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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 RESULT FOR THE YEAR ENDED 31 DECEMBER 2022

The Board hereby announces results of the Group for the year ended 31 December 2022.

| FINANCIAL HIGHLIGHTS | | | |
|-----------------------------|-------------------|------------|---------------|
| | 2022 | 2021 | Change |
| | RMB'000 | RMB'000 | |
| Revenue | 2,107,290 | 1,776,028 | 18.7% |
| Gross profit | 390,918 | 329,325 | 18.7% |
| Gross profit margin | 18.6% | 18.5% | |
| Profit for the year | 138,790 | 115,289 | 20.4% |
| Earnings per share | | | |
| — Basic (RMB) | 0.322 | 0.267 | 20.6% |
| Dividend per share | | | |
| — Interim | Nil | Nil | |
| — Final | HK10 cents | HK10 cents | |
| — Full year | HK10 cents | HK10 cents | |

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

| | |
|---|---|
| “AGM” | Annual General Meeting |
| “ASP” | Average selling price |
| “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 and the Shares of which are listed on the Main Board of the Stock Exchange |
| “Delta Electric (Thailand)” | Delta Electric (Thailand) Company Limited, a company incorporated under the laws of Thailand on 13 January 2021 and is an indirectly non wholly owned subsidiary of the Company |
| “Director(s)” | Director(s) of the Company |
| “ERW” or “electric technology 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 |
| “Jinan Ma Steel” | Jinan Magang Steel Pipes Manufacturing Company* (濟南瑪鋼鋼管製造有限公司), a company established under the laws of the PRC as a limited liability company on 7 November 2001 and is an indirect wholly-owned subsidiary of the 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 with limited liability company on 21 May 2013 and is an indirect wholly-owned subsidiary of the 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 |
| “Prospectus” | prospectus of the Company dated 29 November 2019 |
| “reporting period” | the year ended 31 December 2022 |
| “RMB” | Renminbi Yuan, the lawful currency of the PRC |
| “Shareholder(s)” | holders of the ordinary shares of the Company with a nominal value of USD0.0001 each |
| “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 |
| “USD” | United States dollar, the lawful currency of United States |
| “Vietnam Piping” | Viet Nam Piping Industries Company Limited, a company incorporated under the laws of Vietnam on 7 January 2019 and is an indirectly wholly-owned subsidiary of the Company |
| “VND” | Vietnamese Dong, the lawful currency of Vietnam |

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

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. We also conducted sales of raw materials that were procured from its suppliers and left unused, including steel coils.

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, the Company has explored potential markets through multiple means under the Board's leadership, in the face of challenges such as the COVID-19 pandemic, the appreciation in the exchange rate of USD to RMB, and the highly volatile prices of main raw materials. For the year ended 31 December 2022, the Group recorded revenue of approximately RMB2,107.3 million, representing a year-on-year increase of 18.7%, and achieved an accumulated net profit of approximately RMB138.8 million, representing a year-on-year increase of 20.4%.

NEW ORDERS

For the year ended 31 December 2022, the Group received new orders for approximately 21,700 tons of standard prefabricated pipe products, of which approximately 99.3% were from overseas customers; we also received new orders for approximately 208,000 tons of steel pipe products, of which approximately 72.8% were from domestic customers. During the year ended 31 December 2022, the Group had delivered approximately 21,000 tons of standard prefabricated pipe products (including Vietnam Piping and Delta Electric (Thailand)) and approximately 199,600 tons of steel pipe products.

STANDARD PREFABRICATED PIPE PRODUCTS

The standard prefabricated pipe products are our key competitive products. For the year ended 31 December 2022, our revenue from standard prefabricated pipe products amounted to approximately RMB412.8 million, accounting for 19.6% of the total revenue of the Group; for the year ended 31 December 2021, our revenue from standard prefabricated pipe products amounted to approximately RMB438.6 million, accounting for 24.7% of the total revenue of the Group. The revenue of standard fabricated pipe products decreased by 5.9% as compared to the corresponding period last year, due to a decline in sales volume.

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 extinguishment. In order to meet the personal demand of 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 year ended 31 December 2022, our ERW steel pipes, SSAW steel pipes and customised steel pipes recorded revenues of approximately RMB374.0 million, RMB477.6 million and RMB263.4 million, respectively, representing a year-on-year increase of -6.8%, 31.9% and 10.7% as compared to the same period in 2021, respectively. The decrease in ERW steel pipes was mainly due to a decrease in sales volume, while the increase in SSAW steel pipes and customised steel pipes was mainly due to the increase in purchase volume from new customers. The total revenue generated from steel pipe products accounted for approximately 52.9% of the total revenue for the year ended 31 December 2022.

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 year ended 31 December 2022, our design and supply of assembled piping system recorded the revenue of approximately RMB27.3 million, representing a year-on-year increase of approximately 57.3% as compared to the same period in 2021. The increase was mainly due to an increase in the delivery of orders to our customers, accounting for approximately 1.3% of the total revenue for the year ended 31 December 2022.

FINANCIAL REVIEW

The Group's 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 left unused and procured from its suppliers.

For the year ended 31 December 2022, our total revenue was approximately RMB2,107.3 million, representing an increase of approximately RMB331.3 million or 18.7% as compared to the year ended 31 December 2021. The increase in revenue was mainly due to (i) a year-on-year increase in the sales of steel pipe products; (ii) the increase in the sales of steel coils.

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 year ended 31 December 2022 | | | |
|---|-------------------------------------|---------------|--------------------------------|-----------------------|
| | Revenue <i>RMB'000</i> | % of total | Sales volume <i>ton'000</i> | ASP <i>RMB/ton</i> |
| Standard prefabricated pipe nipples | 412,845 | 19.6% | 21.1 | 19,566 |
| Steel pipe products | | | 199.6 | |
| ERW steel pipes | 373,970 | 17.7% | 67.0 | 5,582 |
| SSAW steel pipes | 477,645 | 22.7% | 90.7 | 5,266 |
| Customised steel pipes | 263,410 | 12.5% | 41.9 | 6,287 |
| Design and supply of assembled piping system | 27,290 | 1.3% | N/A | N/A |
| Trading of steel coils | 551,690 | 26.2% | 141.9 | 3,888 |
| Others | 440 | 0.0% | N/A | N/A |
| Total | 2,107,290 | 100.0% | 362.6 | 5,811 |

| | For the year ended 31 December 2021 | | | |
|---|-------------------------------------|---------------|--------------------------------|-----------------------|
| | Revenue <i>RMB'000</i> | % of total | Sales volume <i>ton'000</i> | ASP <i>RMB/ton</i> |
| Standard prefabricated pipe nipples | 438,587 | 24.7% | 27.0 | 16,244 |
| Steel pipe products | | | 167.2 | |
| ERW steel pipes | 401,412 | 22.6% | 68.6 | 5,851 |
| SSAW steel pipes | 362,254 | 20.4% | 62.1 | 5,833 |
| Customised steel pipes | 237,992 | 13.4% | 36.5 | 6,520 |
| Design and supply of assembled piping system | 17,353 | 1.0% | N/A | N/A |
| Steel coils trade | 318,430 | 17.9% | 67.2 | 4,739 |
| Total | 1,776,028 | 100.0% | 261.4 | 6,794 |

The revenue generated from sales of standard prefabricated pipe products amounted to approximately RMB412.8 million for the year ended 31 December 2022, representing a decrease of approximately RMB25.8 million or 5.9% as compared to the year ended 31 December 2021, which was mainly due to the decrease in sales volume.

The revenue generated from ERW steel pipes decreased by approximately RMB27.4 million or 6.8% from the year ended 31 December 2021 to approximately RMB374.0 million for the year ended 31 December 2022, which was mainly due to the decrease in sales volume and lower product prices; the revenue generated from SSAW steel pipes increased by approximately RMB115.4 million or 31.9% from the year ended 31 December 2021 to approximately RMB477.6 million for the year ended 31 December 2022, which was mainly due to the growth in sales volume; the revenue generated from customised steel pipes increased by approximately RMB25.4 million or 10.7% from the year ended 31 December 2021 to approximately RMB263.4 million for the year ended 31 December 2022, which was mainly due to the growth in sales volume.

The revenue generated from design and supply of assembled piping system increased by approximately RMB9.9 million or 57.3% from approximately RMB17.4 million for the year ended 31 December 2021 to approximately RMB27.3 million for the year ended 31 December 2022. The increase was mainly due to the increase in the delivery of orders to our customers.

The revenue generated from steel coils increased by approximately RMB233.3 million or 73.3% for the year ended 31 December 2021 to approximately RMB551.7 million for the year ended 31 December 2022, mainly due to the increase in sales volume.

Others mainly consisted of warehouse service income, which amounted to approximately RMB0.4 million for the year ended 31 December 2022.

Sales by geographical regions

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

| | For the year ended 31 December | | | |
|--|--------------------------------|-----------------------|--------------------|-----------------------|
| | 2022 | | 2021 | |
| | Revenue RMB'000 | % of total revenue | Revenue RMB'000 | % of total revenue |
| Domestic market | | | | |
| PRC | 1,303,618 | 61.9% | 1,074,195 | 60.5% |
| Overseas markets | | | | |
| The United States | 315,227 | 15.0% | 324,011 | 18.2% |
| Other countries in Americas (excluding the United States) | 111,564 | 5.2% | 123,495 | 7.0% |
| Other countries in Asia (excluding the PRC) | 282,141 | 13.4% | 139,301 | 7.8% |
| Europe | 43,043 | 2.0% | 41,021 | 2.3% |
| Others | 51,697 | 2.5% | 74,005 | 4.2% |
| Total | <u>2,107,290</u> | <u>100.0%</u> | <u>1,776,028</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 18.7% or RMB61.6 million from approximately RMB329.3 million for the year ended 31 December 2021 to approximately RMB390.9 million for the year ended 31 December 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.

OTHER INCOME

For the year ended 31 December 2022, other income mainly represents government grant and interest income, which decreased from approximately RMB26.6 million for the year ended 31 December 2021 by approximately 83.8% or RMB22.3 million to approximately RMB4.4 million for the year ended 31 December 2022. The decrease in other income was mainly due to the decrease in government grant by approximately RMB22.1 million.

OTHER GAINS AND LOSSES

For the year ended 31 December 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 for the year ended 31 December 2022 increased by approximately 76.7% to approximately RMB15.2 million (2021: RMB8.6 million) as compared with the corresponding period in 2021. Changes in other gains and losses were mainly attributable to gains on sales of scrap materials of approximately RMB10.3 million as compared to the gains on scrap of RMB11.4 million in the same period of last year; the decrease of approximately RMB0.6 million in the income from structured bank deposits; losses on foreign currency forward contracts were approximately RMB7.7 million in 2022, as compared to a gain of approximately RMB0.6 million in the same period in 2021; fair value gains of approximately RMB1.3 million on derivative financial instrument in 2022 as compared to the loss of approximately RMB0.7 million in the same period of 2021; and gains from foreign exchange of approximately RMB10.7 million in 2022 as compared to the loss of approximately RMB3.5 million in the same period of 2021.

DISTRIBUTION AND SELLING EXPENSES

Distribution and selling expenses increased from approximately RMB113.5 million for the year ended 31 December 2021 by approximately 2.7% or RMB3.1 million to approximately RMB116.6 million for the year ended 31 December 2022, which was primarily due to the increase in business expenses.

ADMINISTRATIVE EXPENSES

Administrative expenses increased from approximately RMB45.9 million for the year ended 31 December 2021 by approximately 17.2% or RMB7.9 million to approximately RMB53.8 million for the year ended 31 December 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 RMB67.1 million for the year ended 31 December 2021 by approximately 13.8% or RMB9.3 million to approximately RMB76.4 million for the year ended 31 December 2022. Our research and development costs accounted for approximately 3.6% of the total revenue (corresponding period in 2021: approximately 3.8%).

IMPAIRMENT LOSSES UNDER EXPECTED CREDIT LOSS MODEL, NET OF REVERSAL

The impairment losses under expected credit loss model, net of reversal amounted to approximately RMB5.1 million for the year ended 31 December 2022 (corresponding period in 2021: approximately RMB2.6 million), which was mainly due to the increase in the Company's trade receivables.

FINANCE COSTS

Finance costs amounted to approximately RMB5.3 million for the year ended 31 December 2022 (corresponding period in 2021: approximately RMB5.2 million).

TAXATION CHARGE

Taxation charge decreased from RMB14.8 million for the year ended 31 December 2021 to RMB14.5 million for the year ended 31 December 2022, mainly due to the additional deduction policy for equipment purchased by High and New Technology Enterprises newly issued by the State Taxation Administration, the Company was entitled to this tax reduction policy.

PROFIT FOR THE YEAR

Profit for the year increased by approximately 20.4% or RMB23.5 million from RMB115.3 million for the year ended 31 December 2021 to RMB138.8 million for the year ended 31 December 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 year ended 31 | |
|--|-----------------------|----------------|
| | December | |
| | 2022 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Net cash generated from operating activities | 177,848 | 22,668 |
| Net cash used in investing activities | (74,604) | (80,425) |
| Net cash (used in)/generated from financing activities | (136,089) | 57,813 |
| Net (decrease)/increase in cash and cash equivalents | (32,845) | 56 |
| Cash and cash equivalents at the beginning of the year | 86,548 | 87,254 |
| Effect of foreign exchange rate changes | 4,057 | (762) |
| Cash and cash equivalents at the end of the year | 57,760 | 86,548 |

Gearing ratio

As at 31 December 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 8% (31 December 2021: approximately 20.1%). As at 31 December 2022, our total interest-bearing debts amounted to RMB75.9 million of bank borrowings (31 December 2021: RMB166.4 million). The decrease in gearing ratio was primarily attributable to the decline in bank loans.

NET CASH GENERATED FROM OPERATING ACTIVITIES

Our net cash generated from operating activities increased from approximately RMB22.7 million for the year ended 31 December 2021 to approximately RMB177.8 million in for the year ended 31 December 2022. The increase in net cash generated from operating activities was mainly due to (i) an increase in cash received from sales of goods; (ii) a decrease in trade receivables backed by bills.

NET CASH USED IN INVESTING ACTIVITIES

Our net cash from investing activities changed from a net outflow of approximately RMB80.4 million for the year ended 31 December 2021 to a net outflow of approximately RMB74.6 million for the year ended 31 December 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 RMB57.8 million for the year ended 31 December 2021 to a net outflow of approximately RMB136.1 million for the year ended 31 December 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 decreased by approximately RMB38.7 million or 13.4% from approximately RMB288.2 million as at 31 December 2021 to approximately RMB249.5 million as at 31 December 2022, which was mainly driven by the decrease of raw material prices.

TRADE RECEIVABLES AND TRADE RECEIVABLES BACKED BY BILLS

Our trade receivables increased by approximately RMB73.9 million or 27.7% from approximately RMB266.2 million as at 31 December 2021 to approximately RMB340.1 million as at 31 December 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 RMB50.7 million or 80.9% from approximately RMB62.7 million as at 31 December 2021 to approximately RMB12.0 million as at 31 December 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 RMB26.9 million as of 31 December 2022, mainly due to contract assets increase in sales.

DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

Our deposits, prepayments and other receivables increased from approximately RMB74.1 million as at 31 December 2021 to approximately RMB121.4 million as at 31 December 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 RMB7.3 million as at 31 December 2022, mainly due to the trade receivables at the end of the year.

Amounts due to related parties increased from approximately RMB0.7 million as at 31 December 2021 to approximately RMB4.8 million as at 31 December 2022, mainly due to the trade payables at the end of the year.

TRADE AND BILL PAYABLES

Our trade and bill payables decreased from approximately RMB93.0 million as of 31 December 2021 to approximately RMB90.7 million as of 31 December 2022, mainly due to the outstanding trade payables to our suppliers at the end of the year.

CONTRACT LIABILITIES

Our contract liabilities of approximately RMB41.8 million as of 31 December 2022 (corresponding period in 2021: approximately RMB41.8 million) 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 RMB10.6 million as of 31 December 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 RMB81.3 million as of 31 December 2022, which was mainly due to the increase of accrued charges.

PROVISIONS

Our provisions increased from approximately RMB1.4 million as of 31 December 2021 to approximately RMB2.2 million as of 31 December 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 RMB75.9 million as of 31 December 2022, mainly due to a decline in bank loans. The Group's borrowing of approximately RMB75.9 million as at 31 December 2022 was repayable within one year.

LEASE LIABILITIES

As of 31 December 2022, the Group rented three properties in the PRC, 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 RMB3.5 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;
- (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 has recommended the payment of a final dividend of HK10 cents per ordinary share of the Company issued (approximately HKD43,880,000 in aggregate) for the year ended 31 December 2022 in cash (2021: HK10 cents).

The proposed dividend payment is subject to approval by the Shareholders at the forthcoming AGM to be held on 31 May 2023 and will be payable around 6 July 2023 in HKD.

Upon Shareholders' approval, the proposed final dividend will be paid to Shareholders whose names shall appear on the register of members of the Company on 26 June 2023.

The Company did not declare interim dividend for the six months ended 30 June 2022 (2021: Nil).

PLEDGE OF ASSETS

As at 31 December 2022, our Group pledged certain property, plant, equipment, right-of-use assets, trade receivables backed by bills and pledged bank deposits with the total net carrying amount of approximately RMB130.5 million (31 December 2021: approximately RMB117.7 million) to secure banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 31 December 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 year ended 31 December 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 year ended 31 December 2022 and up to the date of this announcement.

EMPLOYEES

For the year ended 31 December 2022, labour costs (including Directors' remunerations and emoluments in other forms) were approximately RMB106.1 million (for the year ended 31 December 2021: RMB107.4 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 31 December 2022, we had 1,059 employees (31 December 2021: 1,073 employees), 949 of whom are in the PRC (including Hong Kong), 54 of whom work in Vietnam, and 56 of whom work in Thailand. A breakdown of our employees by functions is set forth below:

| Function | As of 31 December 2022 | | |
|---|--|----------------|-----------------|
| | China (including Hong Kong) | Vietnam | Thailand |
| Managerial, administrative and accounts | 96 | 1 | 6 |
| Production | 566 | 52 | 45 |
| Quality control | 25 | 1 | 5 |
| Procurement and inventory | 35 | – | – |
| Research and development | 123 | – | – |
| Sales and marketing | 104 | – | – |
| | <hr/> | <hr/> | <hr/> |
| Total number of employees | 949 | 54 | 56 |
| | <hr/> <hr/> | <hr/> <hr/> | <hr/> <hr/> |

EVENTS SUBSEQUENT TO THE REPORTING PERIOD

Save as disclosed, there were no significant events subsequent to 31 December 2022 which would materially affect the Group’s operating and financial performance as of the date of this announcement.

PROSPECTS

The global economy in 2022 has been weakened by political conflicts such as the Russo-Ukrainian war and the impact of the COVID-19 pandemic. Meanwhile, the situation was worsened by the raised interest rates by FED beyond expectation with commodities collectively under pressure, and resulted in a sharp fall in steel prices in June – July 2022. Affected by the economic cycle, the construction industry, such as real estate, recorded a lower operating rate, which had a greater impact on the pipeline industry. The Ministry of Finance of the PRC funded \$60.3 billion in water resources development in 2022 and \$94.1 billion in advance for 2023 to support the construction of water resources projects. The continuous promotion of 102 major construction projects under the “14th Five-Year Plan” will increase the investment in China’s infrastructure, laying the foundation for the development pipeline industry, and providing opportunities for the Company’s performance growth.

Based on current situation, the Group will strengthen its own capacity building. It will adopt the following strategies to realize sustainable growth, further enhance its position in the pipe prefabrication industry, and create long-term value for the Shareholders: (1) in terms of sales activities, it will leverage its advantages, train its human resource reserves, facilitate its major project development, and improve its differentiated services; (2) in terms of product design and optimization, it will focus on the sales demand, leverage external research and development resources, continuously benchmark the learning capability, introduce research and development system and enhance its upgrade; (3) in terms of operating management, it will optimize the production lines to increase its production capacity, focus on the major issues to improve its quality, set a benchmark for remedying shortcomings to lower the costs, support the production and sales through sunshine purchase and digital applications to lower the costs; (4) in terms of customer services, it will invent a systematic model to create value for customers, and improve its product quality and service efficiency to increase customer stickiness.

THE IMPACT OF COVID-19 PANDEMIC AFFECTING MARKET SALES

In 2022, the outbreak of COVID-19 in China's different places affected its transportation, resulting in a disruption of our production lines and upstream and downstream logistics and transportation, preventing us from reaching full production capacity. Due to the pandemic control policy, some domestic projects have been halted, and downstream demand has been suppressed and lagged. Since China's full opening in December 2022, the impact of COVID-19 on market sales continues to diminish and is unlikely to have a significant impact in the future.

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. With a commitment to bringing the idea of environmental protection into our daily operations, we have established a management system that is taken charge of by the Board of Directors, navigated by the management, and operated with interdepartmental cooperation, during the reporting period. Until today, the Company was awarded as a national-level green factory, while Jinan Ma Steel was awarded as a municipal-level green factory.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

| | NOTES | 2022 RMB'000 | 2021 RMB'000 |
|--|-------|--------------------|--------------------|
| Revenue | 3 | 2,107,290 | 1,776,028 |
| Cost of sales | | <u>(1,716,372)</u> | <u>(1,446,703)</u> |
| Gross profit | | 390,918 | 329,325 |
| Other income | 4 | 4,363 | 26,615 |
| Other gains and losses | 4 | 15,213 | 8,585 |
| Distribution and selling expenses | | (116,586) | (113,519) |
| Administrative expenses | | (53,823) | (45,917) |
| Research and development costs | | (76,406) | (67,145) |
| Impairment losses under expected credit loss model, net of reversal | | (5,097) | (2,568) |
| Finance costs | 6 | <u>(5,331)</u> | <u>(5,242)</u> |
| Profit before taxation | 5 | 153,251 | 130,134 |
| Taxation charge | 7 | <u>(14,461)</u> | <u>(14,845)</u> |
| Profit for the year | | <u>138,790</u> | <u>115,289</u> |
| Other comprehensive income (expense) | | | |
| <i>Item that may be reclassified subsequently to profit or loss:</i> | | | |
| Exchange difference arising on translation of foreign operation | | <u>5,844</u> | <u>(2,016)</u> |
| Total comprehensive income for the year | | <u>144,634</u> | <u>113,273</u> |
| Profit for the year attributable to: | | | |
| – Owners of the Company | | 139,695 | 116,021 |
| – Non-controlling interests | | <u>(905)</u> | <u>(732)</u> |
| | | <u>138,790</u> | <u>115,289</u> |
| Total comprehensive income for the year attributable to: | | | |
| – Owners of the Company | | 145,045 | 114,521 |
| – Non-controlling interests | | <u>(411)</u> | <u>(1,248)</u> |
| | | <u>144,634</u> | <u>113,273</u> |
| Earnings per share | | | |
| – Basic (RMB yuan) | 8 | <u>0.322</u> | <u>0.267</u> |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2022

| | <i>NOTES</i> | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|---|--------------|-------------------------------|------------------------|
| Non-current assets | | | |
| Property, plant and equipment | | 421,879 | 408,304 |
| Deferred tax assets | | 5,727 | 1,911 |
| Deposits for plant and equipment | | 656 | 471 |
| | | <u>428,262</u> | <u>410,686</u> |
| Current assets | | | |
| Inventories | | 249,478 | 288,197 |
| Trade receivables | 9 | 340,064 | 266,208 |
| Trade receivables backed by bills | | 12,028 | 62,715 |
| Contract assets | | 26,907 | 25,859 |
| Tax recoverable | | 4,225 | 2,783 |
| Deposits, prepayments and other receivables | | 121,385 | 74,101 |
| Amounts due from related parties | | 7,318 | 4,623 |
| Financial assets at fair value through profit or loss (“FVTPL”) | | 1,516 | 876 |
| Pledged bank deposits | | 33,510 | 5,740 |
| Cash and cash equivalents | | 57,760 | 86,548 |
| | | <u>854,191</u> | <u>817,650</u> |
| Current liabilities | | | |
| Trade and bill payables | 13 | 90,704 | 92,971 |
| Contract liabilities | | 41,809 | 41,808 |
| Refund liabilities | | 10,600 | 13,412 |
| Other payables and accrued charges | | 81,343 | 60,970 |
| Amounts due to related parties | | 4,816 | 690 |
| Provisions | | 2,238 | 1,396 |
| Tax liabilities | | 655 | 600 |
| Borrowings | 11 | 75,946 | 166,352 |
| Lease liabilities | | 3,541 | 3,283 |
| Deferred income | | 1,388 | — |
| | | <u>313,040</u> | <u>381,482</u> |
| Net current assets | | <u>541,151</u> | <u>436,168</u> |
| Total assets less current liabilities | | <u>969,413</u> | <u>846,854</u> |

| | <i>NOTES</i> | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|---------------------------------------|--------------|-------------------------------|------------------------|
| Non-current liabilities | | | |
| Lease liabilities | | 3,908 | 6,640 |
| Deferred tax liabilities | | 14,143 | 7,866 |
| Deferred income | | 11,479 | — |
| | | <u>29,530</u> | <u>14,506</u> |
| Net assets | | <u>939,883</u> | <u>832,348</u> |
| Capital and reserves | | | |
| Share capital | <i>10</i> | 304 | 304 |
| Reserves | | 934,273 | 826,327 |
| | | <u>934,577</u> | <u>826,631</u> |
| Attributable to owners of the Company | | 5,306 | 5,717 |
| Non-controlling interests | | <u>939,883</u> | <u>832,348</u> |
| Total equity | | <u>939,883</u> | <u>832,348</u> |

NOTES

1. GENERAL INFORMATION

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 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 is 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 Vistra (Cayman) Limited P.O. Box 31119 Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205 Cayman Islands and No. 4 Meide Street, Meigui Zone of Industrial Park, Pingyin County, Jinan, Shandong Province, China.

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.

2. APPLICATION OF AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) for the first time, which are mandatorily effective for the Group’s annual period beginning on 1 January 2022 for the preparation of the consolidated financial statements:

| | |
|-----------------------|--|
| Amendments to HKFRS 3 | Reference to the Conceptual Framework |
| Amendment to HKFRS 16 | Covid-19-Related Rent Concessions beyond 30 June 2021 |
| Amendments 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 |

In addition, the Group applied the agenda decisions of the Committee of the International Accounting Standards Board, which are relevant to the Group.

The application of the amendments to HKFRSs and the Committee’s agenda decisions in the current year had no material impact on the Group’s financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

New and amendments to HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

| | |
|--|--|
| HKFRS 17 (including the October 2020 and February 2022 Amendments to HKFRS 17) | Insurance Contracts ¹ |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ² |
| Amendments to HKFRS 16 | Lease Liability in a Sale and Leaseback ³ |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020) ¹ |
| Amendments to HKAS 1 and HKFRS Practice Statement 2 | Disclosure of Accounting Policies ¹ |
| Amendments to HKAS 8 | Definition of Accounting Estimates ¹ |
| Amendments to HKAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction ¹ |

¹ Effective for annual periods beginning on or after 1 January 2023.

² Effective for annual periods beginning on or after a date to be determined.

³ Effective for annual periods beginning on or after 1 January 2024.

The Directors of the Company anticipate that the application of the new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

3. REVENUE AND SEGMENTAL INFORMATION

Revenue

Revenue represents the fair value of amounts received and receivable from the sales of goods and services provided by the Group to related companies/external customers, net of related taxes. The following:

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|---|------------------------|------------------------|
| <i>Types of goods or service:</i> | | |
| Sales of pipe products: | | |
| – ERW steel pipes | 373,970 | 401,412 |
| – Standard prefabricated pipe nipples | 412,845 | 438,587 |
| – Spiral submerged arc welded steel pipes | 477,645 | 362,254 |
| – Customised steel pipes | 263,410 | 237,992 |
| – Design and supply assembled piping system | 27,290 | 17,353 |
| Trading of steel coils | 551,690 | 318,430 |
| Others | 440 | – |
| | <u>2,107,290</u> | <u>1,776,028</u> |
| <i>Timing of revenue recognition:</i> | | |
| A point in time | 2,106,850 | 1,776,028 |
| Over time | 440 | – |
| | <u>2,107,290</u> | <u>1,776,028</u> |

The Group's revenue are under fixed price arrangement with the customers. For sales of goods, 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.

Retention receivables, prior to expiration of defect liability period, are classified as contract assets, which ranges from 6 to 24 months from the date of the acceptance of the pipe products. The relevant amount of contract assets is reclassified to trade receivables when the defect liability period expires.

Sales-related warranties associated with pipe products cannot be purchased separately and they serve as an assurance that the products sold comply with agreed-upon specifications. Accordingly, the Group accounts for warranties in accordance with HKAS 37 *Provisions, Contingent Liabilities and Contingent Assets* consistent with its previous accounting treatment.

During the year ended 31 December 2022 and 2021, all performance obligations for sales of goods are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to unsatisfied performance obligations as at the end of the reporting period is not disclosed.

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, which are prepared based on same accounting policies. Accordingly, no operating segment is presented.

Geographical information

Information about the Group's revenue from external customers is presented based on the destination of goods in the sales orders/contracts. Information about the Group's non-current assets (excluding deferred tax assets) is presented based on the geographical location of the assets.

| | Revenue from external customers | | Non-current assets <i>(note)</i> | |
|---|------------------------------------|------------------|-------------------------------------|----------------|
| | Year ended 31 December 2022 | 2021 | As at 31 December 2022 | 2021 |
| | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> | <i>RMB'000</i> |
| PRC | 1,303,618 | 1,074,195 | 396,491 | 384,629 |
| The United States of America ("US") | 315,227 | 324,011 | — | — |
| Other countries in America (excluding US) | 111,564 | 123,495 | — | — |
| Other countries in Asia (excluding PRC) | 282,141 | 139,301 | 26,044 | 24,146 |
| Europe | 43,043 | 41,021 | — | — |
| Others | 51,697 | 74,005 | — | — |
| | <u>2,107,290</u> | <u>1,776,028</u> | <u>422,535</u> | <u>408,775</u> |

Note: Non-current assets excluded deferred tax assets.

Information about major customer

During the years ended 31 December 2022 and 2021, there was no customer contributing over 10% of the total sales.

4. OTHER INCOME/OTHER GAINS AND LOSSES

| | 2022 | 2021 |
|----------------------------------|----------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Other income | | |
| Government grant <i>(note i)</i> | 4,107 | 26,219 |
| Bank interest income | 256 | 396 |
| | <u>4,363</u> | <u>26,615</u> |

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Other gains and losses | | |
| Gain on sales of scrap materials | 10,311 | 11,395 |
| Fair value gains (losses) on financial assets at FVTPL | | |
| – structured bank deposits | 26 | 639 |
| – foreign currency forward contracts (<i>note ii</i>) | (7,697) | 596 |
| Fair value losses on derivative financial instruments (<i>note iii</i>) | 1,276 | (723) |
| Gains (losses) on disposals of property, plant and equipment | 23 | (28) |
| Net exchange gains (losses) | 10,738 | (3,525) |
| Others | 536 | 231 |
| | <u>15,213</u> | <u>8,585</u> |

Notes:

- i. During the year ended 31 December 2022, the relevant government authorities granted one-off and unconditional subsidies to the Group amounting to RMB3,056,000 (2021: RMB25,969,000) and granted conditional subsidies to the Group amounting to RMB1,051,000 (2021: RMB250,000).
- ii. During the year ended 31 December 2022, gains on US\$ to RMB foreign currency forward contracts represented realised losses of RMB8,244,000 (2021: realised gains of RMB1,044,000) and unrealised gains of RMB547,000 (2021: unrealised losses of RMB448,000) on changes in fair value of foreign currency forward contracts.
- iii. During the year ended 31 December 2022, amount represented realised gains of RMB1,183,000 (2021: realised losses of RMB1,438,000) and unrealised gains of RMB93,000 (2021: unrealised gains of RMB715,000) arising on changes in fair value of commodity derivative contracts.

5. PROFIT BEFORE TAXATION

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|--|------------------------|------------------------|
| Profit before taxation has been arrived at after charging: | | |
| Auditor's remuneration | 1,880 | 1,980 |
| Directors' emoluments | | |
| Other staff costs: | | |
| – Salaries and other benefits | 78,190 | 91,742 |
| – Contributions to retirement benefit schemes | 23,642 | 12,333 |
| Less: capitalised in inventories | (58,349) | (60,731) |
| Total staff costs | 43,483 | 43,344 |
| Depreciation of property, plant and equipment | 38,335 | 28,248 |
| Less: capitalised in inventories | (26,796) | (22,412) |
| Total depreciation | 11,539 | 5,836 |
| Cost of inventories sold | 1,716,372 | 1,446,703 |
| Write-down of inventories (included in cost of inventories sold) | 2,169 | 594 |
| | <u>1,799,908</u> | <u>1,525,718</u> |

6. FINANCE COSTS

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|---------------------------------------|------------------------|------------------------|
| Finance costs represent interests on: | | |
| — bank borrowings | 4,954 | 5,034 |
| — lease liabilities | 377 | 208 |
| | <u>5,331</u> | <u>5,242</u> |

7. TAXATION CHARGE

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|---------------------------------|------------------------|------------------------|
| Current tax: | | |
| – Hong Kong | – | 597 |
| – PRC Enterprise Income Tax | 7,711 | 7,680 |
| – Vietnam | 1,978 | 1,273 |
| | <u>9,689</u> | <u>9,550</u> |
| Under provision in prior years: | | |
| – PRC Enterprise Income Tax | 2,311 | 495 |
| Deferred tax charge | | |
| – Current year | 2,461 | 4,800 |
| Taxation charge | <u>14,461</u> | <u>14,845</u> |

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

Jinan Mech was recognised as a High and New Technology Enterprises in 2020, and the applicable tax rate is 15% from 1 January 2020 to 31 December 2022. In the opinion of the directors, Jinan Mech will apply for renewal of the High and New Technology Enterprises status in the year of 2023 and it is highly likely such renewal will be granted.

Jinan Ma Steel was recognised as a High and New Technology Enterprises in the years 2018 and 2021, respectively, and the applicable tax rate is 15% from 1 January 2018 to 31 December 2023.

Under the tax law in Hong Kong, the tax rate of Tube Industry Investments Limited ("Tube Industry") is 8.25% if the taxable income is under HK\$2,000,000 and the tax rate on the taxable income exceeding HK\$2,000,000 is 16.5%. No provision for income tax has been made for Tube Industry in Hong Kong as there was no estimated assessable profit for the year ended 31 December 2022.

The Company and the group entity incorporated in the BVI is not subject to income tax in the Cayman Islands or any other jurisdiction.

Under the tax law in Vietnam, the tax rate of Viet Nam Piping Industries Company Limited (“Viet nam Piping”) is 20%. Viet Nam Piping has been granted to enjoy 2-years exemption of income tax followed by 4-year 50% reduction of income tax from the first profit making year. Starting from 2019, Viet Nam Piping enjoyed the 2-years exemption of income tax. Starting from 2021, Viet Nam Piping enjoyed the 4-year 50% reduction of income tax.

Under the tax law in Thailand, the tax rate of Delta Electric is 20%. No provision for income tax has been made for Delta Electric in Thailand as there was no estimated assessable profit for the year ended 31 December 2021 and 31 December 2022.

The taxation charge for the year can be reconciled to the profit before taxation as follows:

| | 2022 | 2021 |
|--|-----------------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Profit before taxation | <u>153,251</u> | <u>130,134</u> |
| Taxation at PRC EIT rate of 25% | 38,313 | 32,534 |
| Tax effect of expenses not deductible for tax purpose | 840 | 774 |
| Tax effect of deductible temporary differences not recognised | (159) | (67) |
| Tax deduction on research and development expenses (<i>note a</i>) | (18,753) | (15,314) |
| Additional deduction of machinery and equipment Procurement (<i>note b</i>) | (3,151) | – |
| Tax effect of tax losses not recognised | 624 | 505 |
| Under provisions in prior years | 2,311 | 495 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | (827) | (508) |
| Withholding tax on distributed profits of PRC subsidiaries | 2,400 | – |
| Effect of withholding tax on dividend reinvestment | – | 4,080 |
| Income tax at concessionary rate | <u>(7,137)</u> | <u>(7,654)</u> |
| Taxation charge for the year | <u>14,461</u> | <u>14,845</u> |

Note:

- a Pursuant to Caishui [2021] circular No.13, Jinan Mech and Jinan Ma Steel enjoy super deduction of 200% on qualified research and development expenditure for the year ended 31 December 2022 and 2021.
- b According to the PRC EIT Law and its relevant regulation issued in 2022, entities that qualified as High and New Technology Enterprise are entitled to an additional 100% of the amount of qualified machinery and equipment newly purchased from 1 October 2022 to 31 December 2022, which is allowed to be deducted from taxable income.

8. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the following data:

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|---|------------------------|------------------------|
| Earnings: | | |
| Earnings for the purpose of basic earnings per share (profit for the year — attributable to owners of the Company) | <u>139,695</u> | <u>116,021</u> |
| | 2022 '000 | 2021 '000 |
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of calculating 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.

9. TRADE RECEIVABLES

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|------------------------------------|------------------------|------------------------|
| Trade receivables | 356,098 | 276,075 |
| Less: allowance of impairment loss | <u>(16,034)</u> | <u>(9,867)</u> |
| Total trade receivables | <u>340,064</u> | <u>266,208</u> |

As at 1 January 2021, trade receivables from contracts with customers amounted to RMB203,724,000.

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.

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|-------------------|------------------------|------------------------|
| 0 – 60 days | 196,402 | 127,204 |
| 61 – 180 days | 85,771 | 101,271 |
| 181 days – 1 year | 50,128 | 28,167 |
| Over 1 year | <u>7,763</u> | <u>9,566</u> |
| | <u>340,064</u> | <u>266,208</u> |

Before accepting any new customer, the Group will assess the potential customer's credit quality and defines its credit limits. Credit sales are made to customers with a satisfactory trustworthy credit history. Credit limits attributed to customers are reviewed regularly.

The Group did not hold any collateral over these balances.

The Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group determines the ECL on these items using a provision matrix grouped into the following categories with reference to past default experience for recurring customers and current past due exposure for new customers.

10. SHARE CAPITAL

The share capital as at 31 December 2022 represented the issued share capital of the Company.

Details of the Company's shares are disclosed as follows:

| | Number of shares | Amount <i>US\$</i> | <i>US\$'000</i> | RMB equivalent amount <i>RMB'000</i> |
|--|---------------------|-----------------------|-----------------|---|
| Ordinary Shares of US\$0.0001 each | | | | |
| Authorised: At 1 January 2021, 31 December 2021 and 31 December 2022 | 500,000,000 | 50,000 | 50 | 335 |
| Issued and fully paid At 1 January 2021, 31 December 2021 and 31 December 2022 | 433,800,000 | 43,380 | 44 | 304 |

11. BORROWINGS

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|--|------------------------|------------------------|
| Secured bank borrowings (<i>note a</i>) | 17,946 | 95,107 |
| Unsecured bank borrowings (<i>note b</i>) | 58,000 | 71,245 |
| | <u>75,946</u> | <u>166,352</u> |
| Carrying amounts of borrowings: – repayable within one year | <u>75,946</u> | <u>166,352</u> |

Notes:

- a As at 31 December 2022, the secured bank borrowings amounting RMB17,946,000 (2021: RMB95,107,000), carried fixed interest rate at 3.8% (2021: 4.35%) per annum.
- b As at 31 December 2022, the unsecured bank borrowings carried fixed interest rate ranging from 3.60% to 3.90% (2021: 4.35% or 3.90%) per annum.

12. 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.

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|-----------------------------------|-------------------------------|------------------------|
| Property, plant and equipment | 54,087 | 67,465 |
| Right-of-use assets | 40,826 | 42,462 |
| Trade receivables backed by bills | 2,112 | 2,000 |
| Pledged bank deposits | 33,510 | 5,740 |
| | 130,535 | 117,667 |

13. TRADE AND BILL PAYABLES

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|----------------|-------------------------------|------------------------|
| Trade payables | 73,414 | 91,391 |
| Bill payables | 17,290 | 1,580 |
| | 90,704 | 92,971 |

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

| | 2022 <i>RMB'000</i> | 2021 <i>RMB'000</i> |
|--------------|-------------------------------|------------------------|
| 0 – 180 days | 17,290 | 1,580 |

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:

| | 2022 | 2021 |
|----------------|----------------|----------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| 0 – 30 days | 35,569 | 58,086 |
| 31 – 60 days | 7,843 | 10,138 |
| 61 – 120 days | 5,141 | 13,989 |
| 121 – 180 days | 4,588 | 5,420 |
| 181 – 360 days | 8,847 | 2,683 |
| Over 360 days | 11,426 | 1,075 |
| | 73,414 | 91,391 |

14. DIVIDENDS

| | 2022 | | 2021 | |
|--|-----------------|----------------|-----------------|----------------|
| | <i>HK\$'000</i> | <i>RMB'000</i> | <i>HK\$'000</i> | <i>RMB'000</i> |
| Dividends recognised as distribution during the year: | | | | |
| 2021 final dividend of HK10 cents (2021: 2020 final dividend HK12 cents) per share | 43,380 | 37,099 | 52,056 | 43,316 |

Subsequent to the end of the reporting period, a final dividend in respect of the year ended 31 December 2022 of HK10 cents (equivalent to RMB8.9 cents) (2021: HK10 cents (equivalent to RMB8.5 cents)) per ordinary share, in an aggregate amount of HK\$43,380,000 (equivalent to RMB38,608,000) (2021: HK\$43,380,000) (equivalent to RMB37,099,000) has been proposed by the Directors and is subject to approval by the Shareholders in the forthcoming general meeting.

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 31 December 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 <i>RMB\$'000</i> | Remaining net proceeds as at 31 December 2021 <i>RMB\$'000</i> | Actual use of proceeds for the year ended 31 December 2022 <i>RMB\$'000</i> | Remaining net proceeds as at 31 December 2022 <i>RMB\$'000</i> | Expected timeline of full utilisation of the remaining proceeds from the Global Offering as at 31 December 2022 <i>(Note 1)</i> |
|---|---|--|---|--|---|--|
| Increasing our production capacity of our production of ERW steel pipes | 19.0% | 31,625 | — | — | — | — |
| Upgrading one of the SSAW steel pipes production line | 22.3% | 37,118 | — | — | — | — |
| Setting up a new production facilities building | 9.4% | 15,646 | — | — | — | — |
| Expanding to overseas to increase the production capacity | 9.4% | 15,646 | 9,481 | 4,694 | 4,787 | By the end of 2023 <i>(Note 2)</i> |
| Expanding our business horizontally through acquisition/collaboration | 10.0% | 16,645 | — | — | — | — |
| Strengthen research and development capabilities | 10.0% | 16,645 | — | — | — | — |
| Repayment of borrowings | 10.0% | 16,645 | — | — | — | — |
| General working capital | 9.9% | 16,478 | — | — | — | — |
| | <u>100%</u> | <u>166,448</u> | <u>9,481</u> | <u>4,694</u> | <u>4,787</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 apply the funds raised for expansion to overseas to increase the production capacity by the fourth quarter of 2022. 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 31 December 2022, 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 expansion to overseas to increase the production capacity will be fully utilised by the end of 2023.

During the year ended 31 December 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.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

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 governing securities transactions by the Directors. Having made specific enquiry of all the Directors, all Directors have confirmed that they have complied with the Model Code during the year ended 31 December 2022 and up to the date of this announcement.

CORPORATE GOVERNANCE

Pursuant to code provision C.2.1 of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules, the responsibilities between the chairman and the chief executive officer should be segregated and should not be performed by the same individual. During the reporting period, we do not have a separate chairman and chief executive officer and Mr. Guo Lei is performing these two roles. Throughout the business history of the Group, Mr. Guo Lei, 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 Lei 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.

The Board has reviewed the Company's corporate governance practices and is of the view that saved as disclosed, during the year ended 31 December 2022, the Company has complied with the applicable code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules.

PUBLIC FLOAT

As at the date of this announcement, based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules.

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

Neither the Company nor any of the subsidiaries of the Company purchased, redeemed or sold the listed securities of the Company during the year ended 31 December 2022.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in the preliminary announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the audited consolidated financial statements of the Group for the year as approved by the Board of Directors on 24 March 2023. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement and consequently no opinion or assurance conclusion has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

REVIEW BY THE AUDIT COMMITTEE

The annual results of the Company for the year ended 31 December 2022 has been reviewed by the audit committee of the Company.

ANNUAL GENERAL MEETING

The AGM of the Company will be held in Hong Kong on Wednesday, 31 May 2023. The notice of the AGM will be issued and despatched in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed during the following periods:

- i) From Friday, 26 May 2023 to Wednesday, 31 May 2023 (both days inclusive), during which period no transfer of Shares will be registered. In order to determine the identity of the Shareholders who are entitled to attend and vote at the AGM, all completed transfer documents accompanied by the relevant share certificates have to be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited of Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 25 May 2023.

- ii) From Tuesday, 13 June 2023 to Friday, 16 June 2023, both days inclusive, for the purpose of ascertaining Shareholders' entitlement to the proposed final dividend. In order to establish entitlements to the proposed final dividend, all completed transfer documents accompanied by the relevant share certificates have to be lodged with the Company's branch share registrar, Computershare Hong Kong Investor Services Limited of Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on Monday, 12 June 2023.

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

Hong Kong, 24 March 2023

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.