



**Jiangsu Changbao**

**Steel Tube Co., Ltd.**

**(2014)**

**Report of the Auditors**

**江苏公证天业会计师事务所**

**JIANGSU GONGZHENG TIANYE CERTIFIED PUBLIC ACCOUNTANTS**

## **Jiangsu Changbao Steel Tube Co., Ltd.**

---

Content	Page
Report of the Auditors	1、 2
Balance sheet	3、 4
Income statement	5
Cash-flow statement	6
Notes to financial statements	7~26



# 江苏公证天业会计师事务所(特殊普通合伙)

Changzhou Branch, Jiangsu Gongzheng Tianye Certified Public Accountants, SGP

中国·江苏·常州

总机: 86 (519) 86622612

传真: 86 (519) 86605893

电子信箱: czfs@jsgztycpa.com

Changzhou, Jiangsu, China

Tel: 86 (519) 86622612

Fax: 86 (519) 86605893

E-mail: czfs@jsgztycpa.com

## Report of the Auditors

SGW No.A213 (2015)

To the Board of Directors of Jiangsu Changbao Steel Tube Co., Ltd.

We have audited the accompanying financial statements of Jiangsu Changbao Steel Tube Co., Ltd. ("the Company"), including the balance sheet as of 31 December 2014, 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 2014 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.

Changzhou Branch, Jinangsu Gongzheng Tianye CPAs, SGP

Changzhou China

24 March 2015



CPA:



CPA:



**Jiangsu Changbao Steel Tube Co., Ltd.**

**BALANCE SHEET**

As of 31 December 2014

MONETARY UNIT: RMB¥

ASSETS	NOTES	31/Dec/13	31/Dec/14
<b>Current Assets</b>			
Cash	5.1	262,029,175.64	430,328,435.69
Notes receivable	5.2	66,320,626.89	33,222,952.38
Accounts receivable	5.3	378,311,779.21	160,394,025.22
Other receivable	5.5	52,914,900.24	1,724,393.58
Advanced to suppliers	5.4	331,674,404.32	360,440,311.77
Inventories	5.6	283,318,874.07	235,289,571.07
Other current assets	5.7	11,901,101.49	171,486,961.43
<b>Total current assets</b>		<u>1,386,470,861.86</u>	<u>1,392,886,651.14</u>
<b>Available for sale</b>	5.8	2,461,700.00	162,805,700.00
<b>Long-term investments</b>	5.9	821,027,002.57	839,497,878.91
<b>Fixed Assets</b>			
Fixed assets original cost	5.10	609,945,392.64	639,567,470.43
Less: Accumulated depreciation	5.10	321,475,086.14	352,045,982.28
Fixed assets-net	5.10	<u>288,470,306.50</u>	<u>287,521,488.15</u>
<b>Fixed assets-net book value</b>		<u>288,470,306.50</u>	<u>287,521,488.15</u>
<b>Construction in Process</b>			
Construction in process	5.11	<u>690,788.23</u>	<u>20,996,765.93</u>
<b>Intangible assets and others</b>			
Intangible assets	5.12	52,922,784.80	51,542,900.00
Deferred Tax Assets	5.13	5,034,560.06	2,120,425.15
<b>Total intangible assets and others</b>		<u>57,957,344.86</u>	<u>53,663,325.15</u>
<b>TOTAL ASSETS</b>		<u><u>2,557,078,004.02</u></u>	<u><u>2,757,371,809.28</u></u>



**Jiangsu Changbao Steel Tube Co., Ltd.**

**BALANCE SHEET ( Continued )**

**As of 31 December 2014**

**MONETARY UNIT: RMB¥**

<b>LIABILITIES AND OWNER'S EQUITY</b>	<b>NOTES</b>	<b><u>31/Dec/13</u></b>	<b><u>31/Dec/14</u></b>
<b>CURRENT LIABILITIES</b>			
Short-term loans			
Notes payable	<b>5.14</b>	85,361,165.98	234,489,495.94
Accounts payable	<b>5.15</b>	137,168,713.44	127,428,373.63
Accounts advanced from customers	<b>5.15</b>	34,470,845.55	21,197,668.58
Accrued Payroll and Welfare Benefits Payable	<b>5.16</b>		4,016,855.00
Taxes payable	<b>5.17</b>	6,722,025.17	6,670,184.27
Other payables	<b>5.15</b>	13,778,253.91	11,559,468.86
Accrued expenses			
Long-term liabilities maturing within one year			
<b>Total current liabilities</b>		<u>277,501,004.05</u>	<u>405,362,046.28</u>
<b>LONG-TERM LIABILITIES</b>			
Deferred Tax Liability	<b>5.18</b>	113,400.00	165,000.00
<b>TOTAL LIABILITIES</b>		<u>277,614,404.05</u>	<u>405,527,046.28</u>
<b>OWNER'S EQUITY</b>			
Paid-in Capital	<b>5.19</b>	400,100,000.00	400,100,000.00
Capital reserve	<b>5.20</b>	1,125,555,897.72	1,125,555,897.72
Other comprehensive income	<b>5.21</b>	642,600.00	935,000.00
Special reserve	<b>5.22</b>	9,674,226.34	9,766,906.08
Surplus reserve	<b>5.23</b>	183,081,885.15	213,485,101.81
Undistributed profit	<b>5.24</b>	560,408,990.76	602,001,857.39
<b>TOTAL OWNER'S EQUITY</b>		<u>2,279,463,599.97</u>	<u>2,351,844,763.00</u>
<b>TOTAL LIABILITIES AND OWNER'S EQUITY</b>		<u>2,557,078,004.02</u>	<u>2,757,371,809.28</u>

**Jiangsu Changbao Steel Tube Co., Ltd.**

**INCOME STATEMENT**

For the year ended 31 December 2014

MONETARY UNIT: RMB ¥

	NOTES	<u>2013</u>	<u>2014</u>
<b>Revenues from operations</b>	<b>5.25</b>	2,808,453,038.05	2,112,155,709.30
Less: Cost of operations	<b>5.25</b>	2,438,890,426.75	1,802,811,896.29
Tax and levies on operations	<b>5.26</b>	7,345,591.23	8,932,635.52
<b>Gross profit</b>		<u>362,217,020.07</u>	<u>300,411,177.49</u>
Less: Selling expenses		108,202,570.70	68,761,048.96
General and administrative expenses		131,433,898.05	113,419,303.95
Financial expenses	<b>5.27</b>	-2,302,000.97	-15,591,433.05
Impairment losses of Assets(gain expressed with "-")	<b>5.28</b>	19,160,503.04	-3,487,526.95
Add: Profits and losses from fair value changes			
Add: Investment income(loss expressed with "-")	<b>5.29</b>	20,919,056.00	27,387,217.55
<b>Operation profit</b>		<u>126,641,105.25</u>	<u>164,697,002.13</u>
Add: Non-operating income	<b>5.30</b>	19,481,400.00	6,519,379.89
Less: Non-operating expenses	<b>5.31</b>	1,096,414.63	114,812.76
<b>Profit before tax</b>		<u>145,026,090.62</u>	<u>171,101,569.26</u>
Less: Income tax	<b>5.32</b>	12,090,963.05	19,085,485.97
<b>Net profit</b>		<u><u>132,935,127.57</u></u>	<u><u>152,016,083.29</u></u>

**Jiangsu Changbao Steel Tube Co., Ltd.**

**CASHFLOW STATEMENT**

**For the year ended 31 December 2014**

MONETARY UNIT: RMB¥

**2014**

**Cash Flows from Operating Activities:**

Cash received from sales of goods or rendering of services	2,190,483,308.76
Refund of tax and levies	36,260,554.16
Other cash received relating to operating activities	18,928,464.89
<b>Sub-total of cash inflows</b>	<b>2,245,672,327.81</b>
Cash paid for goods and services	1,360,344,212.46
Cash paid to and on behalf of employees	54,935,811.44
Payments of all types of taxes	67,819,937.34
Other cash paid relating to operating activities	86,216,611.90
<b>Sub-total of cash outflows</b>	<b>1,569,316,573.14</b>
<b>Net cash flows from operating activities</b>	<b>676,355,754.67</b>

**Cash Flows from Investing Activities:**

Net cash received from disinvestments	27,387,217.55
Net cash received from investment income	1,316,915.90
Net cash received from disposal of fixed assets, intangible assets & other long-term assets	
Net cash received from other investment activities	
<b>Sub-total of cash inflows</b>	<b>28,704,133.45</b>
Cash paid to acquire fixed assets, intangible assets & other long-term assets	79,203,492.93
Cash paid to acquire investments	356,893,984.54
Cash paid to acquire subsidiary companies or other companies	
<b>Sub-total of cash outflows</b>	<b>436,097,477.47</b>
<b>Net cash flows from investing activities</b>	<b>-407,393,344.02</b>

**Cash Flows From Financing Activities**

Cash received from capital contribution	
Cash received from borrowings	
<b>Sub-total of cash inflows</b>	
Cash repayment of amounts borrowed	
Cash payment for interest expenses and distribution of dividends or profit	80,020,000.00
<b>Sub-total of cash outflows</b>	<b>80,020,000.00</b>
<b>Net cash flows from financing activities</b>	<b>-80,020,000.00</b>

<b>Effect of Foreign Exchange Rate Changes on Cash</b>	<b>963,588.95</b>
--	-------------------

<b>Net Increase in Cash and Cash Equivalents</b>	<b>189,905,999.60</b>
--	-----------------------



**Jiangsu Changbao Steel Tube Co., Ltd.**  
**Notes to the Financial Statements**  
**2014**

**1. General situations**

On Feb. 2, 2008, Jiangsu Changbao Steel Tube Co., Ltd. (the Company) changed its type of entity from the limited company to the incorporated company. 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**

On March 24 2015, the board of directors made the resolution about the distribution of the profit of 2014. The board of directors planed to distribute the dividends (2 yuan per 10 shares) to all the shareholders.

#### 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 2013</u>	<u>31 December 2014</u>
Cash on hands	8,646.68	24,704.76
Cash in bank	215,071,560.58	404,961,155.84
Other monetary assets	46,948,968.38	25,342,575.09
<b>Total</b>	<b>262,029,175.64</b>	<b>430,328,435.69</b>

##### 5.2 Notes receivable

<u>Items</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Bank acceptance	66,320,626.89	18,029,930.11
Trade acceptance		15,193,022.27
<b>Total</b>	<b>66,320,626.89</b>	<b>33,222,952.38</b>

### 5.3 Accounts receivable

(1) Analyzing of account ages  
31 December 2013

31 December 2014

Aging	Amount	Proportion to total accounts receivable(%)	Provision for bad debts	Amount	Proportion to total accounts receivable(%)	Provision for bad debts
Within 1year	394,184,187.50	98.93%	19,709,209.38	161,638,744.09	96.66%	6,218,652.99
1-2years	4,159,819.29	1.04%	415,981.93	5,188,135.36	3.10%	518,813.54
2-3years	116,204.66	0.03%	23,240.93	279,086.30	0.17%	55,817.26
3-4years				116,204.66	0.07%	34,861.40
4-5years						
5years and aboves						
	<b>398,460,211.45</b>	<b>100.00%</b>	<b>20,148,432.24</b>	<b>167,222,170.41</b>	<b>100.00%</b>	<b>6,828,145.19</b>

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

### 5.4 Advanced to suppliers

(1) Analyzing of account ages

31 December 2013

31 December 2014

Aging	Amount	Proportion to total advanced to suppliers(%)	Amount	Proportion to total advanced to suppliers(%)
Within 1year	330,908,269.79	99.77%	347,121,956.46	96.30%
1-2years	197,283.00	0.05%	13,046,332.78	3.62%
2-3years	515,982.90	0.16%	126,046.00	0.04%
3years and above	52,868.63	0.02%	145,976.53	0.04%
<b>Total</b>	<b>331,674,404.32</b>	<b>100.00%</b>	<b>360,440,311.77</b>	<b>100.00%</b>

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



## 5.5 Other receivables

(1) Analyzing of account ages

Aging	31 December 2013			31 December 2014		
	Amount	Proportion to total other receivables (%)	Provision for bad debts	Amount	Proportion to total other receivables (%)	Provision for bad debts
Within 1year	55,588,678.84	99.80%	2,779,433.94	1,808,593.24	99.55%	90,429.66
1-2years	114,094.00	0.20%	11,409.40	1,500.00	0.08%	150.00
2-3years	2,400.00	0.00%	480.00	5,600.00	0.31%	1,120.00
3-4years	1,000.00	0.00%	300.00			
4-5years	876.84	0.00%	526.10	1,000.00	0.06%	600.00
5years above						
<b>Total</b>	<b>55,707,049.68</b>	<b>100.00%</b>	<b>2,792,149.44</b>	<b>1,816,693.24</b>	<b>100.00%</b>	<b>92,299.66</b>

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

## 5.6 Inventories

Items	31 December 2013		31 December 2014	
	Amount	Provision	Amount	Provision
Raw materials	63,576,579.82		47,085,765.87	
Goods in process	9,459,036.81		1,173,605.06	
Materials on the way	904,318.69		891,779.59	
Finished goods	220,002,090.73	10,623,151.98	193,354,143.09	7,215,722.54
<b>Total</b>	<b>293,942,026.05</b>	<b>10,623,151.98</b>	<b>242,505,293.61</b>	<b>7,215,722.54</b>

#### 5.7 Other current assets

<u>Items</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
	<u>Amount</u>	<u>Amount</u>
Entrusted Loans		170,000,000.00
Input value-added tax to be deducted	11,901,101.49	1,486,961.43
<b>Total</b>	<b><u>11,901,101.49</u></b>	<b><u>171,486,961.43</u></b>

#### 5.8 Available for sale

<u>Items</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
The trust plans		160,000,000.00
Bank of Jiangsu	1,345,700.00	1,345,700.00
Jiangsu Ninghu Expressway Corporation	1,116,000.00	1,460,000.00
<b>Total</b>	<b><u>2,461,700.00</u></b>	<b><u>162,805,700.00</u></b>

### 5.9 Long-term investments

Items	<u>31 December</u> <u>2013</u>	<u>Current year</u> <u>addition</u>	<u>Current year</u> <u>reduce</u>	<u>31 December</u> <u>2014</u>
Changzhou Changbao Special and Precision Steel Tube Co.,Ltd.	18,000,000.00			18,000,000.00
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.	628,002,300.00			628,002,300.00
Changbao International Holdings Co, Ltd.	40,638,141.72	18,470,876.34		59,109,018.06
Jiangsu Changbao Steel Tube Sales Co., Ltd.	5,000,000.00			5,000,000.00
<b>Total</b>	<b>821,027,002.57</b>	<b>18,470,876.34</b>		<b>839,497,878.91</b>

- (1) On 1 December 2014, the Company passed a resolution to investe HK23,200,900.00 in Changbao International Holdings Co., Ltd.

### 5.10 Fixed assets and accumulated depreciation

#### Original value

Categories	<u>31 December 2013</u>	<u>Current year addition</u>	<u>Current year disposal</u>	<u>31 December 2014</u>
Buildings	153,642,312.96	9,363,988.73	712,478.79	162,293,822.90
Machinery equipment	443,580,676.64	29,884,500.74	7,917,077.42	465,548,099.96
Electronic equipment	8,291,699.21	49,295.72	353,931.29	7,987,063.64
Vehicle	4,430,703.83		692,220.00	3,738,483.83
<b>Total</b>	<b>609,945,392.64</b>	<b>39,297,785.19</b>	<b>9,675,707.50</b>	<b>639,567,470.33</b>

#### Accumulated depreciation

Categories	<u>31 December 2013</u>	<u>Current year depreciation</u>	<u>Current year disposal</u>	<u>31 December 2014</u>
Buildings	64,730,783.25	5,616,335.75	43,701.27	70,303,417.73
Machinery equipment	245,632,262.21	32,528,217.28	7,118,926.68	271,041,552.81
Electronic equipment	7,790,763.85	57,314.91	336,234.73	7,511,844.03
Vehicle	3,321,276.83	334,219.55	466,328.67	3,189,167.71
<b>Total</b>	<b>321,475,086.14</b>	<b>38,536,087.49</b>	<b>7,965,191.35</b>	<b>352,045,982.28</b>
<u>Net value</u>	<u><b>288,470,306.50</b></u>			<u><b>287,521,488.15</b></u>

#### 5.11 Construction in process

Projects	<u>31 December 2013</u>	<u>Current year addition</u>	<u>Transfer to fixed assets</u>	<u>Transfer to others</u>	<u>31 December 2014</u>
Construction in Process	690,788.23	57,848,965.90	37,542,988.20		20,996,765.93
<b>Total</b>	<b>690,788.23</b>	<b>57,848,965.90</b>	<b>37,542,988.20</b>		<b>20,996,765.93</b>

#### 5.12 Intangible assets

Items	<u>Original cost</u>	<u>31 December 2013</u>	<u>Current year addition</u>	<u>Current year amortization</u>	<u>31 December 2014</u>
Land use Right	66,512,036.00	52,922,784.80		1,379,884.80	51,542,900.00
<b>Total</b>	<b>66,512,036.00</b>	<b>52,922,784.80</b>		<b>1,379,884.80</b>	<b>51,542,900.00</b>

#### 5.13 Deferred tax assets

Items	<u>31 December 2013</u>	<u>31 December 2014</u>
Provisions for bad debts	3,441,087.26	1,038,066.77
Provisions for inventory	1,593,472.80	1,082,358.38
<b>Total</b>	<b>5,034,560.06</b>	<b>2,120,425.15</b>

#### 5.14 Notes payable

Items	<u>31 December 2013</u>	<u>31 December 2014</u>
Banker's acceptance	85,361,165.98	234,489,495.94
<b>Total</b>	<b>85,361,165.98</b>	<b>234,489,495.94</b>

(1) The notes payable will mature from Jan.2015 to June 2015.

(2) The balance of the banker's acceptance on Dec. 31, 2014 was pledged by bank guarantee deposits.

**5.15 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

**5.16 Accrued payroll and welfare benefit payable**

Items	<u>31 December 2013</u>	<u>Current year addition</u>	<u>Current year reduce</u>	<u>31 December 2014</u>
1.Wages and bonus		37,817,487.91	33,800,632.91	4,016,855.00
2.Welfare expense		2,960,884.47	2,960,884.47	
3.Employee's Education budget and Labor union budget		1,041,506.29	1,041,506.29	
4.Social insurance expense		9,468,511.77	9,468,511.77	
5.Housing accumulation fund		1,992,873.00	1,992,873.00	
6.Compensation for termination of labor relationship		272,621.00	272,621.00	
<b>Total</b>		<b>53,553,884.44</b>	<b>49,537,029.44</b>	<b>4,016,855.00</b>



**5.17 Taxes payable**

<u>Items</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Enterprise income tax	5,276,600.80	4,438,516.98
Housing property tax	203,151.11	227,995.29
Urban land using tax	397,877.40	397,877.40
Stamp tax	58,813.90	49,585.60
Individual income tax	21,269.21	24,951.32
Construction tax	395,731.95	882,205.76
Operation tax	85,915.11	18,904.95
Education supplementary tax	282,665.69	630,146.97
<b>Total</b>	<b>6,722,025.17</b>	<b>6,670,184.27</b>

**5.18 Deferred tax liabilities**

<u>Items</u>	<u>31 December 2013</u>	<u>31 December 2014</u>
Available for sale- Jiangsu Ninghu Expressway Corporation	113,400.00	165,000.00
<b>Total</b>	<b>113,400.00</b>	<b>165,000.00</b>

### 5.19 Paid-in capital

<u>Investor</u>	<u>31 December 2013</u>	<u>Current year additon</u>	<u>Current year reduces</u>	<u>31 December 2014</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
<b>Total</b>	<b>400,100,000.00</b>			<b>400,100,000.00</b>

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

### 5.20 Capital reserve

<u>Items</u>	<u>31 December 2013</u>	<u>Current year additions</u>	<u>Current year reduces</u>	<u>31 December 2014</u>
Capital stock premium	1,125,852,212.32			1,125,852,212.32
Others	-296,314.60			-296,314.60
<b>Total</b>	<b>1,125,555,897.72</b>			<b>1,125,555,897.72</b>

### 5.21 Other comprehensive income

<u>Items</u>	<u>31 December 2013</u>	<u>Current year additions</u>	<u>Current year reduces</u>	<u>31 December 2014</u>
Profits from fair value changes	642,600.00	292,400.00		935,000.00
<b>Total</b>	<b>642,600.00</b>	<b>292,400.00</b>		<b>935,000.00</b>

## 5.22 Special reserve

<u>Items</u>	<u>31 December 2013</u>	<u>Current year addition</u>	<u>Current year reduce</u>	<u>31 December 2014</u>
Safety production cost	9,674,226.34	92,679.74		9,766,906.08
<b>Total</b>	<b>9,674,226.34</b>	<b>92,679.74</b>		<b>9,766,906.08</b>

## 5.23 Surplus reserve

<u>Items</u>	<u>31 December 2013</u>	<u>Current year additions</u>	<u>Current year reduces</u>	<u>31 December 2014</u>
Statutory Reserved fund	91,540,942.58	15,201,608.33		106,742,550.91
Discretionary Reserved fund	91,540,942.57	15,201,608.33		106,742,550.90
<b>Total</b>	<b>183,081,885.15</b>	<b>30,403,216.66</b>		<b>213,485,101.81</b>

## 5.24 Undistributed profit

<u>Items</u>	<u>31 December 2013</u>	<u>Current year additions</u>	<u>Current year reduces</u>	<u>31 December 2014</u>
Undistributed profit	560,408,990.76	41,592,866.63		602,001,857.39

**5.25 Revenues from operations and cost of operations**

<u>Items</u>	<u>Revenues from operations</u>		<u>Cost of operations</u>		<u>Gross profit from operations</u>	
	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>
Revenues from main operations	2,693,991,348.45	2,024,515,006.49	2,339,689,009.38	1,717,376,892.90	354,302,339.07	307,138,113.59
Revenues from other operations	114,461,689.60	87,640,702.81	99,201,417.37	85,435,003.39	15,260,272.23	2,205,699.42
<b>Total</b>	<b>2,808,453,038.05</b>	<b>2,112,155,709.30</b>	<b>2,438,890,426.75</b>	<b>1,802,811,896.29</b>	<b>369,562,611.30</b>	<b>309,343,813.01</b>

**5.26 Tax and levies on operations**

<u>Items</u>	<u>2013</u>	<u>2014</u>
Operation tax	735,932.12	802,280.03
Construction tax	3,855,634.46	4,742,707.38
Education supplementary tax	2,754,024.65	3,387,648.11
<b>Total</b>	<b>7,345,591.23</b>	<b>8,932,635.52</b>

**5.27 Financial expenses**

<u>Items</u>	<u>2013</u>	<u>2014</u>
Interest expenses	2,194,632.11	
Less: interest income	10,096,685.62	14,689,764.89
Foreign Exchange losses ("-"gains)	4,969,945.33	-1,538,761.34
Others	630,107.21	637,093.18
<b>Total</b>	<b>-2,302,000.97</b>	<b>-15,591,433.05</b>

**5.28 Impairment loss of assets**

<u>Items</u>	<u>2013</u>	<u>2014</u>
Provision for bad debts	8,537,351.06	-16,020,136.83
Provision for inventories	10,623,151.98	12,532,609.88
<b>Total</b>	<b>19,160,503.04</b>	<b>-3,487,526.95</b>

**5.29 Investment income**

<u>Items</u>	<u>2013</u>	<u>2014</u>
Dividends received from Changzhou Changbao Special and Precision Steel Tube Co., Ltd.	18,000,000.00	21,600,000.00
Dividends received from Bank of Jiangsu		91,656.00
Dividends received from Huning Highway		76,000.00
Others	2,919,056.00	5,619,561.55
<b>Total</b>	<b>20,919,056.00</b>	<b>27,387,217.55</b>

**5.30 Non-operating income**

<u>Items</u>	<u>2013</u>	<u>2014</u>
Government subsidy	19,475,100.00	5,630,900.00
Gain from the disposal of fixed assets		828,879.89
Fines Income		59,600.00
Others	6,300.00	
<b>Total</b>	<b>19,481,400.00</b>	<b>6,519,379.89</b>

**5.31 Non-operating expense**

<u>Items</u>	<u>2013</u>	<u>2014</u>
Loss from the disposal of fixed assets	26,414.63	44,812.76
Donations	1,070,000.00	70,000.00
<b>Total</b>	<b>1,096,414.63</b>	<b>114,812.76</b>

**5.32 Income tax**

<u>Items</u>	<u>2013</u>	<u>2014</u>
Income tax caculated in accordance with taxation law and relative regulations	14,965,038.51	16,171,351.06
Adjustments due to deferred tax	-2,874,075.46	2,914,134.91
<b>Total</b>	<b>12,090,963.05</b>	<b>19,085,485.97</b>



## 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
Changbao International Holdings Co., Ltd	Limited company	HK73,200,900.00	HK73,200,900.00	100%	Investments
Jiangsu Changbao Steel Tube Sales Co.,Ltd	Limited company	5,000,000.00	5,000,000.00	100%	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 2014.

## 8 **Commitments**

No commitments exist as at 31 December 2014.

## 9 **Events occurring after the balance sheet date**

On March 24 2015, the board of directors made the resolution about the distribution of the profit of 2014. The board of directors planed to distribute the dividends (2 yuan per 10

shares) to all the shareholders.

**10 Other important matters**

None.

**Jiangsu Changbao Steel Tube Co., Ltd.**

**24 March 2015**