



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



2021

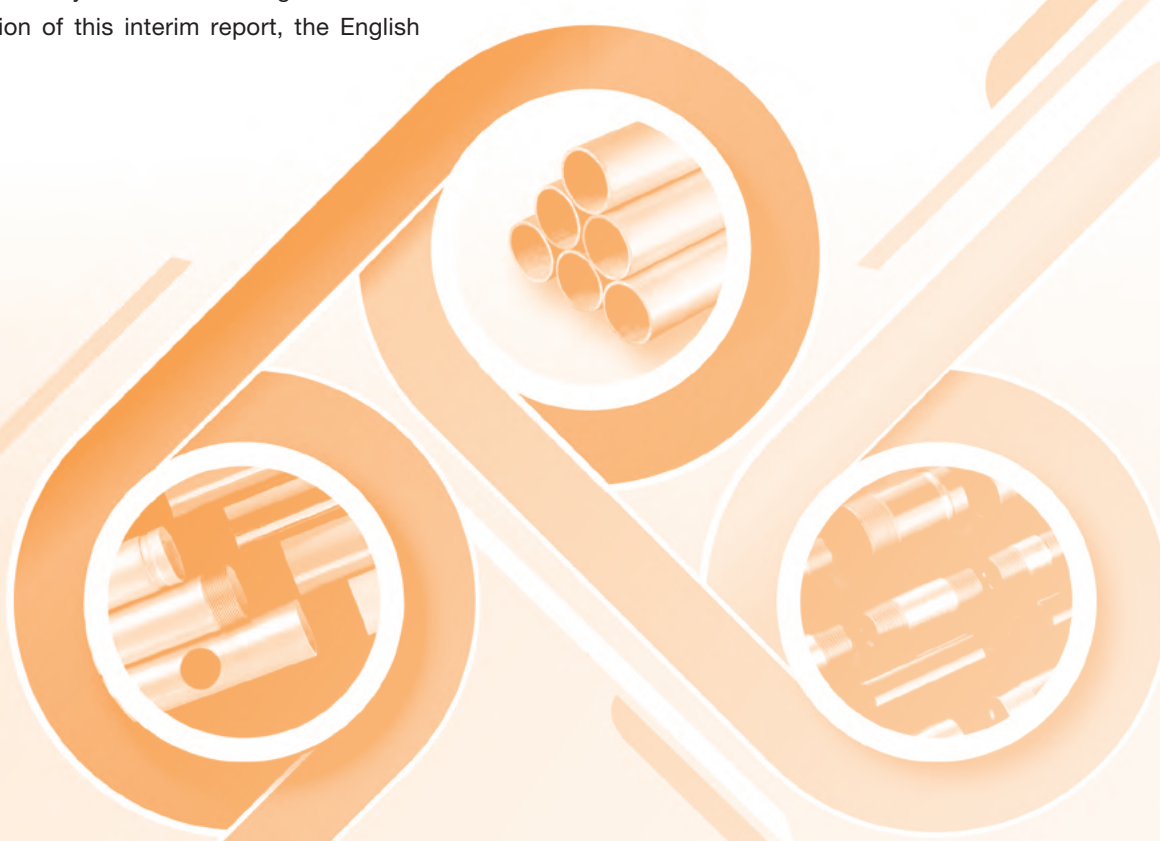
Interim Report



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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:

| | |
|--|---|
| “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 |
| “HKD” | Hong Kong dollars, the lawful currency of Hong Kong |
| “HVAC” | Heating, ventilation and air conditioning systems |
| “Jinan Magang” | 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 is 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 is an indirect wholly-owned subsidiary of our Company |
| “Listing” | the listing of the Shares 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\$0.0001 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 |
| “THB” | Thai Baht, the lawful currency of Thailand |
| “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 |
| “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).

CORPORATE INFORMATION

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

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

AUDITOR

Deloitte Touche Tohmatsu

LEGAL ADVISOR

Eric Chow & Co. in Association with
Commerce & Finance Law Offices

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>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group primarily engages 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. The Group also conducted sales of steel coils that were procured from its suppliers.

The standard prefabricated pipe nipple products of the Group are used in pipe system to connect straight pipes or pipe sections, which can be adjusted to different sizes or shapes. Standard prefabricated pipe nipple products and steel pipes products feature different specifications, such as length, outside diameter and surface treatment, which cater for various needs of the Group's customers and comply with international standards. We directly or indirectly sold most of our standard prefabricated pipe nipple products and customized steel pipe products to overseas markets. Our welded steel pipe products are roughly classified into standard ERW steel pipes and SSAW steel pipes. Our Group has received certifications in quality control including, among other things, the ISO9001 certification, ISO14001 certification and OHSAS18001 certification. Our products are widely applied in the municipal pipeline system designed for natural gas, water supply, sewage, HVAC and fire extinguish water pipes. Leveraging our industry knowledge and expertise, we also design and supply assembled piping system for our customers. Customers would seek technical advice or suggestions on the 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, there was occurrence of the COVID-19 pandemic, the cancellation of export tax rebate for some steel products, the appreciation in exchange rate of USD to RMB, increased price of main raw materials. The combination of such factors posed negative impacts on the Group's performance and business operation to some extent, as well as the implementation of business strategies. Despite the impact of the foregoing factors, the Company has made every effort to address various challenges under the Board's leadership, and explored potential markets through multiple means. For the six months ended 30 June 2021, the Group recorded an accumulated revenue of approximately RMB751.8 million, representing a year-on-year increase of 39.6%, and achieved an accumulated net profit of approximately RMB62.8 million, representing a year-on-year increase of 21.0%.

PRODUCTION EXPANSION

The Group pushed forward the implementation of the project to update the SSAW steel pipe production line and to build an ancillary building.

As of 30 June 2021, the Company had invested RMB51.0 million in the project, accounting for approximately 60% of the target investment amount. It is expected that commercial operation of the increased production capacity for SSAW steel pipes will commence in the fourth quarter of 2021, and that may further improve the delivery capabilities of the Group.

Through the cooperation with two joint venture partners in November 2020, the project of establishing a production base of connector for power pipelines in Thailand commenced. As of 30 June 2021, the Company has made investments contribution of RMB17.2 million to the project. It is expected to achieve the production capacity of 3,000 tons per year. The first batch of products of 16.8 tons produced by our newly established subsidiary had been delivered to our customers as at 30 June 2021.

NEW ORDERS

For the six months ended 30 June 2021, the Group received new orders for approximately 17,900 tons of standard prefabricated pipe products, of which approximately 93.6% were from overseas customers. We also received new orders for approximately 99,800 tons of steel pipe products, of which approximately 68.4% were from domestic customers. During the six months ended 30 June 2021, the Group had delivered approximately 12,700 tons of standard prefabricated pipe products and approximately 71,400 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 2021, our revenue from standard prefabricated pipe products amounted to approximately RMB190.0 million, accounting for 25.2% of the total revenue of the Group. 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. The total revenue generated from standard prefabricated pipe products increased 52.2% as compared to the corresponding period last year mainly due to the increase in the Company's development of new products and purchase amount from our customers.

STEEL PIPE PRODUCTS

Our steel pipe products are made through rolling steel plate and welding the seam, and are mainly used for 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 2021, our ERW steel pipes, spiral submerged arc welded steel pipes and customised steel pipes recorded revenues of approximately RMB175.1 million, RMB141.1 million and RMB102.7 million, respectively, representing a year-on-year increase of 9.9%, 30.7% and 20.3% as compared to the same period in 2020, respectively. The main reason for the increase was the increased selling price of the Group's products caused by the higher raw material cost. The total revenue generated from the sales of steel pipe products accounted for approximately 55.8% of the total revenue for the six months ended 30 June 2021.

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 2021, our design and supply of assembled piping system recorded the revenue of approximately RMB6.3 million, representing a year-on-year decrease of approximately 34.6% as compared to the same period in 2020, mainly due to the project delivery time delay. The total revenue generated from the sales of design and supply of assembled piping system accounted for approximately 0.8% of the total revenue for the six months ended 30 June 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

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 steel coils that were procured from suppliers.

For the six months ended 30 June 2021, our total revenue was approximately RMB751.8 million, representing an increase of approximately RMB213.4 million or 39.6% as compared to the six months ended 30 June 2020. The increase in revenue was mainly due to (i) the increase in the sales of steel coils; (ii) a year-on-year increase in delivery of standard prefabricated pipe products; and (iii) a year-on-year increase in the selling price of steel pipe products.

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:

| | For the six months ended 30 June | | | | | | | | | | | |
|--|----------------------------------|---------------|----------------------------|-------------------------------|----------------------------|---------------------------|--------------------|------------|----------------------------|-------------------------------|----------------------------|---------------------------|
| | 2021 | | | | | | 2020 | | | | | |
| | Revenue RMB'000 | % of total | Sales volume ton'000 | ASP RMB/ton (unaudited) | Gross profit RMB'000 | Gross profit margin | Revenue RMB'000 | % of total | Sales volume ton'000 | ASP RMB/ton (unaudited) | Gross profit RMB'000 | Gross profit margin |
| Standard prefabricated pipe nipples | 190,030 | 25.2% | 12.7 | 14,963 | 76,332 | 40.2% | 124,873 | 23.1% | 9.0 | 13,881 | 58,472 | 46.8% |
| Steel pipe products | | | | | | | | | | | | |
| ERW steel pipes | 175,103 | 23.3% | 31.6 | 5,541 | 22,652 | 12.9% | 159,371 | 29.6% | 35.1 | 4,537 | 27,662 | 17.4% |
| SSAW steel pipes | 141,153 | 18.8% | 22.4 | 6,301 | 20,697 | 14.7% | 107,999 | 20.1% | 27.3 | 3,952 | 17,714 | 16.4% |
| Customised steel pipes | 102,706 | 13.7% | 17.4 | 5,903 | 15,538 | 15.1% | 85,372 | 15.9% | 16.8 | 5,701 | 16,284 | 19.1% |
| Design and supply of assembled piping system | 6,257 | 0.8% | N/A | N/A | 2,267 | 36.2% | 9,562 | 1.8% | N/A | N/A | 4,753 | 49.7% |
| Steel coils trade | 136,522 | 18.2% | 30.2 | 4,520 | 840 | 0.6% | 51,183 | 9.5% | 16.9 | 3,029 | 426 | 0.8% |
| Total | 751,771 | 100.0% | 114.3 | | 138,326 | 18.4% | 538,360 | 100.0% | 105.1 | | 125,311 | 23.3% |

The revenue generated from sales of standard prefabricated pipe products increased to approximately RMB190.0 million for the six months ended 30 June 2021, representing an increase of approximately RMB65.2 million or 52.2% as compared to the six months ended 30 June 2020, which was mainly due to the increase in sales volume and the ASP for the six months ended 30 June 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

The revenue generated from ERW steel pipes increased by approximately RMB15.7 million or 9.9% for the six months ended 30 June 2020 to approximately RMB175.1 million for the six months ended 30 June 2021, which was mainly due to the increase in the ASP for the six months ended 30 June 2021. The revenue generated from SSAW steel pipes increased by approximately RMB33.2 million or 30.7% for the six months ended 30 June 2020 to approximately RMB141.2 million for the six months ended 30 June 2021. The revenue generated from customised steel pipes increased by approximately RMB17.3 million or 20.3% for the six months ended 30 June 2020 to approximately RMB102.7 million for the six months ended 30 June 2021.

The revenue generated from design and supply of assembled piping system decreased from approximately RMB9.6 million for the six months ended 30 June 2020 by approximately RMB3.3 million or 34.6% to approximately RMB6.3 million for the six months ended 30 June 2021, which was mainly due to the decrease in the delivery of orders to our customers during the current period.

The revenue generated from steel coils increased by approximately RMB85.4 million or 166.7% for the six months ended 30 June 2020 to approximately RMB136.5 million for the six months ended 30 June 2021, mainly due to the increase in sales volume for the six months ended 30 June 2021.

Sales by geographical regions

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

| | For the six months ended 30 June | | | |
|---|-----------------------------------|---------------|-----------------------------------|---------------|
| | 2021 | | 2020 | |
| | Revenue RMB'000 (unaudited) | % of total | Revenue RMB'000 (unaudited) | % of total |
| Domestic market | | | | |
| PRC | 446,525 | 59.4% | 296,360 | 55.1% |
| Overseas markets | | | | |
| The United States | 129,828 | 17.3% | 94,300 | 17.5% |
| Other countries in America (excluding the United States) | 47,763 | 6.3% | 38,435 | 7.1% |
| Other countries in Asia (excluding the PRC) | 67,517 | 9.0% | 70,427 | 13.1% |
| Europe | 17,231 | 2.3% | 11,923 | 2.2% |
| Others | 42,907 | 5.7% | 26,915 | 5.0% |
| Total | 751,771 | 100.0% | 538,360 | 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.

MANAGEMENT DISCUSSION AND ANALYSIS

GROSS PROFIT AND GROSS PROFIT MARGIN

Gross profit increased by approximately 10.4% or RMB13.0 million from approximately RMB125.3 million for the six months ended 30 June 2020 to approximately RMB138.3 million for the six months ended 30 June 2021. Such increase was mainly attributable to the increase in sales of standard prefabricated pipe products. Due to the change in the sales products structure, the gross profit margin decreased by 4.9% as compared to the corresponding period of last year.

OTHER INCOME

For the six months ended 30 June 2021, other income mainly represents government grant and interest income, which increased from approximately RMB1.9 million for the six months ended 30 June 2020 by approximately 1,031.6% or RMB19.6 million to approximately RMB21.5 million for the six months ended 30 June 2021. The increase in other income was mainly due to the increase in government grant by RMB19.6 million.

OTHER GAINS AND LOSSES

For the six months ended 30 June 2021, other gains and losses mainly represent gains on sales of scrap materials, fair value gains on structured bank deposits, fair value gains on foreign currency forward contracts, fair value losses on derivative financial instruments and net exchange gains or losses. Other gains and losses decreased from approximately RMB5.0 million for the six months ended 30 June 2020 by approximately 10% or RMB0.5 million to approximately RMB4.5 million for the six months ended 30 June 2021. Changes in other gains and losses were mainly attributable to gains on sales of scrap materials of approximately RMB6.1 million as compared to the gains on scrap of RMB2.6 million in the same period of last year; the income from structured bank deposits decreased by approximately RMB0.5 million; fair value losses on derivative financial instrument was approximately RMB1.4 million in 2021 as compared to the losses of approximately RMB0.1 million in the same period of 2020; and losses from foreign exchange recorded approximately RMB1.2 million in 2021 as compared to the gains of approximately RMB0.7 million in the same period of 2020.

DISTRIBUTION AND SELLING EXPENSES

Distribution and selling expenses increased from approximately RMB32.8 million for the six months ended 30 June 2020 by approximately 35.1% or RMB11.5 million to approximately RMB44.3 million for the six months ended 30 June 2021, which was primarily due to (i) the increase in ocean freight and sundry expenditures; and (ii) the increase in the compensation expense.

ADMINISTRATIVE EXPENSES

Administrative expenses increased from approximately RMB17.7 million for the six months ended 30 June 2020 by approximately 21.5% or RMB3.8 million to approximately RMB21.5 million for the six months ended 30 June 2021, which was primarily due to the increase in compensation of management staff.

RESEARCH AND DEVELOPMENT COSTS

The cost of research and development increased from approximately RMB23.0 million for the six months ended 30 June 2020 by approximately 17.8% or RMB4.1 million to approximately RMB27.1 million for the six months ended 30 June 2021. Our research and development costs accounted for approximately 3.6% of the total revenue (corresponding period in 2020: approximately 4.3%).

IMPAIRMENT LOSSES ON TRADE RECEIVABLES AND CONTRACT ASSETS

As of 30 June 2021, impairment losses on trade receivables and contract assets were approximately RMB1.47 million (the same period of 2020: approximately RMB0.05 million), mainly due to the long outstanding receivables repaid by a customer.

FINANCE COSTS

Finance costs decreased from RMB3.2 million for the six months ended 30 June 2020 by approximately 18.8% or RMB0.6 million to approximately RMB2.6 million for the six months ended 30 June 2021. The decrease was primarily due to the decrease in bank loan interest expense.

TAXATION CHARGE

Taxation charge increased from RMB3.6 million for the period ended 30 June 2020 to RMB7.5 million for the period ended 30 June 2021.

PROFIT FOR THE PERIOD

Profit for the period increased by approximately 21.0% or RMB10.9 million from RMB51.9 million for the period ended 30 June 2020 to RMB62.8 million for the period ended 30 June 2021, which was mainly due to the increase in sales volume of standard prefabricated pipe products and the increase in government grant as compared to the corresponding period last year.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

| | For the six months ended | |
|--|--------------------------|----------------|
| | 30 June | |
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| Net cash (used in)/generated from operating activities | (122,273) | 88,075 |
| Net cash generated from/(used in) investing activities | 30,982 | (11,163) |
| Net cash generated from/(used in) financing activities | 113,384 | (139,956) |
| Net increase/(decrease) in cash and cash equivalents | 22,093 | (63,044) |
| Cash and cash equivalents at the beginning of the period | 87,254 | 215,108 |
| Effect of foreign exchange rate changes | (2,696) | — |
| Cash and cash equivalents at the end of the period | <u>106,651</u> | <u>152,064</u> |

GEARING RATIO

As at 30 June 2021, 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 22.4% (31 December 2020: approximately 8.48%). As at 30 June 2021, our total interest-bearing debts amounted to RMB174.2 million of bank borrowings. The increase of gearing ratio was primarily attributable to the increase in bank loans.

MANAGEMENT DISCUSSION AND ANALYSIS

NET CASH (USED IN)/GENERATED FROM OPERATING ACTIVITIES

Our net cash (used in)/generated from operating activities decreased from approximately RMB88.1 million for the period ended 30 June 2020 to approximately RMB-122.3 million for the period ended 30 June 2021.

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

NET CASH GENERATED FROM/(USED IN) INVESTING ACTIVITIES

Our net cash from investing activities changed from a net outflow of approximately RMB11.2 million for the period ended 30 June 2020 to a net inflow of approximately RMB31.0 million for the period ended 30 June 2021. The change in net cash was primarily due to (i) an increase in expenses incurred for the purchase and construction of fixed assets; and (ii) a year-on-year decrease in structured bank deposits.

NET CASH GENERATED FROM/(USED IN) FINANCING ACTIVITIES

Our net cash from financing activities changed from net outflow of approximately RMB140.0 million for the period ended 30 June 2020 to a net inflow of approximately RMB113.4 million for the period ended 30 June 2021. The changes in net cash used in financing activities was primarily due to the increase in bank borrowings.

NET CURRENT ASSETS AND LIABILITIES

Inventories

Our balance of inventories increased by approximately RMB97.1 million or 46.0% from approximately RMB211.1 million as at 31 December 2020 to approximately RMB308.2 million as at 30 June 2021, which was mainly driven by the increased costs of half finished products and finished products due to the higher raw material price in the current period.

TRADE RECEIVABLES AND TRADE RECEIVABLES BACKED BY BILLS

Our trade receivables increased by approximately RMB51.5 million or 25.3% from approximately RMB203.7 million as at 31 December 2020 to approximately RMB255.2 million as at 30 June 2021, mainly due to the increase in sales during the period and trade receivables being not yet due for payment.

Our trade receivables backed by bills decreased by approximately RMB18.9 million or 67.7% from approximately RMB27.9 million as at 31 December 2020 to approximately RMB9.0 million as at 30 June 2021, mainly due to maturity of bank bills previously received.

CONTRACT ASSETS

Our contract assets increased from approximately RMB18.6 million as of 31 December 2020 to approximately RMB21.1 million as of 30 June 2021, mainly due to an increase in sales.

DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Our deposits, prepayments and other receivables increased from approximately RMB88.2 million as at 31 December 2020 to approximately RMB139.7 million as at 30 June 2021, mainly due to the increase in prepayment for raw materials.

AMOUNTS DUE FROM/TO RELATED PARTIES

Amounts due from related parties decreased from approximately RMB5.8 million as at 31 December 2020 to approximately RMB5.5 million as at 30 June 2021, mainly due to the settlement of trade amounts at the end of the period.

Amounts due to related parties decreased from approximately RMB0.8 million as at 31 December 2020 to approximately RMB0.7 million as at 30 June 2021, mainly due to the settlement of trade amounts at the end of the period.

TRADE AND BILL PAYABLES

Our trade and bill payables decreased from approximately RMB72.1 million as of 31 December 2020 to approximately RMB56.3 million as of 30 June 2021, mainly due to the outstanding trade payables to our suppliers at the end of the period.

CONTRACT LIABILITIES

Our contract liabilities decreased from approximately RMB46.6 million as at 31 December 2020 to approximately RMB34.5 million as at 30 June 2021, which was related to the timing of delivery of products to our customers.

REFUND LIABILITIES

Our refund liabilities decreased from approximately RMB10.1 million as of 31 December 2020 to approximately RMB5.3 million as of 30 June 2021, primarily due to the settlement of liabilities.

OTHER PAYABLES AND ACCRUED CHARGES

Our other payables and accrued charges increased from approximately RMB44.2 million as of 31 December 2020 to approximately RMB59.5 million as of 30 June 2021, which was mainly due to the increase of payable staff costs and deposits received from suppliers.

PROVISIONS

Our provisions decreased from approximately RMB1.4 million as of 31 December 2020 to approximately RMB0.5 million as of 30 June 2021. Provisions represent warranty provided for our sold products.

BORROWINGS

Our borrowings increased from approximately RMB64.1 million as of 31 December 2020 to approximately RMB174.2 million as of 30 June 2021, mainly due to an increase of bank borrowings required by production and operation. The Group's borrowing of approximately RMB165.0 million as at 30 June 2021 was repayable within one year.

MANAGEMENT DISCUSSION AND ANALYSIS

LEASE LIABILITIES

As of 30 June 2021, the Group rented two properties in Vietnam and Thailand respectively to operate our factories 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 RMB2.9 million.

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, HKD, VND and THB; and
- (ii) sales of goods to overseas customers and related trade receivables are denominated in USD.

The appreciation or devaluation of RMB against USD, HKD, VND or THB may have impact on the financial performance of the Group. The Group mainly manages potential fluctuation in foreign exchange through foreign currency forward contracts, and it has not entered into any hedging transactions.

DIVIDEND

The Board does not recommend the payment for any dividend for the six months ended 30 June 2021 (for the six months ended 30 June 2020: nil).

PLEDGE OF ASSETS

As at 30 June 2021, 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 carrying amount of approximately RMB124.4 million (31 December 2020: approximately RMB135.2 million) to secure banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 30 June 2021, 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 2021, there was no significant investments held by the Group, and the Company had no material acquisition and disposal of subsidiaries, associates and joint ventures.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the prospectus and in this interim report, the Group did not have any other plans for material investments or capital assets during the six months ended 30 June 2021 and up to the date of this interim report.

EMPLOYEES

For the six months ended 30 June 2021, labor costs (including Directors' remunerations and emoluments in other forms) were approximately RMB50.5 million (for the six months ended 30 June 2020: RMB36.8 million). Our Group's employees are generally remunerated by way of fixed salary and commission will be awarded to our 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 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 are provided with various training and development programs related to their necessary skills and knowledge.

As of 30 June 2021, we had 1,012 employees (30 June 2020: 931 employees), 846 of whom were in the PRC (including Hong Kong), 108 of whom are located in Vietnam, and 58 of whom are located in Thailand. A breakdown of our employees by functions is set forth below:

| Function | As at 30 June 2021 | | |
|---|-----------------------------------|------------|-----------|
| | China (including Hong Kong) | Vietnam | Thailand |
| Managerial, administrative and accounts | 40 | 8 | 3 |
| Production | 505 | 80 | 53 |
| Quality control | 53 | 9 | 2 |
| Procurement and inventory | 33 | 5 | — |
| Research and development | 126 | 6 | — |
| Sales and marketing | 89 | — | — |
| | <hr/> | <hr/> | <hr/> |
| Total number of employees | <u>846</u> | <u>108</u> | <u>58</u> |

USE OF PROCEEDS

The Company has raised gross proceeds of approximately HK\$224.4 million (RMB201.8 million) through the Listing. After deducting the listing expenses, the net proceeds amounted to approximately HK\$183.6 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 2021, 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 | Remaining net proceeds as at 31 December 2020 | Actual use of proceeds for six months ended 30 June 2021 | Remaining net proceeds as at 30 June 2021 | Expected timeline of full utilisation of the remaining proceeds from the Global Offering as at 30 June 2021 |
|---|---|--|---|--|---|---|
| | | RMB\$'000 | RMB\$'000 | RMB\$'000 | RMB\$'000 | (Note 1) |
| Increasing our production capacity of our production of ERW steel pipes | 19.0% | 31,625 | — | — | — | |
| Upgrading one of the SSAW steel pipes production lines | 22.3% | 37,118 | 35,834 | 21,834 | 14,000 | By the end of 2021 (Note 2) |
| Setting up a new production facilities building | 9.4% | 15,646 | 15,646 | 11,679 | 3,967 | By the end of 2021 (Note 2) |
| Expanding to overseas to increase the production capacity | 9.4% | 15,646 | 11,425 | 1,113 | 10,312 | By the end of 2021 (Note 2) |
| Expanding our business horizontally through acquisition/collaboration | 10.0% | 16,645 | 16,645 | 11,312 | 5,333 | By the end of 2021 (Note 2) |
| Strengthen research and development capabilities | 10.0% | 16,645 | — | — | — | |
| Repayment of borrowings | 10.0% | 16,645 | — | — | — | |
| General working capital | 9.9% | 16,478 | — | — | — | |
| | 100% | 166,448 | 79,550 | 45,938 | 33,612 | |

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 (i) upgrading one of the SSAW steel pipes production lines; (ii) setting up a new production facilities building; (iii) expanding to overseas to increase the production capacity by the fourth quarter of 2020, and (iv) expanding our business horizontally through acquisition/collaboration by the first quarter of 2021. However, due to the outbreak of the COVID-19 pandemic and the impact on the PRC and global economy, the development plans slowed down. As at 30 June 2021, based on the best estimation of Directors barring any unforeseen circumstances beyond the Group's control, it is expected that the unused net proceeds for (i) upgrading one of the SSAW steel pipes production lines; (ii) setting up a new production facilities building; (iii) expanding to overseas to increase the production capacity; and (iv) expanding our business horizontally through acquisition/collaboration, to be fully utilised by end of 2021.

During the six months ended 30 June 2021, 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. 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 of the Company 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 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.

MANAGEMENT DISCUSSION AND ANALYSIS

(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 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 daily quotations in the Stock Exchange 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 8.5 years.

No share options were granted, exercised, cancelled or lapsed under the Share Option 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 2021.

EVENTS SUBSEQUENT TO THE REPORTING PERIOD

As disclosed in the announcement of the Company dated 7 September 2021, Jinan Magang successfully bid the land use right of a piece of land located at Yexiangou Village, Pingyin County, Jinan City, the PRC* (中國濟南平陰縣野仙溝村) (the “Land”) at a total consideration of RMB81,950,000 through the public tender. Jinan Magang has entered into the confirmation letter with Natural Resources Bureau of Pingyin County in relation to the land acquisition, and the State-owned Land Use Right Grant Contract* (國有建設用地使用權出讓合同) is expected to be entered into after the completion of the business registration regarding the Land.

Save as disclosed, there were no significant events subsequent to 30 June 2021 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 its subsidiaries purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2021.

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

For the first half of 2021, China’s economy has been recovered gradually. The average gross domestic product (“GDP”) growth rate for the past two years gradually approached the potential growth level, but the recovery is still uneven. The external market performs better than the domestic market. For the past two years, the average GDP growth rate of domestic consumption, infrastructure, and manufacturing investment has still yet to recover to the pre-pandemic level. It is expected that China’s economy will continue to grow in the second half of 2021. While there may be economic uncertainty due to the policy of the United States government and the employment rate, the demand for steel products in the overseas markets is expected to grow steadily. The business of exported steel products might be affected by the exported and imported tariff policy, yet the impact on the GDP should be low.

Based on current situation, the Group would seize the foregoing opportunities, and strengthen the construction of its capability to realize sustainable growth through following strategies, further promote our position in prefabricated pipe production industry, and create long-term values for our shareholders: (i) continuously improve the production capacity and delivery capability of our subsidiaries in Vietnam and Thailand; (ii) strengthen the production capacity and competitiveness of spiral welded pipes by upgrading our spiral welded pipes production lines and adding new production facilities; and (iii) put more effort in the research and development of new products, to continuously improve the quality of our products, and increase the Company’s reputation in the industry.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2021, the Group has been carrying on the business of manufacturing and selling of standard prefabricated pipe nipple products and steel pipe products in the PRC. In order to meet the Group's need for its business operation and expansion, the Group may from time to time consider to explore opportunities for acquisition of land use right(s) within close proximity to its existing production plants in Jinan, Shandong Province, the PRC. As disclosed in the announcement of the Company dated 7 September 2021, Jinan Magang successfully bid the land use right of the Land. The Land is located on the south side of an existing production plant of the Group in Jinan, Pingyin County, with a completed surrounding road network. The Group intends to develop the Land into an intelligent manufacturing system, which may upgrade the existing technology and manufacturing methodology of the Group, thereby providing the Group with opportunities of improving product quality, reducing production costs and increasing the production capacity of certain of the Group's products. It is expected to bring synergies between the Group's two existing production plants in Jinan.

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

Currently overseas control against the pandemic has not yet improved, which led to large impact on the shipping route, partly leading to higher costs of delivery and sea freight of the Company, which will bring uncertainties to the Company's overseas 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, Vietnam and Thailand 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. Our production plant in Pingyin County, Jinan was renowned as national green factory by the state, demonstrating our excellent performance of environment protection.

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 2021.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted 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 2021. 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 2021.

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 2021, 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.

OTHER INFORMATION

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

As at 30 June 2021, 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⁾ |
|--|--------------------------------------|---|---|
| Mr. Kong ⁽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 2021.
- (3) Mr. Kong 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 2021, 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.

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

As at 30 June 2021, 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 2021.
- (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 2021, 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 2021

| | Notes | Six months ended 30 June | |
|---|-------|--------------------------------|--------------------------------|
| | | 2021 RMB'000 (unaudited) | 2020 RMB'000 (unaudited) |
| Revenue | 3 | 751,771 | 538,360 |
| Cost of sales | | <u>(613,445)</u> | <u>(413,049)</u> |
| Gross profit | | 138,326 | 125,311 |
| Other income | 4 | 21,514 | 1,863 |
| Other gains and losses | 4 | 4,486 | 5,027 |
| Distribution and selling expenses | | (44,305) | (32,762) |
| Administrative expenses | | (21,517) | (17,685) |
| Research and development costs | | (27,061) | (23,007) |
| Impairment losses under expected credit loss model, net of reversal | 5 | 1,471 | (47) |
| Finance costs | 6 | <u>(2,603)</u> | <u>(3,165)</u> |
| Profit before taxation | 7 | 70,311 | 55,535 |
| Taxation charge | 8 | <u>(7,533)</u> | <u>(3,638)</u> |
| Profit for the period | | <u>62,778</u> | <u>51,897</u> |
| Other comprehensive (expense) income | | | |
| Item that may be reclassified subsequently to profit or loss: | | | |
| Exchange difference arising on translation of foreign operation | | <u>(1,066)</u> | <u>375</u> |
| Total comprehensive income for the period | | <u>61,712</u> | <u>52,272</u> |
| Profit (loss) for the period attributable to: | | | |
| Owners of the Company | | 62,861 | 51,897 |
| Non-controlling interests | | <u>(83)</u> | <u>—</u> |
| | | <u>62,778</u> | <u>51,897</u> |
| Total comprehensive income (expense) for the period attributable to: | | | |
| — Owners of the Company | | 62,065 | 52,272 |
| — Non-controlling interests | | <u>(353)</u> | <u>—</u> |
| | | <u>61,712</u> | <u>52,272</u> |
| Earnings per share | | | |
| — Basic (RMB yuan) | 10 | <u>0.145</u> | <u>0.120</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

| | Notes | 30 June 2021 RMB'000 (unaudited) | 31 December 2020 RMB'000 (audited) |
|--|-------|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 11 | 250,153 | 237,418 |
| Deferred tax assets | | 1,239 | 1,536 |
| Deposits for property, plant and equipment | | 56,279 | 4,710 |
| | | 307,671 | 243,664 |
| Current assets | | | |
| Inventories | | 308,194 | 211,076 |
| Trade receivables | 12 | 255,210 | 203,724 |
| Trade receivables backed by bills | 13 | 8,987 | 27,860 |
| Contract assets | 14 | 21,143 | 18,644 |
| Tax recoverable | | 4,889 | 4,240 |
| Deposits, prepayments and other receivables | | 139,670 | 88,217 |
| Amounts due from related parties | 15 | 5,513 | 5,825 |
| Financial assets at fair value through profit or loss ("FVTPL") | | — | 88,415 |
| Pledged bank deposits | | 5,639 | 19,726 |
| Bank balances and cash | | 106,651 | 87,254 |
| | | 855,896 | 754,981 |
| Current liabilities | | | |
| Trade and bill payables | 16 | 56,345 | 72,091 |
| Contract liabilities | | 34,486 | 46,640 |
| Derivative financial instruments | | 101 | 306 |
| Refund liabilities | | 5,279 | 10,120 |
| Other payables and accrued charges | 17 | 59,545 | 44,229 |
| Amounts due to related parties | 15 | 664 | 764 |
| Provisions | | 486 | 1,401 |
| Tax liabilities | | 14 | 85 |
| Borrowings | 18 | 174,190 | 64,078 |
| Lease liabilities | | 2,886 | 814 |
| Dividend payables | | 43,316 | — |
| | | 377,312 | 240,528 |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2021

| | Notes | 30 June 2021 RMB'000 (unaudited) | 31 December 2020 RMB'000 (audited) |
|---------------------------------------|-------|---|---|
| Net current assets | | <u>478,584</u> | <u>514,453</u> |
| Total assets less current liabilities | | <u>786,255</u> | <u>758,117</u> |
| Non-current liabilities | | | |
| Lease liabilities | | 3,175 | — |
| Deferred tax liabilities | | <u>2,293</u> | <u>2,691</u> |
| | | <u>5,468</u> | <u>2,691</u> |
| Net assets | | <u><u>780,787</u></u> | <u><u>755,426</u></u> |
| Capital and reserves | | | |
| Share capital | 19 | 304 | 304 |
| Reserves | | <u>773,871</u> | <u>755,122</u> |
| Attributable to owners of the Company | | 774,175 | 755,426 |
| Non-controlling interests | 20 | <u>6,612</u> | <u>—</u> |
| Total equity | | <u><u>780,787</u></u> | <u><u>755,426</u></u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2021

| | Attributable to owners of the Company | | | | | | | | |
|---|---------------------------------------|--------------------------|--------------------------------------|--|--------------------------------|-----------------------------|-----------------------------|--------------------------------------|------------------|
| | 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 | Total RMB'000 |
| At 1 January 2021 (audited) | 304 | 362,148 | 123,260 | 28,465 | (791) | 242,040 | 755,426 | — | 755,426 |
| Profit for the period | — | — | — | — | — | 62,861 | 62,861 | (83) | 62,778 |
| Other comprehensive income for the period | — | — | — | — | (796) | — | (796) | (270) | (1,066) |
| Total comprehensive income for the period | — | — | — | — | (796) | 62,861 | 62,065 | (353) | 61,712 |
| Non-controlling interests arising on the settlement of a subsidiary | — | — | — | — | — | — | — | 6,965 | 6,965 |
| Dividends recognized as distribution | — | (36,629) | — | — | — | (6,687) | (43,316) | — | (43,316) |
| At 30 June 2021 (unaudited) | <u>304</u> | <u>325,519</u> | <u>123,260</u> | <u>28,465</u> | <u>(1,587)</u> | <u>298,214</u> | <u>774,175</u> | <u>6,612</u> | <u>780,787</u> |
| 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 |
| At 30 June 2020 (unaudited) | <u>304</u> | <u>362,148</u> | <u>123,260</u> | <u>18,868</u> | <u>1,027</u> | <u>204,007</u> | <u>709,614</u> | <u>—</u> | <u>709,614</u> |

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 Magang") related to 2016 Magang 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 Magang; 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.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

| | Six months ended | |
|--|------------------|------------------|
| | 30 June | |
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| Net cash (used in) generated from operating activities | <u>(122,273)</u> | <u>88,075</u> |
| Investing activities: | | |
| Purchases of property, plant and equipment | (15,195) | (14,095) |
| Deposits for property, plant and equipment | (56,279) | (2,322) |
| Receipts from structured bank deposits | 639 | 1,058 |
| Interest received | 230 | 221 |
| Placement of pledged bank deposits | (2,615) | (5,525) |
| Withdrawal of pledged bank deposits | 16,702 | — |
| Placement of structured bank deposits | (255,400) | (435,710) |
| Withdrawal of structured bank deposits | <u>342,900</u> | <u>445,210</u> |
| Net cash generated from (used in) investing activities | <u>30,982</u> | <u>(11,163)</u> |
| Financing activities: | | |
| Borrowings raised | 165,000 | 74,000 |
| Repayment of borrowings | (55,010) | (210,200) |
| Capital injection by non-controlling shareholders | 6,965 | — |
| Payment of lease liabilities | (1,168) | (412) |
| Interest paid | <u>(2,403)</u> | <u>(3,344)</u> |
| Net cash generated from (used in) financing activities | <u>113,384</u> | <u>(139,956)</u> |
| Net increase (decrease) in cash and cash equivalents | 22,093 | (63,044) |
| Cash and cash equivalents at beginning of the period | 87,254 | 215,108 |
| Effect of foreign exchange rate changes | <u>(2,696)</u> | <u>—</u> |
| Cash and cash equivalents at the end of the period, represented by bank balances and cash | <u>106,651</u> | <u>152,064</u> |

1. GENERAL AND BASIS OF PREPARATION

Maike 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 of Hong Kong Limited.

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 2021 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2020.

Application of amendments to HKFRSs

In the current interim period, the Group has applied 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 2021 for the preparation of the Group’s condensed consolidated financial statements:

| | |
|---|---|
| Amendment to HKFRS 16 | <i>Covid-19-Related Rent Concessions</i> |
| Amendments to HKFRS 9, HKAS 39 HKFRS 7, KFRS 4 and HKFRS 16 | <i>Interest Rate Benchmark Reform – Phase 2</i> |

The application of the amendments to HKFRSs in the current interim 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 2021:

| | Six months ended | |
|---|------------------|----------------|
| | 30 June | |
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| <i>Recognised at a point in time:</i> | | |
| Sales of pipe products: | | |
| – ERW steel pipes | 175,103 | 159,371 |
| – Standard prefabricated pipe nipples | 190,030 | 124,873 |
| – Spiral Submerged Arc Welded steel pipes | 141,153 | 107,999 |
| – Customised steel pipes | 102,706 | 85,372 |
| – Design and supply assembled piping system | 6,257 | 9,562 |
| Trading of steel coils | 136,522 | 51,183 |
| | <u>751,771</u> | <u>538,360</u> |

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 15 to 360 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 ("CODM") (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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

3. REVENUE AND SEGMENTAL INFORMATION — *continued*

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 | |
|---|---------------------------------|----------------|
| | Six months ended | |
| | 30 June | |
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| PRC | 446,525 | 296,361 |
| The United States of America ("US") | 129,828 | 94,300 |
| Other countries in America (excluding US) | 47,763 | 38,434 |
| Other countries in Asia (excluding PRC) | 67,517 | 70,427 |
| Europe | 17,231 | 11,923 |
| Others | 42,907 | 26,915 |
| | <u>751,771</u> | <u>538,360</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

4. OTHER INCOME, GAINS AND LOSSES

| | Six months ended | |
|---|------------------|--------------|
| | 30 June | |
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| Other income | | |
| Government grant | 21,284 | 1,642 |
| Bank interest income | 230 | 221 |
| | <u>21,514</u> | <u>1,863</u> |
| Other gains and losses | | |
| Gain on sales of scrap materials | 6,108 | 2,620 |
| Fair value gains on financial assets at FVTPL | | |
| — structured bank deposits | 639 | 1,058 |
| — foreign currency forward contracts (note i) | 234 | 134 |
| Fair value losses on derivative financial instruments (note ii) | (1,407) | (118) |
| Gains on disposals of property, plant and equipment | — | 3 |
| Net exchange (losses) gains | (1,228) | 697 |
| Others | 140 | 633 |
| | <u>4,486</u> | <u>5,027</u> |

Notes:

- i. During the interim period, net gains (losses) on US\$ to RMB foreign currency forward contracts represented realised gains of RMB266,000 (six months ended 30 June 2020: realised gains of RMB37,000) and unrealised losses of RMB32,000 (six months ended 30 June 2020: unrealised gains of RMB97,000) on changes in fair value of foreign currency forward contracts.
- ii. During the interim period, amount represented net losses (gains) on commodity derivative contracts represented realised losses of RMB1,645,000 (six months ended 30 June 2020: realised gains of RMB83,000) and unrealised gains of RMB238,000 (six months ended 30 June 2020: unrealised losses of RMB201,000) arising on changes in fair value of commodity derivative contracts.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

5. IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

| | Six months ended 30 June | |
|---|-----------------------------|-------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| Impairment losses (reversed) recognised on: | | |
| – trade receivables | (1,890) | 187 |
| – contract assets | 419 | (140) |
| | <u>(1,471)</u> | <u>47</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 2021 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2020.

6. FINANCE COSTS

| | Six months ended 30 June | |
|--------------------------------------|-----------------------------|--------------|
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| Finance costs represent interest on: | | |
| – bank borrowings | 2,525 | 3,132 |
| – lease liabilities | 78 | 33 |
| | <u>2,603</u> | <u>3,165</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

7. PROFIT BEFORE TAXATION

| | Six months ended 30 June | |
|--|--------------------------------|--------------------------------|
| | 2021 RMB'000 (unaudited) | 2020 RMB'000 (unaudited) |
| Profit before taxation has been arrived at after charging (crediting): | | |
| Depreciation of property, plant and equipment | 13,507 | 12,024 |
| Less: capitalised in inventories | (10,744) | (9,227) |
| Total depreciation | 2,763 | 2,797 |
| Write-down of inventories (included in cost of inventories sold) | 507 | 21 |

8. TAXATION CHARGE

| | Six months ended 30 June | |
|---|--------------------------------|--------------------------------|
| | 2021 RMB'000 (unaudited) | 2020 RMB'000 (unaudited) |
| PRC Enterprise Income Tax ("EIT"): | | |
| Current period | 7,139 | 8,889 |
| Under (over) provision in prior periods | 495 | (5,244) |
| Deferred tax credit: | (101) | (7) |
| Taxation charge | 7,533 | 3,638 |

9. DIVIDEND

During the current interim period, a final dividend of HK12 cents per share in respect of the year ended 31 December 2020 (2020: nil) was declared of the Company. The aggregate amount of the final dividend declared in the interim period amounted to HK\$52,056,000, equivalent to RMB43,316,000 (2020: nil).

Subsequent to the end of the current interim period, the Company has paid the proposed dividend.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

10. EARNINGS PER SHARE

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

| | Six months ended 30 June | |
|--|--------------------------------|--------------------------------|
| | 2021 RMB'000 (unaudited) | 2020 RMB'000 (unaudited) |
| Earnings | | |
| Earnings for the purposes of basic earnings per share (profit for the period attributable to owners of the Company) | <u>62,861</u> | <u>51,897</u> |
| | | |
| | Six months ended 30 June | |
| | 2021 '000 (unaudited) | 2020 '000 (unaudited) |
| Number of shares | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | <u>433,800</u> | <u>433,800</u> |

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

11. PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the carrying amount of property, plant and equipment of nil (six months ended 30 June 2020: RMB3,000) was recognised upon disposals of property, plant and equipment with proceeds of nil (six months ended 30 June 2020: nil), resulting in a loss of nil (six months ended 30 June 2020: a loss of RMB3,000).

In addition, during the current interim period, the Group acquired property, plant and equipment with an aggregate amount of RMB20,002,000 (six months ended 30 June 2020: RMB21,440,000).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

12. TRADE RECEIVABLES

| | 30 June 2021 RMB'000 (unaudited) | 31 December 2020 RMB'000 (audited) |
|------------------------------------|---|---|
| Trade receivables | 261,263 | 211,667 |
| Less: allowance of impairment loss | <u>(6,053)</u> | <u>(7,943)</u> |
| Total trade receivables | <u>255,210</u> | <u>203,724</u> |

The Group allows credit period of 15 to 360 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 2021 RMB'000 (unaudited) | 31 December 2020 RMB'000 (audited) |
|-----------------|---|---|
| 0-60 days | 162,834 | 97,376 |
| 61-180 days | 66,239 | 70,279 |
| 181 days-1 year | 23,962 | 27,694 |
| Over 1 year | <u>2,175</u> | <u>8,375</u> |
| | <u>255,210</u> | <u>203,724</u> |

13. TRADE RECEIVABLES BACKED BY BILLS

| | 30 June 2021 RMB'000 (unaudited) | 31 December 2020 RMB'000 (audited) |
|-----------------------------------|---|---|
| Trade receivables backed by bills | <u>8,987</u> | <u>27,860</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

13. TRADE RECEIVABLES BACKED BY BILLS – *continued*

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 2021 RMB'000 (unaudited) | 31 December 2020 RMB'000 (audited) |
|-----------------|---|---|
| 0–180 days | 1,263 | 25,298 |
| 181 days–1 year | 7,724 | 2,562 |
| | <u>8,987</u> | <u>27,860</u> |

As at 30 June 2021, the Group has pledged trade receivables backed by bills amounted to RMB5,640,000 (31 December 2020: RMB15,290,000) to secure general banking facilities granted to the Group.

14. CONTRACT ASSETS

| | 30 June 2021 RMB'000 (unaudited) | 31 December 2020 RMB'000 (audited) |
|---|---|---|
| Retention receivables on sales of pipe products | 23,199 | 20,281 |
| Less: allowance for impairment loss | <u>(2,056)</u> | <u>(1,637)</u> |
| | <u>21,143</u> | <u>18,644</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

15. AMOUNT(S) DUE FROM RELATED PARTIES/TO RELATED PARTIES

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 2021 RMB'000 (unaudited) | 31 December 2020 RMB'000 (audited) |
|---|---|---|
| Meide Group Co., Ltd. ("Meide") (note i) | 3,983 | 4,214 |
| Linyi Meide Gengchen Metal Material Co., Ltd. 臨沂玫德庚辰金屬材料有限公司 ("Linyi Meide Gengchen") (note ii) | 546 | 1,446 |
| Meide Group Linyi Co., Ltd. 玫德集團臨沂有限公司 ("Linyi Meide") (note ii) | 512 | 28 |
| Meide Group Weihai Co., Ltd. 玫德集團威海有限公司 ("Meide Weihai") (note ii) | 300 | — |
| Jinan Mech Valve Technology Co., Ltd. 濟南邁克閥門科技有限公司 ("Mech Valve") (note ii) | 94 | 132 |
| Jinan Mech Crafts Co., Ltd. 濟南邁克工藝品有限公司 ("Mech Crafts") (note ii) | 71 | 5 |
| Jinan Kede Intelligent Technology Co., Ltd. 濟南科德智能科技有限公司 ("Kede Intelligent") (note ii) | 7 | — |
| | <u>5,513</u> | <u>5,825</u> |

Note:

- i. Meide is controlled by Mr. Kong.
- ii. Subsidiaries of Meide.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

15. AMOUNT(S) DUE FROM RELATED PARTIES/TO RELATED PARTIES — *continued*

Amounts due from related parties — *continued*

The Group allows credit period from 60–180 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 2021 RMB'000 (unaudited) | 31 December 2020 RMB'000 (audited) |
|--------------|---|---|
| 0–60 days | 4,874 | 4,628 |
| 61–180 days | 639 | 1,102 |
| 181–360 days | — | 95 |
| | <u>5,513</u> | <u>5,825</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.

Amounts due to related parties

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

| | 30 June 2021 RMB'000 (unaudited) | 31 December 2020 RMB'000 (audited) |
|--|---|---|
| Mech Valve | 278 | 702 |
| Meide Ayvaz Metal Products Co., Ltd. 玫德艾瓦茲（濟南）金屬制品有限公司 (“Ayvaz Metal”) (note) | 208 | 6 |
| Meide Archung (HeBi) Tube Co., Ltd. 玫德雅昌（鶴壁）管業有限公司 (“Meide Archung”) (note) | 81 | — |
| Siam Fittings Co., Ltd. 泰鋼管配件有限公司 (“Siam Fittings”) (note) | 76 | — |
| Meide | 20 | 56 |
| Linyi Meide | 1 | — |
| | <u>664</u> | <u>764</u> |

Note: Subsidiaries of Meide.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

15. AMOUNT(S) DUE FROM RELATED PARTIES/TO RELATED PARTIES — *continued*

Amounts due to related parties — *continued*

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 2021 RMB'000 (unaudited) | 31 December 2020 RMB'000 (audited) |
|-------------|---|---|
| 0–60 days | 456 | 764 |
| 61–180 days | 208 | — |
| | <u>664</u> | <u>764</u> |

16. TRADE AND BILL PAYABLES

| | 30 June 2021 RMB'000 (unaudited) | 31 December 2020 RMB'000 (audited) |
|----------------|---|---|
| Trade payables | 51,830 | 47,650 |
| Bill payables | 4,515 | 24,441 |
| | <u>56,345</u> | <u>72,091</u> |

The following is an ageing analysis of bills payables at the end of the reporting period:

| | 30 June 2021 RMB'000 (unaudited) | 31 December 2020 RMB'000 (audited) |
|------------|---|---|
| 0–180 days | 4,515 | 24,441 |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

16. TRADE AND BILL 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 2021 RMB'000 (unaudited) | 31 December 2020 RMB'000 (audited) |
|---------------|---|---|
| 0–30 days | 18,256 | 27,587 |
| 31–60 days | 6,969 | 6,281 |
| 61–120 days | 5,103 | 2,165 |
| 121–180 days | 10,711 | 2,428 |
| 181–360 days | 6,242 | 3,729 |
| Over 360 days | 4,549 | 5,460 |
| | <u>51,830</u> | <u>47,650</u> |

17. OTHER PAYABLES AND ACCRUED CHARGES

| | 30 June 2021 RMB'000 (unaudited) | 31 December 2020 RMB'000 (audited) |
|---|---|---|
| Staff costs payable | 15,449 | 10,224 |
| Accrued charges | 8,908 | 6,941 |
| Other tax payable | 9,176 | 13,938 |
| Guarantee receipts from staff on trade receivables (note) | 7,366 | 5,571 |
| Government grant received | 2,714 | 2,817 |
| Deposits received from suppliers | 8,689 | 573 |
| Transportation cost payable | 5,580 | 2,624 |
| Agency fee payable | 1,663 | 1,541 |
| | <u>59,545</u> | <u>44,229</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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

18. BORROWINGS

During the current interim period, the Group obtained new bank loans amounting to RMB165,000,000 (30 June 2020: RMB74,000,000). The loans carry interest at fixed market rates ranging from 3.85% to 4.35% per annum. The proceeds were used to finance the acquisition of raw material.

19. SHARE CAPITAL

| | Number of shares | Amount US\$ | US\$'000 | Equivalent amount to RMB'000 |
|---|----------------------|----------------|------------|------------------------------------|
| Ordinary Shares of US\$0.0001 each | | | | |
| Authorised: | | | | |
| At 1 January 2020 (audited), 30 June 2020 (unaudited), 1 January 2021 (audited) and 30 June 2021 (unaudited) | <u>5,000,000,000</u> | <u>500,000</u> | <u>500</u> | <u>3,486</u> |
| Issued and fully paid | | | | |
| At 1 January 2020 (audited), 30 June 2020 (unaudited), 1 January 2021 (audited) and 30 June 2021 (unaudited) | <u>433,800,000</u> | <u>43,380</u> | <u>44</u> | <u>304</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

20. NON-CONTROLLING INTERESTS

| | Share of net assets of a subsidiary RMB'000 | Total RMB'000 |
|---|--|------------------|
| At 1 January 2021 | — | — |
| Share of loss for the period | (83) | (83) |
| Other comprehensive expense for the period | (270) | (270) |
| Non-controlling interests arising on the incorporation of a subsidiary | <u>6,965</u> | <u>6,965</u> |
| At 30 June 2021 | <u>6,612</u> | <u>6,612</u> |

In November 2020, the Group entered into an investment agreement with JJ Fittings Limited (“JJ Fitting”) and The Essence Electrical Products Co. Limited (“Essence Electrical”), to set up Delta Electric (Thailand) Co., Ltd (“Delta Electric”). The registered capital of Delta Electric was in the form of cash, with THB110,000,000 (equivalent to approximately RMB24,420,000) which will be paid within 90 days after signed the agreement. The interest of the Group, JJ Fitting and Essence Electrical in Delta Electric was 71%, 19% and 10% respectively. At the end of current interim period, the registered capital was fully paid.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

21. CAPITAL COMMITMENTS

| | 30 June 2021 RMB'000 (unaudited) | 31 December 2020 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 | 65,240 | 1,827 |

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 2021 RMB'000 (unaudited) | 31 December 2020 RMB'000 (audited) |
|-----------------------------------|---|---|
| Property, plant and equipment | 70,157 | 56,694 |
| Right-of-use assets | 42,968 | 43,474 |
| Pledged bank deposits | 5,639 | 19,726 |
| Trade receivables backed by bills | 5,640 | 15,290 |
| | <u>124,404</u> | <u>135,184</u> |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

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 | Six months ended 30 June | |
|--|--|--------------------------------|--------------------------------|
| | | 2021 RMB'000 (unaudited) | 2020 RMB'000 (unaudited) |
| Meide | Sales of pipe products | 17,544 | 11,773 |
| | Sales of scrap materials | 11,780 | 7,502 |
| | Purchase of inventories | 97 | 190 |
| Linyi Meide Gengchen | Sales of pipe products | 1,164 | 5 |
| Linyi Meide | Sales of pipe products | 470 | 20 |
| Meiyuan Renewable Resources Co., Ltd. 山東玫源再生資源有限公司 ("Meiyuan Renewable") (note i) | Sales of pipe products | — | 134 |
| Mech Valve | Sales of pipe products | 63 | — |
| | Purchase of inventories | 425 | — |
| Mech Crafts | Sales of pipe products | 113 | — |
| Kede Intelligent | Sales of pipe products | 10 | — |
| Meide Weihai | Sales of pipe products | 265 | — |
| Ayvaz Metal | Purchase of inventories | 179 | — |
| Meide Archung | Sales of pipe products | 8 | — |
| Siam Fittings | Interest expenses on lease liabilities | 64 | — |
| | Lease liabilities (note ii) | 5,686 | — |

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2021

23. RELATED PARTY TRANSACTIONS — *continued*

a) Transactions — *continued*

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

Notes:

- i Subsidiaries of Meide.
- ii During the six months ended 30 June 2021, the Group entered into a new lease agreements for the use of buildings with Siam Fittings for 2 years and 9 months. The Group has recognized an addition of right-of-use assets and lease liabilities of RMB6,338,000 and RMB6,338,000 respectively.

b) Compensation of key management personnel

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

| | Six months ended | |
|---|------------------|-------------|
| | 30 June | |
| | 2021 | 2020 |
| | RMB'000 | RMB'000 |
| | (unaudited) | (unaudited) |
| Salaries and other benefits | 1,720 | 869 |
| Discretionary bonus | 674 | 2,028 |
| Contributions to retirement benefit schemes | 91 | 89 |
| | <hr/> | <hr/> |
| | 2,485 | 2,986 |
| | <hr/> | <hr/> |