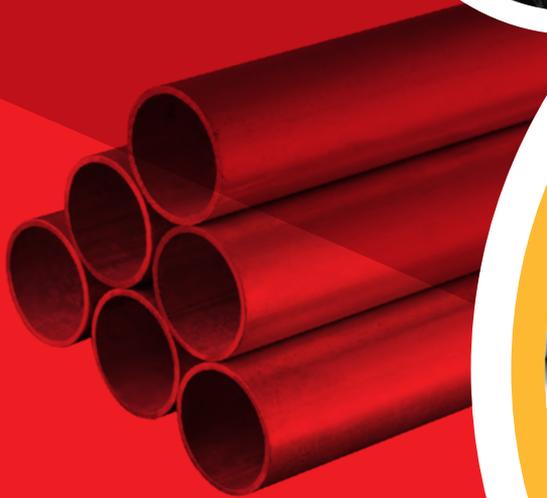


迈科管业控股有限公司

MAIKE TUBE INDUSTRY HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

Stock code: 1553



2020

INTERIM REPORT

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In case of any inconsistency between the English version and the Chinese version of this interim report, the English version shall prevail.



DEFINITIONS

In this interim report, unless the context otherwise requires, the following terms shall have the meanings set out below:

“Articles”	the articles of association of the Company, as amended from time to time
“ASP”	Average selling price
“Audit Committee”	the audit committee of the Board
“Board”	The board of Directors
“China” or “PRC”	The People’s Republic of China
“Company”	Maike Tube Industry Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability on 1 February 2019, the Shares of which are listed on the Main Board of the Stock Exchange
“Corporate Governance Code”	Corporate Governance Code and Corporate Governance Report, Appendix 14 to the Listing Rules, as amended, supplemented or otherwise modified from time to time
“Director(s)”	Director(s) of the Company
“ERW” or “electric resistance welding”	The acronym for electric resistance welding, a welding used in the manufacture of pipes under which pipes are made from strips of hot rolled steel coil which are passed through forming rolls and welded by using heat generated by high frequency electric current passing over the surface of the strips
“ERW steel pipe(s)”	Steel pipes formed by utilising ERW technology
“Group”	The Company and its subsidiaries
“Guan Dao Investments”	Guan Dao Investments Limited, a company incorporated under the laws of the BVI with limited liability on 3 January 2019 and a direct wholly-owned subsidiary of our Company
“HKD”	Hong Kong dollars, the lawful currency of Hong Kong
“HVAC”	Heating, ventilation and air conditioning systems
“Jinan Ma Steel”	Jinan Magang Steel Pipes Manufacturing Company* (濟南瑪鋼鋼管製造有限公司), a company established under the laws of the PRC as a limited liability company on 7 November 2001 and an indirect wholly-owned subsidiary of our Company
“Jinan Mech”	Jinan Mech Piping Technology Co., Ltd* (濟南邁科管道科技有限公司), a company established under the laws of the PRC as a joint stock company with limited liability on 21 May 2013 and an indirect wholly-owned subsidiary of our Company
“Listing”	the listing of the Shares on the Main Board of the Stock Exchange

DEFINITIONS

“Listing Date”	18 December 2019, the date on which the Shares were listed and on which dealings in the Shares were first permitted to take place on the Main Board of the Stock Exchange
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Meide”	Meide Group Co., Ltd.* (玫德集團有限公司) (formerly known as Jinan Meide Foundry Co., Ltd* (濟南玫德鑄造有限公司)), a company established under the laws of the PRC as a limited liability company on 17 January 1992, and held as to 64.51% by Jinan Gong Chuang Meide Corporate Management Partnership (Limited Partnership)* (濟南共創玫德企業管理合夥企業(有限合夥)) and 35.49% by Ningbo Ming De Heng Sheng Investment Limited* (寧波明德恒生投資有限公司)
“Model Code”	The Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules
“Mr. Kong”	Mr. Kong Linglei (孔令磊), one of our controlling shareholders, the Chairman and executive Director
“Nomination Committee”	The nomination committee of the Board
“Prospectus”	Prospectus of the Company dated 29 November 2019
“Remuneration Committee”	The remuneration committee of the Board
“RMB”	Renminbi Yuan, the lawful currency of the PRC
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Shares”	Ordinary shares of our Company with a nominal value of US\$0.001 each
“Share Option Scheme”	A share option scheme passed pursuant to a written resolution by the shareholders on 19 November 2019
“SSAW steel pipe(s)”	spiral submerged arc welded steel pipes which formed by utilising submerged arc welding technology with spiral weld seam, i.e., pipes made from strips of hot rolled steel plates formed helically into cylinders and then welded as they are formed
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tong Chuang Xing De BVI”	Tong Chuang Xing De Limited, a company incorporated under the laws of the BVI with limited liability on 4 January 2019. Tong Chuang Xing De BVI is one of our substantial shareholders
“Tube Industry Investments”	Tube Industry Investments Limited, a company incorporated under the laws of Hong Kong on 23 January 2019 and an indirectly wholly-owned subsidiary of our Company
“USD”	United States dollar, the lawful currency of the United States of America

DEFINITIONS

“Vietnam Piping”	Viet Nam Piping Industries Company Limited, a company incorporated under the laws of Vietnam on 7 January 2019 and an indirectly wholly-owned subsidiary of our Company
“Ying Stone”	Ying Stone Holdings Limited, one of our controlling shareholders, a company incorporated under the laws of the BVI with limited liability on 8 January 2019, which is wholly-owned by Mr. Kong as his investment holding company

In this interim report, “we”, “us” or “our” refers to the Company and where the context otherwise requires, the Group (as defined above).

BOARD OF DIRECTORS

Executive Directors

Mr. KONG Linglei (Chairman)
Mr. GUO Lei (Chief Executive Officer)
Mr. XU Jianjun
Mr. YANG Shufeng

Non-executive Director

Ms. ZHAO Xuelian (Appointed on 31 March 2020)

Independent Non-executive Directors

Mr. LIU Fengyuan
Mr. DING Xiaodong
Mr. MA Changcheng

AUDIT COMMITTEE

Mr. DING Xiaodong (Chairman)
Mr. LIU Fengyuan
Mr. MA Changcheng

REMUNERATION COMMITTEE

Mr. MA Changcheng (Chairman)
Mr. KONG Linglei
Mr. LIU Fengyuan

NOMINATION COMMITTEE

Mr. KONG Linglei (Chairman)
Mr. LIU Fengyuan
Mr. MA Changcheng

COMPANY SECRETARY

Mr. LEUNG Wing Lun (HKICPA)

AUTHORISED REPRESENTATIVES (FOR THE PURPOSE OF THE LISTING RULES)

Mr. GUO Lei
Mr. LEUNG Wing Lun (HKICPA)

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN THE PRC

No. 4 Meide Street
Meigui Zone of Industrial Park
Pingyin County
Jinan, Shandong Province
China

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 629A, 6th Floor
Star House, No. 3 Salisbury Road
Tsim Sha Tsui, Kowloon
Hong Kong

REGISTERED OFFICE

Vistra (Cayman) Limited
P.O. Box 31119 Grand Pavilion
Hibiscus Way, 802 West Bay Road
Grand Cayman KY1-1205
Cayman Islands

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS (EFFECTIVE FROM 1 APRIL 2020)

Tricor Services (Cayman Islands) Limited
2nd Floor, Century Yard,
Cricket Square, P.O. Box 902,
Grand Cayman, KY1-1103,
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shop 1712-1716, 17th Floor, Hopewell Centre
183 Queen's Road East, Wan Chai
Hong Kong

CORPORATE INFORMATION

AUDITOR

Deloitte Touche Tohmatsu

COMPLIANCE ADVISER

Fortune Financial Capital Limited

PRINCIPAL BANKERS

Industrial and Commercial Bank of China Pingyin Branch

Bank of China Pingyin Branch

Bank of China (Hong Kong) Limited

STOCK CODE

1553

COMPANY WEBSITE

<http://www.mechpipingtech.com>

BUSINESS REVIEW

The Group is principally engaged in (i) the manufacturing and sales of standard prefabricated pipe nipple products; (ii) the manufacturing and sales of steel pipe products; and (iii) the design and supply of assembled piping systems. We also sell unused raw materials mainly including steel coils that were procured from our suppliers. The standard prefabricated pipe nipple products of the Group are short pieces of pipes with male threads on each end that can be connected with other fitting. Standard prefabricated pipe nipple products and steel pipes products have different specifications, such as length, outside diameter and surface finishing which cater for the varying needs of the Group's customers and comply with international standards. We sold most of our standard prefabricated pipe nipple products and customised steel pipe products through wholesales or direct sales to the overseas markets. Our welded steel pipe products are roughly classified into standard ERW steel pipes, and SSAW steel pipes. Our Group has received certifications relating to quality control including, among other things, the ISO 9001 certification, ISO 14001 certification and OHSAS 18001 certification. Our products are used and applied in the municipal pipeline system designed for natural gas, water supply, sewage, HVAC and fire extinguish water steel pipes for firefighting. Leveraging our industry knowledge and expertise, we are also capable of designing and supplying assembled piping system for our customers. Customers would seek technical advice or input to their design and/or engineering solutions for their desired assembled piping systems through building information modeling and three-dimension design system to minimise wastage of material and improve efficiency, thus reducing production costs.

During the reporting period, the COVID-19 pandemic posed negative impacts on the Group's performance and business operation to some extent, as well as the implementation of business strategies. The Company has made every effort in epidemic prevention while exploring markets through various means. For the six months ended 30 June 2020, the Group realized a revenue of RMB538.4 million, representing a year-on-year increase of 5.3%, and a net profit of RMB51.9 million, representing a year-on-year increase of 10.7%.

PRODUCTION EXPANSION

The Group pushed forward the implementation of the project to increase its production capacity of ERW steel pipes as planned. As of 30 June 2020, the Company has made investment contribution of RMB26.4 million to the project. Currently, three production lines are in the process of commissioning and are expected to commence commercial operation in the third quarter of the year, with an aim to increase the Company's production capacity, improve the automatic operation of processing production and further enhance its product quality and productivity.

We continued to add new production lines in Vietnam as planned and developed new products. As of 30 June 2020, we have made equipment investments in an amount of RMB1.5 million, and will continue to increase investments in Vietnam Piping in the second half of the year. Products manufactured in our production plant in Vietnam will not be used to solely satisfy customers' orders in the United States, but will also satisfy customers' orders in other regions such as Europe, South Africa, Southeast Asia and Middle East. For the six months ended 30 June 2020, Vietnam Piping sold approximately 441 tons of standard prefabricated products, and recorded the contract amount of RMB12.2 million with the net profit of approximately RMB3.1 million, representing a year-on-year increase of 286 tons, RMB5.8 million and RMB0.6 million respectively. We have obtained two European customers, i.e. Denmark and Croatia. Apart from possible measures with a view to minimise the potential impact of the tariff on our Group's products, the Directors are of the view that the setting up of the expansion production facility in Vietnam will mitigate the impact of China-U.S. Trade War on our operations and financial performance and promote our internationalisation strategy.

MANAGEMENT DISCUSSION AND ANALYSIS

NEW ORDERS

For the six months ended 30 June 2020, the Group received new orders for approximately 10,600 tons of standard prefabricated pipe products, of which approximately 95.4% were from overseas customers; we also received new orders for approximately 98,000 tons of steel pipe products, of which approximately 69.2% were from domestic customers. During the six months ended 30 June 2020, we have delivered approximately 9,000 tons of standard prefabricated pipe products and approximately 80,000 tons of steel pipe products.

STANDARD PREFABRICATED PIPE PRODUCTS

The standard prefabricated pipe products are our key competitive products. For the six months ended 30 June 2020, our revenue from standard prefabricated pipe products amounted to approximately RMB124.9 million, accounting for 23.2% of the total revenue of the Group. For the six months ended 30 June 2019, our revenue from standard prefabricated pipe nipples products amounted to approximately RMB125.2 million, accounting for 24.5% of the total revenue of the Group. The revenue from standard prefabricated pipe nipples products remained in line with that of the corresponding period last year.

STEEL PIPE PRODUCTS

Our steel pipe products are made through rolling steel plate and welding the seam, and are mainly used for natural gas, water supply, HVAC and fire extinguish. In order to meet the demand of individual customers, the Group produced standard steel pipes with value-added processes under customised requirements of customers, including but not limited to pipe body processing, non-standardised surface treatment, pipe end processing, thickened galvanisation, and internal smoothing. For the six months ended 30 June 2020, our ERW steel pipes, spiral submerged arc welded steel pipes and customised steel pipes recorded revenues of approximately RMB159.4 million, RMB108.0 million and RMB85.4 million, respectively, representing a year-on-year increase of -7.5%, 11.2% and 2.0% as compared to 2019, respectively. The total revenue of steel pipe products accounted for approximately 65.5% of the total revenue for the six months ended 30 June 2020.

DESIGN AND SUPPLY OF ASSEMBLED PIPING SYSTEM

Leveraging our industry experience, we are able to design and supply assembled piping systems to our customers to satisfy various physical and functional characteristics of our customers' designated sites. For the six months ended 30 June 2020, our design and supply of assembled piping system recorded the revenue of approximately RMB9.6 million, representing a year-on-year increase of approximately 21.5% as compared to 2019, accounting for approximately 1.8% of the total revenue for the six months ended 30 June 2020.

Save as disclosed, no other factors have changed materially from the information disclosed in the most recent published annual report.

FINANCIAL REVIEW

Our revenue is generated from (i) sales of standard prefabricated pipe products; (ii) sales of steel pipe products; (iii) sales of the design and supply of assembled piping systems; and (iv) sales of unused raw materials mainly including steel coils that were procured from suppliers.

For the six months ended 30 June 2020, our total revenue was approximately RMB538.4 million, representing an increase of approximately RMB27.0 million or 5.3% as compared with that for the six months ended 30 June 2019.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales by product categories

The following table sets forth the breakdown of our revenue, sales volume, ASP, gross profit and gross profit margin by product categories for the periods indicated:

By products	For the six months ended 30 June											
	2020						2019					
	Revenue RMB'000	% of total	Sales volume ton'000	ASP RMB/ton	Gross profit RMB'000	Gross profit margin	Revenue RMB'000	% of total	Sales volume ton'000	ASP RMB/ton	Gross profit RMB'000	Gross profit margin
Standard prefabricated pipe nipples	124,873	23.1%	9.0	13,881	58,472	46.8%	125,158	24.5%	8.5	14,752	56,732	45.3%
Steel pipe products												
ERW steel pipes	159,371	29.6%	35.1	4,537	27,662	17.4%	172,364	33.7%	35.1	4,918	25,188	14.6%
SSAW steel pipes	107,999	20.1%	27.3	3,952	17,714	16.4%	97,134	19.0%	22.2	4,382	18,201	18.7%
Customised steel pipes	85,372	15.9%	16.8	5,701	16,284	19.1%	83,700	16.4%	18	4,641	18,126	21.7%
Design and supply of assembled piping system	9,562	1.8%	N/A	N/A	4,753	49.7%	7,922	1.5%	N/A	N/A	2,516	31.8%
Sales of unused raw materials	51,183	9.5%	16.9	3,034	426	0.8%	25,108	4.9%	7.4	3,380	221	0.9%
Total	<u>538,360</u>	<u>100.0%</u>			<u>125,311</u>	<u>23.3%</u>	<u>511,386</u>	<u>100.0%</u>			<u>120,984</u>	<u>23.7%</u>

The revenue generated from sales of standard prefabricated pipe products remained relatively stable at approximately RMB125.2 million for the six months ended 30 June 2019 and approximately RMB124.9 million for the six months ended 30 June 2020.

The revenue generated from ERW steel pipes decreased by approximately 7.5%, from approximately RMB172.4 million for the six months ended 30 June 2019 to approximately RMB159.4 million for the six months ended 30 June 2020, which was mainly due to the decrease in ASP for the six months ended 30 June 2020. The revenue generated from SSAW steel pipes increased by approximately 11.2%, from approximately RMB97.1 million for the six months ended 30 June 2019 to approximately RMB108.0 million for the six months ended 30 June 2020, which was mainly due to the combined effect of the increase in sales volume and the decrease in the average ASP during the six months ended 30 June 2020. The revenue generated from customised steel pipes remained relatively stable, at approximately RMB83.7 million for the six months ended 30 June 2019 and approximately RMB85.4 million for the six months ended 30 June 2020.

The revenue generated from design and supply of assembled piping system increased from approximately RMB7.9 million for the six months ended 30 June 2019 to approximately RMB9.6 million for the six months ended 30 June 2020, which was mainly due to increase in delivery of orders to our customers.

The revenue generated from sales of unused raw materials increased from approximately RMB25.1 million for the six months ended 30 June 2019 to approximately RMB51.2 million for the six months ended 30 June 2020, mainly due to the increase in sales volume.

MANAGEMENT DISCUSSION AND ANALYSIS

Sales by geographical regions

The following table sets forth the breakdown of our revenue by geographical regions of our products for the periods indicated:

By regions	For the six months ended 30 June			
	2020		2019	
	Revenue RMB'000	% of total	Revenue RMB'000	% of total
Domestic market				
PRC	296,360	55.1%	282,946	55.4%
Overseas markets				
The United States	94,300	17.5%	83,797	16.4%
Other countries in America (excluding the United States)	38,435	7.1%	52,321	10.2%
Other countries in Asia (excluding the PRC)	70,427	13.1%	65,466	12.8%
Europe	11,923	2.2%	7,799	1.5%
Others	26,915	5.0%	19,057	3.7%
Total	538,360	100.0%	511,386	100.0%

Note: Other countries in Americas (excluding the United States) comprise the continents of North and South America. Others mainly include Oceania and Africa.

GROSS PROFIT AND GROSS PROFIT MARGIN

Gross profit increased by approximately 3.6% or RMB4.3 million from approximately RMB121.0 million for the six months ended 30 June 2019 to approximately RMB125.3 million for the six months ended 30 June 2020. Such increase was mainly attributable to the increase in revenue, with gross profit margin basically in line with the that for the corresponding period.

OTHER INCOME

For the six months ended 30 June 2020, other income mainly represents interest income and government grant, which increased from approximately RMB0.6 million for the six months ended 30 June 2019 by approximately 216.7% or RMB1.3 million to approximately RMB1.9 million for the six months ended 30 June 2020. The increase in other income was mainly due to the increase in government grant by RMB1.1 million.

OTHER GAINS AND LOSSES

For the six months ended 30 June 2020, other gains and losses mainly represent gains on sales of scrap materials, fair value gains on structured bank deposits, fair value gains or losses on foreign currency forward contracts, fair value gains or loss on derivative financial instruments and net exchange gains or losses. Other gains and losses decreased from RMB7.3 million for the six months ended 30 June 2019 by approximately 31.5% or RMB2.3 million to approximately RMB5.0 million for the six months ended 30 June 2020. Changes in other gains and losses were mainly attributable to gains on sales of scrap materials of approximately RMB2.6 million as compared to gains of RMB3.6 million in the same period last year, the decrease in income from structured bank deposits by approximately RMB0.2 million; fair value losses on derivative financial instrument of approximately RMB-0.1 million in 2020 as compared to gains of approximately RMB0.5 million in the same period of 2019; and gains on foreign exchange of approximately RMB0.7 million in 2020 as compared to gains of approximately RMB1.6 million in the same period of 2019.

DISTRIBUTION AND SELLING EXPENSES

Distribution and selling expenses increased from approximately RMB26.4 million for the six months ended 30 June 2019 by approximately 24% or RMB6.4 million to approximately RMB32.8 million for the six months ended 30 June 2020, which was primarily due to (i) the increase in transportation fees; and (ii) the increase in ocean freight and sundry expenditures.

ADMINISTRATIVE EXPENSES

Administrative expenses increased from approximately RMB11.5 million for the six months ended 30 June 2019 by approximately 53.9% or RMB6.2 million to approximately RMB17.7 million for the six months ended 30 June 2020, which was primarily due to the increase in compensation of management staff and the increase in professional fees for the consulting services after its listing.

RESEARCH AND DEVELOPMENT COSTS

The cost of research and development increased from approximately RMB21.8 million for the six months ended 30 June 2019 by approximately 5.5% or RMB1.2 million to approximately RMB23.0 million for the six months ended 30 June 2020. Our research and development costs accounted for approximately 4.3% of the total revenue (same period of 2019: approximately 4.3%).

IMPAIRMENT LOSSES ON TRADE RECEIVABLES AND CONTRACT ASSETS

As of 30 June 2020, impairment losses on trade receivables and contract assets were approximately RMB0.05 million (2019: approximately RMB1.3 million).

FINANCE COSTS

Finance costs decreased from RMB6.5 million for the six months ended 30 June 2019 by approximately 50.8% or RMB3.3 million to approximately RMB3.2 million for the six months ended 30 June 2020. The decrease was primarily due to the decrease in bank loan expense.

MANAGEMENT DISCUSSION AND ANALYSIS

TAXATION CHARGE

Taxation charge decreased from RMB7.8 million for the six months ended 30 June 2019 to RMB3.6 million for the six months ended 30 June 2020, primarily due to the increase in the deduction of income tax in respect of research and development projects after confirmation by third party intermediary.

PROFIT FOR THE PERIOD

Profit for the period increased by approximately 10.7% or RMB5.0 million from RMB46.9 million for the six months ended 30 June 2019 to RMB51.9 million for the six months ended 30 June 2020, with the net profit margin of approximately 9.6%.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

	For the six months ended	
	30 June	
	2020	2019
	RMB'000	RMB'000
Net cash generated from/(used in) operating activities	88,075	(23,791)
Net cash (used in)/generated from investing activities	(11,163)	60,028
Net cash (used in)/generated from financing activities	(139,956)	34,984
Net (decrease)/increase in cash and cash equivalents	(63,044)	71,221
Cash and cash equivalents at the beginning of the period	215,108	46,450
Cash and cash equivalents at the end of the period	<u>152,064</u>	<u>117,671</u>

GEARING RATIO

As at 30 June 2020, the gearing ratio of the Group, calculated based on the total interest-bearing debts divided by the total equity of the Company as at the respective period and multiplied by 100%, was approximately 14.4% (31 December 2019: approximately 36.4%). As at 30 June 2020, our total interest-bearing debts were bank borrowings amounted to RMB101.0 million. The decrease of gearing ratio was primarily attributable to repayment of loans.

NET CASH GENERATED FROM/(USED IN) OPERATING ACTIVITIES

Our net cash generated from operating activities increased from approximately RMB-23.8 million for the six months ended 30 June 2019 to approximately RMB88.1 million for the six months ended 30 June 2020.

The increase in net cash generated from operating activities was mainly due to (i) increase in revenue; (ii) decrease in trade receivables backed by bills; (iii) decrease in deposits, prepayments and other receivables; and (iv) increase in trade and bills payables.

NET CASH (USED IN)/GENERATED FROM INVESTING ACTIVITIES

Our net cash from investing activities changed from a net inflow of approximately RMB60.0 million for the period ended 30 June 2019 to a net outflow of approximately RMB11.2 million for the period ended 30 June 2020. The change in net cash was primarily due to (i) an increase in expenses incurred for construction of fixed assets; and (ii) a year-on-year decrease in structured bank deposits.

NET CASH (USED IN)/GENERATED FROM FINANCING ACTIVITIES

Our net cash from financing activities changed from net inflow of approximately RMB35 million for the period ended 30 June 2019 to a net outflow of approximately RMB140 million for the period ended 30 June 2020. The changes in net cash used in financing activities were primarily due to the repayment of bank borrowings and payment of bank loan interest.

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to our shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of debt, including borrowings and equity attributable to owners of the Company, comprising issued capital and reserves. The management of the Group reviews the capital structure by considering the cost of capital and the risks associated with each class of capital.

The Group has adopted a prudent financial management approach towards its treasury policy. The Board closely monitors its liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet the funding requirements of the Group. During the Reporting Period, the Group's funded its working capital requirements with a combination of various sources, including but not limited to cash generated from operations, the net proceeds from Global Offering, bank balances and cash and borrowings.

The Group's pledged bank deposits, time deposits and bank balances and cash as at 30 June 2020 amounted to approximately RMB158.6 million, representing a decrease of approximately RMB57.5 million as compared to that of approximately RMB216.1 million as at 31 December 2019.

The Group's borrowings as at 30 June 2020 were all denominated in RMB. The interest rates ranged from 3.9% to 4.55% per annum.

As at 30 June 2020, the Group's borrowing amounted to approximately RMB101.1 million, representing a decrease of approximately RMB136.4 million as compared to that of approximately RMB237.5 million as at 31 December 2019. The Group's borrowing of approximately RMB101.1 million as at 30 June 2020 was repayable within one year.

NET CURRENT ASSETS AND LIABILITIES

Inventories

Our balance of inventories increased by approximately RMB31.6 million or 16.2% from approximately RMB194.9 million as at 31 December 2019 to approximately RMB226.5 million as at 30 June 2020, which was mainly driven by the increase of undelivered finished goods. Our average turnover days of inventories (net of provision) increased from 79 days as at 31 December 2019 to 91 days as at 30 June 2020, mainly due to increase in inventories.

TRADE RECEIVABLES AND TRADE RECEIVABLES BACKED BY BILLS

Our trade receivables increased by approximately RMB8.7 million or 4.7% from approximately RMB185.9 million as at 31 December 2019 to approximately RMB194.6 million as at 30 June 2020, mainly due to increase in sales during the current period and trade receivables being not yet due for payment.

Our trade receivables backed by bills decreased from approximately RMB76.2 million as at 31 December 2019 to approximately RMB38.4 million as at 30 June 2020, mainly due to maturity of bank bills previously received.

MANAGEMENT DISCUSSION AND ANALYSIS

CONTRACT ASSETS

Our contract assets increased from approximately RMB16.4 million as of 31 December 2019 to approximately RMB18.1 million as of 30 June 2020, mainly due to increase in sales.

DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Our deposits, prepayments and other receivables decreased from approximately RMB70.9 million as at 31 December 2019 to approximately RMB67.7 million as at 30 June 2020, mainly due to the settlement in prepayment.

AMOUNTS DUE FROM/TO RELATED PARTIES

Amounts due from related parties decreased from approximately RMB6.5 million as at 31 December 2019 to approximately RMB5.1 million as at 30 June 2020, mainly due to the settlement of trade amounts at the end of the period.

Amounts due to related parties decreased from approximately RMB0.5 million as at 31 December 2019 to approximately RMB0.04 million as at 30 June 2020, mainly due to the settlement of trade amounts at the end of the period.

TRADE PAYABLES

Our trade payables increased from approximately RMB42.4 million as of 31 December 2019 to approximately RMB60.7 million as of 30 June 2020, mainly due to the outstanding trade payables to our suppliers at the end of the period.

CONTRACT LIABILITIES

Our contract liabilities increased from approximately RMB25.4 million as at 31 December 2019 to approximately RMB35.5 million as at 30 June 2020, which was related to timing of delivery of products to our customers.

REFUND LIABILITIES

Our refund liabilities decreased from approximately RMB7.3 million as of 31 December 2019 to approximately RMB2.7 million as of 30 June 2020, primarily due to settlement of liabilities.

OTHER PAYABLES AND ACCRUED CHARGES

Our other payables and accrued charges increased from approximately RMB34.8 million as of 31 December 2019 to approximately RMB35.8 million as of 30 June 2020, basically in line with that of the same period last year.

PROVISIONS

Our provisions decreased from approximately RMB1.5 million as of 31 December 2019 to approximately RMB0.7 million as of 30 June 2020. Provisions represent warranty provided for our products sold.

BORROWINGS

Our borrowings decreased from approximately RMB237.5 million as of 31 December 2019 to approximately RMB101.1 million as of 30 June 2020, mainly due to repayment of bank loans with the raised fund and part of our own fund. The Group's borrowing of approximately RMB101.1 million as at 30 June 2020 was repayable within one year.

LEASE LIABILITIES

As of 30 June 2020, our Group leased a property to operate our factory and the lease liabilities were measured at the present value of the lease payments that are not yet paid. We recorded lease liabilities of approximately RMB1.2 million, as we leased a production plant in Vietnam in end of 2018, of which RMB0.4 million was secured by rental deposit, but unguaranteed.

FOREIGN CURRENCY RISK

A substantial majority of our assets and liabilities are denominated in RMB, except for the following items:

- (i) Certain bank balances are denominated in USD and HKD;
- (ii) Sales of goods to overseas customers and related trade receivables are denominated in USD.

RMB is not a freely convertible currency. Future exchange rates of the RMB could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the PRC government. The exchange rates may also be affected by economic developments and political changes domestically and internationally, and the demand and supply of the RMB. The appreciation or devaluation of RMB against USD or HKD may have impact on the financial performance of the Group. Our Group mainly manages potential fluctuation in foreign exchange through foreign currency forward contracts, and has not entered into any hedging transactions.

DIVIDEND

The Board does not recommend the payment of dividend for the six months ended 30 June 2020 (2019: nil).

PLEDGE OF ASSETS

As at 30 June 2020, our Group pledged certain property, plant and equipment, Right-of-use assets, trade receivables backed by bills and pledged bank deposits with the total net book value of approximately RMB109.5 million (2019: approximately RMB32.9 million) to secure banking facilities granted to the Group (Note 22 of the "Notes to the Condensed Consolidated Financial Statements").

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any material contingent liabilities.

SIGNIFICANT INVESTMENTS HELD BY THE GROUP, MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

For the six months ended 30 June 2020, there was no significant investments held by the Group, and there was no material acquisition and disposal of subsidiaries, associates and joint ventures by the Company.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed under the section headed "Future Plans and Use of Proceeds" in the Prospectus dated 29 November 2019, the Group did not have any other plans for material investments or capital assets during the six months ended 30 June 2020 and up to the date of this interim report.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES

For the six months ended 30 June 2020, labor costs (including Directors' remunerations and emoluments in other forms) were approximately RMB36.8 million (for the six months ended 30 June 2019: RMB29.9 million). Our Group's employees are generally remunerated by way of fixed salary and commission will be awarded to our sales and marketing staff if they have achieved certain sales targets. Our Group utilises an appraisal system for our employees and considers the appraisal results of individual employees when conducting their salary reviews, making promotion decisions and determining the amount of bonuses. Our Group's employees are also entitled to a performance-based bonus, paid leave and various subsidies. The Group believes that nurturing quality staff is particularly important for the long-term development of the enterprise, so it has a policy to provide employees with sufficient training to ensure that they can carry out their work safely and with due diligence. Employees in different positions and functions are provided with various training and development programs related to their necessary skills and knowledge.

As of 30 June 2020, we had 931 employees (30 June 2019: 826 employees), 855 of whom were in the PRC and 76 of whom are located in Vietnam. A breakdown of our employees by functions is set forth below:

Function	As at 30 June 2020	
	China	Vietnam
Managerial, administrative and accounts	57	4
Production	554	65
Quality control	28	5
Procurement and inventory	35	2
Research and development	93	—
Sales and marketing	88	—
	<hr/>	<hr/>
Total number of employees	<u>855</u>	<u>76</u>

USE OF PROCEEDS

The Company has raised gross proceeds of approximately HKD224.4 million (RMB201.8 million) through the global offering upon the Listing. After deducting the listing expenses, the net proceeds amounted to approximately HKD183.6 million (RMB166.4 million). Such net proceeds are intended to be applied in the same manner and the same proportion as disclosed in the section headed "Future Plans and Use of Proceeds" of the Prospectus.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2020, the net proceeds from the global offering had been applied as follows:

	Percentage of total net proceeds from the Global Offering	Planned use of net proceeds from the Global Offering RMB\$'000	Remaining net proceeds as at 31 December 2019 RMB\$'000	Actual use of proceeds for the six months ended 30 June 2020 RMB\$'000	Remaining net proceeds as at 30 June 2020 RMB\$'000	Expected timeline of full utilisation of the remaining proceeds from the Global Offering as at 30 June 2020 (Note 1)
Increasing our production capacity of our production of ERW steel pipes	19.0%	31,625	31,625	26,400	5,225	By the third quarter of 2020
Upgrading one of the SSAW steel pipes production line	22.3%	37,118	37,118	1,284	35,834	By the end of 2021 (Note 2)
Setting up a new production facilities building	9.4%	15,646	15,646	—	15,646	By the end of 2021 (Note 2)
Expanding to overseas to increase the production capacity	9.4%	15,646	15,646	1,472	14,174	By the fourth quarter of 2020
Expanding our business horizontally through acquisition/collaboration	10.0%	16,645	16,645	—	16,645	By the first quarter of 2021
Strengthen research and development capabilities	10.0%	16,645	16,645	16,645	—	—
Repayment of borrowings	10.0%	16,645	—	—	—	—
General working capital	9.9%	16,478	13,416	13,416	—	—
	<u>100%</u>	<u>166,448</u>	<u>146,741</u>	<u>59,217</u>	<u>87,524</u>	

Notes:

- The expected timeline of full utilisation is based on the Directors' best estimation barring unforeseen circumstances.
- The Company originally planned to apply the funds raised in the construction of new plants and upgrading the spiral submerged arc welded steel pipes by the fourth quarter of 2020. However, due to the outbreak of the COVID-19 pandemic and the impact on the PRC and global economy, the development plans slowed down. The Group will continue to assess the development of the economy and the market conditions, as well as its business performance and operation. In light of the persistently uncertain business environment, barring any unforeseen situations beyond the Group's control, it is expected that the unused net proceeds for upgrading one of the SSAW steel pipes production line and setting up a new production facilities building as at 30 June 2020 to be fully utilised by end of 2021 based on the best estimation of Directors.

During the six months ended 30 June 2020, the actual application of the net proceeds from the Listing were used and expected to be used according to the intentions previously disclosed in the Prospectus and saved for the disclosure above, there was no material change or delay in the use of proceeds. The unutilised amount is expected to be used in accordance with the Company's plan as disclosed in the Prospectus.

SHARE OPTION SCHEME

The Company conditionally adopted the Share Option Scheme pursuant to a written resolution passed by its shareholder on 19 November 2019. The Share Option Scheme took effect on 18 December 2019 upon listing of the Company's shares on the Main Board of the Stock Exchange. Summary of the principal terms of the Share Option Scheme is as follows:

(i) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to enable our Group to grant options as defined in the Share Option Scheme to selected participants as incentives or rewards for their contributions to our Group. The Board has not specified any performance target that must be achieved before options can be exercised.

Given that the Board are entitled to determine any performance targets to be achieved and that the exercise price of an option cannot in any event fall below the price stipulated in the Listing Rules or such higher price as may be fixed by the Board, it is expected that grantees of an option will make an effort to contribute to the development of our Group so as to bring about an increase of market price of the Shares in order to capitalise on the benefits of the options granted.

(ii) Participants

The Board may, at their absolute discretion, invite any person belonging to any of the following classes of participants (the "Eligible Persons"), to take up options to subscribe for Shares.

Any individual, being an employee (whether full time or part time), director (including independent non-executive Director), officer, consultant, advisor, distributor, contractor, customer, supplier, agent, business partner, joint venture business partner or service provider of our Company, its subsidiaries or any entity (the "Invested Entity") who the Board considers, in their sole discretion, to have contributed or will contribute to our Company, is entitled to be offered and granted options.

(iii) Maximum number of Shares

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company must not in aggregate exceed 43,380,000 Shares, being 10.0% ("Scheme Mandate Limit") of the Shares in issue immediately after completion of the Global Offering (without taking into account of the Shares which may be issued upon exercise of any options that may be granted under the Share Option Scheme) unless our Company obtains a fresh approval from its Shareholders. Options lapsed in accordance with the terms of the Share Option Scheme will not be counted for the purpose of calculating the Scheme Mandate Limit.

(iv) Maximum entitlement of each participant

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme (including both exercised or outstanding options) to each Eligible Person in any 12-month period must not exceed 1.0% of the issued share capital of our Company from time to time (the "Individual Limit"). Any further grant of options in excess of the Individual Limit in any 12-month period up to and including the date of such further grant must be subject to the issue of a circular to the Shareholders and the Shareholders' approval in general meeting of our Company with such Eligible Person and its associates abstaining from voting.

(v) Time of exercise of option

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed 10 years from the offer date subject to the provisions of termination thereof.

Subject to the discretion of the Board who may impose restrictions on the exercise of the option, an option may be exercised one year after the date on which the option is granted and shall expire on the earlier of the last day of (i) a six years period from the date of such grant and (ii) the expiration of the Share Option Scheme.

(vi) Minimum period

The Board at its discretion may impose such terms and conditions of the offer of grant on a case-by-case basis including but not limited to the minimum period for which an option must be held.

(vii) Payment on acceptance of option

A consideration of HKD1.00 (or such other nominal sum in any currency as the Board may determine) in favour of the Company is payable by the participant who accepts the grant of an option in accordance with the terms of the Share Option Scheme on acceptance of the grant of an option.

(viii) Basis of determining the exercise price

The subscription price ("Subscription Price") for Shares under the Share Option Scheme shall be a price determined by the Directors, but shall not be less than the highest of (i) the closing price of Shares as stated in the Stock Exchange's daily quotations on the date of grant of that option, which must be a business day; (ii) the average closing price of Shares as stated in the Stock Exchange's daily quotations for the five business days immediately preceding the date of grant of that option; provided that in the event that any option is proposed to be granted within a period of less than five business days after the trading of the Shares first commences on the Stock Exchange, the new issue price of the Shares for the Global Offering shall be used as the closing price for any business day falling within the period before listing of the Shares on the Stock Exchange; and (iii) the nominal value of the Shares.

(ix) The remaining life of the Share Option Scheme

The Share Option Scheme will remain in force for a period of 10 years commencing from the Adoption Date. As at the date of this interim report, it has a remaining life of around 9.5 years.

No share options were granted, exercised, cancelled or lapsed under the Scheme since the adoption of the Scheme and up to the date of this interim report, and no outstanding share options under the Share Option Scheme as at 30 June 2020.

APPOINTMENT OF NON-EXECUTIVE DIRECTOR

On 31 March 2020, Ms. Zhao Xuelian was appointed as the non-executive director of the Group. Details are set out in the announcement of the Company dated 31 March 2020.

MANAGEMENT DISCUSSION AND ANALYSIS

EVENTS SUBSEQUENT TO THE REPORTING PERIOD

Save as disclosed, there were no significant events subsequent to 30 June 2020 which would materially affect the Group's operating and financial performance as of the date of this interim report.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of the subsidiaries of the Company purchased, sold or redeemed the listed securities of the Company during the six months ended 30 June 2020.

Save as disclosed in this interim report, there is no material change in the business of the Group since the publication of the last annual report of the Company.

PROSPECTS

Looking ahead, the National Development and Reform Commission of the PRC proposed in the “Medium and Long-Term Oil and Gas Pipeline Network Plan” (《中長期油氣管網規劃》) that efforts shall be made to strengthen domestic and international collaboration, consolidate and improve the northwest, southwest and offshore oil and gas import channels, and promote energy interconnection among countries and regions alongside the “Belt and Road” initiative, with an aim to basically establish the channel pattern of “equal development in land and sea energy network” by 2025. At the same time, it is also necessary to strengthen the construction of the basic network of natural gas pipelines, adhere to the strategy of “west-east gas transmission, north-south gas transmission and offshore-onshore gas transmission,” and gradually form the basic network of natural gas featuring the interconnection of trunk-branch lines and the formation of regional network by 2025. According to the relevant economic data for June released by the National Bureau of Statistics of the PRC on 30 June, the PRC economy showed signs of accelerated recovery. For example, the official manufacturing Purchasing Managers' Index (“PMI”) in June was up by 0.3 percentage point to 50.9%, the manufacturing index was improved to 53.9%, the new order index returned to the level of 51.4%, while the new export order index significantly increased by 7.3 percentage points to 42.6%, with substantial improvement in domestic and international market demands. Among the downstream industries that have huge demand for steel pipes, fixed asset investments in the manufacturing and supply industries in the electricity, transportation, gas, heating and water sectors recorded a year-on-year positive increase with accelerated growth rate. Currently, the international market showed a trend of regional development due to the disruption caused by the pandemic, while the domestic market was also featured with a development landscape of regional integration, such as the economic integration of Yangtze River Delta, the synergetic development of Beijing-Tianjin-Hebei region, the Western Development, the all-around rejuvenation of Northeast China, the rise of Central China, the spearheading development of Eastern China and the construction of the Guangdong-Hong Kong-Macau Greater Bay Area. All these regions have enormous potential demand for steel products. Given that the machinery industry, infrastructure and other sectors maintained steady growth rate, and in view of new demands arising from the construction of 5G base stations and underground pipe gallery, it is expected that total steel consumption in the second half of the year will maintain slight growth. Riding on current situations, the Group will seize the above opportunities to strengthen our own capacities. We will achieve sustainable growth, further strengthen our position in the standard prefabricated pipe nipple industry and steel pipe industry and create long-term value for our Shareholders by executing the following strategies: (i) strengthen the production capacity and competitiveness of spiral welded pipes by upgrading our spiral

welded pipes production lines and adding new production facilities; (ii) continue to increase the production capacity of Vietnam Piping, and expand our business horizontally through acquisitions; and (iii) increase investment in research and development to further strengthen our research and development capabilities.

THE RISK OF MARKET SALES AFFECTED BY THE COVID-19 PANDEMIC

In the first half of 2020, the COVID-19 pandemic spread across the world. Although the pandemic was gradually under control in China, the risk for the pandemic to reoccur still exists as overseas control against the pandemic has not yet improved, which will bring uncertainties to the Company's market sales in the second half of the year. The Company will make every effort in the epidemic prevention work, and focus on our product logistics supply chain services at both ends of supply and demand through proactive communications with customers and suppliers, with an aim to secure the Company's stable and healthy development.

RISK MANAGEMENT

Our management has designed and implemented a risk management policy to address various potential risks identified in relation to the operation of our businesses, including strategic, operational, financial and legal risks. Our risk management policy sets forth procedures to identify, analyse, categorise, mitigate and monitor various risks. Our Board is responsible for overseeing the overall risk management system and assessing and updating our risk management policy on a quarterly basis. Our risk management policy also sets forth the reporting hierarchy of risks identified in our operations.

ENVIRONMENT POLICIES AND PERFORMANCE

The major pollutants generated by our Group in the manufacturing process include various kinds of exhaust gas and wastewater which could be harmful to human body. We are subject to the relevant PRC and Vietnam environmental laws and regulations promulgated by both the state and local governments. During the reporting period, we complied with the pollutant discharge standards, under which the amount of different kinds of heavy exhaust gas and wastewater discharge cannot exceed the prescribed levels.

To ensure our due compliance with the pollutant discharge standard under the relevant PRC and Vietnam environmental laws, rules and regulations, we are implementing the following systems:

- (i) the manufacturing technology, production lines and processes applied/to be applied by our Group as well as samples of the wastewater and gas emission are thoroughly evaluated, tested and analysed by our research and development team;
- (ii) we shall closely monitor the level of pollutants in each step of our production process and we shall take appropriate remedial actions if the level of pollutants exceeds the regulated levels;
- (iii) we shall collect and analyse the samples from our wastewater and gas emission from our manufacturing process on regular basis to ensure our due compliance with relevant discharge standards; and
- (iv) our research and development team makes ongoing efforts to develop new technologies to enhance our manufacturing process to minimise the discharge of pollutants.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and complied with the applicable code provisions in the Corporate Governance Code contained in Appendix 14 to the Listing Rules throughout the six months ended 30 June 2020.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the “Model Code”) as its own Code of Conduct for securities transactions conducted by relevant Directors. Upon specific enquiry of all Directors, all Directors have confirmed that they have complied with the Model Code throughout the six months ended 30 June 2020. No incidents of non-compliance of the Model Code by the relevant employees was noted by the Company.

AUDIT COMMITTEE

The Audit Committee of the Company comprises the Company’s independent non-executive directors, namely Mr. DING Xiaodong (Chairman), Mr. LIU Fengyuan and Mr. MA Changcheng.

The Audit Committee has reviewed the unaudited condensed consolidated interim results of the Group for the six months ended 30 June 2020.

The Audit Committee together with the Company’s management has reviewed and agreed on the accounting principles and practices adopted by the Group for the six months ended 30 June 2020, discussed and reviewed the adequacy and effectiveness of the Group’s internal control systems, risk management functions and financial reporting systems, and that adequate disclosure has been made with no disagreement by the Audit Committee.

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES AND DEBENTURES

As at 30 June 2020, the interests or short positions of the Directors and chief executive of the Company in the Shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to notify the Company and the Stock Exchange were as follows:

Long position in the Shares, underlying shares and debentures of our Company:

Name of Director or chief executive	Nature of interest	Number of Shares/ interested in ⁽¹⁾⁽²⁾	Approximate percentage of shareholding in the Company ⁽¹⁾⁽²⁾
Kong Linglei ⁽³⁾	Interest of a controlled corporation	172,600,000 Shares (L)	39.788%
Ying Stone ⁽³⁾	Beneficial owners	172,600,000 Shares (L)	39.788%
Guo Lei ⁽⁴⁾	Interest of a controlled corporation	51,040,000 Shares (L)	11.766%
Tong Chuang Xing De BVI ⁽⁴⁾	Beneficial owners	51,040,000 Shares (L)	11.766%

Notes:

- (1) All interests stated are long positions.
- (2) Based on the total number of 433,800,000 Shares in issue as at 30 June 2020.
- (3) Kong Linglei held 100% of the issued share capital of Ying Stone, which in turn holds 172,600,000 Shares, representing 39.788% of the issued share capital of our Company.
- (4) Guo Lei held 36.481% of the issued share capital of Tong Chuang Xing De BVI, which in turn holds 51,040,000 Shares, representing 11.766% of the issued share capital of our Company.

Save as disclosed above, as at 30 June 2020, none of the Directors or chief executive of the Company had any interests or short positions in any Shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions of the SFO), or as recorded in the register required to be kept under section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

OTHER INFORMATION

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

As at 30 June 2020, so far as is known or otherwise notified to any Director or the chief executive of the Company, the particulars of the corporations or individuals (other than a Director or the chief executive of the Company) who had interests or short positions in the Shares or underlying shares of the Company which were required to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, or which were record in the register required to be kept under section 336 of the SFO, were as follows:

Name	Nature of Interest	Number of Shares/ interested in ⁽¹⁾⁽²⁾	Approximate percentage of shareholding in the Company ⁽¹⁾⁽²⁾
Tong Chuang Sheng De BVI	Beneficial owner	70,160,000 Shares (L)	16.173%
Shanghai Heng Yuan International Investment Limited* (上海恆源國際投資 有限公司) ⁽³⁾	Beneficial owner	22,000,000 Shares (L)	5.071%
Zhao Pu (趙璞) ⁽³⁾	Interest of a controlled corporation	22,000,000 Shares (L)	5.071%
Zhang Jingru (張晶茹) ⁽⁴⁾	Interest of spouse	22,000,000 Shares (L)	5.071%

Notes:

- (1) All interests stated are long positions.
- (2) Based on the total number of 433,800,000 Shares in issue as at 30 June 2020.
- (3) Zhao Po holds 70% of the issued share capital of Shanghai Heng Yuan International Investment Limited* (上海恆源國際投資有限公司), which in turn holds 22,000,000 Shares, representing 5.071% of the issued share capital of our Company.
- (4) Zhang Jingru is the spouse of Zhao Pu. Under the SFO, Zhang Jingru is deemed to be interested in the same number of Shares in which Zhao Pu is interested.

Save as disclosed above, as at 30 June 2020, the Directors and the chief executive of the Company are not aware of any other person (other than the Directors or chief executive of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which would be required to be notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO; or as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Notes	For the six months ended 30 June	
		2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Revenue	3	538,360	511,386
Cost of sales		<u>(413,049)</u>	<u>(390,402)</u>
Gross profit		125,311	120,984
Other income	4	1,863	572
Other gains and losses	4	5,027	7,305
Distribution and selling expenses		(32,762)	(26,425)
Administrative expenses		(17,685)	(11,495)
Research and development costs		(23,007)	(21,824)
Impairment losses on trade receivables and contract assets	5	(47)	(1,277)
Finance costs	6	(3,165)	(6,526)
Listing expenses		—	(6,609)
Profit before taxation	7	55,535	54,705
Taxation charge	8	<u>(3,638)</u>	<u>(7,817)</u>
Profit for the period		<u><u>51,897</u></u>	<u><u>46,888</u></u>
Other comprehensive income			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operation		<u>375</u>	<u>106</u>
Total comprehensive income for the period		<u><u>52,272</u></u>	<u><u>46,994</u></u>
Profit for the period attributable to:			
Owners of the Company		51,897	34,557
Non-controlling interests		<u>—</u>	<u>12,331</u>
		<u><u>51,897</u></u>	<u><u>46,888</u></u>
Total comprehensive income for the period attributable to:			
— Owners of the Company		52,272	34,743
— Non-controlling interests		<u>—</u>	<u>12,251</u>
		<u><u>52,272</u></u>	<u><u>46,994</u></u>
Earnings per share			
— Basic (RMB yuan)	10	<u><u>0.120</u></u>	<u><u>0.144</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Notes	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Non-current assets			
Property, plant and equipment	11	235,672	226,253
Deferred tax assets		1,240	1,233
Deposits for plant and equipment		2,322	7,345
		<u>239,234</u>	<u>234,831</u>
Current assets			
Inventories	12	226,541	194,856
Trade receivables	13	194,559	185,905
Trade receivables backed by bills	14	38,424	76,232
Contract assets	15	18,052	16,367
Deposits, prepayments and other receivables		67,737	70,901
Amounts due from related parties	16	5,056	6,497
Financial assets at fair value through profit or loss ("FVTPL")		134	9,500
Pledged bank deposits		6,525	1,000
Time deposits		43,796	134,370
Bank balances and cash		108,268	80,738
		<u>709,092</u>	<u>776,366</u>
Current liabilities			
Trade payables	17	60,696	42,381
Contract liabilities		35,464	25,388
Derivative financial instruments		118	—
Refund liabilities		2,670	7,321
Other payables and accrued charges	18	35,798	34,803
Amount due to a related party	16	38	500
Provisions		693	1,489
Tax liabilities		913	2,860
Borrowings	19	101,099	237,491
Lease liabilities		848	843
		<u>238,337</u>	<u>353,076</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2020

	Notes	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Net current assets		<u>470,755</u>	<u>423,290</u>
Total assets less current liabilities		<u>709,989</u>	<u>658,121</u>
Non-current liability			
Lease liabilities		<u>375</u>	<u>779</u>
Net assets		<u><u>709,614</u></u>	<u><u>657,342</u></u>
Capital and reserves			
Share capital	20	304	304
Reserves		<u>709,310</u>	<u>657,038</u>
Attributable to owners of the Company		709,614	657,342
Non-controlling interests		<u>—</u>	<u>—</u>
Total equity		<u><u>709,614</u></u>	<u><u>657,342</u></u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Attributable to owners of the Company								Total RMB'000
	Share capital RMB'000	Share premium RMB'000	Other reserve RMB'000 (Note b)	Statutory surplus reserve RMB'000 (Note a)	Translation reserve RMB'000	Retained profits RMB'000	Sub-total equity RMB'000	Non- controlling interests RMB'000	
At 1 January 2020 (audited)	304	362,148	123,260	18,868	652	152,110	657,342	—	657,342
Profit for the period	—	—	—	—	—	51,897	51,897	—	51,897
Other comprehensive income for the period	—	—	—	—	375	—	375	—	375
Total comprehensive income for the period	—	—	—	—	375	51,897	52,272	—	52,272
Transfer to statutory surplus reserve	—	—	—	—	—	—	—	—	—
At 30 June 2020 (unaudited)	304	362,148	123,260	18,868	1,027	204,007	709,614	—	709,614
At 1 January 2019 (audited)	86,300	—	14,857	10,850	—	82,786	194,793	183,739	378,532
Profit for the period	—	—	—	—	—	34,557	34,557	12,331	46,888
Other comprehensive income for the period	—	—	—	—	186	—	186	(80)	106
Total comprehensive income for the period	—	—	—	—	186	34,557	34,743	12,251	46,994
Arising from Reorganisation (note c)	(86,300)	—	108,403	—	—	—	22,103	(184,773)	(162,670)
Transfer to statutory surplus reserve	—	—	—	4,166	—	(4,166)	—	—	—
Issue of shares on 18 April 2019 and acquiring the shareholding in Jinan Mech (note 19)	—	11,217	—	—	—	—	11,217	(11,217)	—
At 30 June 2019 (unaudited)	—	11,217	123,260	15,016	186	113,177	262,856	—	262,856

Notes:

- (a) As stipulated by the relevant laws and regulations of the People's Republic of China (the "PRC"), before distribution of the net profit each year, the subsidiaries established in the PRC shall set aside 10% of their net profit after taxation for the statutory surplus reserve fund (except where the reserve has reached 50% of the subsidiaries' registered capital). The reserve fund can only be used, upon approval by the board of directors of the relevant subsidiaries and by the relevant authority, to offset accumulated losses or increase capital.
- (b) Other reserve represented (i) acquisition of additional interest in Jinan Magang Steel Pipes Manufacturing Company ("Jinan Ma Steel") related to 2016 Ma Steel Acquisition and additional interest in Jinan Mech Piping Technology Co., Ltd ("Jinan Mech") related to 2016 Jinan Mech Acquisition; (ii) the difference between the nominal value of shares or equity interests paid/received by Mr. Kong (as defined in note 1) and the share of net assets by non-controlling interests for each acquisition or disposal of shares/equity interests in Jinan Mech and Jinan Ma Steel; and (iii) the difference between the consideration paid to non-controlling interests in acquiring the remaining share capital of Jinan Mech and the share of net assets of Jinan Mech by non-controlling interests upon the reorganisation (the "Reorganisation") as more fully explained in the paragraph under section headed "History, Reorganisation and Corporate Structure" in the prospectus dated 29 November 2019.
- (c) In 2019, Mr. Kong, Tong Chuang Sheng De Investment and Management Partnership, Tong Chuang Shun De Investment and Management Partnership, Tong Chuang Chang De Investment and Management Partnership and Tong Chuang Xing De Investment and Management Partnership transferred the remaining equity interest in Jinan Mech to Tube Industry Investments Limited which is indirectly wholly-owned by the Company for a cash consideration of RMB162,670,000 upon Reorganisation.

The amounts were fully settled by Tube Industry Investments Limited through borrowing a loan amounting to approximately RMB162.7 million from some of the shareholders of the Company (as defined in note 1) including Ying Stone (as defined in note 1), Tong Chuang Sheng De Limited, Tong Chuang Shun De Limited, Tong Chuang Xing De Limited and Tong Chuang Chang De Limited. The loan was unsecured and interest free, and was fully settled by the Tube Industry Investments Limited by allotting and issuing 10,000 ordinary shares to Guan Dao Investments Limited on 16 October 2019.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

	Six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Net cash generated from (used in) operating activities	88,075	(23,791)
Investing activities:		
Purchases of property, plant and equipment	(14,095)	(17,758)
Deposits for plant and equipment	(2,322)	(3,238)
Proceeds from disposals of property, plant and equipment	—	(2,222)
Receipts from structured bank deposits	1,058	898
Interest received	221	26
Placement of pledged bank deposits	(5,525)	(4,187)
Withdrawal of pledged bank deposits	—	4,309
Placement of structured bank deposits	(435,710)	(94,300)
Withdrawal of structured bank deposits	445,210	176,500
Net cash (used in) generated from investing activities	(11,163)	60,028
Financing activities:		
Issue costs paid	—	(914)
Borrowings raised	74,000	422,710
Repayment of borrowings	(210,200)	(380,000)
Proceeds from capital injection from shareholders	—	11,217
Consideration paid to non-controlling interests	—	(11,217)
Payment of lease liabilities	(412)	(409)
Interest paid	(3,344)	(6,403)
Net cash (used in) generated from financing activities	(139,956)	34,984
Net (decrease) increase in cash and cash equivalents	(63,044)	71,221
Cash and cash equivalents at beginning of the period	215,108	46,450
Cash and cash equivalents at the end of the period, represented by bank balances and cash	152,064	117,671

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

1. GENERAL AND BASIS OF PREPARATION

Maikē Tube Industry Holdings Limited (the “Company”) was incorporated in the Cayman Islands and registered as an exempted company with limited liability under the Companies Law Chapter 22 of the Cayman Islands on 1 February 2019. Its shares have been listed on the Main Board of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) since 18 December 2019. The immediate holding company is Ying Stone Holdings Limited (“Ying Stone”), which was incorporated in the British Virgin Islands (the “BVI”) and entirely owned by Mr. Kong Linglei (孔令磊) (“Mr. Kong”). The addresses of the registered office and the principal place of business of the Company are P.O. BOX 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands and Meigui Zone of Industrial Park, Pingyin County, Jinan, Shandong Province, the PRC.

The Company is an investment holding company. The principal activities of its subsidiaries are mainly engaged in the manufacturing of steel pipe products and the prefabricated pipe nipple products. The Company and its subsidiaries are collectively referred as the “Group”.

The Group’s condensed consolidated financial statements are presented in Renminbi (“RMB”), which is the functional currency of the Company.

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

Other than additional accounting policies resulting from application of amendments to Hong Kong Financial Reporting Standards (“HKFRSs”), the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2019.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

2. PRINCIPAL ACCOUNTING POLICIES — *continued*

Application of amendments to HKFRSs

In the current interim period, the Group has applied the Amendments to References to the Conceptual Framework in HKFRSs and the following amendments to HKFRSs issued by the HKICPA, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>
Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>

The application of the Amendments to References to the Conceptual Framework in HKFRSs and the amendments to HKFRSs in the current period has had no material impact on the Group's financial positions and performance for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENTAL INFORMATION

Revenue

Revenue represents the fair value of amounts received and receivable from the sales of goods provided by the Group to related companies/external customers, net of related taxes. The following is an analysis of the Group's revenue for the six months ended 30 June 2020:

	For the six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
<i>Recognised at a point in time:</i>		
Sales of pipe products:		
— ERW steel pipes	159,371	172,364
— Standard prefabricated pipe nipples	124,873	125,158
— Spiral Submerged Arc Welded steel pipes	107,999	97,134
— Customised steel pipes	85,372	83,700
— Design and supply assembled piping system	9,562	7,922
Sales of unused raw materials	51,183	25,108
	<u>538,360</u>	<u>511,386</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

3. REVENUE AND SEGMENTAL INFORMATION — *continued*

Revenue — *continued*

The Group's revenue are under fixed price arrangement with the customers. Revenue is recognised when control of the goods has transferred, being when the goods have been shipped to the customer's specific location and inspected by the customers or the goods have been loaded into shipper's trucks (delivery). Transportation and other related activities that occur before customers obtains control of the related good are considered as fulfilment activities. A receivable is recognised by the Group when the goods are delivered to the customers as this represents the point in time at which the right to consideration becomes unconditional, as only the passage of time is required before payment is due. The credit term is generally 0 to 180 days upon delivery.

Segmental information

The Group's operation is derived from the production and sales of pipe products in the PRC and Vietnam. For the purpose of resources allocation and performance assessment, the chief operating decision maker (i.e. the chief executive officer) reviews the overall results and financial position of the Group as a whole. Accordingly, no operating segment is presented.

Geographical information

Information about the Group's revenue from external customers is presented based on the destination of goods in the sales orders/contracts.

	Revenue from external customers	
	For the six months	
	ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
PRC	296,361	282,946
The United States of America ("US")	94,300	83,797
Other countries in America (excluding US)	38,434	52,321
Other countries in Asia (excluding PRC)	70,427	65,466
Europe	11,923	7,799
Others	26,915	19,057
	<u>538,360</u>	<u>511,386</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

4. OTHER INCOME, GAINS AND LOSSES

	For the six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Other income		
Government grant	1,642	546
Bank interest income	221	26
	1,863	572
Other gains and losses		
Gain on sales of scrap materials	2,620	3,581
Fair value gains on financial assets at FVTPL		
– structured bank deposits	1,058	898
– foreign currency forward contracts (note i)	134	824
Fair value (losses) gains on derivative financial instruments (note ii)	(118)	526
Losses on disposals of property, plant and equipment	3	(395)
Net exchange gains	697	1,590
Others	633	281
	5,027	7,305

Notes:

- i. During the interim period, net gains (losses) on US\$ to RMB foreign currency forward contracts represented realised gains of RMB37,000 (six months ended 30 June 2019: realised gains of RMB824,000) and unrealised gains of RMB97,000 (six months ended 30 June 2019: nil) on changes in fair value of foreign currency forward contracts.
- ii. During the interim period, amount represented net gains (losses) on commodity derivative contracts represented realised gains of RMB83,000 (six months ended 30 June 2019: realised gains of RMB526,000) and unrealised losses of RMB201,000 (six months ended 30 June 2019: nil) arising on changes in fair value of commodity derivative contracts.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

5. IMPAIRMENT LOSSES ON TRADE RECEIVABLES AND CONTRACT ASSETS

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Impairment losses recognised (reversed) on:		
– trade receivables	187	1,834
– contract assets	(140)	(557)
	<u>47</u>	<u>1,277</u>

The basis of determining the inputs and assumptions and the estimation techniques used in the condensed consolidated financial statements for the six months ended 30 June 2020 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

6. FINANCE COSTS

	For the six months ended 30 June	
	2020	2019
	RMB'000	RMB'000
	(unaudited)	(unaudited)
Finance costs represent interest on:		
– bank borrowings	3,132	1,849
– lease liabilities	33	57
– other borrowings from a related party	–	4,620
	<u>3,165</u>	<u>6,526</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

7. PROFIT BEFORE TAXATION

	For the six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Profit before taxation has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	12,024	9,786
Less: capitalised in inventories	(9,227)	(7,157)
Total depreciation	2,797	2,629
Write-down of inventories (included in cost of inventories sold)	21	184

8. TAXATION CHARGE

	For the six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
PRC Enterprise Income Tax ("EIT"):		
Current period	8,889	7,399
(Over) provision in prior periods	(5,244)	(11)
Deferred tax (credit) charge:	(7)	429
Taxation charge	3,638	7,817

Under the Law of the PRC on Enterprise Income Tax (the "EIT") and Implementation Regulation of the EIT Law, the tax rate of the Group's PRC subsidiaries is 25%.

Jinan Mech was recognised as a High and New Technology Enterprise during the year 2017 and 2020, respectively, and the applicable tax rate is 15% from 1 January 2017 to 31 December 2022.

Jinan Ma Steel was recognised as a High and New Technology Enterprise in the year 2015 and 2018, respectively, and the applicable tax rate is 15% from 1 January 2015 to 31 December 2020.

No provision for income tax has been made for Tube Industry Investments Limited in Hong Kong as there was no estimated assessable profit during the six months ended 30 June 2020.

9. DIVIDEND

No dividend was declared or paid by the group entities during both periods.

Subsequent to the end of the reporting period, no dividend was paid or declared by the Company.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

10. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	For the six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Earnings		
Earnings for the purposes of basic earnings per share (profit for the period attributable to owners of the Company)	<u>51,897</u>	<u>34,557</u>
	For the six months ended 30 June	
	2020 '000 (unaudited)	2019 '000 (unaudited)
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	<u>433,800</u>	<u>239,159</u>

The weighted average number of ordinary shares for the purpose of calculating basic earnings per share has been determined on the assumption that the Reorganisation and Capitalisation Issue has been effective on 1 January 2018.

No diluted earnings per share was presented as there were no potential ordinary shares in issue.

11. PROPERTY, PLANT AND EQUIPMENT

The Group spent approximately RMB3,895,000, RMB5,532,000, RMB6,784,000 and RMB5,229,000 (six months ended 30 June 2019: nil, RMB12,070,000, RMB8,769,000 and RMB1,140,000) on additions of buildings, machinery, construction in progress and others respectively.

During the current interim period, the carrying amount of property, plant and equipment of RMB3,000 (six months ended 30 June 2019: RMB1,827,000) was recognised upon disposals of property, plant and equipment with proceeds of nil (six months ended 30 June 2019: RMB2,222,000), resulting in a loss of RMB3,000 (six months ended 30 June 2019: a gain of RMB395,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

12. INVENTORIES

	30 June 2020 RMB'000	31 December 2019 RMB'000
Raw materials	99,577	77,706
Work in progress	12,181	43,459
Finished goods	114,783	73,691
	<u>226,541</u>	<u>194,856</u>

13. TRADE RECEIVABLES

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Trade receivables	200,749	191,908
Less: allowance of impairment loss	<u>(6,190)</u>	<u>(6,003)</u>
Total trade receivables	<u>194,559</u>	<u>185,905</u>

The Group allows credit period of 0 to 180 days to its trade customers. The following is an ageing analysis of trade receivables, net of allowance for impairment loss, presented based on the invoice date at the end of each reporting period.

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
0-60 days	130,965	128,970
61-180 days	39,075	52,329
181 days-1 year	21,621	3,769
Over 1 year	<u>2,898</u>	<u>837</u>
	<u>194,559</u>	<u>185,905</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

14. TRADE RECEIVABLES BACKED BY BILLS

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Trade receivables backed by bills	<u>38,424</u>	<u>76,232</u>

For customers who used bank bills to settle their trade receivables upon the expiry of the initial credit period, the ageing analysis of trade receivables backed by bills at the end of each reporting period was based on the date of the Group's receipt of the bills from the customers.

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
0-180 days	38,424	75,492
181 days-1 year	—	740
	<u>38,424</u>	<u>76,232</u>

As at 31 December 2019, the Group has pledged trade receivables backed by bills amounted to RMB18,200,000 (30 June 2020: nil) to secure general banking facilities granted to the Group.

15. CONTRACT ASSETS

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Retention receivables on sales of pipe products	18,722	17,177
Less: allowance for impairment loss	<u>(670)</u>	<u>(810)</u>
	<u>18,052</u>	<u>16,367</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

16. AMOUNT(S) DUE FROM RELATED PARTIES/TO A RELATED PARTY

Amounts due from related parties

Details of amounts due from related parties which are trade nature, unsecured, interest-free and repayable on demand are as follows:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Meide Group Co., Ltd. ("Meide")	5,040	5,326
Meiyuan Renewable Resources Co., Ltd. 山東玫源再生資源有限公司 ("Meiyuan Renewable")	16	—
Linyi Meide Gengchen Metal Material Co., Ltd. 臨沂玫德庚辰金屬材料有限公司 ("Linyi Meide Gengchen")	—	879
Meide Group Linyi Co., Ltd. 玫德集團臨沂有限公司 ("Linyi Meide")	—	292
	<u>5,056</u>	<u>6,497</u>

The Group allows credit period of 60 days to these related parties. The following is an ageing analysis of the trade nature amounts due from related parties based on the invoice date at the end of the reporting period.

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
0-60 days	<u>5,056</u>	<u>6,497</u>

There is no overdue of amounts due from related parties as at the reporting period. The Group did not hold any collateral over these balances.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

16. AMOUNT(S) DUE FROM RELATED PARTIES/TO A RELATED PARTY – *continued*

Amount due to a related party

Details of amount due to a related party which are trade nature, unsecured, interest-free and repayable on demand are stated as follows:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Meide	<u>38</u>	<u>500</u>

The credit period on purchases of goods is 60 days. The following is an ageing analysis of amount due to a related party presented based on the invoice date at the end of the reporting period:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
0-60 days	38	—
181-360 days	<u>—</u>	<u>500</u>
	<u>38</u>	<u>500</u>

17. TRADE PAYABLES

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Trade payables	<u>60,696</u>	<u>42,381</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

17. TRADE PAYABLES — *continued*

The average credit period on purchases of goods is 30 days. The following is an ageing analysis of trade payables presented based on the invoice date at the end of the reporting period:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
0–30 days	22,697	30,097
31–60 days	9,716	2,545
61–120 days	19,676	3,771
121–180 days	4,749	3,135
181–360 days	2,975	952
Over 360 days	883	1,881
	<u>60,696</u>	<u>42,381</u>

18. OTHER PAYABLES AND ACCRUED CHARGES

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Staff costs payable	9,230	9,034
Accrued charges	7,243	5,296
Other tax payable	6,247	5,150
Guarantee receipts from staff on trade receivables (note)	5,051	5,902
Government grant received	2,920	3,022
Deposits received from suppliers	2,318	1,824
Transportation cost payable	2,260	3,643
Agency fee payable	529	932
	<u>35,798</u>	<u>34,803</u>

Note: The amounts received by the Group represented guarantee on certain trade receivables provided by relevant sales staff of the Group. Once the trade receivables are considered non-recoverable, the related guarantee receipts from sales staff would not be payable to sales staff accordingly.

19. BORROWINGS

During the current interim period, the Group obtained new bank loans amounting to RMB74,000,000 (30 June 2019: RMB422,710,000). The loans carry interest at fixed market rates ranging from 3.90% to 4.55% per annum. The proceeds were used to finance the acquisition of raw material.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

20. SHARE CAPITAL

	Number of shares	Amount US\$	US\$'000	Equivalent amount to RMB'000
Ordinary Shares of US\$0.0001 each				
Authorised:				
At 1 February 2019 (audited) and 30 June 2019 (unaudited)	<u>500,000,000</u>	<u>50,000</u>	<u>50</u>	<u>335</u>
At 1 January 2020 (audited) and 30 June 2020 (unaudited)	<u>5,000,000,000</u>	<u>500,000</u>	<u>500</u>	<u>3,486</u>
Issued and fully paid				
At 1 February 2019 (date of incorporation) (note i)	16,267	2	—	—
Issue of shares on 18 April 2019 (note ii)	<u>503</u>	<u>—</u>	<u>—</u>	<u>—</u>
At 30 June 2019 (unaudited)	<u>16,770</u>	<u>2</u>	<u>—</u>	<u>—</u>
At 1 January 2020 (audited) and 30 June 2020 (unaudited)	<u>433,800,000</u>	<u>43,380</u>	<u>44</u>	<u>304</u>

Notes:

- i. The Company was incorporated on 1 February 2019 and 16,267 Shares were allotted and issued to the initial subscriber.
- ii. Pursuant to the equity transfer agreement dated 5 March 2019, Tong Chuang Sheng De Investment and Management Partnership sold 2.999% equity interest in Jinan Mech to Tube Industry Investments Limited, which is wholly-owned by Guan Dao Investments Limited, which was then wholly-owned by Mr. Meining at a consideration of RMB11,217,000 which was fully settled on 3 April 2019.

Pursuant to the share purchase agreement dated 18 April 2019, the Company acquired the entire issued share capital of Guan Dao Investments Limited, a company wholly-owned by Mr. Meining and in exchange, the Company issued 503 Shares to Meining Investments Limited, a company wholly-owned by Mr. Meining, representing 2.999% of the then issued share capital as consideration.

Amount of US\$0.0503 (equivalent to RMB nil) was recorded in share capital, which represented 2.999% of equity interest of the Company and the remaining amount of RMB11,217,000 was recorded in share premium.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

21. CAPITAL COMMITMENTS

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
– acquisition of property, plant and equipment	3,508	14,954

22. PLEDGE OF ASSETS

At the end of the reporting period, the Group has pledged the following assets to secure the general banking facilities granted to the Group:

	30 June 2020 RMB'000 (unaudited)	31 December 2019 RMB'000 (audited)
Property, plant and equipment	58,976	13,040
Right-of-use assets	43,980	706
Pledged bank deposits	6,525	1,000
Trade receivables backed by bills	—	18,200
	<u>109,481</u>	<u>32,946</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2020

23. RELATED PARTY TRANSACTIONS

During the interim period, other than those disclosed in elsewhere in the condensed consolidated financial statements, the Group had the following significant transactions with related companies:

(a) Transactions

Name of relate company	Nature of transactions	For the six months ended 30 June	
		2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Meide	Sales of pipe products	11,773	14,901
	Sales of scrap materials	7,502	5,305
	Purchase of inventories	190	267
	Interest expense	—	4,620
Linyi Meide Gengchen	Sales of pipe products	5	343
Linyi Meide	Sales of pipe products	20	1,288
Meiyuan Renewable	Sales of pipe products	134	46
		<u>134</u>	<u>46</u>

The above transactions were transacted at prices agreed between the parties.

(b) Compensation of key management personnel

The remuneration of Directors and other members of key management during the period were as follows:

	For the six months ended 30 June	
	2020 RMB'000 (unaudited)	2019 RMB'000 (unaudited)
Salaries and other benefits	869	1,062
Discretionary bonus	2,028	351
Contributions to retirement benefit schemes	89	208
	<u>2,986</u>	<u>1,621</u>