

Jiangsu Changbao Steel Tube Corp.

(2011)

Report of the Auditors



江苏公证天业会计师事务所有限公司

Jiangsu Gongzheng Tianye Certified Public Accountants Co., Ltd

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Report of the Auditors

SGW No.A538 (2012)

To the Board of Directors of Jiangsu Changbao Steel Tube Corp.

We have audited the accompanying financial statements of Jiangsu Changbao Steel Tube Corp. ("the Company"), including the balance sheet as of 31 December 2011, the related statements of income and cash flows for the year then ended, and the notes to these financial statements.

Responsibility of the management for the Financial Statements

Management is responsible for the preparation and the presentation of these financial statements in accordance with the Accounting System for Business Enterprises. This responsibility includes designing, implementing and maintaining the internal control relating to presentation of financial statements that are free from material misstatement due to fraud or error; selecting and applying the proper accounting policy; and making the reasonable accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Chinese Certified Public Accountants' Independent Auditing Standards. Those Standards require that we abide by the code of professional ethics, plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit includes performing procedures to get the evidence supporting the amounts and disclosures in the financial statements. The selection of audit procedure depends on the judgment of the certified public accountants, including the assessment to the material misstatement risk of financial statements due to fraud or error. When conducting risk

assessment, we consider the internal control relating to the presentation of financial statements so as to design proper audit procedure, but the aim is not to express an opinion on the effectiveness of internal control. An audit also includes assessing the properness of the accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that our audit gets sufficient and proper evidences and provides a reasonable basis for our opinion.

Auditors' opinion

In our opinion, the financial statements of the Company present fairly, in all material respects, the financial position of the Company as of 31 December 2011 and the results of its operations and its cash flows for the year then ended in accordance with the Accounting System for Business Enterprises of the People's Republic of China.

Jinangsu Gongzheng Tianye CPAs Co., Ltd.



CPA:



CPA:



Jiangsu Changbao Steel Tube Corp.

BALANCE SHEET

As of 31 December 2011

MONETARY UNIT: RMBY

ASSETS	NOTES	31-Dec-11	31-Dec-10
Current Assets			
Cash	5.1	188,799,633.54	1,309,213,466.02
Held for trading	5.2	974,000.00	1,122,000.00
Notes receivable	5.3	3,000,000.00	13,836,400.00
Accounts receivable	5.4	261,152,525.28	287,459,251.54
Other receivables	5.6	10,380,775.95	7,483,041.57
Advanced to suppliers	5.5	267,541,418.55	185,702,255.93
Inventories	5.7	276,258,581.93	207,174,700.81
Prepaid expenses			
Total current assets		<u>1,008,106,935.25</u>	<u>2,011,991,115.87</u>
Available for sale	5.8	1,138,000.00	1,328,000.00
Long-term Investments			
Long-term equity investments	5.9	1,019,792,860.85	258,732,260.85
Total Long-term investments		<u>1,019,792,860.85</u>	<u>258,732,260.85</u>
Fixed Assets			
Fixed assets original cost	5.10	485,663,341.60	467,704,326.07
Less: Accumulated depreciation	5.10	267,687,218.17	237,090,378.13
Fixed assets-net	5.10	217,976,123.43	230,613,947.94
Less: Provision for impairment of fixed assets			
Fixed assets-net book value		<u>217,976,123.43</u>	<u>230,613,947.94</u>
Construction in Process			
Construction in process	5.11	8,843,085.43	9,264,181.83
Intangible assets and others			
Intangible assets	5.12	56,432,554.40	57,062,439.20
Long-term prepaid assets			
Deferred Tax Assets	5.13	2,507,543.26	2,978,015.72
Total intangible assets and others		<u>58,940,097.66</u>	<u>60,040,454.92</u>
TOTAL ASSETS		<u>2,314,797,102.62</u>	<u>2,571,969,961.41</u>

Jiangsu Changbao Steel Tube Corp.

BALANCE SHEET (Continued)

As of 31 December 2011

MONETARY UNIT: RMB¥

LIABILITIES AND OWNER'S EQUITY	NOTES	31-Dec-11	31-Dec-10
CURRENT LIABILITIES			
Short-term loans	5.14	20,500,000.00	15,000,000.00
Notes payable	5.15	62,530,392.86	380,253,040.40
Accounts payable	5.16	93,357,812.09	126,948,986.30
Accounts advanced from customers	5.16	17,469,288.93	14,188,489.33
Dividends payable			
Accrued Payroll and Welfare Benefits Payable	5.17		
Taxes payable	5.18	-8,805,230.45	4,441,567.62
Other payables	5.16	19,350,421.56	24,529,599.12
Accrued expenses			
Long-term liabilities maturing within one year			
Total current liabilities		<u>204,402,684.99</u>	<u>565,361,682.77</u>
LONG-TERM LIABILITIES			
Long-term loans	5.19	1,200,000.00	21,200,000.00
Deferred Tax Liability	5.20	116,700.00	145,200.00
TOTAL LIABILITIES		<u>205,719,384.99</u>	<u>586,706,882.77</u>
OWNER'S EQUITY			
Paid-in Capital	5.21	400,100,000.00	400,100,000.00
Capital reserve	5.22	1,126,217,197.72	1,126,378,697.72
Surplus reserve	5.23	126,529,713.99	93,732,486.19
Undistributed profit	5.24	456,230,805.92	365,051,894.73
TOTAL OWNER'S EQUITY		<u>2,109,077,717.63</u>	<u>1,985,263,078.64</u>
TOTAL LIABILITIES AND OWNER'S EQUITY		<u>2,314,797,102.62</u>	<u>2,571,969,961.41</u>

Jiangsu Changbao Steel Tube Corp.

INCOME STATEMENT

For the year ended 31 December 2011

MONETARY UNIT: RMB ¥

	NOTES	<u>2011</u>	<u>2010</u>
Revenues from operations	5.25	2,434,234,296.68	1,698,823,189.41
Less: Cost of operations	5.25	2,123,597,104.01	1,444,054,364.68
Tax and levies on operations	5.26	5,196,852.68	4,201,425.93
Gross profit		305,440,339.99	250,567,398.80
Less: Selling expenses		63,902,690.24	54,238,307.34
General and administrative expenses		121,890,390.39	86,533,401.61
Financial expenses	5.27	-29,799,496.03	-1,785,051.48
Impairment losses of Assets(gain expressed with "-")	5.28	-295,555.90	2,627,300.54
Add: Profits and losses from fair value changes	5.29	-148,000.00	-260,000.00
Add: Investment income(loss expressed with "-")	5.30	27,030,242.00	26,557,066.00
Operation profit		176,624,553.29	135,250,506.79
Add: Non-operating income	5.31	3,621,875.77	3,862,012.84
Less: Non-operating expenses	5.32	178,690.69	291,178.97
Profit before tax		180,067,738.37	138,821,340.66
Less: Income tax	5.33	16,081,599.38	12,357,496.30
Net profit		163,986,138.99	126,463,844.36

Jiangsu Changbao Steel Tube Corp.
CASHFLOW STATEMENT
For the year ended 31 December 2011

MONETARY UNIT: RMB¥

2011

Cash Flows from Operating Activities:

Cash received from sales of goods or rendering of services	2,761,000,260.32
Refund of tax and levies	31,186,422.71
Other cash received relating to operating activities	149,126,798.40
Sub-total of cash inflows	<u>2,941,313,481.43</u>
Cash paid for goods and services	3,026,096,971.55
Cash paid to and on behalf of employees	50,882,425.42
Payments of all types of taxes	59,937,570.42
Other cash paid relating to operating activities	175,306,992.89
Sub-total of cash outflows	<u>3,312,223,960.28</u>
Net cash flows from operating activities	<u>-370,910,478.85</u>

Cash Flows from Investing Activities:

Net cash received from disinvestments	174,523,074.79
Net cash received from investment income	200,242.00
Net cash received from disposal of fixed assets, intangible assets & other long-term assets	30,000.00
Net cash received from other investment activities	
Sub-total of cash inflows	<u>174,753,316.79</u>
Cash paid to acquire fixed assets, intangible assets & other long-term assets	14,741,817.17
Cash paid to acquire investments	
Cash paid to acquire subsidiary companies or other companies	761,060,600.00
Sub-total of cash outflows	<u>775,802,417.17</u>
Net cash flows from investing activities	<u>-601,049,100.38</u>

Cash Flows From Financing Activities

Cash received from capital contribution	
Cash received from borrowings	268,000,000.00
Sub-total of cash inflows	<u>268,000,000.00</u>
Cash repayment of amounts borrowed	278,000,000.00
Cash payment for interest expenses and distribution of dividends or profit	42,135,167.63
Sub-total of cash outflows	<u>320,135,167.63</u>
Net cash flows from financing activities	<u>-52,135,167.63</u>

Effect of Foreign Exchange Rate Changes on Cash	-897,833.61
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Net Increase in Cash and Cash Equivalents	<u>-1,024,992,580.47</u>
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Jiangsu Changbao Steel Tube Corp.
Notes to the Financial Statements
2011

1. General situations

On Feb. 2, 2008, the Company changed its type of entity from the limited company to the corporation. With the approval of China Securities Regulatory Commission(ZJXK[2010]NO.1138), the company issued 695 million shares to public(par value is 1 Yuan) and became the listed company in Shenzhen Stock Exchange on Sep 21 2010. The company renewed the Business License of Legal Person for Enterprise (No.320400000015746) from Changzhou Administrative Bureau for Industry and Commerce on Nov 4 2010. The legal representative is Jian Cao. The registered capital is 400.1million RMB and the actual contribution situation is detailed in Notes "paid-in capital". The Company's approved operating scope includes, the production of steel rolling, steel melting and steel tube, and sales of self-produced products.

2. Basis of presentation

The financial statements are presented on the basis of going concern.

3. Main accounting policies

Accounting policy

The Company carries out the Accounting System for Business Enterprises and relevant regulations as promulgated by the Ministry of Finance of the People's Republic of China.

Accounting period

The Company's accounting year starts on 1 January and ends on 31 December.

Reporting currency

The Company uses the RMB as its reporting currency.

Basis of accounting and measurement basis

The Company's accounting principle is accrual basis and the valuation basis is historical cost method.

Foreign currency translation

Transactions denominated in foreign currencies are translated into RMB at the market exchange rates on the last day of the last month when the transactions took place. Monetary assets and liabilities denominated in foreign currencies are translated into RMB at the market exchange rates at the end of the year. Exchange differences arising from these translations are taken to the profit and loss account, except for when they are attributable to foreign currency borrowings that have been taken out specifically for construction of fixed assets and are accordingly capitalized as part of the fixed asset costs.

Cash and cash equivalents

Cash equivalents refer to short-term, highly liquid investments that are readily convertible

to known amounts of cash and which are subject to an insignificant risk of changes in value.

Bad debts

Standard for bad debts

If the debtor has declared bankruptcy, has been dead or been liquidated, the accounts receivable cannot be recovered yet. And the accounts receivable is over three years and has been confirmed that cannot be recovered. The above accounts receivable should be recognized as bad debts.

Provisions for bad debts

Provision for bad debts is provided for using the "allowance method".

Based on the financial position, cash flows situation and other information, special provisions are made against residual balances of the receivables.

The bad debts rates are as follows:

Aging	Bad Debts Rate
Within 1 year	5%
1-2years	10%
2-3years	20%
3-4years	30%
4-5years	60%
5 years above	100%

Inventories

Inventories include raw materials, auxiliary materials, WIP, semi-finished goods and finished goods and are initially recorded at cost.

The inventories are accounted for at actual costs and the costs of sales are accounted for based on weighted average basis.

The low-value consumables are amortized entirely when they are sent out.

Inventories use perpetual inventory procedure.

When inventories are damaged, become obsolete or their selling price falls below cost and, as a result, their costs exceed their net realizable value, then the excess of their original costs over their net realizable value is taken as a "provision for inventory impairment". Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to conclude the sale.

Fixed assets and depreciation

The fixed assets refer to the tangible assets related to production, service, rent and operation management whose service lives exceed one year and unit prices are high.

Fixed assets are accounted for in line with the actual cost method. The depreciation of fixed assets is calculated according to the straight-line method from the next month when the fixed assets are used. The net predicted residual value rate is 10% of the original value. All kinds of depreciation rates are shown as follows:

Categories of fixed assets	Depreciation period (years)	Annual depreciation rate (%)
Buildings	20	4.5
Machinery equipments	8-10	9-12
Electronic equipments	3-10	9-32
Vehicles	4-10	9-32

When events or changes in circumstances indicate that the carrying value of fixed assets are higher than their recoverable amounts, then tests for impairment are undertaken. If the carrying amount of a single fixed asset is higher than the recoverable amount, then the excess is recognized as an impairment provision and taken into the profit and loss.

Construction in process

Construction in process represents capital assets under construction or being installed and is stated at cost. Cost comprises original cost of plant and equipment, installation, construction and other direct costs. Construction in process is transferred to the fixed assets account and depreciation commences when the asset has been substantially completed and reaches the expected usable condition.

When events or changes in circumstances indicate that the carrying value of construction in process are higher than their recoverable amounts, then tests for impairment are undertaken. If the carrying amount of a single construction in process is higher than the recoverable amount, then the excess is recognized as an impairment provision and taken into the profit and loss.

Intangible Assets

Intangible assets are initially recorded at actual costs.

If they are bought the actual costs are the prices, and if they are contributed by the investor the actual costs are the value recognized by all investors.

Intangible assets are amortized averagely within expected usage period from the month when they are got. If the expected usage period exceeds the beneficial period regulated by the related agreements or laws, the amortization period does not exceed the shorter of the beneficial period and the usage period.

When events or changes in circumstances indicate that the carrying value of intangible

assets are higher than their recoverable amounts, then tests for impairment are undertaken. If the carrying amount of a single intangible asset is higher than the recoverable amount, then the excess is recognized as an impairment provision and taken into the profit and loss.

Interest costs

Interest costs on specific borrowings used to finance the capital assets, prior to the date of reaching the expected usable condition are costs of the assets, while after the date of reaching the expected usable condition, interest costs are accounted as financial expenses.

Revenue recognition

Sale of goods

Revenue from the sale of goods is recognized when significant risks and rewards of ownership of the goods are transferred to the customer, when the Company neither retains continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold, when it is probable that the economic benefits associated with the transaction will flow to the enterprises and when the relevant amount of revenue and costs can be measured reliably.

Render service

Revenue from service is to calculate based on the completion percentage of related project. The precondition to recognize revenue is the overall earning and the completion percentage of service can be computed and confirmed reliable, the relevant money can be received as well as the service cost paid actually and paid in future can be calculated reliably.

Usufruct of assets transferred

Revenue from usufruct of assets transferred is recognized when the economic benefits associated with this transaction will flow to Company and when the relevant amount of revenue can be measured reliably. Interest income is measured according to the time transferred Cash and the applicable interest rate. Revenue from the usage is recognized in terms of the collected time and method stipulated on the related Agreement & Contract.

Income tax

The Company accounts for enterprise income taxes using the tax payable method. The taxable income is calculated according to the tax law.

Profit distribution

The board of directors had not made the resolution about the distribution of the profit of 2011, so the relevant presentation has not been made in the financial statements.

4. Taxation

The main tax items and tax rates appropriate for the Company are as follows:

Value Added Tax

The output-tax is calculated at 17% of sales of steel tubes and at 13% of sales of gas, and the balance after deducting the input-tax is paid.

Enterprise income tax

The enterprise income tax rate is 15%.

Operation tax

The operation tax rate is 5%.

Construction tax

The construction tax rate is 7%.

Education supplementary tax

The education supplementary tax rate is 4%.

5. The annotations of main items in accounting statements

(All amounts are stated in RMB unless otherwise stated)

5.1 Cash

<u>Items</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Cash on hands	13,010.87	8,066.81
Cash in bank	98,676,777.49	1,123,535,221.63
Other monetary assets	90,109,845.18	185,670,177.58
Total	188,799,633.54	1,309,213,466.02

5.2 Held for trading

<u>Items</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
China National Petroleum Corporation(CNPC)	974,000.00	1,122,000.00
Total	974,000.00	1,122,000.00

5.3 Notes receivable

<u>Items</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
bank acceptance	3,000,000.00	13,836,400.00
Total	3,000,000.00	13,836,400.00

5.4 Accounts receivable

(1) Analyzing of account ages

<u>Aging</u>	<u>31 December 2011</u>			<u>31 December 2010</u>		
	<u>Amount</u>	<u>Proportion to total accounts receivable(%)</u>	<u>Provision for bad debts</u>	<u>Amount</u>	<u>Proportion to total accounts receivable(%)</u>	<u>Provision for bad debts</u>
Within 1 year	274,056,911.69	99.67%	13,702,845.59	301,865,573.74	99.90%	14,659,029.99
1-2 years	821,225.37	0.30%	82,122.54	202,006.84	0.07%	20,200.68
2-3 years				88,627.03	0.03%	17,725.40
3-4 years	84,794.78	0.03%	25,438.43			
4-5 years						
5 years and				26,201.64	0.01%	26,201.64
	274,962,931.84	100.00%	13,810,406.56	302,182,409.25	100.00%	14,723,157.71

(2) In this account there are no arrears of main shareholders holding over 5% (including 5%) shares of the Company.

5.5 Advanced to suppliers

(1) Analyzing of account ages

<u>Aging</u>	<u>31 December 2011</u>		<u>31 December 2010</u>	
	<u>Amount</u>	<u>Proportion to total advanced to suppliers(%)</u>	<u>Amount</u>	<u>Proportion to total advanced to suppliers(%)</u>
Within 1year	266,681,927.12	99.68%	183,067,458.15	98.58%
1-2years	546,467.98	0.20%	617,623.88	0.33%
2-3years	171,584.35	0.06%	2,011,384.80	1.08%
3years and above	141,439.10	0.05%	5,789.10	0.01%
Total	267,541,418.55	100.00%	185,702,255.93	100.00%

(2) In this account there are no arrears of main shareholders holding over 5% (including 5%) shares of the Company.

5.6 Other receivables

(1) Analyzing of account ages

<u>Aging</u>	<u>31 December 2011</u>			<u>31 December 2010</u>		
	<u>Amount</u>	<u>Proportion to total other receivables (%)</u>	<u>Provision for bad debts</u>	<u>Amount</u>	<u>Proportion to total other receivables (%)</u>	<u>Provision for bad debts</u>
Within 1year	7,560,961.63	70.28%	378,048.08	4,741,043.67	59.28%	215,052.19
1-2years	441,000.00	4.10%	100.00	2,757,137.77	34.47%	87.68
2-3years	2,757,137.77	25.63%	175.37			
3-4years						
4-5years				500,000.00	6.25%	300,000.00
5years above						
Total	10,759,099.40	100.00%	378,323.45	7,998,181.44	100.00%	515,139.87

(2) In this account there are no arrears of main shareholders holding over 5% (including 5%) shares of the Company.

5.7 Inventories

<u>Items</u>	<u>31 December 2011</u>		<u>31 December 2010</u>	
	<u>Amount</u>	<u>Provision</u>	<u>Amount</u>	<u>Provision</u>
Raw materials	75,338,512.54		37,056,012.44	77,678.45
Goods in process	5,073,591.50		3,459,706.17	
Materials on the way	20,120,649.02			
Materials for consigned processing			105,949.11	
Finished goods	175,725,828.87		168,779,725.81	2,149,014.27
Total	<u>276,258,581.93</u>		<u>209,401,393.53</u>	<u>2,226,692.72</u>

5.8 Available for sale

<u>Items</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Jiangsu Ninghu Expressway Corporation	1,138,000.00	1,328,000.00
Total	<u>1,138,000.00</u>	<u>1,328,000.00</u>

5.9 Long-term investments

Items	<u>31 December</u> <u>2010</u>	<u>Current year</u> <u>addition</u>	<u>Current year</u> <u>reduce</u>	<u>31 December</u> <u>2011</u>
Changzhou Changbao Special and Precision Steel Tube Co.,Ltd	18,000,000.00			18,000,000.00
Jiangsu Bank	1,345,700.00			1,345,700.00
Jiangsu Changbao Precision Steel Tube Co.,Ltd.	122,085,335.00			122,085,335.00
Changzhou Changbao Equipment Maintenance Co.,Ltd	7,301,225.85			7,301,225.85
Jiangsu Changbao Precision Steel Tube Energy Co.,Ltd.		761,060,600.00		761,060,600.00
Jiangsu Changbao Desheng Steel Tube Co.,Ltd.	110,000,000.00			110,000,000.00
Total	<u>258,732,260.85</u>	<u>761,060,600.00</u>		<u>1,019,792,860.85</u>

(2) Long-term equity investments

Company's name	Share proportion	Original Investments	Investment income	Current year Additions	31 December 2011
Changzhou Changbao Special and Precision Steel Tube Co., Ltd.	60%	18,000,000.00			18,000,000.00
Jiangsu Bank		1,345,700.00			1,345,700.00
Jiangsu Changbao Precision Steel Tube Co., Ltd.	75%	122,085,335.00			122,085,335.00
Changzhou Changbao Equipment	100%	7,301,225.85			7,301,225.85
Jiangsu Changbao Precision Steel Tube Energy Co., Ltd.	100%			761,060,600.00	761,060,600.00
Jiangsu Changbao Desheng Steel Tube Co., Ltd.	100%	110,000,000.00			110,000,000.00
Total		258,732,260.85		761,060,600.00	1,019,792,860.85

Jiangsu Changbao Precision and Special Energy Steel Tube Co., Ltd was the subsidiary company of Changzhou Changbao Precision and Special Steel Tube Co., Ltd. The registered capital is 10000 million RMB. In June 2011, Changzhou Changbao Precision and Special Steel Tube Co., Ltd transferred the shares to the company.

5.10 Fixed assets and accumulated depreciation

Original value

Categories	31 December 2010	Current year addition	Current year disposal	31 December 2011
Buildings	126,997,742.26	487,299.46		127,485,041.72
Machinery equipments	313,106,412.52	17,348,263.90		330,454,676.42
Electronic equipments	9,640,342.01	156,269.17	18,750.00	9,777,861.18
Vehicles	17,959,829.28	452,685.00	466,752.00	17,945,762.28
Total	467,704,326.07	18,444,517.53	485,502.00	485,663,341.60

Accumulated depreciation

Categories	<u>31 December 2010</u>	<u>Current year depreciation</u>	<u>Current year disposal</u>	<u>31 December 2011</u>
Buildings	53,482,984.33	4,480,462.57		57,963,446.90
Machinery equipments	169,140,449.68	24,037,152.53		193,177,602.21
Electronic equipments	4,792,238.82	1,670,020.37	17,812.50	6,444,446.69
Vehicles	9,674,705.30	692,015.88	264,998.81	10,101,722.37
Total	237,090,378.13	30,879,651.35	282,811.31	267,687,218.17
<u>Net value</u>	<u>230,613,947.94</u>			<u>217,976,123.43</u>

5.11 Construction in process

Projects	<u>31 December 2010</u>	<u>Current year addition</u>	<u>Transfer to fixed assets</u>	<u>Transfer to others</u>	<u>31 December 2011</u>
Construction in Process	9,264,181.83	21,648,281.57	22,069,377.97		8,843,085.43
Total	9,264,181.83	21,648,281.57	22,069,377.97		8,843,085.43

5.12 Intangible assets

Items	<u>Original cost</u>	<u>31 December 2010</u>	<u>Current year addition</u>	<u>Current year amortization</u>	<u>31 December 2011</u>
Land use Right	66,512,036.00	57,062,439.20		1,379,884.80	55,682,554.40
Software	3,810,000.00		1,500,000.00	750,000.00	750,000.00
Total	70,322,036.00	57,062,439.20	1,500,000.00	2,129,884.80	56,432,554.40

5.13 Deferred tax assets

<u>Items</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Provisions for bad debts	2,128,309.50	2,286,978.06
Provisions for inventories		357,033.75
Provisions for held for trading	379,233.76	334,003.91
Total	2,507,543.26	2,978,015.72

5.14 Short-term loans

<u>Items</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Guaranteed Loans	10,000,000.00	
Entrusted loans	10,500,000.00	15,000,000.00
Total	20,500,000.00	15,000,000.00

5.15 Notes payable

<u>Items</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Banker's acceptance	62,530,392.86	380,253,040.40
Total	62,530,392.86	380,253,040.40

(2) The notes payable will mature from Jan.2012 to June 2012.

(3) The balance of the banker's acceptance on Dec. 31, 2011 was pledged by bank guarantee deposits.

5.16 Accounts payable, Accounts advanced from customers, Other payables

In these accounts there are no arrears to main shareholders holding over 5% (including 5%) shares of the Company

5.17 Accrued payroll and welfare benefit payable

Items	<u>31 December</u> <u>2010</u>	<u>Current year</u> <u>addition</u>	<u>Current year</u> <u>reduce</u>	<u>31 December</u> <u>2011</u>
1.Wages and bonus		38,455,956.67	38,455,956.67	
2.Welfare expense		4,300,555.81	4,300,555.81	
3.Employee's Education budget		209,408.17	209,408.17	
4.Labor union budget				
5.Social insurance expense		7,603,261.17	7,603,261.17	
6 Sacking compensation		55,904.00	55,904.00	
7.Housing accumulation fund		1,599,871.00	1,599,871.00	
Total		52,224,956.82	52,224,956.82	

5.18 Taxes payable

<u>Items</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
VAT	-13,288,075.53	-2,895,994.12
Enterprise income tax	682,162.43	2,347,678.39
Flood control fund	2,167,514.10	2,167,514.10
Housing property tax	192,682.64	190,300.89
Urban land using tax	397,797.00	397,797.00
Stamp tax	46,819.18	80,346.36
Individual income tax	24,685.00	38,634.53
Construction tax	447,174.18	1,117,179.92
Operation tax	204,600.31	359,722.04
Education supplementary tax	319,410.24	638,388.51
Total	-8,805,230.45	4,441,567.62

5.19 Long-term Loans

<u>Items</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Guaranteed loans	1,200,000.00	1,200,000.00
Entrusted loans	-----	20,000,000.00
Total	1,200,000.00	21,200,000.00

5.20 Deferred tax liabilities

<u>Items</u>	<u>31 December 2011</u>	<u>31 December 2010</u>
Available for sale- Jiangsu Ninghu Expressway	116,700.00	145,200.00
Total	116,700.00	145,200.00

5.21 Paid-in capital

<u>Investor</u>	<u>31 December 2010</u>	<u>Current year additions</u>	<u>Current year reductions</u>	<u>31 December 2011</u>
Jiangsu Changbao Investment and Development Co., Ltd.	48,003,120.00			48,003,120.00
Public shares	69,500,000.00			69,500,000.00
Individuals	282,596,880.00			282,596,880.00
Total	400,100,000.00			400,100,000.00

The above contribution were verified by the capital verification report SGC[2010]No.B090 signed by Jiangsu Gongzheng Tianye Certified Public Accountants Co., Ltd.

5.22 Capital reserve

Items	31 December 2010	Current year additions	Current year reduces	31 December 2011
Capital stock premium	1,125,852,212.32			1,125,852,212.32
Others	526,485.40			526,485.40
Total	1,126,378,697.72			1,126,378,697.72

5.23 Surplus reserve

Items	31 December 2010	Current year additions	Current year reduces	31 December 2011
Statutory Reserved fund	46,866,243.10	16,398,613.90		63,264,857.00
Discretionary Reserved fund	46,866,243.09	16,398,613.90		63,264,856.99
Total	93,732,486.19	32,797,227.80		126,529,713.99

5.24 Undistributed profit

Items	31 December 2010	Current year additions	Current year reduces	31 December 2011
Undistributed profit	365,051,894.73	163,986,138.99	72,807,227.80	456,230,805.92

5.25 Revenues from operations and cost of operations

Items	Revenues from operations		Cost of operations		Gross profit from operations	
	2011	2010	2011	2010	2011	2010
Revenues from main operations	2,305,881,684.83	1,592,977,728.19	2,024,056,604.06	1,365,639,560.24	281,825,080.77	227,338,167.95
Revenues from other operations	128,352,611.85	105,845,461.22	99,540,499.95	78,414,804.44	28,812,111.90	27,430,656.78
Total	2,434,234,296.68	1,698,823,189.41	2,123,597,104.01	1,444,054,364.68	310,637,192.67	254,768,824.73

5.26 Tax and levies on operations

<u>Items</u>	<u>2011</u>	<u>2010</u>
Operation tax	2,473,256.90	359,722.04
Construction tax	1,744,942.22	2,444,720.65
Education supplementary tax	978,653.56	1,396,983.24
Total	5,196,852.68	4,201,425.93

5.27 Financial expenses

<u>Items</u>	<u>2011</u>	<u>2010</u>
Interest expenses	1,174,397.23	555,120.00
Less: interest income	34,529,089.45	4,866,898.43
Exchange losses	3,006,891.02	1,896,146.05
Less: exchange gains		
Others	548,305.17	630,580.90
Total	-29,799,496.03	-1,785,051.48

5.28 Impairment loss of assets

<u>Items</u>	<u>2011</u>	<u>2010</u>
Provision for bad debts	-1,049,567.57	2,402,586.63
Provision for inventories	754,011.67	224,713.91
Total	-295,555.90	2,627,300.54

5.29 Profits and losses from fair value changes

<u>Items</u>	<u>2011</u>	<u>2010</u>
Held for trading	-148,000.00	-260,000.00
	-----	-----
Total	-148,000.00	-260,000.00
	=====	=====

5.30 Investment income

<u>Items</u>	<u>2011</u>	<u>2010</u>
Dividends received from Changzhou Changbao Special and Precision Steel Tube Co., Ltd.	26,832,000.00	26,466,000.00
Others	198,242.00	91,066.00
	-----	-----
Total	27,030,242.00	26,557,066.00
	=====	=====

5.31 Non-operating income

<u>Items</u>	<u>2011</u>	<u>2010</u>
Government subsidy	3,621,875.77	3,654,139.88
Gain from the disposal of fixed assets		204,000.00
Accounts payables aging more than 3 years without the obligation of payment		
Others		3,872.96
	-----	-----
Total	3,621,875.77	3,862,012.84
	=====	=====

5.32 Non-operating expenses

<u>Items</u>	<u>2011</u>	<u>2010</u>
Loss from the disposal of fixed assets	108,690.69	104,218.36
Flood control expenses		
Donations	70,000.00	170,000.00
Others		16,960.61
Total	178,690.69	291,178.97

5.33 Income tax

<u>Items</u>	<u>2011</u>	<u>2010</u>
Income tax calculated in accordance with taxation law and relative regulations	15,611,126.92	11,781,315.75
Adjustments due to deferred tax	470,472.46	576,180.55
Total	16,081,599.38	12,357,496.30

6. Subsidiary companies

6.1 Subsidiary companies acquired through investments:

<u>Subsidiary company's name</u>	<u>Type of enterprise</u>	<u>Registered capital</u>	<u>Paid-in capital</u>	<u>Equity share</u>	<u>Principal business</u>
Changzhou Changbao Special and Precision Steel Tube Co., Ltd	Limited company	60,000,000.00	18,000,000.00	60%	Production and sales of steel tubes
Changzhou Changbao Special and Precision Energy Steel Tube Co., Ltd	Limited company	250,000,000.00	250,000,000.00	100%	Production and sales of steel tubes
Jiangsu Changbao Desheng Steel Tube Co., Ltd	Limited company	110,000,000.00	110,000,000.00	100%	Production and sales of steel tubes

6.2 Subsidiary companies acquired through business combination under the same control:

<u>Subsidiary company's name</u>	<u>Type of enterprise</u>	<u>Registered capital</u>	<u>Paid-in capital</u>	<u>Equity Share</u>	<u>Principal business</u>
Changzhou Changbao Steel Tube Equipment Maintenance Co., Ltd	Limited company	1,000,000.00	1,000,000.00	100%	Logistics

Changzhou Changbao Logistics Co., Ltd changed its name to Changzhou Changbao Equipment Maintenance Co., Ltd in 2011.

6.3 Subsidiary companies acquired through business combination under the different control:

<u>Subsidiary company's name</u>	<u>Type of enterprise</u>	<u>Registered capital</u>	<u>Paid-in capital</u>	<u>Equity share</u>	<u>Principal business</u>
Jiangsu Changbao Precision Steel Tube Co., Ltd	Limited company	USD15,000,000	USD11,250,000	75%	Production and sales of steel tubes

7 Contingent matters

No contingent matters exist as at 31 December 2011.

8 Commitments

No commitments exist as at 31 December 2011.

9 Events occurring after the balance sheet date

None.

10 Other important matters

None.

Jiangsu Changbao Steel Tube Corp.
20 April 2012