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MAIKE TUBE INDUSTRY HOLDINGS LIMITED

(迈科管业控股有限公司)

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1553)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2022

The Board (the “**Board**”) of Directors (the “**Directors**”) of Maikete Tube Industry Holdings Limited (the “**Company**”) hereby announces the unaudited interim results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2022 together with the comparative figures for the corresponding period of 2021 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2022

	Notes	Six months ended 30 June	
		2022 RMB'000 (unaudited)	2021 RMB'000 (unaudited)
Revenue	3	1,013,107	751,771
Cost of sales		<u>(816,452)</u>	<u>(613,445)</u>
Gross profit		196,655	138,326
Other income	4	3,611	21,514
Other gains and losses	4	8,379	4,486
Distribution and selling expenses		(63,216)	(44,305)
Administrative expenses		(26,237)	(21,517)
Research and development costs		(35,041)	(27,061)
Impairment losses under expected credit loss model, net of reversal	5	1,652	1,471
Finance costs	6	<u>(3,625)</u>	<u>(2,603)</u>
Profit before taxation	7	82,178	70,311
Taxation charge	8	<u>(12,309)</u>	<u>(7,533)</u>
Profit for the period		<u><u>69,869</u></u>	<u><u>62,778</u></u>
Other comprehensive income (expense):			
Item that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation of foreign operation		<u>1,267</u>	<u>(1,066)</u>
Total comprehensive income for the period		<u><u>71,136</u></u>	<u><u>61,712</u></u>
Profit (loss) for the period attributable to:			
Owners of the Company		70,252	62,861
Non-controlling interests		<u>(383)</u>	<u>(83)</u>
		<u><u>69,869</u></u>	<u><u>62,778</u></u>
Total comprehensive income (expense) for the period attributable to:			
– Owners of the Company		72,029	62,065
– Non-controlling interests		<u>(893)</u>	<u>(353)</u>
		<u><u>71,136</u></u>	<u><u>61,712</u></u>
Earnings per share			
– Basic (RMB yuan)	10	<u><u>0.162</u></u>	<u><u>0.145</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 JUNE 2022

		30 June 2022	31 December 2021
	<i>Notes</i>	RMB'000 (unaudited)	RMB'000 (audited)
Non-current assets			
Property, plant and equipment	11	414,700	408,304
Deferred tax assets		1,759	1,911
Deposits for property, plant and equipment		2,683	471
		419,142	410,686
Current assets			
Inventories		358,542	288,197
Trade receivables	12	289,079	266,208
Trade receivables backed by bills	13	37,078	62,715
Contract assets	14	29,159	25,859
Tax recoverable		1,331	2,783
Deposits, prepayments and other receivables		77,298	74,101
Amounts due from related parties	15	10,911	4,623
Financial assets at fair value through profit or loss (“FVTPL”)		–	876
Pledged bank deposits		29,186	5,740
Bank balances and cash		67,437	86,548
		900,021	817,650
Current liabilities			
Trade and bill payables	16	101,539	92,971
Contract liabilities		62,726	41,808
Derivative financial instruments		283	–
Refund liabilities		13,034	13,412
Other payables and accrued charges	17	81,375	60,970
Amounts due to related parties	15	3,147	690
Provisions		709	1,396
Tax liabilities		2,084	600
Borrowings	18	131,826	166,352
Lease liabilities		3,547	3,283
Dividend payables		37,099	–
		437,369	381,482

		30 June	31 December
		2022	2021
	<i>Notes</i>	RMB'000	RMB'000
		(unaudited)	(audited)
Net current assets		<u>462,652</u>	<u>436,168</u>
Total assets less current liabilities		<u>881,794</u>	<u>846,854</u>
Non-current liabilities			
Lease liabilities		5,405	6,640
Deferred tax liabilities		<u>10,004</u>	<u>7,866</u>
		<u>15,409</u>	<u>14,506</u>
Net assets		<u><u>866,385</u></u>	<u><u>832,348</u></u>
Capital and reserves			
Share capital	<i>19</i>	304	304
Reserves		<u>861,257</u>	<u>826,327</u>
Attributable to owners of the Company		861,561	826,631
Non-controlling interests	<i>20</i>	<u>4,824</u>	<u>5,717</u>
Total equity		<u><u>866,385</u></u>	<u><u>832,348</u></u>

NOTES

1. GENERAL AND BASIS OF PREPARATION

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, respectively.

The Company is an investment holding company. 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 2022 are the same as those presented in the Group’s annual financial statements for the year ended 31 December 2021.

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 2022 for the preparation of the Group’s condensed consolidated financial statements:

Amendment to HKFRS 3	Reference to the Conceptual Framework
Amendments to HKFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendment to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018-2020

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.

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 2022:

	Six months ended	
	30 June	
	2022	2021
	RMB'000	RMB'000
	(unaudited)	(unaudited)
<i>Recognised at a point in time:</i>		
Sales of pipe products:		
– ERW steel pipes	186,318	175,103
– Standard prefabricated pipe nipples	242,234	190,030
– Spiral Submerged Arc Welded steel pipes	212,240	141,153
– Customised steel pipes	129,717	102,706
– Design and supply assembled piping system	10,572	6,257
Trading of steel coils	232,026	136,522
	1,013,107	751,771

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, Vietnam and Thailand. 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.

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	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
PRC	629,092	446,525
The United States of America (“US”)	185,448	129,828
Other countries in America (excluding US)	43,395	47,763
Other countries in Asia (excluding PRC)	105,493	67,517
Europe	24,004	17,231
Others	25,675	42,907
	<u>1,013,107</u>	<u>751,771</u>

4. OTHER INCOME, GAINS AND LOSSES

	Six months ended	
	30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Other income		
Government grant	3,542	21,284
Bank interest income	69	230
	<u>3,611</u>	<u>21,514</u>

4. OTHER INCOME, GAINS AND LOSSES – CONTINUED

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Other gains and losses		
Gain on sales of scrap materials	5,243	6,108
Fair value gains (losses) on financial assets at FVTPL		
– structured bank deposits	14	639
– foreign currency forward contracts (<i>note i</i>)	(1,397)	234
Fair value gains (losses) on derivative financial instruments (<i>note ii</i>)	397	(1,407)
Net exchange gains (loss)	3,444	(1,228)
Others	678	140
	<u>8,379</u>	<u>4,486</u>

Notes:

- i. During the interim period, net (losses) gains on US\$ to RMB foreign currency forward contracts represented realised losses of RMB717,000 (six months ended 30 June 2021: realised gains of RMB266,000) and unrealised losses of RMB680,000 (six months ended 30 June 2021: unrealised losses of RMB32,000) 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 RMB876,000 (six months ended 30 June 2021: realised losses of RMB1,645,000) and unrealised losses of RMB479,000 (six months ended 30 June 2021: unrealised gains of RMB238,000) arising on changes in fair value of commodity derivative contracts.

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

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Impairment (reversed) losses recognised on:		
– trade receivables	(397)	(1,890)
– contract assets	(1,255)	419
	<u>(1,652)</u>	<u>(1,471)</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 2022 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2021.

6. FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Finance costs represent interest on:		
– bank borrowings	3,421	2,525
– lease liabilities	204	78
	<u>3,625</u>	<u>2,603</u>

7. PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Profit before taxation has been arrived at after charging:		
Depreciation of property, plant and equipment	17,856	13,507
Less: capitalised in inventories	(13,680)	(10,744)
Total depreciation	4,176	2,763
Write-down of inventories (included in cost of inventories sold)	638	507
	<u>4,814</u>	<u>3,270</u>

8. TAXATION CHARGE

	Six months ended 30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
PRC Enterprise Income Tax (“EIT”):		
Current period	12,202	7,139
Under provision in prior periods	(2,183)	495
Deferred tax credit:	<u>2,290</u>	<u>(101)</u>
Taxation charge	<u>12,309</u>	<u>7,533</u>

12. TRADE RECEIVABLES

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Trade receivables	298,549	276,075
Less: allowance of impairment loss	(9,470)	(9,867)
Total trade receivables	<u>289,079</u>	<u>266,208</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 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
0 – 60 days	189,731	127,204
61 – 180 days	52,707	101,271
181 days – 1 year	39,082	28,167
Over 1 year	7,559	9,566
	<u>289,079</u>	<u>266,208</u>

13. TRADE RECEIVABLES BACKED BY BILLS

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Trade receivables backed by bills	<u>37,078</u>	<u>62,715</u>

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 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
0 – 180 days	37,078	60,542
181 days – 1 year	<u>–</u>	<u>2,173</u>
	<u>37,078</u>	<u>62,715</u>

As at 30 June 2022, the Group has pledged trade receivables backed by bills amounted to RMB15,473,000 (31 December 2021: RMB2,000,000) to secure general banking facilities granted to the Group.

14. CONTRACT ASSETS

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Retention receivables on sales of pipe products	30,185	28,140
Less: allowance for impairment loss	<u>(1,026)</u>	<u>(2,281)</u>
	<u>29,159</u>	<u>25,859</u>

15. AMOUNTS 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 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Meide Group Co., Ltd. (“Meide”) (note i)	7,355	2,780
Jinan Kede Intelligent Technology Co., Ltd. 濟南科德智能科技有限公司 (“Kede Intelligent”) (note ii)	1,757	–
Meide Group Linyi Co., Ltd. 玫德集團臨沂有限公司 (“Linyi Meide”) (note ii)	755	644
Jinan Mech Valve Technology Co., Ltd. 濟南邁克閥門科技有限公司 (“Mech Valve”) (note ii)	426	455
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)	183	578
Meiyuan Renewable Resources Co., Ltd. 山東玫源再生資源有限公司 (“Meiyuan Renewable”) (note ii)	175	–
Jinan Mech Crafts Co., Ltd. 濟南邁克工藝品有限公司 (“Mech Crafts”) (note ii)	121	52
Meide Archung (HeBi) Tube Co., Ltd. 玫德雅昌(鶴壁)管業有限公司 (“Meide Archung”) (note ii)	117	114
Meide (Shandong) New Energy Co., Ltd. 玫德(山東)新能源有限公司 (“Meide New Energy”) (note ii)	14	–
Meide Archung (JiNan) Tube Co., Ltd. 玫德雅昌(濟南)管業有限公司 (“Meide Archung (JiNan)”) (note ii)	8	–
	<u>10,911</u>	<u>4,623</u>

Notes:

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

15. AMOUNTS 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 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
0 – 60 days	8,987	3,841
61 – 180 days	1,249	267
181 – 360 days	648	515
Over 1 year	27	–
	<u>10,911</u>	<u>4,623</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 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Siam Fittings Co., Ltd. 泰鋼管配件有限公司 (“Siam Fittings”) (note)	2,182	393
Meide	643	53
Meide Archung	143	–
Mech Valve	95	36
Kede Intelligent	84	–
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
	<u>3,147</u>	<u>690</u>

Note: Subsidiaries of Meide.

15. AMOUNTS 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 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
0 – 60 days	3,084	690
61 – 180 days	<u>63</u>	<u>–</u>
	<u>3,147</u>	<u>690</u>

16. TRADE AND BILL PAYABLES

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Trade payables	81,682	91,391
Bill payables	<u>19,857</u>	<u>1,580</u>
	<u>101,539</u>	<u>92,971</u>

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

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
0 – 180 days	<u>19,857</u>	<u>1,580</u>

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 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
0 – 30 days	42,993	58,086
31 – 60 days	4,738	10,138
61 – 120 days	12,875	13,989
121 – 180 days	4,374	5,420
181 – 360 days	11,286	2,683
Over 360 days	5,416	1,075
	<u>81,682</u>	<u>91,391</u>

17. OTHER PAYABLES AND ACCRUED CHARGES

	30 June 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Staff costs payable	16,506	15,954
Accrued charges	20,574	14,138
Other tax payable	14,115	8,663
Guarantee receipts from staff on trade receivables (<i>note</i>)	6,607	6,482
Conditional government grant received	13,559	3,917
Deposits received from suppliers	4,383	3,576
Transportation cost payable	5,465	4,536
Agency fee payable	166	3,704
	<u>81,375</u>	<u>60,970</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.

18. BORROWINGS

During the current interim period, the Group obtained new bank loans amounting to RMB114,000,000 (30 June 2021: RMB165,000,000). The loans carry interest at fixed market rates ranging from 3.60% 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 2021 (audited),				
30 June 2021 (unaudited),				
1 January 2022 (audited) and				
30 June 2022 (unaudited)	500,000,000	50,000	50	335
Issued and fully paid				
At 1 January 2021 (audited),				
30 June 2021 (unaudited),				
1 January 2022 (audited) and				
30 June 2022 (unaudited)	433,800,000	43,380	44	304

20. NON-CONTROLLING INTERESTS

	Share of net assets of a subsidiary RMB'000	Total RMB'000
At 1 January 2022	5,717	5,717
Share of loss for the period	(383)	(383)
Other comprehensive expense for the period	(510)	(510)
At 30 June 2022	4,824	4,824

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.

21. CAPITAL COMMITMENTS

	30 June 2022 RMB'000 (unaudited)	31 December 2021 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	<u>11,778</u>	<u>23,586</u>

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 2022 RMB'000 (unaudited)	31 December 2021 RMB'000 (audited)
Property, plant and equipment	55,991	67,465
Right-of-use assets	38,402	42,462
Pledged bank deposits	29,186	5,740
Trade receivables backed by bills	<u>15,473</u>	<u>2,000</u>
	<u>139,052</u>	<u>117,667</u>

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 companies	Nature of transactions	Six months ended	
		2022	2021
		RMB'000	RMB'000
		(unaudited)	(unaudited)
Meide	Sales of pipe products	16,895	17,544
	Sales of scrap materials	14,118	11,780
	Purchase of inventories	712	97
Linyi Meide Gengchen	Sales of pipe products	545	1,164
Linyi Meide	Sales of pipe products	224	470
Meiyuan Renewable	Sales of pipe products	656	—
Mech Valve	Sales of pipe products	55	63
	Purchase of inventories	112	425
Mech Crafts	Sales of pipe products	145	113
	Purchase of inventories	44	—
Kede Intelligent	Sales of pipe products	867	10
	Purchase of inventories	861	—
Meide Group Weihai Co., Ltd. 玫德集團威海有限公司 (“Meide Weihai”) (note)	Sales of pipe products	—	265
Ayvaz Metal	Purchase of inventories	61	179
Meide Archung	Sales of pipe products	2	8
Meide Archung (JiNan)	Sales of pipe products	7	—
	Purchase of inventories	143	—
Meide New Energy	Sales of pipe products	261	—
Siam Fittings	Purchase of inventories	917	—
	Loan from related party	762	—
	Interest expenses on lease liabilities	81	64
	Lease liabilities	3,307	5,686

Note: Subsidiary of Meide.

23. RELATED PARTY TRANSACTIONS – CONTINUED

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	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(unaudited)	(unaudited)
Salaries and other benefits	1,859	1,720
Discretionary bonus	719	674
Contributions to retirement benefit schemes	176	91
	<u>2,754</u>	<u>2,485</u>

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 the pipe system to connect different straight pipes or pipe sections, which can be adjusted to different sizes or shapes. Standard prefabricated pipe nipple products and steel pipe 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 customised 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 systems 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 modelling and three-dimensional design system to minimise wastage of materials and improve efficiency, thus reducing production costs.

During the Reporting Period, there was an occurrence of the COVID-19 pandemic, the appreciation in exchange rate of USD to RMB, the rise and fall in prices of main raw materials, as well as the sharp decline in prices in the second quarter. The combination of such factors exerted certain impacts on the Group's performance and business operations, as well as the implementation of business strategies. Despite the foregoing factors, the Company has made every effort to address various challenges under the Board's leadership and explored potential markets in multiple ways. For the six months ended 30 June 2022, the Group recorded revenue of approximately RMB1,013.1 million, representing a year-on-year increase of 34.8%, and achieved an accumulative net profit of approximately RMB69.9 million, representing a year-on-year increase of 11.3%.

NEW ORDERS

For the six months ended 30 June 2022, the Group received new orders of approximately 12,400 tons of standard prefabricated pipe products, of which approximately 99.1% were from overseas customers. It also received new orders of approximately 106,800 tons of steel pipe products, of which approximately 72.7% were from domestic customers. During the six months ended 30 June 2022, the Group delivered approximately 12,600 tons of standard prefabricated pipe products (including Vietnam Piping and Delta Electric (Thailand)) and approximately 88,950 tons of steel pipe products.

STANDARD PREFABRICATED PIPE PRODUCTS

The standard prefabricated pipe products are key competitive products of the Group. For the six months ended 30 June 2022, revenue from its standard prefabricated pipe products amounted to approximately RMB242.2 million, accounting for 23.9% of the total revenue of the Group. For the six months ended 30 June 2021, revenue from its standard prefabricated pipe products amounted to approximately RMB190.0 million, accounting for 25.2% of the total revenue of the Group. The total revenue generated from standard prefabricated pipe products increased 27.5% as compared to the corresponding period last year, largely because of changes in product mix and an increase in the average selling price.

STEEL PIPE PRODUCTS

The Group's steel pipe products are made through rolling the steel plate and welding the seam, and are mainly used for gas, water supply, HVAC and fire extinguish. In order to meet the personalised demand of customers, the Group produced standard steel pipes with value-added processes under their request for customisation, 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 2022, the Group recorded revenues of approximately RMB186.3 million, RMB212.2 million and RMB129.7 million from ERW steel pipes, spiral submerged arc welded steel pipes and customised steel pipes, respectively, representing a year-on-year increase of 6.4%, 50.4% and 26.3% as compared to the same period in 2021, respectively. The rise was mainly due to increased purchases because of the Company's development of new customers. The total revenue generated from steel pipe products accounted for approximately 52.1% of the total revenue for the six months ended 30 June 2022.

DESIGN AND SUPPLY OF ASSEMBLED PIPING SYSTEM

Leveraging its industry experience, the Group is able to design and supply assembled piping systems for customers to satisfy various physical and functional characteristics of customers' designated sites. For the six months ended 30 June 2022, the Group recorded revenue of approximately RMB10.6 million from the design and supply of assembled piping systems, representing a year-on-year increase of approximately 69.0% as compared to the same period in 2021. The increase was mainly due to an increase in orders delivered to customers. The revenue generated from the sales of design and supply of assembled piping systems accounted for approximately 1.1% of the total revenue for the six months ended 30 June 2022.

FINANCIAL REVIEW

The Group's revenue is generated from (i) the sales of standard prefabricated pipe products; (ii) the sales of steel pipe products; (iii) the sales of the design and supply of assembled piping systems; and (iv) the trading of steel coils mainly including steel coils that were procured from suppliers.

For the six months ended 30 June 2022, the Group's total revenue was approximately RMB1,013.1 million, representing an increase of approximately RMB261.3 million or 34.8% as compared to the six months ended 30 June 2021. The increase in revenue was mainly due to (i) the year-on-year rise in sales volume of steel pipe products; (ii) the growth in sales of steel coils; and (iii) a year-on-year increase in the average selling price of standard prefabricated pipe products.

Sales by product categories

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

	For the six months ended 30 June							
	2022				2021			
	Revenue	% of	Sales	ASP	Revenue	% of	Sales	ASP
	RMB'000	total	volume	RMB/ton	RMB'000	total	volume	RMB/ton
			ton'000				ton'000	(unaudited)
Standard prefabricated pipe nipples	242,234	23.9%	12.6	19,225	190,030	25.2%	12.7	14,963
Steel pipe products								
ERW steel pipes	186,318	18.4%	31.5	5,915	175,103	23.3%	31.6	5,541
SSAW steel pipes	212,240	20.9%	38.2	5,556	141,153	18.8%	22.4	6,301
Customised steel pipes	129,717	12.8%	20.3	6,390	102,706	13.7%	17.4	5,903
Design and supply of assembled piping systems	10,572	1.1%	Not applicable	Not applicable	6,257	0.8%	Not applicable	Not applicable
Trading of steel coils	232,026	22.9%	52.8	4,394	136,522	18.2%	30.2	4,520
Total	<u>1,013,107</u>	<u>100.0%</u>	<u>155.4</u>		<u>751,771</u>	<u>100.0%</u>	<u>114.3</u>	

The revenue generated from sales of standard prefabricated pipe products amounted to approximately RMB242.2 million for the six months ended 30 June 2022, representing an increase of approximately RMB52.2 million or 27.5% as compared to the six months ended 30 June 2021, which was largely because of changes in product mix and an increase in the average selling price.

The revenue generated from ERW steel pipes increased by approximately RMB11.2 million or 6.4% from the six months ended 30 June 2021 to approximately RMB186.3 million for the six months ended 30 June 2022, which was mainly due to the increase in the ASP for the six months ended 30 June 2022. The revenue generated from SSAW steel pipes increased by approximately RMB71.1 million or 50.4% from the six months ended 30 June 2021 to approximately RMB212.2 million for the six months ended

30 June 2022, which was mainly due to the increase in sales volume for the six months ended 30 June 2022. The revenue generated from customised steel pipes increased by approximately RMB27.0 million or 26.3% from the six months ended 30 June 2021 to approximately RMB129.7 million for the six months ended 30 June 2022.

The revenue generated from design and supply of assembled piping systems increased from approximately RMB6.3 million for the six months ended 30 June 2021 by approximately RMB4.3 million or 69.0% to approximately RMB10.6 million for the six months ended 30 June 2022, which was mainly due to the increase in the delivery of orders to customers during the current period.

The revenue generated from steel coils increased by approximately RMB95.5 million or 70.0% from the six months ended 30 June 2021 to approximately RMB232.0 million for the six months ended 30 June 2022, mainly due to the increase in sales volume.

Sales by geographical regions

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

	For the six months ended 30 June			
	2022		2021	
	Revenue <i>RMB'000</i>	% of total	Revenue <i>RMB'000</i> (unaudited)	% of total
Domestic market				
PRC	629,092	62.1%	446,525	59.4%
Overseas markets				
The United States	185,448	18.3%	129,828	17.3%
Other countries in America (excluding the United States)	43,395	4.3%	47,763	6.3%
Other countries in Asia (excluding the PRC)	105,493	10.4%	67,517	9.0%
Europe	24,004	2.4%	17,231	2.3%
Others	25,675	2.5%	42,907	5.7%
Total	<u>1,013,107</u>	<u>100.0%</u>	<u>751,771</u>	<u>100.0%</u>

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 42.2% or RMB58.3 million from approximately RMB138.3 million for the six months ended 30 June 2021 to approximately RMB196.7 million for the six months ended 30 June 2022. Such increase was mainly attributable to the rise in sales volume of SSAW steel pipes and the increase in the average selling price of standard prefabricated pipe products. The gross profit margin rose by 1.0% as compared to the corresponding period of last year.

OTHER INCOME

For the six months ended 30 June 2022, other income mainly represents government grant and interest income, which decreased from approximately RMB21.5 million for the six months ended 30 June 2021 by approximately 83.3% or RMB17.9 million to approximately RMB3.6 million for the six months ended 30 June 2022. The decrease in other income was mainly due to the decline in government grant of RMB17.8 million.

OTHER GAINS AND LOSSES

For the six months ended 30 June 2022, 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 losses on derivative financial instruments and net exchange gains or losses. Other gains and losses increased by approximately 87% to approximately RMB8.4 million (H1 2021: RMB4.5 million) for the six months ended 30 June 2022. Changes in other gains and losses were mainly attributable to gains on sales of scrap materials of approximately RMB5.2 million as compared to the gains on scrap of RMB6.1 million in the same period of last year; the decrease of approximately RMB0.6 million in the income from structured bank deposits; fair value gains of approximately RMB0.4 million on derivative financial instrument in 2022 as compared to the loss of approximately RMB1.4 million in the same period of 2021; and gains from foreign exchange of approximately RMB3.4 million in 2022 as compared to the losses of approximately RMB1.2 million in the same period of 2021.

DISTRIBUTION AND SELLING EXPENSES

Distribution and selling expenses increased from approximately RMB44.3 million for the six months ended 30 June 2021 by approximately 42.7% or RMB18.9 million to approximately RMB63.2 million for the six months ended 30 June 2022, which was primarily due to (i) the increase in business expenses; and (ii) the increase in transportation costs.

ADMINISTRATIVE EXPENSES

Administrative expenses increased from approximately RMB21.5 million for the six months ended 30 June 2021 by approximately 21.9% or RMB4.7 million to approximately RMB26.2 million for the six months ended 30 June 2022, 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 RMB27.1 million for the six months ended 30 June 2021 by approximately 29.5% or RMB7.9 million to approximately RMB35.0 million for the six months ended 30 June 2022. Our research and development costs accounted for approximately 3.5% of the total revenue (corresponding period in 2021: approximately 3.6%).

IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

As of 30 June 2022, Impairment losses under expected credit loss model, net of reversal were approximately RMB-1.65 million (corresponding period in 2021: approximately RMB-1.47 million), mainly due to the repayment of long outstanding receivables by a customer.

FINANCE COSTS

Finance costs increased from RMB2.6 million for the six months ended 30 June 2021 by approximately 38.5% or RMB1.0 million to approximately RMB3.6 million for the six months ended 30 June 2022. The increase was primarily due to the growth in bank loan interest expenses.

TAXATION CHARGE

Taxation charge increased from RMB7.5 million for the period ended 30 June 2021 to RMB12.3 million for the period ended 30 June 2022.

PROFIT FOR THE PERIOD

Profit for the period increased by approximately 11.3% or RMB7.1 million from RMB62.8 million for the period ended 30 June 2021 to RMB69.9 million for the period ended 30 June 2022, which was mainly due to the increase in sales volume of SSAW steel pipes and the rise in average selling price of standard prefabricated pipe products.

CAPITAL STRUCTURE, LIQUIDITY AND FINANCIAL RESOURCES

	For the six months ended	
	30 June	
	2022	2021
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Net cash generated from (used in) operating activities	66,777	(122,273)
Net cash (used in) generated from investing activities	(49,053)	30,982
Net cash (used in) generated from financing activities	(39,134)	113,384
Net (decrease) increase in cash and cash equivalents	(21,410)	22,093
Cash and cash equivalents at the beginning of the period	86,548	87,254
Effect of foreign exchange rate changes	2,299	(2,696)
Cash and cash equivalents at the end of the period	<u>67,437</u>	<u>106,651</u>

GEARING RATIO

As at 30 June 2022, 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 15.2% (31 December 2021: approximately 20.1%). As at 30 June 2022, our total interest-bearing debts amounted to RMB131.8 million of bank borrowings. The decrease in gearing ratio was primarily attributable to the decline in bank loans.

NET CASH GENERATED FROM (USED IN) OPERATING ACTIVITIES

Our net cash from operating activities changed from a net outflow of approximately RMB122.2 million for the period ended 30 June 2021 to a net inflow of approximately RMB66.8 million for the period ended 30 June 2022. The increase in net cash generated from operating activities was mainly due to (i) the improvement of operating recoveries; (ii) the rise in contract liabilities.

NET CASH USED IN (GENERATED FROM) INVESTING ACTIVITIES

Our net cash from investing activities changed from a net inflow of approximately RMB31.0 million for the period ended 30 June 2021 to a net outflow of approximately RMB49.1 million for the period ended 30 June 2022. The change in net cash was primarily due to the change in expenses incurred for the purchase and construction of fixed assets and in structured bank deposits.

NET CASH USED IN (GENERATED FROM) FINANCING ACTIVITIES

Our net cash from financing activities changed from a net inflow of approximately RMB113.4 million for the period ended 30 June 2021 to a net outflow of approximately RMB39.1 million for the period ended 30 June 2022. The change in net cash used in financing activities was primarily due to the increase in repayment of borrowings.

NET CURRENT ASSETS AND LIABILITIES

Inventories

Our balance of inventories increased by approximately RMB70.3 million or 24.4% from approximately RMB288.2 million as at 31 December 2021 to approximately RMB358.5 million as at 30 June 2022, which was mainly driven by the sufficient orders for steel pipe products and the increase in inventories.

TRADE RECEIVABLES AND TRADE RECEIVABLES BACKED BY BILLS

Our trade receivables increased by approximately RMB22.9 million or 8.6% from approximately RMB266.2 million as at 31 December 2021 to approximately RMB289.1 million as at 30 June 2022, 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 RMB25.6 million or 40.8% from approximately RMB62.7 million as at 31 December 2021 to approximately RMB37.1 million as at 30 June 2022, mainly due to maturity of bank bills previously received.

CONTRACT ASSETS

Our contract assets increased from approximately RMB25.9 million as of 31 December 2021 to approximately RMB29.2 million as of 30 June 2022, mainly due to an increase in sales; and the decrease in the impairment allowance on contract assets was mainly attributable to the recovery of the long-term retention receivables from a client.

DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Our deposits, prepayments and other receivables increased from approximately RMB74.1 million as at 31 December 2021 to approximately RMB77.3 million as at 30 June 2022, mainly due to the increase in prepayment for raw materials.

AMOUNTS DUE FROM/TO RELATED PARTIES

Amounts due from related parties increased from approximately RMB4.6 million as at 31 December 2021 to approximately RMB10.9 million as at 30 June 2022, mainly due to the settlement of trade amounts at the end of the period.

Amounts due to related parties increased from approximately RMB0.7 million as at 31 December 2021 to approximately RMB3.1 million as at 30 June 2022.

TRADE AND BILL PAYABLES

Our trade and bill payables increased from approximately RMB93.0 million as of 31 December 2021 to approximately RMB101.5 million as of 30 June 2022, mainly due to the outstanding trade payables to our suppliers at the end of the period.

CONTRACT LIABILITIES

Our contract liabilities increased from approximately RMB41.8 million as at 31 December 2021 to approximately RMB62.7 million as at 30 June 2022, which was related to the timing of delivery of products to our customers.

REFUND LIABILITIES

Our refund liabilities decreased from approximately RMB13.4 million as of 31 December 2021 to approximately RMB13.0 million as of 30 June 2022, primarily due to the settlement of liabilities.

OTHER PAYABLES AND ACCRUED CHARGES

Our other payables and accrued charges increased from approximately RMB61.0 million as of 31 December 2021 to approximately RMB81.4 million as of 30 June 2022, 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 2021 to approximately RMB0.7 million as of 30 June 2022. Provisions represent warranty provided for our sold products.

BORROWINGS

Our borrowings decreased from approximately RMB166.4 million as of 31 December 2021 to approximately RMB131.8 million as of 30 June 2022, mainly due to a decline in bank loans. The Group's borrowing of approximately RMB114.0 million as at 30 June 2022 was repayable within one year.

LEASE LIABILITIES

As of 30 June 2022, the Group rented two properties in Vietnam and Thailand respectively to operate its 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 RMB9.0 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 or HKD or VND or THB may have an impact on the financial performance of the Group. The Group mainly manages potential fluctuations 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 2022. For the six months ended 30 June 2021: nil.

PLEDGE OF ASSETS

As at 30 June 2022, 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 RMB139.1 million (31 December 2021: approximately RMB117.7 million) to secure banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 30 June 2022, 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 2022, 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, the Group did not have any other plans for material investments or capital assets during the six months ended 30 June 2022 and up to the date of this announcement .

EMPLOYEES

For the six months ended 30 June 2022, labour costs (including Directors' remunerations and emoluments in other forms) were approximately RMB54.1 million (for the six months ended 30 June 2021: RMB50.5 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. The 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. As the Group believes that nurturing outstanding employees is particularly important for the development of enterprises, it provides 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 programmes related to their necessary skills and knowledge.

As of 30 June 2022, we had 1,067 employees (30 June 2021: 1,073 employees), 883 of whom are in the PRC (including Hong Kong), 114 of whom work in Vietnam, and 70 of whom work in Thailand. A breakdown of our employees by functions is set forth below:

Function	As at 30 June 2022		
	China (including Hong Kong)	Vietnam	Thailand
Managerial, administrative and accounts	59	9	6
Production	500	100	60
Quality control	58	2	1
Procurement and inventory	39	1	1
Research and development	131	2	2
Sales and marketing	96	—	—
Total number of employees	<u>883</u>	<u>114</u>	<u>70</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.

As at 30 June 2022, 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 2021 (RMB'000)	Actual use of proceeds for the six months end 30 June 2022 (RMB'000)	Remaining net proceeds as at 30 June 2022 (RMB'000)	Expected timeline of full utilisation of remaining proceeds from the global offering as at 30 June 2021 (Note 1)
Increasing production capacity of ERW steel pipes	19.00%	31,625	–	–	–	
Upgrading one of the SSAW steel pipe production line	22.30%	37,118	–	–	–	
Setting up a new production facility building	9.40%	15,646	–	–	–	
Expanding overseas to increase production capacity	9.40%	15,646	9,481	1,149	8,332	By the end of 2022 (Note 2)
Expanding our business horizontally through acquisition/collaboration	10%	16,645	–	–	–	
Strengthening research and development capabilities	10%	16,645	–	–	–	
Repayment of borrowings	10%	16,645	–	–	–	
General working capital	9.90%	16,478	–	–	–	
	<u>100%</u>	<u>166,448</u>	<u>9,481</u>	<u>1,149</u>	<u>8,332</u>	

Notes:

1. The expected timeline of full utilisation is based on the Directors' best estimation barring unforeseen circumstances.
2. The Company originally planned to use the proceeds to complete the overseas expansion by the fourth quarter of 2021 to increase production capacity. Nevertheless, due to the COVID-19 pandemic and its impact on the PRC's and global economy, these development plans were delayed. As at 30 June 2022, based on the best estimate of the Board and without unforeseen circumstances beyond the Group's control, the unused net proceeds, which were planned to be used to complete the overseas expansion to increase production capacity, are expected to be fully used by the end of 2022.

During the six months ended 30 June 2022, 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.

EVENTS SUBSEQUENT TO THE REPORTING PERIOD

Save as disclosed, there were no significant events subsequent to 30 June 2022 which would materially affect the Group's operating and financial performance as of the date of this announcement.

SHARE OPTION SCHEME

The Company conditionally adopted the share option scheme pursuant to a written resolution passed by its shareholder on 19 November 2019 (“**Share Option Scheme**”). 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 Rules Governing the Listing of Securities on the Stock Exchange (“**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 (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 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 announcement, it has a remaining life of around 7.5 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 announcement, and no outstanding share options under the Share Option Scheme as at 30 June 2022.

EVENTS SUBSEQUENT TO THE REPORTING PERIOD

Save as disclosed, there were no significant events subsequent to 30 June 2022 which would materially affect the Group’s operating and financial performance as of the date of this announcement.

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 2022.

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

PROSPECTS

Affected by the pandemic, China's GDP grew merely 2.5% in the first half of 2022, lower than expected. However, there were tremendous opportunities in the pipeline industry. As stated in the "14th Five-Year Plan", pipeline renovation and construction is an important infrastructure project. The Ministry of Water Resources unveiled an implementation plan for the national key water projects during the 14th Five-Year Plan period, stating that the investment in water conservancy construction is expected to exceed RMB800 billion. In the first half of 2022, the Company adjusted its organisational structure in a timely manner and successfully received orders of about 8,000 tons concerning water conservancy projects. In the second half of the year, there will be uncertainties about the policy as it will still be affected by GDP and employment data. The supply of steel products overseas is gradually recovering. China's economy is expected to pick up. Renovation of gas pipelines will continuously promote the rapid development of the pipeline industry.

Based on current situation, the Group will seize the foregoing opportunities to strengthen its own capacity building. It will adopt the following strategies to realise sustainable growth, further enhance its position in the pipe prefabrication industry, and create long-term value for shareholders: (i) It will continuously reduce production costs via digital and fine management; (ii) The overseas marketing team plans to organise four overseas visits involving nearly 15 countries to enable face-to-face communication with customers, identify customers' pain points, and discover valuable business opportunities; and (iii) Efforts will be stepped up in the research and development of new products, the continuous improvement of the quality of products, and the enhancement of the Group's reputation in the industry.

THE RISK OF COVID-19 PANDEMIC AFFECTING MARKET SALES

The repeated COVID-19 outbreaks in China in the first half of 2022 greatly impacted the transportation and engineering projects, increasing downward pressure on the domestic economy. Although overseas control over the pandemic has been gradually loosened, shipping lines have not returned to pre-pandemic levels, which has had a certain impact on the Group's product delivery and rising shipping costs. The Group will make continuous efforts in the anti-pandemic work and focus on its product logistics supply chain services at both ends of supply and demand through proactive communication with customers and suppliers, with an aim to ensure its 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.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The major pollutants generated by the Group in the manufacturing process include various kinds of exhaust gas and wastewater which could be harmful to human body. We comply with Chinese, Vietnamese and Thai environmental laws and regulations promulgated by national and local governments. During the Reporting Period, we complied with the pollutant discharge standards, under which the amount of different kinds of exhaust gas and wastewater discharge cannot exceed the prescribed levels. Our production plant in Pingyin County, Jinan was recognised as a national green factory, demonstrating our achievements in environmental protection.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company's corporate governance practices are based on the principles and code provisions as set out in the Corporate Governance Code in Appendix 14 to the Listing Rules (the "**CG Code**"). Save as disclosed below, the Company has complied with the CG Code throughout the six months ended 30 June 2022.

Pursuant to code provision C.2.1 of the CG Code, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. However, we do not have a separate chairman and chief executive officer and Guo Lei ("**Mr. Guo**") are performing these two roles. Throughout the business history of the Group, Mr. Guo, being a substantial Shareholder of the Company, has held key leadership positions of the Group and has been deeply involved in the formulation of corporate strategies and management of the business and operations of the Group since its establishment. Taking into account the consistent leadership within the Group, the Board believes that it is in the best interests of the Group and the Shareholders as a whole to have Mr. Guo taking up both roles for effective and efficient overall strategic planning and continuation of the implementation of such plans for the Group. The Board considers that the balance of power and authority under the present arrangement will not be impaired and this structure will enable the Company to make and implement decisions promptly and effectively.

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 2022. 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 2022.

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 2022, 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.

PUBLICATION OF THE INTERIM RESULTS AND INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The announcement of interim results will be published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.mechpipingtech.com). The interim report of the Company for the six months ended 30 June 2022 will be despatched to the shareholders of the Company in due course and will be made available on the websites of the Stock Exchange and the Company.

By order of the Board
Maike Tube Industry Holdings Limited
GUO Lei
Chairman and executive Director

Hong Kong, 26 August 2022

As at the date of this announcement, the executive directors of the Company are Mr. GUO Lei, Mr. WANG Ning and Mr. YANG Shufeng; the non-executive Director is Ms. ZHAO Xuelian and the independent non-executive directors of the Company are Mr. LIU Fengyuan, Mr. DING Xiaodong and Mr. MA Changcheng.