87% equity interest in 安徽天大企業(集團)塑料複合製品有限公司 which further holds equity interest in Tianfa International. Tianfa International holds 29,293,000 H Shares. Accordingly, Ye Shi Qu is deemed to be interested in these additional 29,293,000 H Shares in the Company.

Save as disclosed above, as at 31 December 2013, 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 2013 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, Vallourec Oil & Gas (China) 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 ended 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.

REPORT OF THE DIRECTORS (CONTINUED)

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 2013, 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 Note 39 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 2013.

AUDITORS

The financial statements for the year ended 31 December 2013 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 2014.

By Order of the Board

Ye Shi Qu

Chairman

Anhui, the PRC, 21 March 2014

REPORT OF THE SUPERVISORS

In 2013, 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 2013. On behalf of the Supervisory Committee, I hereby present our report for 2013:

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 2013, 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 2013 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.

REPORT OF THE SUPERVISORS (CONTINUED)

3. CONNECTED TRANSACTIONS

The Supervisory Committee is of the view that the connected transactions of the Group for 2013 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

21 March 2014

INDEPENDENT AUDITORS' REPORT

To the shareholders of Anhui Tianda Oil Pipe Company Limited

(A joint stock company established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Anhui Tianda Oil Pipe Company Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 36 to 92, which comprise the consolidated and company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other 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.

INDEPENDENT AUDITORS' REPORT (CONTINUED)

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 2013, 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

21 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
REVENUE	5	3,309,690	3,960,548
Cost of sales		(3,080,350)	(3,722,704)
Gross profit		229,340	237,844
Other income and gains	6	26,410	17,891
Selling and distribution expenses		(138,791)	(160,972)
Administrative expenses		(37,376)	(40,990)
Other expenses	6	(1,144)	(2,278)
Finance costs	7	(12,077)	(3,758)
PROFIT BEFORE TAX	8	66,362	47,737
Income tax expense	11	(17,077)	(12,651)
PROFIT FOR THE YEAR		49,285	35,086
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be classified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Changes in fair value		–	680
Reclassification adjustments for gains included in profit or loss		(680)	–
Income tax effect		170	(170)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		(510)	510
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		48,775	35,596
Profit attributable to:			
Owners of the parent		49,285	35,086
Total comprehensive income attributable to:			
Owners of the parent		48,775	35,596
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT			
Basic and diluted (RMB cents)	14	4.89	3.48

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	1,293,277	1,396,253
Prepaid land lease payments	17	26,011	26,664
Deferred tax assets	11	–	1,706
Total non-current assets		1,319,288	1,424,623
CURRENT ASSETS			
Inventories	19	568,945	502,559
Trade and notes receivables	20	429,288	521,905
Prepayments, deposits and other receivables	21	361,352	180,460
Tax recoverable	11	–	5,419
Derivative financial instruments	22	14,414	2,621
Held-to-maturity investments	23	12,000	–
Available-for-sale investments	24	–	8,680
Cash and cash equivalents	25	481,103	42,572
Total current assets		1,867,102	1,264,216
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	26	147,213	7,486
Trade and notes payables	27	496,328	103,609
Tax payable	11	7,597	–
Other payables and accruals	28	205,633	265,924
Total current liabilities		856,771	377,019
NET CURRENT ASSETS		1,010,331	887,197
TOTAL ASSETS LESS CURRENT LIABILITIES		2,329,619	2,311,820

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	11	260	—
Total non-current liabilities		260	—
NET ASSETS			
		2,329,359	2,311,820
EQUITY ATTRIBUTABLE TO OWNERS OF THE PARENT			
Issued capital	29	503,813	503,813
Reserves	30	1,664,326	1,776,771
Proposed final dividend	12	161,220	31,236
TOTAL EQUITY		2,329,359	2,311,820

Ye Shi Qu
Director

Zhang Hu Ming
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2013

	Attributable to owners of the parent						Total RMB'000
	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)	
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 and 1 January 2013	503,813	1,002,166	510	104,289	669,806	31,236	2,311,820
Profit for the year	–	–	–	–	49,285	–	49,285
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)	–	49,285	–	48,775
Appropriation of statutory surplus reserve	–	–	–	4,929	(4,929)	–	–
Final 2012 dividend declared	–	–	–	–	–	(31,236)	(31,236)
Proposed final 2013 dividend	–	–	–	–	(161,220)	161,220	–
At 31 December 2013	503,813	1,002,166	–	109,218	552,942	161,220	2,329,359

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		66,362	47,737
Adjustments for:			
Depreciation of items of property, plant and equipment	8	159,005	150,142
Amortisation of items of prepaid land lease payments	8	653	653
Impairment reversal of trade receivables	8	–	(998)
Impairment of prepayments and other receivables	8	–	19
Write-down of inventories to net realisable value	8	3,400	3,200
Finance costs		959	2,046
Interest income	6	(2,698)	(2,701)
Investment income from bank financial products	6	(6,100)	–
Investment income from an entrusted loan	6	(680)	(340)
Loss on disposal of items of property, plant and equipment		121	–
Fair value gains, net	6	(11,793)	(3,121)
		209,229	196,637
Decrease/(increase) in inventories		(69,786)	128,350
Decrease/(increase) in trade and notes receivables		92,617	(101,130)
Decrease/(increase) in prepayments, deposits and other receivables		(179,719)	114,118
Increase/(decrease) in trade and notes payables		392,719	(8,611)
Decrease in other payables and accruals		(18,456)	(16,587)
		426,604	312,777
Cash generated from operations		426,604	312,777
Income tax paid	11	(1,925)	(30,876)
		424,679	281,901
Net cash flows from operating activities		424,679	281,901

CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

Year ended 31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
Net cash flows from operating activities		424,679	281,901
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		1,525	3,114
Purchases of items of property, plant and equipment		(98,601)	(102,293)
Proceeds from disposal of items of property, plant and equipment		514	–
Investments in an entrusted loan		–	(8,000)
Investments in bank financial products		(1,907,720)	(146,233)
Cash collected from investments in an entrusted loan		8,680	–
Cash collected from investments in bank financial products		1,901,820	161,233
Net cash flows used in investing activities		(93,782)	(92,179)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from interest-bearing loans and borrowings		223,829	87,350
Repayment of interest-bearing loans and borrowings		(83,507)	(324,617)
Interest paid		(808)	(4,507)
Dividends paid		(31,236)	(31,236)
Net cash flows from/(used in) financing activities		108,278	(273,010)
Net increase/(decrease) in cash and cash equivalents		439,175	(83,288)
Cash and cash equivalents at beginning of year		42,572	125,276
Effect of foreign exchange rate changes, net		(644)	584
Cash and cash equivalents at end of year		481,103	42,572
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	25	481,103	42,572
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows		481,103	42,572

STATEMENT OF FINANCIAL POSITION

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	1,293,277	1,396,253
Prepaid land lease payments	17	26,011	26,664
Deferred tax assets	11	–	1,706
Investments in subsidiaries	18	–	3,551
Total non-current assets		1,319,288	1,428,174
CURRENT ASSETS			
Inventories	19	568,945	502,559
Trade and notes receivables	20	429,288	521,905
Prepayments, deposits and other receivables	21	361,352	180,460
Tax recoverable	11	–	5,419
Derivative financial instruments	22	14,414	2,621
Held-to-maturity investments	23	12,000	–
Available-for-sale investments	24	–	8,680
Cash and cash equivalents	25	481,103	39,248
Total current assets		1,867,102	1,260,892
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	26	147,213	7,486
Trade and notes payables	27	496,328	103,609
Tax payable	11	7,597	–
Other payables and accruals	28	205,633	265,924
Total current liabilities		856,771	377,019
NET CURRENT ASSETS		1,010,331	883,873
TOTAL ASSETS LESS CURRENT LIABILITIES		2,329,619	2,312,047

STATEMENT OF FINANCIAL POSITION (CONTINUED)

31 December 2013

	Notes	2013 RMB'000	2012 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	11	260	–
Total non-current liabilities		260	–
NET ASSETS		2,329,359	2,312,047
EQUITY			
Issued capital	29	503,813	503,813
Reserves	30	1,664,326	1,776,998
Proposed final dividend	12	161,220	31,236
TOTAL EQUITY		2,329,359	2,312,047

Ye Shi Qu
Director

Zhang Hu Ming
Director

NOTES TO FINANCIAL STATEMENTS

31 December 2013

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 those 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 2013, 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

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 2013. 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 on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

IFRS 1 Amendments	Amendments to IFRS 1 <i>First-time Adoption of International Financial Reporting Standards – Government Loans</i>
IFRS 7 Amendments	Amendments to IFRS 7 <i>Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities</i>
IFRS 10	<i>Consolidated Financial Statements</i>
IFRS 11	<i>Joint Arrangements</i>
IFRS 12	<i>Disclosure of Interests in Other Entities</i>
IFRS 10, IFRS 11 and IFRS 12 Amendments	Amendments to IFRS 10, IFRS 11 and IFRS 12 – <i>Transition Guidance</i>
IFRS 13	<i>Fair Value Measurement</i>
IAS 1 Amendments	Amendments to IAS 1 <i>Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income</i>
IAS 19 (2011)	<i>Employee Benefits</i>
IAS 27 (2011)	<i>Separate Financial Statements</i>
IAS 28 (2011)	<i>Investments in Associates and Joint Ventures</i>
IFRIC Interpretation 20	<i>Stripping Costs in the Production Phase of a Surface Mine</i>
Annual Improvements 2009-2011 Cycle	Amendments to a number of IFRSs issued in May 2012

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

Other than as further explained below regarding the impact of IFRS 13 and amendments to IAS 1, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

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

- (a) 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 rather provides guidance on how fair value should be applied where its use is already required or permitted under other IFRSs. IFRS 13 is applied prospectively and the adoption has had no material impact on the Group's fair value measurements. As a result of the guidance in IFRS 13, the policies for measuring fair value have been amended. Additional disclosures required by IFRS 13 for the fair value measurements of financial instruments are included in notes 37 to the financial statements.
- (b) The IAS 1 Amendments change the grouping of items presented in other comprehensive income ("OCI"). Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) are presented separately from items which will never be reclassified (for example, the revaluation of land and buildings). The amendments have affected the presentation only and have had no impact on the financial position or performance of the Group. The consolidated statement of comprehensive income has been restated to reflect the changes.

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 9	<i>Financial Instruments</i> ⁴
IFRS 14	<i>Regulatory Deferral Accounts</i> ³
IFRS 9, IFRS 7 and IAS 39 Amendments	<i>Hedge Accounting and amendments to IFRS 9, IFRS 7 and IAS 39</i> ⁴
IFRS 10, IFRS 12 and IAS 27 (2011) Amendments	<i>Amendments to IFRS 10, IFRS 12 and IAS 27 (2011) – Investment Entities</i> ¹
IAS 19 Amendments	<i>Amendments to IAS 19 Employee Benefits – Defined Benefits Plans: Employee Contributions</i> ²
IAS 32 Amendments	<i>Amendments to IAS 32 Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities</i> ¹
IAS 36 Amendments	<i>Amendments to IAS 36 Impairment of Assets: – Recoverable Amount Disclosures for Non-Financial Assets</i> ¹
IAS 39 Amendments	<i>Amendments to IAS 39 Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting</i> ¹
IFRIC Interpretation 21	<i>Levies</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2014

² Effective for annual periods beginning on or after 1 July 2014

³ Effective for annual periods beginning on or after 1 January 2016

⁴ No mandatory effective date yet determined but is available for adoption

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

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

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

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.

The IAS 36 Amendments remove the unintended disclosure requirement made by IFRS 13 on the recoverable amount of a cash-generating unit which is not impaired. In addition, the amendments require the disclosure of the recoverable amounts for the assets or cash-generating units for which an impairment loss has been recognised or reversed during the reporting period, and expand the disclosure requirements regarding the fair value measurement for these assets or units if their recoverable amounts are based on fair value less costs of disposal. The amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied. The amendments have had no impact on the financial position or performance of the Group.

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. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2014.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**Subsidiaries**

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

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.

Fair value measurement

The Group measures its derivative financial instruments and available-for-sale investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
- Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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 of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

An assessment is made at the end of each reporting period as to whether there is 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**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).

Property, plant and equipment and depreciation

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Property, plant and equipment and depreciation (continued)**

Depreciation of a heater kiln included in plant and machinery with a gross cost of RMB19,600,000 is calculated on a double-declining-balance basis by reference to its expected physical wear and tear in an overloaded operation. Depreciation of the 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

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 are classified, at initial recognition, 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. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

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, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Financial assets designated upon initial recognition as 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.

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 as 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 either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

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.

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 as 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Investments and other financial assets (continued)***Available-for-sale financial investments (continued)*

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 gains or losses. 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, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

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 primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

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 Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. 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.

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. An impairment exists if one or more events that occurred after the initial recognition of the asset have 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 whether impairment exists individually 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.

The amount of any impairment loss identified 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).

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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Impairment of financial assets (continued)***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. "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 subsequent 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.

Financial liabilities*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, 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.

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 and interest-bearing loans and borrowings.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial liabilities (continued)

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 repurchasing 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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Derivative financial instruments**

The Group uses derivative financial instruments, such as forward currency contracts, to hedge its foreign currency risk. Those 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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**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.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

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, the difference will impact the carrying values of the trade receivables and prepayments, deposits and other receivables and impairment expenses in the period in which the 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, the difference will impact the carrying values of inventories and write-down of inventories in the period in which the estimates have been changed.

Deferred tax assets

Deferred tax assets are recognised for all temporary undeductible provisions to the extent that it is probable that taxable profit will be available against which the temporary undeductible provision can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to temporary undeductible provisions at 31 December 2013 was Nil (2012: RMB1,706,000). Further details are contained in note 11 to the financial statements.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

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*

	2013 RMB'000	2012 RMB'000
Mainland China	2,660,757	3,159,030
Other countries	648,933	801,518
	3,309,690	3,960,548

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

(b) Non-current assets

	2013 RMB'000	2012 RMB'000
Mainland China	1,319,288	1,422,917
Other countries	—	—
	1,319,288	1,422,917

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 RMB491,795,000 was derived from sales to customer A in 2013 (2012: RMB566,436,000), including sales to a group of entities which are known to be under common control with those customers.

5. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, net of value-added tax, after allowances for returns, trade discounts and various types of government surcharges where applicable during the year.

	2013 RMB'000	2012 RMB'000
Sale of goods	3,315,116	3,965,697
Less: Government surcharges	(5,426)	(5,149)
Revenue	3,309,690	3,960,548

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

6. OTHER INCOME AND GAINS AND OTHER EXPENSES

	2013 RMB'000	2012 RMB'000
Other income and gains		
Government grants	559	8,023
Fair value gains, net	11,793	3,121
Bank interest income	2,698	2,701
Foreign exchange gain	–	2,511
Investment income from foreign exchange forward contracts not qualifying as hedges	4,376	238
Investment income from bank financial products	6,100	–
Investment income from an entrusted loan	680	340
Others	204	957
	26,410	17,891

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.

	2013 RMB'000	2012 RMB'000
Other expenses		
Bank charges	1,006	1,475
Others	138	803
	1,144	2,278

7. FINANCE COSTS

	2013 RMB'000	2012 RMB'000
Bank loan interest	910	3,758
Foreign exchange losses	11,167	–
	12,077	3,758

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

8. PROFIT BEFORE TAX

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

	Notes	2013 RMB'000	2012 RMB'000
Cost of inventories sold		3,080,350	3,722,704
Depreciation	16	159,005	150,142
Amortisation of prepaid land lease payments	17	653	653
Reversal of impairment of trade receivables	20	–	(998)
Impairment of prepayments and other receivables	21	–	19
Write-down of inventories to net realisable value		3,400	3,200
Research costs		51	51
Auditors' remuneration		950	935
Staff costs (including directors', chief executive's and supervisors' remuneration as set out in note 9):			
– Salaries and other staff costs		96,265	96,475
– Retirement benefit contributions		15,016	13,623
Foreign exchange difference, net		11,167	(2,511)

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 2013 and 2012, disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

	2013 RMB'000	2012 RMB'000
Fees	100	67
Other emoluments:		
– Salaries, allowances and benefits in kind	446	430
– Performance-related bonuses	711	783
– Retirement benefit contributions	28	29
	1,185	1,242
	1,285	1,309

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

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:

	2013 RMB'000	2012 RMB'000
Wu Chang Qi	—	—
Zhao Bin	50	50
Wang Bo	50	17
Yan Lan	—	—
	100	67

There were no other emoluments payable to the independent non-executive directors during the year (2012: Nil). Ms. Yan Lan resigned as the director of the Company in March 2012.

(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
2013				
Directors:				
Ye Shi Qu	180	299	1	480
Zhang Hu Ming	150	329	9	488
Liu Peng	—	—	—	—
Fu Jun Iris	—	—	—	—
Delhon-Bugard Herve	—	—	—	—
Bruno Saintes	—	—	—	—
	330	628	10	968
Supervisors:				
Yang Quan Fu	50	9	9	68
Geng Wei Long	66	74	9	149
Didier Maurice Francis Hornet	—	—	—	—
	116	83	18	217

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

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
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 Horner	—	—	—	—
	100	82	18	200

Mr. Delhon-Bugard Herve resigned as the director of the Company in March 2012.

There was no arrangement under which a director or supervisor waived or agreed to waive any remuneration during the year ended 31 December 2013 (2012: Nil).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2012: two) directors and supervisors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining three (2012: three) non-director or non-supervisor, highest paid employees for the year are as follows:

	2013 RMB'000	2012 RMB'000
Salaries, allowances and benefits in kind	127	99
Performance-related bonuses	987	1,060
Retirement benefit contributions	18	17
	1,132	1,176

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

	Number of employees	
	2013	2012
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 2013 (2012: 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 2013 and 2012 are as follows:

	Group	
	2013 RMB'000	2012 RMB'000
Current – Mainland China		
Charge for the year	14,941	12,250
Current – Other areas		
Charge for the year	–	–
Deferred:		
Relating to origination and reversal of temporary differences	2,136	401
Total tax charge for the year	17,077	12,651

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

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	
	2013	2012
	RMB'000	RMB'000
Profit before income tax	66,362	47,737
Tax at the applicable tax rate of 25%	16,590	11,934
Expenses not deductible for tax	487	717
Tax charge at the Group's effective rate	17,077	12,651
Effective tax rate	25.73%	26.50%

The movements in income tax payable/(recoverable) during the years ended 31 December 2013 and 2012 are as follows:

	Group and Company	
	2013	2012
	RMB'000	RMB'000
At beginning of year	(5,419)	13,207
Provision for the year	14,941	12,250
Payment during the year	(1,925)	(30,876)
At end of year	7,597	(5,419)

The movements in deferred tax assets arising from deductible temporary differences between the tax bases of trade receivables, inventories and their carrying amounts for financial reporting purposes during the years ended 31 December 2013 and 2012 are as follows:

	Group and Company	
	2013	2012
	RMB'000	RMB'000
At beginning of year	2,531	3,152
Deferred tax credited/(charged) to profit or loss during the year	812	(621)
Gross deferred tax assets at end of year	3,343	2,531

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

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 2013 and 2012 are as follows:

	Group and Company	
	2013 RMB'000	2012 RMB'000
At beginning of year	825	875
Deferred tax charged/(credited) to profit or loss during the year	2,948	(220)
Deferred tax charged/(credited) to equity during the year	(170)	170
Gross deferred tax liabilities at end of year	3,603	825

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:

	Group and Company	
	2013 RMB'000	2012 RMB'000
Deferred tax assets	3,343	2,531
Deferred tax liabilities	(3,603)	(825)
Deferred tax assets/(liabilities), net	(260)	1,706

12. DIVIDENDS

	2013 RMB'000	2012 RMB'000
Proposed final dividend – RMB4.0 cents (2012: RMB3.1 cents) per ordinary share	40,305	31,236
Proposed special dividend – RMB12.0 cents (2012: Nil) per ordinary share	120,915	–
	161,220	31,236

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

13. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to the owners of the parent for the year ended 31 December 2013 includes a profit of RMB49,259,000 (2012: RMB35,112,000) 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 (2012: 1,007,626,000).

The Group had no potentially dilutive ordinary shares in issue during the two years of 2013 and 2012.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

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 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 and 1 January 2013	399,946	1,464,260	1,808	42,415	47,172	1,955,601
Additions	3,791	2,668	2,084	992	47,129	56,664
Transferred from construction in progress	2,684	85,814	60	123	(88,681)	–
Disposals	–	–	(1,447)	–	–	(1,447)
As at 31 December 2013	406,421	1,552,742	2,505	43,530	5,620	2,010,818
Accumulated depreciation:						
As at 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 and 1 January 2013	39,971	500,499	951	17,927	–	559,348
Charge for the year	10,969	144,050	228	3,758	–	159,005
Disposals	–	–	(812)	–	–	(812)
As at 31 December 2013	50,940	644,549	367	21,685	–	717,541
Net book value:						
As at 31 December 2013	355,481	908,193	2,138	21,845	5,620	1,293,277
As at 31 December 2012	359,975	963,761	857	24,488	47,172	1,396,253

All buildings of the Group are located in Mainland China.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

17. PREPAID LAND LEASE PAYMENTS

	Group and Company	
	2013 RMB'000	2012 RMB'000
Cost:		
At beginning and end of year	31,573	31,573
Accumulated amortisation:		
At beginning of year	4,909	4,256
Charge for the year	653	653
At end of year	5,562	4,909
Net book value at end of year	26,011	26,664

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

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2013 RMB'000	2012 RMB'000
Unlisted shares, at cost	–	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		Principal Activity
			Direct	Indirect	
New Tiancheng International Company Pte. Ltd. (新天成國際有限公司)	Singapore	US\$520,000	100	–	Investment holding
Hongkong Tianda Oil Pipe Company limited (香港天大石油管材股份 有限公司)	Hong Kong	–	100	–	Investment holding

The Company withdrew its investment in New Tiancheng International Pte. Ltd. ("New Tiancheng") during this year. As at 31 December 2013, New Tiancheng has completed the liquidation.

As at 31 December 2013, there was no amount due from/to the subsidiary (31 December 2012: Nil).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

19. INVENTORIES

	Group and Company	
	2013	2012
	RMB'000	RMB'000
Raw materials	278,174	234,598
Work in progress	19,394	15,750
Finished goods and merchandises	271,377	252,211
	568,945	502,559

Included in inventories as at 31 December 2013 were costs of certain inventories of RMB148,348,000 (31 December 2012: RMB57,073,000), which were carried at a net realisable value.

20. TRADE AND NOTES RECEIVABLES

	Group and Company	
	2013	2012
	RMB'000	RMB'000
Notes receivable from domestic third parties	51,410	211,201
Trade receivables from overseas customers	125,588	64,585
Trade receivables from domestic customers	252,290	246,250
	377,878	310,835
Impairment	–	(131)
	429,288	521,905

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

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	
	2013 RMB'000	2012 RMB'000
Outstanding balances with ages:		
Within one year	377,878	310,704
Between one and two years	–	131
	377,878	310,835

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

	Group and Company	
	2013 RMB'000	2012 RMB'000
At beginning of year	131	1,832
Impairment losses recognised	–	131
Amount written off as uncollectible	(131)	(703)
Impairment losses reversed	–	(1,129)
At end of year	–	131

No provision was provided for trade receivables as at 31 December 2013. Included in the above provision for impairment of trade receivables as at 31 December 2012 is a provision for an individually impaired trade receivable of RMB131,000 with a carrying amount before provision of RMB131,000. The individually impaired trade receivable as at 31 December 2012 related to a customer that was in default in principal payment and no receivable was expected to be recovered.

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

	Group and Company	
	2013 RMB'000	2012 RMB'000
Neither past due nor impaired	377,878	310,704

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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

20. TRADE AND NOTES RECEIVABLES (CONTINUED)

Included in the Group's trade receivables were amounts due from VMOG China of approximately RMB66,810,000 (31 December 2012: approximately RMB66,250,000) and from Vallourec Oil & Gas France of approximately RMB65,977,000 (31 December 2012: Nil), which were payable on a credit term of 45 days.

As at 31 December 2013, the Group had no pledged trade receivables (31 December 2012: Nil).

21. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group and Company	
	2013	2012
	RMB'000	RMB'000
Prepayments	187,542	103,160
Deposits and other receivables	172,615	77,297
Bank interest receivables	1,195	22
	361,352	180,479
Impairment	–	(19)
	361,352	180,460

The Group wrote off certain other receivables of approximately RMB19,000 during the year ended 31 December 2013 (2012: Nil).

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 RMB112,409,000 pledged to the banks to secure the bank accepted drafts (31 December 2012: RMB2,637,000); and (ii) the net input value-added tax ("VAT") of RMB54,017,000 (31 December 2012: RMB72,157,000) arising from the purchase of items of property, plant and equipment after deducting the output VAT for domestic sales.

22. DERIVATIVE FINANCIAL INSTRUMENTS

	Group and Company	
	2013	
	Assets	Liabilities
	RMB'000	RMB'000
Foreign exchange forward contracts	14,414	–
Portion classified as non-current	–	–
Current portion	14,414	–

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

22. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

	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	–

The above foreign exchange forward contracts did not qualify for hedge accounting, and the changes in the net fair value gains of RMB14,414,000 were credited to profit or loss during the year ended 31 December 2013 (2012: Fair value gains of RMB2,621,000).

23. HELD-TO-MATURITY INVESTMENTS

	Group and Company	
	2013	2012
	RMB'000	RMB'000
Investment in bank financial products, at amortised cost	12,000	–

The above investment in bank financial products bore interest at a fixed interest rate of 5.5% and was matured on 10 January 2014.

24. AVAILABLE-FOR-SALE INVESTMENTS

	Group and Company	
	2013	2012
	RMB'000	RMB'000
Investment in an entrusted fund, at fair value	–	8,680

The above investment in an entrusted fund was designated as an available-for-sale investment and matured on 13 June 2013 with an estimated interest rate of 8.5%.

During the year, the Group redeemed the investment in whole and the gross gain in respect of the investments recognised in other comprehensive income amounted to RMB680,000 during the year ended 31 December 2012 was reclassified from other comprehensive income to profit or loss during the year ended 31 December 2013.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		Group	
	Note	2013 RMB'000	2012 RMB'000
Cash and bank balances		174,003	42,572
Short-term deposits with maturity of three months or less		307,100	–
Short-term deposits with maturity of over three months		112,409	2,637
		593,512	45,209
Less: pledged time deposits for bank accepted drafts	21	(112,409)	(2,637)
Cash and cash equivalents		481,103	42,572

		Company	
	Note	2013 RMB'000	2012 RMB'000
Cash and bank balances		174,003	39,248
Short-term deposits with maturity of three months or less		307,100	–
Short-term deposits with maturity of over three months		112,409	2,637
		593,512	41,885
Less: pledged time deposits for bank accepted drafts	21	(112,409)	(2,637)
Cash and cash equivalents		481,103	39,248

At the end of the reporting period, the cash and bank balances of the Group denominated in RMB amounted to RMB458,312,000 (31 December 2012: RMB4,462,000). 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 one day and six months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term deposit rates. The bank balances and deposits are deposited with creditworthy banks with no recent history of default.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

26. INTEREST-BEARING LOANS AND BORROWINGS**Group and Company**

	2013			2012		
	Contractual interest rate (%)	Maturity	RMB'000	Contractual interest rate (%)	Maturity	RMB'000
Current:						
Bank loans	2.15-2.64	2014	147,213	6.43	2013	7,486

Group and Company		
	2013 RMB'000	2012 RMB'000
Analysed into:		
Bank loans:		
Within one year	147,213	7,486

The bank loans as at 31 December 2013 and 31 December 2012 bore interest at fixed rates.

The Group's loans were unsecured as at 31 December 2013 and 31 December 2012.

All the bank loans were in US\$ as at 31 December 2013. The bank loan was in EUR as at 31 December 2012.

27. TRADE AND NOTES PAYABLES

Group and Company		
	2013 RMB'000	2012 RMB'000
Notes payable to third parties	374,464	2,637
Trade payables to third parties	121,864	100,972
	496,328	103,609

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

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	
	2013	2012
	RMB'000	RMB'000
Outstanding balances with ages:		
Within one year	480,662	94,379
Between one and two years	9,307	5,477
Between two and three years	3,960	1,163
Over three years	2,399	2,590
	496,328	103,609

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 RMB112,409,000 as at 31 December 2013 (31 December 2012: RMB2,637,000).

28. OTHER PAYABLES AND ACCRUALS

	Group and Company	
	2013	2012
	RMB'000	RMB'000
Advances from customers	52,945	59,933
Payroll payables	38,793	51,523
Other payables	113,895	154,468
	205,633	265,924

Except for a miscellaneous tax payable of RMB13,166,000 (31 December 2012: RMB8,261,000) 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

29. ISSUED CAPITAL

	2013 RMB'000	2012 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 2013 and 2012 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 2012 and at 31 December 2013	1,007,626	503,813	1,002,166	1,505,979

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

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 2013 and 2012 are as follows:

	Group and Company	
	2013	2012
	RMB'000	RMB'000
Within one year	96	96
After one year but not more than five years	–	96
	96	192

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

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	
	2013	2012
	RMB'000	RMB'000
Contracted, but not provided for Plant and machinery	10,577	27,939
Authorised, but not contracted for Plant and machinery	18,291	—

34. RELATED PARTY TRANSACTIONS

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

	Group	
	2013	2012
	RMB'000	RMB'000
Sales of oil pipes to the subsidiaries of Vallourec (note i)	491,795	566,436
Purchases of services from subsidiaries of Vallourec (note ii)	1,986	1,647
Purchases of water from Tianda Holding (note iii)	478	455
Purchases of materials from fellow subsidiaries (note iv)	160	435
Lease of a dormitory from Tianda Holding (note v)	96	96

Notes:

- (i) Included in the sales during the year ended 31 December 2013 are approximately RMB356,340,000 (2012: RMB427,254,000), RMB117,764,000 (2012: RMB134,673,000), RMB15,678,000 (2012: Nil) and RMB2,013,000 (2012: RMB4,509,000) derived from VMOG China, Vallourec Oil & Gas (France), V&M DEUTSCHLAND GmbH 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) The purchases were conducted based on mutually agreed terms with reference to market prices.
- (iv) 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.
- (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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

34. RELATED PARTY TRANSACTIONS (CONTINUED)**(b) Outstanding balances with related parties:**

Details of the Group's trade receivable balances with VMOG China and Vallourec Oil&Gas France at the end of the reporting period are disclosed in note 20 to the financial statements.

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

	Group	
	2013	2012
	RMB'000	RMB'000
Short-term employee benefits	3,093	3,221
Retirement benefit contributions	73	63
	3,166	3,284

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	
	2013	2012
	RMB'000	RMB'000
Financial assets		
Loans and receivables		
Cash and cash equivalents	481,103	42,572
Bank interest receivables	1,195	22
Trade and notes receivables	429,288	521,905
Pledged deposits	112,409	2,637
Other financial assets included in prepayments, deposits and other receivables	1,947	1,316
Financial assets at fair value through profit or loss		
Derivative financial instruments	14,414	2,621
Held-to-maturity investments	12,000	–
Available-for-sale investments	–	8,680
	1,052,356	579,753
Financial liabilities		
Financial liabilities at amortised cost		
Trade and notes payables	496,328	103,609
Interest-bearing loans and borrowings:		
– Fixed rate borrowings	147,213	7,486
Other financial liabilities included in other payables and accruals	100,729	146,207
	744,270	257,302

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

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	
	2013	2012
	RMB'000	RMB'000
Financial assets		
Loans and receivables		
Cash and cash equivalents	481,103	39,248
Bank interest receivables	1,195	22
Trade and notes receivables	429,288	521,905
Pledged deposits	112,409	2,637
Other financial assets included in prepayments, deposits and other receivables	1,947	1,316
Financial assets at fair value through profit or loss		
Derivative financial instruments	14,414	2,621
Held-to-maturity investments	12,000	–
Available-for-sale investments	–	8,680
	1,052,356	576,429
Financial liabilities		
Financial liabilities at amortised cost		
Trade and notes payables	496,328	103,609
Interest-bearing loans and borrowings:		
– Fixed rate borrowings	147,213	7,486
Other financial liabilities included in other payables and accruals	100,729	146,207
	744,270	257,302

36. TRANSFERS OF FINANCIAL ASSETS**Financial assets that are derecognised in their entirety**

At 31 December 2013, 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 these suppliers with a carrying amount in aggregate of RMB733,326,000 (31 December 2012: RMB607,138,000) ("the Endorsement"). The Derecognised Bills have 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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

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 OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's and the Company's financial instruments, other than those with carrying amounts that reasonably approximate to fair values, are as follows:

	Group and Company			
	Carrying amount		Fair value	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Financial assets				
Derivative financial instruments	14,414	2,621	14,414	2,621
Held-to-maturity investments	12,000	—	12,000	—
Available-for-sale investments	—	8,680	—	8,680
	26,414	11,301	26,414	11,301
Financial liabilities				
Interest-bearing loans and borrowings:				
– Fixed rate borrowings	147,213	7,486	147,607	7,484

Management has assessed that the fair values of cash and cash equivalents, bank interest receivables, trade and notes receivables, pledged deposits, trade and notes payables, financial assets included in prepayments, deposits and other receivables and 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 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 held-to-maturity investments and fixed rate borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities.

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)**Fair value hierarchy**

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:**Group and Company****As at 31 December 2013**

	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	14,414	–	14,414

As at 31 December 2012

	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	–	2,621	–	2,621
Available-for-sale investments	–	8,680	–	8,680
	–	11,301	–	11,301

The Group and the Company did not have any financial liabilities measured at fair value as at 31 December 2013 and 2012.

During the year, there were no transfers between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2012: Nil).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

37. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)**Fair value hierarchy (continued)****Assets for which fair value is disclosed:****Group and Company***As at 31 December 2013*

	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Held-to-maturity investments	–	12,000	–	12,000

Liabilities for which fair value is disclosed:**Group and Company***As at 31 December 2013*

	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank borrowings	–	147,607	–	147,607

As at 31 December 2012

	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Interest-bearing bank borrowings	–	7,484	–	7,484

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

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 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.

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 outside of Mainland China. However, the Group has transaction currency exposures. These exposures arise from sales in currencies other than the Group's functional currency. Approximately 39% of the Group's sales for the year ended 31 December 2013 (2012: 31%) 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).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

38. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Foreign currency risk (continued)

	Group	
	Increase/ (decrease) in rate %	Increase/ (decrease) in profit before tax RMB'000
US\$		
2013	+5%	1,331
	-5%	(1,331)
2012	+5%	6,418
	-5%	(6,418)
EUR		
2013	+5%	70
	-5%	(70)
2012	+5%	1,228
	-5%	(1,228)
HK\$		
2013	+5%	4
	-5%	(4)
2012	+5%	4
	-5%	(4)
SGD		
2013	+5%	-
	-5%	-
2012	+5%	2
	-5%	(2)
	Company	
	Increase/ (decrease) in rate %	Increase/ (decrease) in profit before tax RMB'000
US\$		
2013	+5%	1,331
	-5%	(1,331)
2012	+5%	6,255
	-5%	(6,255)
EUR		
2013	+5%	70
	-5%	(70)
2012	+5%	1,228
	-5%	(1,228)
HK\$		
2013	+5%	4
	-5%	(4)
2012	+5%	4
	-5%	(4)

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

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.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

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

	2013					Total RMB'000
	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	
Interest-bearing loans and borrowings	–	79,886	68,652	–	–	148,538
Trade and notes payables	121,864	85,855	288,609	–	–	496,328
Other financial liabilities included in other payables and accruals	100,729	–	–	–	–	100,729
	222,593	165,741	357,261	–	–	745,595

	2012					Total RMB'000
	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	
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

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

31 December 2013

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 2013 and 2012.

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	
	2013	2012
	RMB'000	RMB'000
Interest-bearing loans and borrowings	147,213	7,486
Trade and notes payables	496,328	103,609
Other payables and accruals	205,633	265,924
Less: Cash and cash equivalents	(481,103)	(42,572)
Net debt	368,071	334,447
Equity	2,329,359	2,311,820
Capital and net debt	2,697,430	2,646,267
Gearing ratio	14%	13%

39. EVENT AFTER THE REPORTING PERIOD

Pursuant to a resolution of the board of directors on 21 March 2014, the directors recommend the payment of a final cash dividend of RMB4.0 cents per share (inclusive of tax) and a special dividend of RMB12.0 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 21 March 2014.